# Q1 Message to Shareholders

Chinook Energy Inc.

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

During the first quarter of 2012 ("Q1") Chinook Energy Inc. ("Chinook" or the "Company") continued the strategy of accelerated development of the Bir Ben Tartar ("BBT") production concession in Tunisia where we receive exceptional netbacks for our Brent-priced crude oil production and in response to continued soft North American natural gas prices, we have focused our Canadian operations solely on oil and liquids-rich drilling opportunities in the West Central and Peace River Arch areas of Alberta along with continued non-strategic property dispositions.

## FIRST QUARTER 2012 FINANCIAL AND OPERATING RESULTS

Q1 production averaged 13,596 barrels of oil equivalent per day down approximately ten percent from fourth quarter 2011 production of 15,119 barrels of oil equivalent per day and down approximately seven percent year over year from 14,646 barrels of oil equivalent per day in the first quarter of 2011. Production volumes were weighted 63 percent towards natural gas where our average price received was $2.27 per thousand cubic feet, down over 40 percent year over year from an average price of $3.85 per thousand cubic feet in the first quarter of 2011. On a positive note, 28 percent of production volumes were oil weighted and received an average price of $101.06 per barrel supported by strong Brent oil priced production that averaged $118.49 per barrel in Q1. Production declines in Q1 are attributed to the prior year and ongoing property dispositions along with our voluntary shut-in of approximately 450 barrels of oil equivalent per day of natural gas production in northeastern Alberta. Tunisia production represented 12 percent of our volumes in Q1 up from four percent of our volumes in the first quarter of 2011 and up slightly from 11 percent in the fourth quarter of 2011.

The year over year production increase from Tunisia has begun to show its significance with the 12 percent production volumes contributing 63 percent of our $19.2 million cash flow in Q1. Q1 cash flow was down 20 percent from the fourth quarter of 2011 and nine percent from the first quarter of 2011 due to lower natural gas prices along with lower production due mainly to our disposition program and voluntary production shut-ins. In this soft natural gas price environment we have benefited and will continue to benefit from having this premium Brent-priced production in our asset base. The cash flow contribution from Tunisia is expected to continue to grow throughout 2012 as we proceed with our continuous development drilling operations at BBT.

Capital expenditures for the quarter totaled $23.4 million of which $9.3 million was spent in Tunisia and $14.1 million in Canada. Capital expenditures were down 46 percent from the first quarter of 2011. Our net debt at March 31, 2012 was $89.2 million, down approximately 34 percent from year end 2011 net debt of $134.9 million and over 49 percent year over year from first quarter 2011 net debt of $176.5 million. Net debt to annualized Q1 cash flow was approximately 1.2 times and is expected to continue to improve throughout 2012 as our debt is reduced through our disposition of non-core assets along with increased cash flow from our ongoing exploration and development activities.

The disposition of non-core assets continued in Q1 as we completed dispositions with gross proceeds of $56.6 million, before closing adjustments, with associated production of approximately 850 barrels of oil equivalent per day or approximately $66,000 per flowing barrel of oil equivalent, a sales metric which exceeds our enterprise value of $31,000 per flowing barrel of oil equivalent as at March 31, 2012. The disposition of non-core assets to support a strong balance sheet and improve operational efficiencies will be a continued theme throughout 2012 and, as of April 30, 2012 we have disposed of assets representing an additional 202 barrels of oil equivalent per day for proceeds of $19 million or $94,000 per flowing barrel of oil equivalent.

Notwithstanding lower natural gas prices, we increased our Q1 corporate netback by two percent to $18.45 per barrel of oil equivalent from $18.04 per barrel of oil equivalent in the first quarter of 2011. We continue to seek ways to improve our operating cost structure by disposing of higher cost properties and replacing them with new lower cost production and continuing to review operating efficiencies on a property by property basis. The improvement in our corporate netback was obtained despite the costs associated with appropriately suspending the shut-in natural gas wells and the fixed costs incurred while they were shut-in.

## Q1 ACTIVITY AND OPERATIONAL UPDATE

**Tunisia**

Our 2012 development program on the BBT Concession commenced on February 11 with the drilling of the TT9 vertical development well, which was successfully completed as an Ordovician oil well and brought on production at an initial rate of 300 barrels per day (162 net to Chinook). The Foradex 14 rig was subsequently moved to an exploration location approximately 25 kilometers north of the BBT Concession to drill the BJA-2 well. The well was rig released in April and the target formation was plugged and abandoned. Lease construction is currently underway for our first horizontal well on the BBT Concession which will spud at our TT16 location in May and is

expected to be completed by the end of June. We intend to land the horizontal section in the Lower Jeffara (Ordovician) formation and drill a 1,000 meter lateral section completed with up to an eight stage completion. Following TT16 we plan to move immediately to a second horizontal location at TT13. Our program will be the first multi-stage fractured horizontal wells in Tunisia and falls directly within our strategy to bring North American drilling and completion technology to our BBT Concession. We are excited about the potential of the application to unlock substantial value through increased rate and recovery of the large oil in place on the BBT Concession.

Our original plans for 2012 on the BBT Concession were to complete on average one well per month with the support of a second rig for the second half of the year. Program approval delays for the TT16 location put us behind schedule by one well by the end of the second quarter. Subject to the success of the initial horizontal program and the subsequent improvement in the processing of further approvals, we anticipate accelerating the drilling program with the addition of a second rig in the third quarter. Capital expenditures budgeted for facility construction late in 2012 will now be incurred in 2013.

In the offshore projects in the Gulf of Hammamet our partners, the Tunisian national oil company Enterprise Tunisienne d'Activitiés Pétrolières ("ETAP") and a wholly-owned subsidiary of New Zealand Oil and Gas Ltd., are fully engaged as we near completion of the pre-front-end engineering and design ("FEED") evaluation phase of the Cosmos offshore development. As part of this development project we plan to deploy a normally unmanned well jacket platform with process and storage located on an adjacent floating production storage and offtake vessel ("FPSO") for the life of the main Cosmos Field and adjacent satellite fields. We intend to initiate the FEED engineering by mid year and sanction the project before the end of 2012.

The political situation in Tunisia continues to be unsettled with semi-regular, yet generally peaceful, demonstrations of civil and labor unrest along with a high turnover of appointed officials. Given the transition experienced by the country in 2011 this was not unexpected and there have been noticeable areas of improvement, particularly in our local community relations as evidenced by our ability to conduct drilling and production operations while seeing no material delays for any security based reasons.

**Canada**

In Canada, we continue to focus our efforts on the exploitation of oil reserves and the monetization of higher cost producing properties. In Q1 our operations were primarily focused on horizontal drilling activity on our Dunvegan oil and liquids plays at Karr and Wapiti in our Grande Prairie district. We participated in drilling three (1.13 net) Dunvegan wells and tied in one (0.5 net) Dunvegan well in Q1 which had a 45 day production rate of 270 barrels of oil equivalent per day (77% oil). The remaining two (0.75 net) Dunvegan wells are awaiting completion post spring break up and one (0.375 net) well drilled in the fourth quarter of 2011 was completed with a final test rate of 252 barrels of oil equivalent per day (20% oil). We have identified several follow up Dunvegan locations in the oilier part of the fairway which are to be drilled post break up and continue to be encouraged with the results of our Dunvegan program. We also participated in drilling a Montney discovery in Kaybob (0.375 net) with plans to tie the well in later in 2012.

## REVISIONS TO 2012 GUIDANCE

Based on first quarter 2012 cash flow, revised natural gas pricing assumptions, and operational delays in Tunisia we are adjusting our capital expenditures downward from $165 million to $110-120 million and are forecasting to generate cash flow of approximately $95-100 million. 95 percent of the remaining Canadian capital expenditure budget will be directed toward oil activities while 100 percent of the remaining Tunisian capital expenditures will be directed toward oil activities. On this basis, we anticipate to exit the year with net debt of approximately $70 million. Average production for the year will be reduced to 12,750-13,250 barrels of oil equivalent per day.

We expect to complete the annual renewal of our borrowing base with our lenders by the end of May and based largely on the lower commodity pricing assumptions used by our banking syndicate and continued asset sales, we expect a material reduction in our facility. At the end of Q1 we were only drawn at 54 percent of the available credit facility and believe we are able to absorb the anticipated reduction. Debt management has and will continue to be a top priority as evidenced by our continuous reduction in quarter-over-quarter and year-over-year debt levels. It is with a strong balance sheet and cash flow based capital expenditure philosophy that we will be able to advance our development program in Tunisia, where we receive an exceptionally high netback, and move our Canadian operations into more highly profitable, resource focused, oil and liquids opportunities. In challenged business environments change may not appear to happen fast enough, however, we are pleased with our performance to date in 2012 and are encouraged by our prospects for growth through the balance of 2012 and beyond.

## MANAGEMENT CHANGES

We are pleased to recognize the contribution of key personnel and announce two changes to the executive management of Chinook with the appointments of Walter Vrataric to President and Tim Halpen to Chief Operating Officer of Chinook's Canadian operation. Walter has served as Vice President, Business Development and Land since March 2010 and has been assuming increased levels of responsibility for the repositioning of our Canadian business for future growth and expanding our capital market support capabilities. Tim has served as the Vice President, Exploitation since January 2010 and has been a key contributor to establishing and building our Canadian business. Chinook's current Chief Operating Officer for Canadian Operations, Grant Wierzba, will continue to provide valued input in the senior management decisions for our Canadian and Tunisian activities as Vice President, Operations and will remain on the Board of Directors of Chinook. Matt Brister will continue to serve as Chief Executive Officer and Chairman of the Board of Directors of Chinook.

# Management's Discussion and Analysis



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 three months ended March 31, 2012 and 2011 and should be read in conjunction with Chinook's condensed consolidated financial statements and accompanying notes as at and for the three months ended March 31, 2012 and 2011 and consolidated financial statements and accompanying notes as at and for the years ended December 31, 2011 and 2010. This MD&A is based on information available as at May 10, 2012.

The terms "first quarter of 2012" and "same period of 2011" or similar terms are used throughout this document and refer to the three month periods ended March 31, 2012 and 2011, respectively.

## Additional Information

Additional information for Chinook, including the Annual Information Form for the year ended December 31, 2011 ("AIF") can be found on SEDAR at www.sedar.com or at www.chinookenergyinc.com.

## Basis of Presentation

The condensed consolidated financial statements and comparative information for the first quarter of 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 and extending down to West Central Alberta through multi-zone core areas of Gilby and Brazeau.
- **Tunisia** – includes eight blocks totaling over three million gross acres, offshore in the Gulf of Hammamet within the Pelagian Basin (Cosmos, Yasmin and Hammamet Offshore) and Sud Remada, Bir Ben Tartar, Jenein, Adam and Borj El Khadra Blocks, all onshore properties located within the Ghadames Basin.
- **Corporate** – includes derivative transactions and swap option gains and losses, general and administrative costs and assets held corporately.

Segmented financial information is presented after 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 Operations Highlights

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| **OPERATIONS** | | |
| **Production** | | |
| Oil *(bbl/d)* | **3,819** | 3,634 |
| Natural gas liquids *(bbl/d)* | **1,202** | 1,692 |
| Natural gas *(mcf/d)* | **51,445** | 55,922 |
| Average daily production *(boe/d)* | **13,596** | 14,646 |
| **Sales Prices** | | |
| Average oil price *($/bbl)* | **$ 101.06** | $ 82.38 |
| Average natural gas liquids price *($/bbl)* | **$ 70.66** | $ 59.13 |
| Average natural gas price *($/mcf)* | **$ 2.27** | $ 3.85 |
| **Corporate Netbacks** (1) | | |
| Average commodity pricing *($/boe)* | **$ 43.35** | $ 41.86 |
| Royalties *($/boe)* | **$ (4.22)** | $ (8.12) |
| Net production expenses *($/boe)* (1) | **$ (17.65)** | $ (13.48) |
| Cash G&A *($/boe)* (1) | **$ (3.03)** | $ (2.22) |
| Corporate Netbacks *($/boe)* (1) | **$ 18.45** | $ 18.04 |
| **FINANCIAL** *($ thousands, except per share amounts)* | | |
| Petroleum and natural gas revenue, net of royalties | **$ 48,509** | $ 44,365 |
| Cash flow (1) | **$ 19,174** | $ 21,140 |
| Per share - basic and diluted | **$ 0.09** | $ 0.10 |
| Net loss | **$ (17,091)** | $ (241) |
| Per share - basic and diluted | **$ (0.08)** | $ - |
| Capital expenditures | **$ 23,446** | $ 43,696 |
| Net debt (1) | **$ 89,182** | $ 176,542 |
| Total assets | **$ 692,023** | $ 888,500 |
| **Common Shares** *(thousands)* | | |
| Weighted average during period | | |
| - basic and diluted | **214,188** | 214,188 |
| Outstanding at period end | **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 March 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 | **2,320** | **1,202** | **50,533** | **11,945** | 3,148 | 1,692 | 55,043 | 14,014 |
| Tunisia | **1,499** | **-** | **912** | **1,651** | 486 | - | 879 | 632 |
| Total | **3,819** | **1,202** | **51,445** | **13,596** | 3,634 | 1,692 | 55,922 | 14,646 |
| **Sales** | | | | | | | | |
| Canada | **2,320** | **1,202** | **50,533** | **11,945** | 3,148 | 1,692 | 55,043 | 14,014 |
| Tunisia | **1,526** | **-** | **912** | **1,678** | 452 | - | 879 | 598 |
| Total | **3,846** | **1,202** | **51,445** | **13,623** | 3,600 | 1,692 | 55,922 | 14,612 |

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

Chinook's Canadian segment's production of 11,945 boe per day for the first quarter of 2012 was a 15% reduction relative to the comparable period of 2011. Production levels of Chinook's Canadian segment decreased approximately 1,400 boe per day as a result of the 2011 and 2012

non-core property dispositions. This decrease includes approximately 850 boe per day of average production associated with the properties and various unit interest dispositions made during the first quarter of 2012. In addition, with realized natural gas prices falling below $2.00 per mcf, Chinook began to shut-in some of its dry gas fields, primarily in north-eastern Alberta, which had the effect of lowering volumes by approximately 325 boe per day from the comparable period. Had the shut-in production occured at the beginning of the current reporting period the average decrease in production would have been approximately 450 boe per day.

Chinook's Tunisian production volumes of 1,651 boe per day during the first quarter of 2012, increased by 161% relative to the same period of 2011. This increase entirely reflects the production from Chinook's Ordovician oil discovery located on the Bir Ben Tartar Concession ("BBT").

Chinook's Tunisian production increase partially offsets the decrease in Canadian production. For these reasons, Chinook's average production volumes of 13,596 boe per day during the first quarter of 2012, represented an overall decrease of 7% relative to the volumes reported in the same period of 2011.

The difference between Chinook's Tunisian production and sales volumes results from crude oil wellhead production being measured in the field versus revenue recognition 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 first quarter of 2012 sales exceeded production as, on a net basis, approximately 2,500 barrels were sold from Chinook's opening crude oil inventory. After giving effect to the change in inventoried crude oil, Chinook's Tunisian sales volumes of 1,678 boe per day for the first quarter of 2012 increased 181% relative to the same period in 2011.

Drilling and completion expenditures for the first quarter of 2012 totaled $17.1 million (first quarter of 2011 - $27.3 million). These expenditures included the drilling of ten (4.2 net) wells and the completion of six (2.8 net) wells.

Chinook's Canadian segment's drilling and completion expenditures for the first quarter of 2012 totaled $10.2 million (first quarter of 2011 - $24.1 million) and included the drilling of seven (3.2 net) wells, the completion of three (1.6 net) wells, in addition to the preparation of future drilling locations and some cost overruns related to 2011 drilling activities.

Chinook's Tunisian segment's drilling and completion expenditures for the first quarter of 2012 totaled $6.9 million (first quarter of 2011 - $3.2 million) and included the successful drilling and completion of two (0.9 net) wells. Chinook participated in the drilling of the Nessma (0.1 net) exploratory well, and spudded its BJA-2 exploratory well (0.9 net) on its Sud Remada property which finished drilling operations in the second quarter of 2012. Both wells did not encounter pay intervals of petroleum or natural gas reserves resulting in drilling costs of $2.1 million being expensed through the statement of operations.

# Financial Results of Operations

## Petroleum and Natural Gas Revenue and Realized Pricing

| Three months ended March 31 | | | 2012 | | | 2011 |
|---|---|---|---|---|---|---|
| *($ thousands, except per unit amounts)* | Canada | Tunisia | Total [1] | Canada | Tunisia | Total [1] |
| Oil sales | **$ 18,498** | **$ 16,877** | **$ 35,375** | $ 22,430 | $ 4,258 | $ 26,688 |
| $/bbl | **87.61** | **121.51** | **101.06** | 79.17 | 104.79 | 82.38 |
| Natural gas liquids sales | **$ 7,726** | **$ -** | **$ 7,726** | $ 9,005 | $ - | $ 9,005 |
| $/bbl | **70.66** | **-** | **70.66** | 59.13 | - | 59.13 |
| Natural gas sales | **$ 9,292** | **$ 1,352** | **$ 10,644** | $ 18,332 | $ 1,024 | $ 19,356 |
| $/mcf | **2.02** | **16.29** | **2.27** | 3.70 | 12.95 | 3.85 |
| Petroleum and natural gas revenue | **$ 35,516** | **$ 18,229** | **$ 53,745** | $ 49,767 | $ 5,282 | $ 55,049 |
| $/boe | **32.67** | **119.36** | **43.35** | 39.45 | 98.15 | 41.86 |

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

Petroleum and natural gas revenue of $53.7 million during the first quarter of 2012 decreased $1.3 million from the same period in 2011. This decrease was entirely due to lower Canadian sales volumes and Canadian natural gas pricing. This effect was partially offset by higher Tunisian sales volumes in addition to higher realized liquids pricing and, to a lesser extent, higher Tunisian natural gas pricing.

## Canadian Petroleum and Natural Gas Revenues and Prices

Chinook's Canadian petroleum and natural gas revenue for first quarter of 2012, relative to the same period in 2011, decreased as a result of lower Canadian natural gas prices in addition to lower sale volumes resulting from the 2011 and 2012 non-core property dispositions and the temporary shut-in of predominantly dry gas fields.

## Tunisian Petroleum and Natural Gas Revenues and Prices

Chinook's Tunisian petroleum and natural gas revenue for the first quarter of 2012, relative to the same period in 2011, was higher as a result of increased sales volumes and realized prices for all of Chinook's Tunisian commodities.

## Benchmark Prices

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| Oil | | |
| Edmonton par ($/bbl) | $ 92.32 | $ 88.65 |
| Brent ($US/bbl) | 118.49 | 105.52 |
| Natural gas liquids | | |
| WTI ($US/bbl) [(1)] | 102.88 | 94.60 |
| Conway, KS ($US/bbl) | 43.35 | 54.08 |
| Natural gas | | |
| AECO ($/mcf) | $ 2.15 | $ 3.77 |

1) West Texas Intermediate

Chinook's average crude oil realized price of $101.06 per barrel during the first quarter of 2012, was an increase of 23% relative to the same period in 2011. Chinook's Canadian crude oil production is sold at prices based on the Edmonton par benchmark postings and the Tunisian crude oil production is sold at the three day average price for Brent oil quotations after being loaded onto a shipping tanker. The premium of Brent crude futures to WTI, which has traded at a premium to WTI since August 2010, widened to the highest level in almost three years during the first quarter of 2012. Chinook's Tunisian crude oil, which has a low relative density, has historically sold with a minimal price differential relative to the Brent benchmark, but can fluctuate from the average Brent price depending on the price in effect at the time of Chinook's sales. The Edmonton par and Brent benchmarks for the first quarter of 2012 improved relative to the same period in 2011.

## Natural Gas Liquids Pricing

Chinook's Canadian natural gas liquids price is benchmarked to pricing in Conway, Kansas or WTI, depending on the type sold. Chinook's realized natural gas liquids price increased to $70.66 per barrel during the first quarter of 2012, as compared to $59.13 during the same period in 2011, because its natural gas liquids are condensate rich. Since the comparable period, the market price of the majority of these condensates increased at a greater rate than the increase in WTI resulting in Chinook receiving a higher price during the current period, as partially offset by a decrease in the price of other liquids benchmarked to the Conway, Kansas price.

## Natural Gas Pricing

Chinook's Canadian realized natural gas price of $2.02 per mcf for the first quarter of 2012 was lower than the price realized during the same period in 2011, reflecting the decrease in the AECO benchmark price.

## Managing Commodity Price Risk

To mitigate commodity price risk, Chinook's management, upon approval of the Board of Directors, has entered into financial derivative contracts. Refer to "Commodity Price Risk Management Contracts and Swap Option" for a further discussion on Chinook's financial derivative contracts.

## Royalties

| Three months ended March 31 | | | 2012 | | | 2011 |
|---|---|---|---|---|---|---|
| *($ thousands, except where noted)* | Canada | Tunisia | Total | Canada | Tunisia | Total |
| Royalties | $ 4,685 | $ 551 | $ 5,236 | $ 10,284 | $ 400 | $ 10,684 |
| Per sales ($/boe) | $ 4.31 | $ 3.61 | $ 4.22 | $ 8.15 | $ 7.51 | $ 8.12 |
| Percent of Revenue (%) | 13 | 3 | 10 | 21 | 8 | 19 |

For the first quarter of 2012, Chinook's royalties of $5.2 million decreased relative to the same period in 2011. This decrease is mainly the result of lower Canadian petroleum and natural gas revenues combined with an increase in the gas cost allowance recovery. 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 first quarter of 2012 relative to the same quarter of 2011.

As a result of increased Tunisian crude oil pricing on the Adam Concession's sales volumes, royalties of $0.6 million during the first quarter of 2012, were higher as compared to the same quarter in 2011. The Adam Concession is under a joint venture contract where there is a royalty paid on crude oil and natural gas production based on a sliding scale calculation with royalty rates of between 2% to 15%. Presently Chinook is paying an average royalty rate on its Adam Concession sales of 9% for natural gas and 12% for crude oil.

Chinook does not pay royalties on its BBT Concession's production. The current reporting period's increase in Tunisian petroleum revenues was mostly the result of higher sales volumes from this Concession, in comparison to the same period in 2011, therefore the overall Tunisian royalty rate, as percentage of revenue, and on a per boe basis, decreased to 3% and $3.61 per boe, respectively, during the first quarter of 2012.

## Production and Operating Expense

| Three months ended March 31 | | | 2012 | | | 2011 |
|---|---|---|---|---|---|---|
| *($ thousands, except where noted)* | Canada | Tunisia | Total | Canada | Tunisia | Total |
| Production and operating expense | **$ 20,631** | **$ 3,900** | **$ 24,531** | $ 19,298 | $ 648 | $ 19,946 |
| Less: | | | | | | |
| Processing and gathering revenue | **(2,654)** | **-** | **(2,654)** | (2,211) | - | (2,211) |
| Net production and operating expense [(1)] | **$ 17,977** | **$ 3,900** | **$ 21,877** | $ 17,087 | $ 648 | $ 17,735 |
| Per sales net production and operating expenses ($/boe) [(1)] | **$ 16.54** | **$ 25.54** | **$ 17.65** | $ 13.55 | $ 12.03 | $ 13.48 |
| Per sales production and operating expenses ($/boe) | **$ 18.98** | **$ 25.54** | **$ 19.79** | $ 15.30 | $ 12.03 | $ 15.17 |

(1) Net production and operating expense and net production and operating expense per boe are not IFRS measures 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 period's 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 first quarter of 2012, production and operating expense of $24.5 million increased relative to the same period in 2011. This increase mostly resulted from higher Tunisian sales volumes from Chinook's BBT Concession.

In Tunisia, an increase in the BBT Concession's sales volumes had the effect of increasing the Tunisian production and operating expense for the first quarter of 2012, relative to the same period in 2011, as under the terms of this Concession's profit sharing contract, Chinook pays an 86% working interest of the operating expense at this development stage and receives the equivalent working interest in approximately 53% of the revenue. This profit sharing contract results in a higher reported operating expense on a boe basis than would otherwise be generated by an operation with similar efficiencies. Chinook forecasts improved BBT operating costs on a boe basis as production volumes increase and the planned facility and sales line come on stream, as anticipated to occur in 2013.

In Canada, the $20.6 million of production and operating expense, or $18.98 on a boe basis, increased for the first quarter of 2012, relative to the same period in 2011, despite lower Canadian sales volumes. For the first quarter of 2012, Chinook estimated that approximately 40% of its operating costs were incurred on its non-operated properties whereas such properties only contributed approximately 25% to its Canadian sales volumes. Chinook continues to evaluate its non-operated properties and the associated higher operating charges on a boe basis, relative to its operated properties. Further contributing to the increase in production and operating expense on a boe basis, were fixed costs associated with Chinook's north-eastern Alberta dry gas fields which were shut-in due to current Canadian natural gas prices.

As part of the ongoing effort to reduce Canadian operating costs, Chinook continues to: work with its suppliers to form strategic alliances; review its use of rental compressors; and, in addition, assess strategic initiatives for its high operating cost, non-core properties.

The increased production and operating expense was partially mitigated through improved processing and gathering revenue, viewed by management as a recovery of Chinook's production and operating expense, for the first quarter of 2012 as compared to the same period in 2011. Processing and gathering income increased to $2.7 million for the first quarter of 2012, as compared to the same quarter of 2011, primarily due to increased third party volumes processed and gathered through Chinook's operations.

## General & Administrative ("G&A") Expense

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| *($ thousands, except per unit amounts)* | | |
| Stock-based compensation | **$ 827** | $ 1,250 |
| Rent and general office costs | **1,570** | 1,952 |
| Staffing, net of capitalized costs and recoveries | **780** | (421) |
| Legal expenses | **28** | 373 |
| Accounting and audit costs | **293** | 355 |
| Corporate expenses | **827** | 665 |
| G&A | **$ 4,325** | $ 4,174 |
| Per sales *($/boe)* | **$ 3.49** | $ 3.18 |
| Cash G&A [(1)] | **$ 3,762** | $ 2,924 |
| Per sales *($/boe)* | **$ 3.03** | $ 2.22 |

(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 of $4.3 million for the first quarter of 2012 modestly increased from the same period in 2011. As a result of the lower staffing recoveries, Cash G&A also increased for the first quarter of 2012, relative to the same period in 2011, and when combined with lower Canadian sales volumes, resulted in an increase in Cash G&A to $3.03 per boe.

Partially offsetting the increase in G&A for the first quarter of 2012, as compared to the same period in 2011, were decreases in stock-based compensation and general office costs. Stock-based compensation decreased mainly due to the lower assigned fair value per granted option and that some options are now fully expensed. General office costs decreased due to lower information support and software maintenance charges.

## Corporate Netbacks

The following tables outline the corporate netbacks by segment and on a consolidated basis:

| Three months ended March 31 | | | 2012 | | | 2011 |
|---|---|---|---|---|---|---|
| Per sales *($/boe)* | Canada[2] | Tunisia | Total | Canada[2] | Tunisia | Total |
| Realized sales price | **32.67** | **119.36** | **43.35** | 39.45 | 98.15 | 41.86 |
| Less: | | | | | | |
| Royalties | **(4.31)** | **(3.61)** | **(4.22)** | (8.15) | (7.51) | (8.12) |
| Net production and operating expense [3] | **(16.54)** | **(25.54)** | **(17.65)** | (13.55) | (12.03) | (13.48) |
| Cash G&A [4] | **(3.38)** | **(0.61)** | **(3.03)** | (2.08) | (4.80) | (2.22) |
| **Corporate netback** [1] | **8.44** | **89.60** | **18.45** | 15.67 | 73.81 | 18.04 |

(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 analyical 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 first quarter of 2012, Chinook's corporate netback increased to $18.45 per boe from $18.04 during the same period in 2011. The current reporting period's corporate netback represents 43% of the realized sales prices. This increase in the per boe total corporate netback primarily resulted from the increase in BBT sales volumes which are priced at Brent, which traded at a significant premium relative to WTI, and gave effect to an increase in the Tunisian corporate netback to $89.60 per boe. The Canadian corporate netback of $8.44 per boe decreased for the first quarter of 2012, relative to the same period in 2011, as a result of lower natural gas prices combined with higher cash G&A and net production and operating expenses on a boe basis.

## Risk Management Contracts Losses (Gains)

| Three months ended March 31 | | 2012 | | 2011 |
|---|---|---|---|---|
| *($ thousands)* | | | | |
| Realized loss (gain) on swap and collar commodity price contracts | **$** | **265** | $ | (708) |
| Unrealized loss (gain) on swap and collar commodity price contracts and swap option | | **6,917** | | (935) |
| | **$** | **7,182** | $ | (1,643) |

The settlement of the swap and collar commodity price contracts for the first quarter of 2012, resulted in a loss as compared to the gain reported during the same period in 2011.

The unrealized loss during the first quarter of 2012 resulted from an increase in the forecasted Brent and WTI price since last being measured on December 31, 2011. The increased forecasted price placed Chinook's crude oil swap and collar commodity price contracts "out-of-the-money". A gain was reported during the same period in 2011.

With Chinook selling a notional quantity of its natural gas production at a price of $5.00 per GJ on its derivative natural gas contracts relative to the average AECO benchmark price of $2.15 per mcf for the first quarter of 2012, Chinook realized a gain of $0.6 million. After including the realized gain on the natural gas derivative contracts during the first quarter of 2012, Chinook received an adjusted natural gas price of $2.41 per mcf as compared to its reported sales price of $2.27 per mcf.

This realized gain on the settlement of the natural gas derivative contracts was offset by a realized loss of $0.9 million for the first quarter of 2012 on Chinook's derivative crude oil contracts. These contracts resulted in Chinook selling a notional quantity of crude oil production at either US$107.00 per barrel relative to the average Brent price of US$102.88 per barrel or US$98.75 per barrel as compared to the average, WTI price of US$102.88 per barrel. After including the realized losses on the crude oil derivative contracts, Chinook received an adjusted crude oil price of $98.48 per barrel as compared to its reported sales price of $101.06 per barrel for the first quarter of 2012.

## Net Financing Expenses

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| *($ thousands)* | | |
| Interest on bank debt | **$ 1,341** | $ 1,851 |
| Interest earned on bank deposits | **(2)** | (9) |
| Finance charges and fees | **157** | 118 |
| Accretion of decommissioning obligation | **844** | 1,060 |
| Net financing expenses | **$ 2,340** | $ 3,020 |

The decrease in comparative quarterly net finance expenses mostly resulted from lower average outstanding debt during the current reporting period. The effective interest rate on bank debt was 3.8% for the first quarters of 2012 and 2011. The outstanding Revolving Term Credit Facility accrues interest at either Canadian prime, U.S. Base rate, U. S. Libor or Banker's Acceptance rates plus a margin, depending on the option selected by Chinook.

The accretion expense decrease resulted from a lower risk free discount rate, in addition to a lower decommissioning obligation as reported at December 31, 2011, due to non-core property dispositions and a downward estimate.

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

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| *($ thousands, except per unit amounts)* | | |
| Canada | **$ 21,574** | $ 22,615 |
| Tunisia | **4,469** | 901 |
| Total | **$ 26,043** | $ 23,516 |
| Per sales ($/boe) | **$ 21.01** | $ 17.88 |

DD&A expense for the first quarter of 2012 increased from the same period in 2011 due to an increase in sales volumes from Chinook's Tunisian BBT Concession which commenced production in June 2011 in addition to an increased depletion rate on a boe basis throughout all of Chinook's operations. Partially offsetting this increase was lower DD&A due to a decrease in sales volumes from Chinook's Canadian operations.

For the first quarter of 2012, DD&A was $21.01 per boe, an increase relative to the same period in 2011. This increase was due to higher depletion rates throughout Chinook's operations which mostly resulted from 2011 capital expenditures. Chinook's Tunisian BBT Concession had the most notable impact on Chinook's depletion rate as this Concession's sales volumes increased over the comparative quarters, mostly replacing lower Canadian sales volumes, in addition to having a higher associated rate. This Concession's higher depletion rate results from the terms of the profit sharing contract with ETAP, as Chinook includes 86% of the future development costs relative to approximately 53% of the petroleum reserves. However, the economics of this high BBT depletion rate are offset through Chinook not having to pay either petroleum royalties or corporate income taxes from this Concession's sales volumes.

## Gain on Disposition of Properties

For the first quarter of 2012, Chinook completed the sale of two non-core petroleum and natural gas properties and several unit interests located throughout Alberta, Canada, for net proceeds of $54.7 million, after including final statement of adjustments for prior period dispositions. The carrying amount of the sold properties and unit interests, including the disposed decommissioning obligation, was approximated to be less than the received sales proceeds resulting in a gain of $1.3 million for the first quarter of 2012 (versus a gain of $6.2 million for the same period in 2011).

## Exploration and Evaluation Expense

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| *($ thousands)* | | |
| Canada | **$ 1,054** | $ 2,062 |
| Tunisia | **2,135** | 344 |
| Total | **$ 3,189** | $ 2,406 |

Exploration & evaluation expense for the first quarter of 2012 increased to $3.2 million from that reported during the same period of 2011. In the fourth quarter of 2011, Chinook's partner commenced drilling of the Nessma exploratory well (0.1 net) located in proximity to the developed and producing Adam Concession, located onshore Tunisia. Drilling activities were completed on this well in the first quarter of 2012 at which time it was plugged and abandoned. In addition, during the first quarter of 2012, Chinook started drilling its BJA-2 exploration well (0.9 net), located on its Sud Remada exploration permit, located onshore Tunisia. Subsequent to March 31, 2012, the well was completed but plugged. As both wells were determined to be unsuccessful for petroleum or natural gas reserves, costs incurred as at March 31, 2012 of $2.1 million were charged through exploration and evaluation expense, which also included a non-cash charge for the BJA-2 well related to its decommissioning obligation. Additional exploration and evaluation expenditures were incurred for license transfer fees, undeveloped land leases, studies over unlicensed lands or formations and prospecting expenses.

### Income Tax Expense (Recovery)

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| *($ thousands)* | | |
| Current income tax | **$ 1,732** | $ 1,057 |
| Deferred income tax (recovery) expense | **(77)** | 486 |
| Total | **$ 1,655** | $ 1,543 |

Current income taxes entirely relate to Chinook's Adam Concession, located onshore Tunisia. Current income tax increased to $1.7 million during the first quarter of 2012 as compared to $1.1 million in the same period of 2011. Contributing to the increase in current income tax for the first quarter of 2012 was higher revenue resulting from higher petroleum pricing on Chinook's Adam Concession's sales volumes.

The deferred income tax recovery, as recognized in the current reported period, resulted from offsetting adjustments on Chinook's temporary timing differences from both its Canadian and Tunisian operations. In the same quarter of 2011, Chinook reported future income taxes of $0.5 million on its Tunisian operations as a portion of this operation's exploratory expenditures were not included in the tax resource pool resulting in comparatively higher carrying values.

### Net Loss and Comprehensive Loss

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| *($ thousands, except per share and share amounts)* | | |
| **Net loss** | **$ (17,091)** | $ (241) |
| Per share - basic and diluted *($/share)* | **(0.08)** | (0.00) |
| **Comprehensive loss** | **$ (18,645)** | $ (2,034) |
| Per share - basic and diluted *($/share)* | **(0.09)** | (0.01) |
| Weighted average shares outstanding - basic and diluted *(thousands)* | **214,188** | 214,188 |

Chinook's net loss of $17.1 million for the first quarter of 2012 increased relative to the same quarter in 2011. The increase in the net loss was mostly due to lower Canadian sales revenue and lower gains on property dispositions in addition to higher expenses such as operating, derivative losses, DD&A and current taxes. The comprehensive losses for the first quarter of 2012, which includes Chinook's net loss and other comprehensive loss, increased relative to the same quarter in 2011. For the first quarters of 2012 and 2011, Chinook reported foreign exchange translation losses of $1.6 million and $1.8 million, respectively. These foreign exchange translation losses are attributable to the Canadian dollar strengthening relative to the US dollar, resulting in a decrease in Chinook's Canadian dollar reported Tunisian net assets as denominated in US dollars.

## Capital Resources, Capital Expenditures and Liquidity

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

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

Cash flow for the first quarter of 2012, in addition to proceeds from the disposition of non-core properties, financed the repayment of a portion of Chinook's revolving term credit facility, investment in capital, exploration and evaluation expenditures and increased non-cash working capital.

## Cash Flow

| Three months ended March 31 | | 2012 | | 2011 |
|---|---|---|---|---|
| *($ thousands, except per unit amounts)* | | | | |
| Cash flow from operations | **$** | **12,378** | $ | 8,444 |
| Add back investment in non-cash working capital | | **5,272** | | 12,696 |
| Add back decommissioning obligation expenditures | | **1,524** | | - |
| Cash flow | **$** | **19,174** | $ | 21,140 |
| Per share - basic and diluted [(1)] | **$** | **0.09** | $ | 0.10 |
| Per sales ($/boe) [(1)] | **$** | **15.47** | $ | 16.07 |

(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 for the first quarter of 2012 of $19.2 million decreased relative to that reported in the same period of 2011 due to lower Canadian sales volumes combined with lower Canadian natural gas pricing in addition to certain higher cash expenditures, including operating costs and current tax expense. This resulted in a decrease in cash flow per share on a basic and diluted share basis for the first quarter of 2012, compared to that reported during the same period in 2011.

## Revolving Term Credit Facility

| | | March 31 | | December 31 |
|---|---|---|---|---|
| *($ thousands)* | | 2012 | | 2011 |
| Revolving term credit facility | **$** | **99,175** | $ | 137,500 |
| Less: | | | | |
| Working capital excluding mark to market derivative contracts | | **(9,993)** | | (2,600) |
| Net debt [(1)] | **$** | **89,182** | $ | 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 March 27, 2012, Chinook's 364 day revolving term credit facility was reduced to $182.0 million (the "Revolving Term Credit Facility") as a result of petroleum property sales as compared to $194.0 million as at December 31, 2011. As a result of a petroleum and natural gas property sale subsequent to March 31, 2012, the Revolving Term Credit Facility was further reduced to $166.0 million. The current revolving period ends on June 25, 2012. In the event that the revolving period is not extended prior to this date, all amounts then outstanding under the Revolving Term Credit Facility must be repaid before June 25, 2013. The Revolving Term Credit Facility is subject to a semi-annual review and redetermination with the next review and redetermination to be calculated based on year end information prior to June 25, 2012, as currently underway. Changes in the availability of the Revolving Term Credit Facility are possible, from one renewal period to the next, with draws in excess of availability becoming immediately payable. At March 31, 2012, Chinook had drawn $99.2 million on the Revolving Term Credit Facility (December 31, 2011 - $137.5 million) resulting in available credit on this facility of $82.8 million (December 31, 2011 - $56.5 million).

Chinook's net debt of $89.2 million as at March 31, 2012, decreased relative to $134.9 million as at December 31, 2011 due to a $38.3 million net repayment, financed from cash flow and property sales, made against the outstanding principal on the Revolving Term Credit Facility during the first quarter of 2012 and an increase of $7.4 million of working capital excluding mark-to-market derivative contracts. The increase in the working capital excluding mark-to-market derivative contracts is mostly due to an increase in accounts receivable resulting from higher sales volumes from the BBT Concession, located onshore Tunisia, and a portion of the sales proceeds related to the selling of various unit interests mostly located throughout Alberta, Canada.

The Revolving Term Credit Facility is collateralized by floating charges and security interests over all present and future properties and assets of the Company. Interest payable on amounts drawn on this facility vary based on Canadian prime, U.S. Base rate, U.S. LIBOR or Bankers' Acceptance depending on the borrowing option selected by the Company. The effective interest rate on the Revolving Term Credit Facility for first quarters of 2012 and 2011 was 3.8%. The Revolving Term Credit Facility contains a covenant whereby the ratio of Chinook's debt to earnings before interest, taxes, depreciation and amortization cannot be greater than 4:1 as determined on a rolling four quarter basis for the most current fiscal quarter. At March 31, 2012, Chinook was in compliance with this covenant.

## Capital Expenditures

| Three months ended March 31 | | | | 2012 | | | | 2011 |
|---|---|---|---|---|---|---|---|---|
| *($ thousands)* | Canada | Tunisia | Corporate | Total | Canada | Tunisia | Corporate | Total |
| Land and lease | **$ 389** | **$ -** | **$ -** | **$ 389** | $ 844 | $ - | $ - | $ 844 |
| Drilling and completions | **10,206** | **6,943** | **-** | **17,149** | 24,074 | 3,202 | - | 27,276 |
| Abandonment and other | **-** | **-** | **-** | **-** | 6,009 | 412 | - | 6,421 |
| Facilities and equipment | **3,069** | **1,776** | **-** | **4,845** | 7,286 | 315 | - | 7,601 |
| Field expenditures | **13,664** | **8,719** | **-** | **22,383** | 38,213 | 3,929 | - | 42,142 |
| Capitalized G&A | **394** | **618** | **-** | **1,012** | 613 | 101 | - | 714 |
| Furniture and equipment | **-** | **-** | **51** | **51** | - | - | 255 | 255 |
| Property acquisitions | **-** | **-** | **-** | **-** | 585 | - | - | 585 |
| Total | **$ 14,058** | **$ 9,337** | **$ 51** | **$ 23,446** | $ 39,411 | $ 4,030 | $ 255 | $ 43,696 |
| Proceeds from dispositions | **$ 54,740** | **$ -** | **$ -** | **$ 54,740** | $ 17,283 | $ - | $ - | $ 17,283 |

## Drilling Activity Summary

Chinook's drilling activity for first quarter of 2012 is summarized below:

| Three months ended March 31, 2012 | | Tunisia | | Canada | | Total |
|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net |
| Oil | 2.00 | **0.91** | 6.00 | **2.20** | 8.00 | **3.11** |
| Gas | - | **-** | 1.00 | **1.00** | 1.00 | **1.00** |
| Dry | 1.00 | **0.10** | - | **-** | 1.00 | **0.10** |
| | **3.00** | **1.01** | **7.00** | **3.20** | **10.00** | **4.21** |

Chinook's detailed activities by operating segment for the first quarter of 2012 is as follows:

## Canada

Chinook drilled and cased a Mannville liquids rich gas test well (1 net) at Gilby, in west-central Alberta, during the first quarter and encountered pay in two zones. Also located in west-central Alberta, Chinook participated in the drilling of a horizontal Montney oil test well (0.4 net) at Kaybob which was completed in February 2012 and tested at economical production levels of crude oil and natural gas, with first production expected in September 2012. There could be 15 to 25 horizontal Montney oil locations on Chinook's acreage, along with additional potential upside, as yet to be defined, from the Duvernay and Nordegg Formations. Notably, within five miles of Chinook's acreage, major oil and gas producers have recently drilled three horizontal Duvernay wells, and have licensed an additional three.

In the Wapitia area, near Grande Prairie, Alberta, Chinook drilled two Dunvegan horizontal wells (0.8 net) and participated in a third well (0.3 net) during the first quarter of 2012. Only one of the three wells was completed prior to spring break-up, achieving a final test rate of 250 boe per day. This well is expected to be brought on production in May 2012, at which time the other well will also be completed with a fracture stimulation. Chinook is participating in a 3D seismic acquisition program over this area and will use the data, along with current drilling and completion results, to help select future drilling locations. Chinook also acquired micro-seismic data from a nearby wellbore during the fracture stimulation of the first Dunvegan horizontal well drilled in the first quarter of 2012. This data will help to optimize completion techniques on all upcoming locations. Chinook owns 15 gross sections (9 net) currently identified as highly prospective for horizontal Dunvegan oil development, which could result in 45 to 60 gross drilling locations.

A horizontal Dunvegan oil well (0.4 net) drilled at Karr, Alberta during the fourth quarter of 2011, was brought on production in January 2012. The average gross rates for the first 30 days of production were 250 barrels of oil per day and 390 mcf per day (aggregate of 350 boe per day). Chinook expects to participate in two or three more wells during the second half of 2012.

Chinook also drilled and cased one well (0.7 net) at Knopcik, along with completing an uphole zone in a previously drilled well (0.7 net). Completion of the new drill and tie-in of both locations have been deferred until natural gas prices improve.

Chinook incurred costs of $0.4 million at Crown land sales in the first quarter of 2012 ($0.8 million in the same period of 2011), acquiring approximately 3,300 acres in its core areas including Gordondale and Knopcik.

## Tunisia

During the first quarter of 2012, Chinook drilled and completed its BBT TT9 well (0.9 net). The TT9 well was brought on production late in the first quarter of 2012 resulting in average gross production from seven producing BBT wells of 2,057 barrels of oil per day. Chinook is preparing to perform optimization programs on three of these wells to improve and stabilize productivity in addition to drilling its first horizontal well at TT16.

Chinook participated in the drilling of the Nessma-1 exploration well (0.1 net) and El Azzel N-2 development well (0.1 net) on its Adam Concession. The Nessma-1 exploration well was a dry hole and was plugged and abandoned. Expenditures on this well were expensed through the line

item exploration and evaluation expense on the statement of operations. The El Azzel N-2 well was successful and has been completed in the Acacus Formation and is anticipated to be tied in and brought on production during the second quarter of 2012. Planning is ongoing for the drilling during 2012 of one additional development well and one additional exploration well.

During March 2012, Chinook spudded its BJA-2 exploration well (0.9 net), located on its Sud Remada exploration permit onshore Tunisia. Drilling continued over the quarter end, at which time this well was plugged immediately above the target formation. As the BJA-2 exploration well was considered uneconomical for petroleum or natural gas reserves, the costs incurred on the drilling of this well as of March 31, 2012 were expensed through the line item exploration and evaluation expenses on the statement of operations.

## Rationalization of Non-Core Properties

During the first quarter of 2012, Chinook completed the sale of two non-core petroleum and natural gas properties and several unit interests mostly located throughout Alberta, Canada, for net proceeds of $54.7 million, after including final statements of adjustments for prior period dispositions. These funds were used to partially finance the repayment of a portion of the Revolving Term Credit Facility and the capital programs on Chinook's Canadian and Tunisian core properties. The non-core properties sold in the first quarter of 2012 included Manyberries and Coutts, in addition to the sale of certain unit interests. Chinook's 2011 average production from the sold assets was approximately 850 boe per day.

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

## Decommissioning Obligation

At March 31, 2012, Chinook reported decommissioning obligations of $87.9 million ($95.4 million at December 31, 2011) 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 properties, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the undiscounted total future liability. This estimated future liability as at March 31, 2012 and December 31, 2011, is then discounted at a liability specific risk-free interest rate of 2.0% to 3.0%.

The accretion charge, as recognized in the consolidated statements of operations to reflect the increase in the obligation associated with the passage of time, decreased to $0.8 million for the first quarter of 2012 relative to the same period in 2011. This decrease resulted from a lower risk free discount rate, in addition to a lower decommissioning obligation as reported at December 31, 2011, resulting from non-core property dispositions and a downward estimate.

During the first quarter of 2012, additions to the decommissioning liability of $0.4 million related to this period's drilling activities whereas $1.5 million of expenditures were incurred under Chinook's abandonment and reclamation program, which included the plugging and abandoning of the Nessma well, located in close proximity to the producing Adam Concession, onshore Tunisia with the remainder incurred on Canadian suspended wells.

During the first quarter of 2012, Chinook sold two non-core properties and various unit interests resulting in the disposition of $7.2 million in decommissioning obligations as assumed by the buyers of these properties.

## 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:

| | March 31 2012 | December 31 2011 |
|---|---|---|
| Common shares outstanding | **214,187,681** | 214,187,681 |
| Share options | **15,186,975** | 15,454,854 |
| Share purchase warrants | **1,279,000** | 1,279,000 |
| Fully diluted common shares | **230,653,656** | 230,921,535 |
| Weighted average common shares - basic and diluted | **214,187,681** | 214,187,681 |

At May 10, 2012, Chinook had 214,187,681 common shares, 15,093,286 options and 1,279,000 share purchase warrants outstanding.

### Commodity Price Risk Management Contracts and Swap Option

Chinook's financial results are influenced by fluctuations in commodity prices. As a means of managing this price volatility, Chinook has entered into crude oil commodity price contracts. Currently, Chinook's commodity price risk management contracts provide price protection on approximately 15% of its estimated remaining annual production for 2012. Unsettled risk management contracts are recognized at their fair value on the date of the financial statements. Changes in the fair value of a risk management contract result from volatility in commodity prices and the remaining notional volumes through to the contract's term. Changes in fair value between reporting periods are recognized in net income (loss) as unrealized risk management contract gains or losses. Realized risk management contract gains or losses are recognized in net income (loss) upon the unwinding of the financial derivative contract term. While risk management contracts may have opportunity costs when realized commodity prices exceed the contracted price, such transactions are not meant to be speculative and are considered within the broader framework of financial stability and flexibility. Management continuously reviews the need to utilize such financing techniques.

At March 31, 2012, Chinook had the following commodity price contracts with an estimated financial liability of $5.7 million:

| Crude Oil Indexed Price | Notional Volumes | Company's Received Price | Remaining period |
|---|---|---|---|
| WTI | 1,000 bbl/d | $98.75 US/bbl | April 1, 2012 to December 31, 2012 |
| Brent | 500 bbl/d | $100.00 US/bbl to $107.00 US/bbl | April 1, 2012 to December 31, 2012 |
| Brent | 500 bbl/d | $100.00 US/bbl to $133.00 US/bbl | April 1, 2012 to December 31, 2012 |

On or before December 31, 2012, the counterparty to the US$98.75 per barrel swap crude oil price contract has the option, but not the obligation, to extend the commodity contract over the period January 1, 2013 to December 31, 2013, at the same strike price, indexed market and notional volume as the original swap crude oil contract. Chinook has recognized a $4.2 million financial liability as the fair value of this swap option as at March 31, 2012.

## Outlook

In response to continued soft North American natural gas prices, Chinook has shut-in approximately 450 boe per day of dry natural gas production and continues to rationalize its non-core properties. Chinook's property and unit interests dispositions made during the first quarter of 2012 had associated average production during 2011 of 850 boe per day. The downward pressure on the North American natural gas prices has continued and is expected to continue for the rest of 2012. Chinook continues to evaluate its Canadian capital expenditures and has determined which programs to defer for the remainder of 2012. In Tunisia, Chinook's previously announced deferral of capital expenditures has increased to $28 million to assist with the management of the balance sheet. In addition, initiatives to reduce operating costs are well underway with results expected to materialize in the second quarter of 2012. The rationalization of non-core properties will continue. The impact of shut-ins, non-core property sales and decreased capital expenditures will lower production, as outlined below. Chinook's corporate netback should increase because the properties sold during 2012 were higher operating cost properties and the shut-in properties were predominately weighted towards dry gas.

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

| *($ millions, except where noted)* | Revised Guidance (1) | Previous Guidance (2) |
|---|---|---|
| Production (boe/d) | 12,750 - 13,250 | 13,500 – 14,000 |
| Cash flow | $95 – 100 | $120 – 125 |
| Capital expenditures | $110 - 120 | $165 |
| Net debt (year end 2012) | $70 | $120 – 125 |
| Net operating expenses ($/boe) | $16.50 | $16.53 |
| G&A expense ($/boe) | $3.00 | $2.80 |
| Cash flow per share (fully diluted) | $0.44 | $0.54 |

(1) Revised guidance is based on: AECO gas price of $2.00/mcf; Edmonton light oil price of $85.00/bbl (CDN); Brent oil price of $111.00/bbl (CAD); 55% natural gas production; 45% liquids.

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

# Quarterly Information

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

| ($ thousands, except where noted) | Mar. 31 2012 | Dec. 31 2011 | Sept. 30 2011 | Jun. 30 2011 | Mar. 31 2011 | Dec. 31 2010 | Sept. 30 2010 | Jun. 30 [2][3] 2010 |
|---|---|---|---|---|---|---|---|---|
| Petroleum and natural gas revenue, net of royalties | **$ 48,509** | $ 57,274 | $ 53,920 | $ 47,204 | $ 44,365 | $ 47,227 | $ 44,869 | $ 17,321 |
| Cash flow *(loss)* [1] | **19,174** | 23,950 | 22,114 | 17,799 | 21,140 | 22,575 | 30,643 | (192) |
| Per share | | | | | | | | |
| Basic and diluted *($/share)* | **0.09** | 0.11 | 0.10 | 0.08 | 0.10 | 0.11 | 0.14 | - |
| Net income *(loss)* | **(17,091)** | (58,077) | (3,543) | (1,890) | (241) | (12,218) | 2,496 | (1,354) |
| Per share | | | | | | | | |
| Basic and diluted *($/share)* | **(0.08)** | (0.27) | (0.02) | (0.01) | - | (0.06) | 0.01 | (0.01) |
| Comprehensive income *(loss)* | **(18,645)** | (60,578) | 3,483 | (1,589) | (2,034) | (2,388) | (2,685) | 6,008 |
| Average daily production *(boe)* | **13,596** | 15,119 | 14,443 | 14,196 | 14,646 | 15,354 | 16,089 | 5,562 |
| Capital expenditures | **$ 23,446** | $ 26,343 | $ 30,687 | $ 16,569 | $ 43,696 | $ 26,827 | $ 41,371 | $ 267,329 |

(1) Cash flow is a not an IFRS measurement and is defined under the Cash Flow section of this MD&A.
(2) Capital expenditures include the corporate acquisition of Iteration Energy Ltd.
(3) Before the Bridge energy ASA discontinued operation.

### Factors That Have Caused Variations over the Quarters

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

During the second quarter of 2010, Chinook completed a corporate acquisition which included Canadian producing assets, increasing subsequent quarter's production, revenues and cash flow. Natural gas prices have generally decreased, which triggered a $43.0 million impairment on a Canadian natural gas weighted property, resulting in a higher reported net loss during the fourth quarter of 2011. Meanwhile, petroleum prices have generally increased over the quarterly periods shown above while higher Tunisian crude oil sales volumes have contributed to a general increase in commodity revenue through to the period ending December 31, 2011. For the three months ended March 31, 2012, the lower Canadian sales volumes, mostly resulting from Chinook's non-core petroleum and natural gas property rationalization program, combined with lower Canadian natural gas prices led to reductions in revenues and cash flows and increases in the net loss and comprehensive loss. Cash flows during 2011 and the first quarter of 2012 have been impacted by high operating expenses. Chinook's organic growth capital expenditures subsequent to the second quarter of 2010, increased significantly due to the capital expenditure programs on the properties as initially acquired through the aforementioned corporate acquisition in addition to corporate and asset acquisitions during the first quarter of 2010.

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 in the AIF of Chinook for the year ended December 31, 2011, available on SEDAR at www.sedar.com, and in the "Forward-Looking Statements" section of this MD&A and in Chinook's other public filings before making an investment decision. If any of these risks or other risks occur, Chinook's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted.

#### Political Risks

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

#### 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). The ability of Chinook to obtain, sustain or renew such licenses or permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the Government of Tunisia.

**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.

**Exploration, Development and Production Risks**

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

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

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

**Prices, Markets and Marketing**

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

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

# Future Accounting Policy Changes

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

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

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

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

# Disclosure Controls and Procedures

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

# 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 March 31, 2012, that have materially affected, or are reasonably likely to materially affect, Chinook's internal controls over financial reporting.

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 the full year 2012; future results from operations; future costs and expenses; future exploration and development activities (including drilling plans) and related capital expenditures; Chinook's liquidity and financial capacity; anticipated future cash flows and target debt levels; Chinook's revised 2012 guidance as set forth in the "Outlook" section; future taxes payable and tax pools; future decommissioning liabilities and funding sources for Chinook's capital program.

These forward-looking statements are based on certain key assumptions regarding, among other things: the ability of Chinook to continue to operate in Tunisia with limited logistical, security and operational issues; Chinook's ability to obtain equipment and services in a timely manner to carry out exploration and development activities; Chinook's ability to obtain equity and debt financing on satisfactory terms; future oil and natural gas prices; future well production rates and reserve volumes; Chinook's ability to add commercially viable and economic production and reserves through exploration and development activities; future capital expenditure levels; the availability and cost of labour and other industry services; and interest and foreign exchange rates. The reader is cautioned that such assumptions, although considered reasonable by Chinook at the time of preparation, may prove to be incorrect. Chinook's forward-looking statements are based on internally generated budgets relating to drilling plans and related costs, expected results from drilling as well as estimated royalties, operating costs and administrative expenses. Chinook bases the commodity pricing for budget purposes on a range of publicly available pricing forecasts and also considers general economic conditions.

Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: political and security risks associated with Chinook's Tunisian operations; general economic, market and business conditions; industry capacity; fluctuations in market prices for oil and natural gas; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; fluctuations in foreign exchange or interest rates; uncertainty associated with credit risk and counterparty credit risk; changes in applicable tax laws; uncertainty associated with partner plans and approvals; stock market volatility and market valuations; geological, technical, drilling and processing risks and other difficulties in exploring for producing petroleum reserves; delays resulting from or inability to obtain required regulatory approvals; ability to access sufficient capital from internal and external sources; and other factors, many of which are beyond the control of Chinook. Therefore, Chinook's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. Many of these risks and uncertainties are discussed in Chinook's annual information form for the year ended December 31, 2011 and other documents that Chinook files with the Canadian Securities Regulatory Authority.

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

## Barrels of Oil Equivalent

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

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

## Condensed Consolidated Statements of Financial Position

*(unaudited)*

| *(in thousands of Canadian dollars)* | March 31 2012 | December 31 2011 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash | **$ 13,101** | $ 11,475 |
| Accounts receivable *(note 3)* | **59,299** | 48,539 |
| Derivative contracts *(note 4)* | **-** | 551 |
| Prepaids, deposits and inventory | **6,043** | 6,626 |
| | **78,443** | 67,191 |
| Development & production assets *(note 5)* | **587,870** | 647,512 |
| Exploration & evaluation assets (*note* 5) | **25,710** | 30,700 |
| | **$ 692,023** | $ 745,403 |
| **Liabilities and Shareholders' Equity** | | |
| Current | | |
| Accounts payable, accrued liabilities and other (*note* 6) | **$ 64,115** | $ 60,398 |
| Derivative contracts & swap option *(note 4)* | **9,946** | 3,580 |
| Deferred disposition proceeds on joint venture arrangement | **3,051** | 3,051 |
| Taxes payable | **1,284** | 591 |
| | **78,396** | 67,620 |
| Long-term debt *(note 7)* | **99,175** | 137,500 |
| Decommissioning obligation *(note 8)* | **87,891** | 95,432 |
| Deferred income taxes | **8,347** | 8,555 |
| Deferred lease obligation | **1,321** | 1,585 |
| **Shareholders' Equity** | | |
| Share capital *(note 9(a))* | **778,070** | 778,070 |
| Contributed surplus | **18,067** | 17,240 |
| Deficit | **(377,763)** | (360,672) |
| Accumulated other comprehensive income (loss) | **(1,481)** | 73 |
| | **416,893** | 434,711 |
| | **$ 692,023** | $ 745,403 |

See accompanying notes to the condensed consolidated financial statements.

# Condensed Consolidated Statements of Operations and Comprehensive Loss

*(unaudited)*

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| *(in thousands of Canadian dollars, except per share amounts)* | | |
| **Revenue** | | |
| Petroleum and natural gas revenue | **$ 53,745** | $ 55,049 |
| Royalties | **(5,236)** | (10,684) |
| Petroleum and natural gas revenue, net of royalties | **48,509** | 44,365 |
| Processing & gathering revenue | **2,654** | 2,211 |
| Petroleum, natural gas and other revenue, net of royalties | **51,163** | 46,576 |
| **Expense** | | |
| Production & operating | **24,531** | 19,946 |
| General & administrative | **4,325** | 4,174 |
| Exploration & evaluation | **3,189** | 2,406 |
| Derivative transactions and swap option loss (gain) *(note 4)* | **7,182** | (1,643) |
| Net financing expenses *(note 10)* | **2,340** | 3,020 |
| Depletion, depreciation & amortization | **26,043** | 23,516 |
| Gain on disposition of properties *(note 5)* | **(1,324)** | (6,183) |
| Foreign exchange loss | **110** | 38 |
| Other | **203** | - |
| | **66,599** | 45,274 |
| **(Loss) income before income taxes** | **(15,436)** | 1,302 |
| **Income taxes** | | |
| Current income tax expense | **1,732** | 1,057 |
| Deferred income tax (recovery) expense | **(77)** | 486 |
| | **1,655** | 1,543 |
| **Net loss** | **(17,091)** | (241) |
| Foreign currency translation losses on foreign operations | **(1,554)** | (1,793) |
| **Comprehensive loss** | **$ (18,645)** | $ (2,034) |
| **Net loss per share, basic and diluted (note 9(c))** | **$ (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, 2010** | **214,188** | **$ 778,070** | **$ 11,593** | **$ (296,920)** | **$ (2,961)** | **$ 489,782** |
| Stock-based compensation | - | - | 1,250 | - | - | 1,250 |
| Other comprehensive loss for the period | - | - | - | - | (1,793) | (1,793) |
| Net loss for the period | - | - | - | (241) | - | (241) |
| **Balance as at March 31, 2011** | **214,188** | **$ 778,070** | **$ 12,843** | **$ (297,161)** | **$ (4,754)** | **$ 488,998** |
| | | | | | | |
| **Balance as at December 31, 2011** | **214,188** | **$ 778,070** | **$ 17,240** | **$ (360,672)** | **$ 73** | **$ 434,711** |
| Stock-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** |

# Condensed Consolidated Statements of Cash Flows

*(unaudited)*

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| *(in thousands of Canadian dollars)* | | |
| **Operating Activities** | | |
| Net loss | **$ (17,091)** | $ (241) |
| Add (deduct): | | |
| Accretion *(note 10)* | **844** | 1,060 |
| Depletion, depreciation and amortization | **26,043** | 23,516 |
| Exploration & evaluation expense | **3,189** | 2,406 |
| Unrealized derivative transactions and swap option loss (gain) *(note 4)* | **6,917** | (935) |
| Gain on disposition of properties *(note 5)* | **(1,324)** | (6,183) |
| Foreign exchange loss | **110** | 45 |
| Stock-based compensation | **827** | 1,250 |
| Deferred income tax (recovery) expense | **(77)** | 486 |
| Other non-cash charges | **(264)** | (264) |
| Decommissioning expenditures | **(1,524)** | - |
| Change in other non-cash working capital *(note 11)* | **(5,272)** | (12,696) |
| Cash flow from operating activities | **12,378** | 8,444 |
| | | |
| **Financing Activities** | | |
| Long-term debt repayment | **(38,325)** | - |
| Change in non-cash working capital *(note 11)* | **-** | (2,019) |
| Cash flow from financing activities | **(38,325)** | (2,019) |
| | | |
| **Investing Activities** | | |
| Capital expenditures | **(23,446)** | (43,696) |
| Exploration and evaluation expense | **(3,040)** | (2,406) |
| Property dispositions *(note 5)* | **54,740** | 17,283 |
| Change in non-cash working capital *(note 11)* | **(464)** | 16,037 |
| Cash flow from investing activities | **27,790** | (12,782) |
| | | |
| **Change in cash, during the period** | **1,843** | (6,357) |
| | | |
| **Cash, beginning of period** | **11,475** | 23,194 |
| **Cash, foreign exchange** | **(217)** | (19) |
| | | |
| **Cash, end of period** | **$ 13,101** | $ 16,818 |

**Other supplementary cash flow information** *(note 11)*

**See accompanying notes to the condensed consolidated financial statements.**

# Notes to the Condensed Consolidated Financial Statements

*(unaudited)*

**Three months ended March 31, 2012 and 2011**

**Tabular amounts in thousands of Canadian dollars, except as noted**

## 1. Reporting Entity

Chinook Energy Inc., formerly Storm Ventures International 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 (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. Each country in which Chinook conducts business has been treated as an identifiable reporting segment, in addition to the corporate 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

The 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, 2011 and 2010. These unaudited condensed consolidated financial statements for the three months ended March 31, 2012, should be read in conjunction with the consolidated financial statements for the years ended December 31, 2011 and 2010 and the notes thereto. These unaudited condensed consolidated financial statements for the three months ended March 31, 2012, 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 10, 2012.

### 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 dollar.

## 3. Accounts Receivable

The Company's accounts receivable was comprised of:

| | March 31 2012 | December 31 2011 |
|---|---|---|
| Trade accounts receivable | **$ 36,678** | $ 26,429 |
| Accrued trade accounts receivable | **11,437** | 17,526 |
| Other receivables | **12,416** | 6,278 |
| Cash call receivables | **1,662** | 1,229 |
| Allowance for doubtful accounts | **(2,894)** | (2,923) |
| | **$ 59,299** | $ 48,539 |

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

| | March 31 2012 | December 31 2011 |
|---|---|---|
| Not past due | **$ 56,152** | $ 43,118 |
| Past due by more than 90 days, net of allowance | **3,147** | 5,421 |
| | **$ 59,299** | $ 48,539 |

## 4. Derivative Contracts and Swap Option

The impact on Chinook's net loss (gain) from commodity price risk management contracts and the swap option contract for the three months ending March 31, 2012 and 2011 were as follows:

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| Realized loss (gain) on swap commodity price contracts | **$ 265** | $ (708) |
| Unrealized loss (gain) on swap commodity price contracts and swap option | **6,917** | (935) |
| | **$ 7,182** | $ (1,643) |

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, 2012:

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

(1) West Texas Intermediate

The swap commodity price contracts are 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 the contract's strike price multiplied by the notional volumes during the remaining period. As at March 31, 2012, Chinook's fair value liability estimate of the swap commodity price contracts was $5.7 million (December 31, 2011 – fair value asset estimate of $0.6 million).

The swap option is reported at fair value as determined by a Black-Scholes model which includes the inputs of a forward WTI price and expected WTI price volatility over the remaining term of the swap option.

On or before December 31, 2012, the counterparty to the $98.75 USD/bbl swap crude oil price contract has the option, but not the obligation, to extend the commodity contract over the period January 1, 2013 to December 31, 2013, at the same strike price, indexed market and notional volume as the original swap crude oil contract. As at March 31, 2012, Chinook's fair value liability estimate of the swap option was $4.2 million (December 31, 2011 - $3.6 million).

## 5. Development & Production and Exploration & Evaluation Assets

The following table reconciles Chinook's development & production and exploration & evaluation assets:

| | Development & Production Assets | Exploration & Evaluation Assets | Total |
|---|---|---|---|
| **Cost of Assets** | | | |
| **Balance as at December 31, 2011** | **$ 829,917** | **$ 58,226** | **$ 888,143** |
| Capital expenditures | 23,081 | 365 | 23,446 |
| Cost of properties sold | (72,028) | (1,150) | (73,178) |
| Change in decommissioning asset additions | 259 | - | 259 |
| Foreign exchange adjustment | (1,941) | - | (1,941) |
| **Balance as at March 31, 2012** | **$ 779,288** | **$ 57,441** | **$ 836,729** |
| **Accumulated Depletion, Depreciation & Amortization** | | | |
| **Balance as at December 31, 2011** | **$ (182,405)** | **$ (27,526)** | **$ (209,931)** |
| Depletion, depreciation and amortization | (21,190) | (4,853) | (26,043) |
| Inventoried depletion | 54 | - | 54 |
| Reversed on sale | 11,930 | 648 | 12,578 |
| Foreign exchange adjustment | 193 | - | 193 |
| **Balance as at March 31, 2012** | **$ (191,418)** | **$ (31,731)** | **$ (223,149)** |
| **Net Book Values** | | | |
| Balance as at December 31, 2011 | $ 647,512 | $ 30,700 | $ 678,212 |
| **Balance as at March 31, 2012** | **$ 587,870** | **$ 25,710** | **$ 613,580** |

The Company capitalized $1.0 million and $0.7 million of direct G&A costs as related to its exploration and development activity for the three months ended March 31, 2012 and 2011, respectively.

Future development costs were added to the costs subject to depletion as follows:

| | March 31 2012 |
|---|---|
| Canada | **$ 43,461** |
| Tunisia | **91,913** |
| | **$ 135,374** |

### BJA 2 Exploration Well

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 and cased to test an aquifer for water potential but as this well was determined to be unsuccessful for petroleum or natural gas reserves, costs incurred as at March 31, 2012 of $1.5 million were charged directly to exploration and evaluation expense as reported on the statement of operations.

### Property Dispositions

During the three months ended March 31, 2012, Chinook completed the sale of two non-core petroleum and natural gas properties, in addition to the selling of various unit interest mostly located throughout Alberta, Canada, for aggregate net proceeds of $54.7 million when combined with the final statements of operating adjustments on prior period petroleum and natural gas property sales ($17.3 million for the three months ended March 31, 2011). These proceeds were used to partially finance the repayment of a portion of the Revolving Term Credit Facility and the capital programs on Chinook's Canadian and Tunisian operations. The carrying amount of these sold properties, which has been reduced by $7.2 million of associated decommissioning obligations (note 8), was less than the sales proceeds received resulting in a gain of $1.3 million for the three months ended March 31, 2012 ($6.2 million for the three months ended March 31, 2011).

## 6. Accounts Payable, Accrued Liabilities and Other

| | March 31 2012 | December 31 2011 |
|---|---|---|
| Trade accounts payable | **$ 14,592** | $ 14,920 |
| Accrued liabilities | **32,161** | 30,108 |
| Joint operations accounts payable | **12,820** | 12,747 |
| Royalties payable | **3,486** | 1,567 |
| Deferred lease obligation | **1,056** | 1,056 |
| | **$ 64,115** | $ 60,398 |

## 7. Debt

On March 27, 2012, Chinook's 364 day revolving term credit facility (the "Revolving Term Credit Facility") was reduced to $182.0 million as a result of petroleum property sales as compared to $194.0 million as at December 31, 2011. As a result of a petroleum and natural gas property sale subsequent to March 31, 2012, the Revolving Term Credit Facility was further reduced by $16.0 million to $166.0 million. The current revolving period ends on June 25, 2012. In the event that the revolving period is not extended prior to this date, all amounts then outstanding under the Revolving Term Credit Facility must be repaid before June 25, 2013. The Revolving Term Credit Facility is subject to a semi-annual review and redetermination with the next review and redetermination to be calculated based on year end information prior to June 25, 2012. Changes in the availability of the Revolving Term Credit Facility are possible, from one renewal period to the next, with draws in excess of availability becoming immediately payable. At March 31, 2012, Chinook had drawn $99.2 million on the Revolving Term Credit Facility (December 31, 2011 - $137.5 million) resulting in available credit on this facility of $82.8 million (December 31, 2011 - $56.5 million).

The Revolving Term Credit Facility is collateralized by floating charges and security interests over all present and future properties and assets of the Company. Interest payable on amounts drawn on this facility vary based on Canadian prime, U.S. Base rate, U.S. LIBOR or Bankers' Acceptance depending on the borrowing option selected by the Company. The effective interest rate on the Revolving Credit Term Facility for the three months ended March 31, 2012 and 2011 was 3.8%. The Revolving Credit Term Facility contains a covenant whereby the ratio of Chinook's debt to earnings before interest, taxes, depreciation and amortization cannot be greater than 4:1 as determined on a rolling four quarter basis for the most current fiscal quarter. At March 31, 2012, Chinook was in compliance with this covenant.

## 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. Chinook

has estimated the net present value of its total decommissioning obligation based on a total future undiscounted liability of $97.3 million ($106.3 million at December 31, 2011). At March 31, 2012 management estimated that these payments were expected to be made over the next 54 years. Risk free rates of 2% to 3% and inflation rates of 2% to 3% were used to calculate the present value of the decommissioning obligations.

| | Decommissioning Obligation |
|---|---|
| **Balance as at December 31, 2011** | **$ 95,432** |
| Increase in liabilities relating to development activities | 408 |
| Settlement of reclamation liabilities during the period | (1,524) |
| Decrease in liabilities relating to dispositions | (7,184) |
| Accretion expense | 844 |
| Foreign exchange adjustment | (85) |
| **Balance as at March 31, 2012** | **$ 87,891** |

# 9. Share Capital

## a) Authorized:

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

## b) Issued and Outstanding:

**Common Shares**

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

**First Preferred Shares**

No first preferred shares have been issued.

**Warrants**

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

## c) Per Share Amounts

The per share amounts for the three months ended March 31, 2012 and 2011, were calculated as per the following table. Diluted income per share assumed 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 took into account only the options and Warrants that were considered to be "in-the-money". Based on the Company's share price at March 31, 2012 and 2011, per the treasury method, there were no additional shares that would have been added to the weighted average diluted shares outstanding for the three months ended March 31, 2012 and 2011.

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| **Net loss** | **$ (17,091)** | $ (241) |
| Per share - basic and diluted *($/share)* | **$ (0.08)** | $ - |
| Weighted average shares outstanding - basic and diluted *(thousands)* | **214,188** | 214,188 |

## 10. Net Financing Expenses

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| Interest on bank debt | $ 1,341 | $ 1,851 |
| Interest earned on bank deposits | (2) | (9) |
| Finance charges and fees | 157 | 118 |
| Accretion of decommissioning obligation | 844 | 1,060 |
| Net financing expenses | $ 2,340 | $ 3,020 |

## 11. Supplemental Disclosures

Changes in non-cash working capital:

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| Accounts receivable | $ (10,883) | $ (2,525) |
| Accounts payable and accrued liabilities | 3,956 | 3,726 |
| Prepaids, deposits, inventory and other | 498 | (1,415) |
| Taxes payable | 693 | 1,536 |
| | $ (5,736) | $ 1,322 |
| Operating activities | $ (5,272) | $ (12,696) |
| Investing activities | (464) | 16,037 |
| Financing activities | - | (2,019) |
| | $ (5,736) | $ 1,322 |

Other supplemental cash flow information:

| Three months ended March 31 | 2012 | 2011 |
|---|---|---|
| Cash taxes paid | $ 1,039 | $ 2,556 |
| Cash interest paid | $ 1,331 | $ 1,965 |

# 12. 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 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 and extending down to West Central Alberta.
- Tunisia – includes eight blocks totaling over three million gross acres: offshore in the Gulf of Hammamet within the Pelagian Basin (Cosmos, Yasmin and Hammamett) with onshore properties located in 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 | | | | 2012 | | | | 2011 |
|---|---|---|---|---|---|---|---|---|
| | Canada | Tunisia | Corporate | Consolidated | Canada | Tunisia | Corporate | Consolidated |
| Capital expenditures | **$ 14,058** | **$ 9,337** | **$ 51** | **$ 23,446** | $ 39,411 | $ 4,030 | $ 255 | $ 43,696 |
| **As at** | | | | **March 31, 2012** | | | | **December 31, 2011** |
| Development & production and exploration & evaluation assets | **$ 511,680** | **$ 98,723** | **$ 3,177** | **$ 613,580** | $ 579,690 | $ 95,395 | $ 3,127 | $ 678,212 |
| Total assets | **$ 560,875** | **$ 118,164** | **$ 12,984** | **$ 692,023** | $ 631,048 | $ 103,614 | $ 10,741 | $ 745,403 |

## Results by Segment

| | Canada | | Tunisia | | Corporate | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| Three months ended March 31 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| **Revenue** | | | | | | | | |
| Petroleum, natural gas and other revenue, net of royalties | **$ 33,485** | $ 41,693 | **$ 17,678** | $ 4,882 | **$ -** | $ 1 | **$ 51,163** | $ 46,576 |
| **Expenses** | | | | | | | | |
| Production and operating | **20,631** | 19,298 | **3,900** | 648 | **-** | - | **24,531** | 19,946 |
| General and administrative | **1,206** | 1,653 | **49** | 258 | **3,070** | 2,263 | **4,325** | 4,174 |
| Exploration and evaluation expenditures | **1,054** | 2,062 | **2,135** | 344 | **-** | - | **3,189** | 2,406 |
| Derivative transactions and swap option loss (gain) | **-** | - | **-** | - | **7,182** | (1,643) | **7,182** | (1,643) |
| Financing expenses | **2,304** | 2,891 | **36** | 128 | **-** | 1 | **2,340** | 3,020 |
| Depletion, depreciation and amortization | **21,574** | 22,615 | **4,469** | 901 | **-** | - | **26,043** | 23,516 |
| Gain on disposition of properties | **(1,324)** | (6,183) | **-** | - | **-** | - | **(1,324)** | (6,183) |
| Foreign exchange loss | **34** | 9 | **76** | 29 | **-** | - | **110** | 38 |
| Other | **-** | - | **-** | - | **203** | - | **203** | - |
| | **45,479** | 42,345 | **10,665** | 2,308 | **10,455** | 621 | **66,599** | 45,274 |
| **Income (loss) before income taxes** | **(11,994)** | (652) | **7,013** | 2,574 | **(10,455)** | (620) | **(15,436)** | 1,302 |
| **Income taxes** | | | | | | | | |
| Current income tax | **-** | - | **1,732** | 1,057 | **-** | - | **1,732** | 1,057 |
| Deferred income tax (recovery) | **(893)** | - | **816** | 486 | **-** | - | **(77)** | 486 |
| | **(893)** | - | **2,548** | 1,543 | **-** | - | **1,655** | 1,543 |
| **Net income (loss)** | **$ (11,101)** | $ (652) | **$ 4,465** | $ 1,031 | **$ (10,455)** | $ (620) | **$ (17,091)** | **$** (241) |

# CORPORATE INFORMATION

### CHINOOK ENERGY INC.

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Calgary, Alberta T2P 2W1
Telephone: (403) 261-6883
Fax: (403) 266-1814
Website: www.chinookenergyinc.com

### STOCK EXCHANGE / SYMBOL

TSE:CKE

### DIRECTORS

Donald F. Archibald (2)
Matthew J. Brister, Chairman
John A. Brussa (3)
Stuart G. Clark, Lead Director (1) (3)
Robert C. Cook (1) (2)
Robert J. Herdman (1)
Townes G. Pressler Jr.(3)
P. Grant Wierzba (2)

(1) Members of the Audit Committee
(2) Members of the Reserves, Safety and Environmental Committee
(3) Members of the Compensation, Nominating and Corporate Governance Committee

### MANAGEMENT

Matthew J. Brister
*C.E.O.*

Walter J. Vrataric
*President*

Timothy S. Halpen
*Chief Operating Officer, Canada*

Roy L. Smitshoek
*Chief Operating Officer, International*

L. Geoffrey Barlow
*Vice President, Finance & C.F.O.*

P. Grant Wierzba
*Vice President, Operations*

Thomas N. Lindskog
*Vice President, International Exploration*

Travis S. Stephenson
*Vice President, Engineering*

Christopher B. Laing
*Vice President, International Development*

S. Brent Dube
*Vice President, Production*

Ryan C. White
*Vice President, Drilling and Completions*

Darrel G. Zacharias
*Vice President, Exploration Canada*

Fred D. Davidson
*Corporate Secretary*

### SOLICITORS

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

### AUDITORS

KPMG LLP, Calgary, Alberta

### BANKERS

Alberta Treasury Branches
CIBC, Oil & Gas Group, Calgary, Alberta
HSBC Bank Canada
Royal Bank of Canada
Société Générale (Canada Branch)
The Toronto Dominion Bank

### REGISTRAR & TRANSFER AGENT

Alliance Trust Company, Calgary, Alberta

### RESERVE ENGINEERS

McDaniel & Associates Consultants Ltd.
InSite Petroleum Consultants Ltd.
Sproule International Inc.

### ABBREVIATIONS

| | |
|---|---|
| **bcf** | billion cubic feet |
| **bps** | basis points |
| **boe** | barrels of oil equivalent |
| **boe/d** | barrels of oil equivalent per day |
| **bbls** | barrels |
| **bbls/d** | barrels per day |
| **bop/d** | barrels of oil per day |
| **Brent** | international market price for light crude oil blend |
| **DGE** | Tunisian Department of Energy |
| **EBITDA** | Earnings Before Interest, Taxes, Depletion and Amortization |
| **ETAP** | Entreprise Tunisienne d'Activités Pétrolières |
| **IFRS** | International Financial Reporting Standards |
| **GJ** | gigajoule |
| **LIBOR** | London Interbank Offered Rate |
| **mcf** | thousands of cubic feet |
| **mcf/d** | thousands of cubic feet per day |
| **mmbbls** | millions of barrels |
| **mmcf** | millions of cubic feet |
| **mmcf/d** | millions of cubic feet per day |
| **STOIIP** | Stock Tank Oil Initially In Place |
| **WCSB** | Western Canadian Sedimentary Basin |

### CONVERSION

Six thousand cubic feet (mcf) of natural gas equals one barrel of oil equivalent.

Chinook
Energy Inc.