# Condensed Consolidated Financial Statements

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

## Condensed Consolidated Statements of Financial Position

*(unaudited)*

| | June 30 | December 31 |
|---|---|---|
| *(in thousands of Canadian dollars)* | 2013 | 2012 |
| **Assets** | | |
| Current | | |
| Cash | $ 22,857 | $ 30,647 |
| Accounts receivable | 50,817 | 51,011 |
| Inventory (note 4) | 3,762 | 690 |
| Derivative contracts (note 5) | 556 | - |
| Prepaids & deposits | 5,128 | 3,829 |
| | 83,120 | 86,177 |
| Development & production assets (note 6) | 530,459 | 522,807 |
| Exploration & evaluation assets (note 6) | 7,564 | 13,492 |
| | $ 621,143 | $ 622,476 |
| **Liabilities and Shareholders' Equity** | | |
| Current | | |
| Accounts payable, accrued liabilities & other | $ 59,912 | $ 64,187 |
| Deferred disposition proceeds on joint arrangement (note 6) | - | 3,051 |
| Taxes payable | 2,297 | 2,185 |
| | 62,209 | 69,423 |
| Long-term debt (note 7) | 86,695 | 89,137 |
| Decommissioning obligation (note 8) | 102,715 | 110,453 |
| Deferred income taxes | 9,964 | 9,333 |
| Deferred lease obligation | - | 528 |
| **Shareholders' Equity** | | |
| Share capital | 778,070 | 778,070 |
| Contributed surplus | 20,242 | 19,517 |
| Deficit | (443,210) | (451,700) |
| Accumulated other comprehensive income (loss) | 4,458 | (2,285) |
| | 359,560 | 343,602 |
| | $ 621,143 | $ 622,476 |

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

# Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

*(unaudited)*

| *(in thousands of Canadian dollars, except per share amounts)* | Three months ended June 30 2013 | Three months ended June 30 2012 | Six months ended June 30 2013 | Six months ended June 30 2012 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Petroleum & natural gas revenues | **$ 49,340** | $ 33,193 | **$ 90,495** | $ 86,938 |
| Royalties | **(4,535)** | (3,214) | **(7,950)** | (8,450) |
| Petroleum & natural gas revenues, net of royalties | **44,805** | 29,979 | **82,545** | 78,488 |
| Processing & gathering revenues | **1,308** | 2,156 | **4,707** | 4,810 |
| Petroleum, natural gas & other revenues, net of royalties | **46,113** | 32,135 | **87,252** | 83,298 |
| **Expenses** | | | | |
| Production & operating | **17,380** | 16,289 | **35,659** | 40,820 |
| General & administrative | **2,828** | 4,276 | **5,550** | 8,601 |
| Exploration & evaluation | **3,593** | 3,312 | **8,092** | 6,501 |
| Derivative contract gains (note 5) | **(1,086)** | (13,408) | **(482)** | (6,226) |
| Net financing (note 10) | **2,266** | 2,138 | **4,079** | 4,478 |
| Depletion, depreciation & amortization (note 6) | **19,668** | 20,403 | **37,637** | 46,446 |
| Impairment of development & production assets (note 6) | **-** | 26,500 | **-** | 26,500 |
| Gains on disposition of properties (note 6) | **(5,465)** | (3,543) | **(11,724)** | (4,867) |
| Foreign exchange & other (gains) losses | **100** | 698 | **(2,848)** | 1,011 |
| | **39,284** | 56,665 | **75,963** | 123,264 |
| **Income (loss) before income taxes** | **6,829** | (24,530) | **11,289** | (39,966) |
| **Income taxes expense (recovery)** | | | | |
| Current income tax expense | **2,309** | 583 | **2,939** | 2,315 |
| Deferred income tax expense (recovery) | **530** | (301) | **(140)** | (378) |
| | **2,839** | 282 | **2,799** | 1,937 |
| **Net income (loss)** | **3,990** | (24,812) | **8,490** | (41,903) |
| Foreign currency translation gain on foreign operations | **4,599** | 1,565 | **6,743** | 11 |
| **Comprehensive income (loss)** | **$ 8,589** | $ (23,247) | **$ 15,233** | $ (41,892) |
| **Net income (loss) per share, basic and diluted (note 9)** | **$ 0.02** | $ (0.12) | **$ 0.04** | $ (0.20) |

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

# Condensed Consolidated Statements of Changes in Shareholders' Equity

*(unaudited)*

| *(in thousands of Canadian dollars, except common shares)* | Common Shares (thousands) | Share Capital | Contributed Surplus | Deficit | Accumulated Other Comprehensive Income (Loss) | Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balance as at December 31, 2011** | **214,188** | **$ 778,070** | **$ 17,240** | **$ (360,672)** | **$ 73** | **$ 434,711** |
| Share-based compensation | - | - | 1,711 | - | - | 1,711 |
| Other comprehensive income | - | - | - | - | 11 | 11 |
| Net loss | - | - | - | (41,903) | - | (41,903) |
| **Balance as at June 30, 2012** | **214,188** | **$ 778,070** | **$ 18,951** | **$ (402,575)** | **$ 84** | **$ 394,530** |
| | | | | | | |
| **Balance as at December 31, 2012** | **214,188** | **$ 778,070** | **$ 19,517** | **$ (451,700)** | **$ (2,285)** | **$ 343,602** |
| Share-based compensation | - | - | 725 | - | - | 725 |
| Other comprehensive income | - | - | - | - | 6,743 | 6,743 |
| Net income | - | - | - | 8,490 | - | 8,490 |
| **Balance as at June 30, 2013** | **214,188** | **$ 778,070** | **$ 20,242** | **$ (443,210)** | **$ 4,458** | **$ 359,560** |

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

# Condensed Consolidated Statements of Cash Flows

*(unaudited)*

*(in thousands of Canadian dollars)*

| Six months ended June 30 | 2013 | 2012 |
|---|---|---|
| **Operating Activities** | | |
| Net income (loss) | $ 8,490 | $ (41,903) |
| Add (deduct): | | |
| Accretion & amortization of deferred financing fees | 1,626 | 1,496 |
| Depletion, depreciation & amortization (note 6) | 37,637 | 46,446 |
| Impairment of development & production assets (note 6) | - | 26,500 |
| Exploration & evaluation expense | 8,092 | 6,501 |
| Unrealized gains on derivative contracts & swap option (note 5) | (556) | (6,085) |
| Gains on disposition of properties (note 6) | (11,724) | (4,867) |
| Share-based compensation | 725 | 1,711 |
| Deferred income tax recovery | (140) | (378) |
| Foreign exchange & other non-cash charges | (3,504) | (418) |
| Decommissioning expenditures (note 8) | (1,413) | (2,012) |
| Change in operating non-cash working capital (note 11) | (13,491) | (6,221) |
| Cash flow from operating activities | 25,742 | 20,771 |
| **Financing Activities** | | |
| Long-term debt repayment | - | (48,000) |
| Deferred financing charges (note 7) | (2,599) | - |
| Cash flow from financing activities | (2,599) | (48,000) |
| **Investing Activities** | | |
| Capital expenditures (note 6) | (48,105) | (36,529) |
| Exploration & evaluation expenditures | (6,584) | (6,352) |
| Proceeds on property dispositions (note 6) | 16,420 | 71,775 |
| Change in financing non-cash working capital (note 11) | 6,545 | (4,849) |
| Cash flow from investing activities | (31,724) | 24,045 |
| **Change in cash, during the period** | (8,581) | (3,184) |
| **Cash, beginning of period** | 30,647 | 11,475 |
| **Cash, foreign currency translation gains** | 791 | 221 |
| **Cash, end of period** | $ 22,857 | $ 8,512 |

**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 and six months ended June 30, 2013 and 2012**
**Tabular amounts in thousands of Canadian dollars, except as noted**

## 1. Reporting Entity

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

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

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

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

## 2. Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared following the same accounting policies as disclosed in Note 3 in the audited consolidated financial statements for the years ended December 31, 2012 and 2011 with the exception of the new accounting policies disclosed in Note 3 below. These unaudited condensed consolidated financial statements for the three and six months ended June 30, 2013 and 2012, should be read in conjunction with the consolidated financial statements for the years ended December 31, 2012 and 2011 and the notes thereto. These unaudited condensed consolidated financial statements for the three and six months ended June 30, 2013 and 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' using accounting principles consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

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

### Basis of Measurement

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

### Functional and Presentation Currency

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

## 3. New Standards

### Current Year Accounting Changes

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

The adoption of these standards and amendment had no impact on the amounts recorded in the condensed consolidated financial statements as at June 30, 2013 and December 31, 2012.

## 4. Inventory

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

During the three months ended March 31, 2013, Chinook sold and reported through the condensed consolidated statements of operations and comprehensive income (loss) the approximately 15,000 barrels of crude oil that was held as inventory and valued at cost of $0.7 million at December 31, 2012. At June 30, 2013, Chinook had approximately 60,000 barrels of crude oil inventory as valued at a cost of $3.8 million.

## 5. Derivative Contracts and Swap Option

Chinook's realized and unrealized gains and losses from commodity price risk management contracts for the three and six months ended June 30, 2013 and 2012 in addition to the unrealized gains and losses from its swap option contract for the three and six months ended June 30, 2012 were as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Realized loss (gain) on commodity contracts | **$ 63** | $ (406) | **$ 74** | $ (141) |
| Unrealized gain on commodity contracts and swap option | **(1,149)** | (13,002) | **(556)** | (6,085) |
| | **$ (1,086)** | $ (13,408) | **$ (482)** | $ (6,226) |

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 June 30, 2013:

| Indexed Price | Notional Volumes | Company's Received Price | Remaining period |
|---|---|---|---|
| AECO | 7,000 GJ/d | $3.20/GJ | July 1, 2013 to December 31, 2013 |
| AECO | 3,000 GJ/d | $3.40/GJ | July 1, 2013 to October 31, 2013 |
| Brent | 500 bbl/d | $95.00 US/bbl to $115.50 US/bbl | July 1, 2013 to December 31, 2013 |

The commodity price contracts were assessed as level 2 on the fair value hierarchy and were reported at June 30, 2013 at their fair value of $0.6 million. This estimate was partially determined through the difference in the referenced market forward prices of the respective commodity over the remaining period of each contract as compared to each contract's strike price multiplied by the notional volumes during the remaining period. At December 31, 2012, there were no outstanding swap option or risk management contracts.

# 6. Development & Production and Exploration & Evaluation Assets

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

| | Development & Production Assets | Exploration & Evaluation Assets | Total |
|---|---|---|---|
| **Cost of Assets** | | | |
| **Balance as at December 31, 2012** | **$ 844,031** | **$ 58,960** | **$ 902,991** |
| Capital expenditures | 39,749 | 8,356 | 48,105 |
| Cost of exploration efforts expensed | - | (1,390) | (1,390) |
| Cost of properties sold | (18,747) | (14,341) | (33,088) |
| Transfer from E&E to D&P | 3,859 | (3,859) | - |
| Change in decommissioning asset | 630 | - | 630 |
| Foreign exchange adjustment | 9,604 | 17 | 9,621 |
| **Balance as at June 30, 2013** | **$ 879,126** | **$ 47,743** | **$ 926,869** |
| **Accumulated Depletion, Depreciation & Amortization** | | | |
| **Balance as at December 31, 2012** | **$ (321,224)** | **$ (45,468)** | **$ (366,692)** |
| Depletion, depreciation & amortization | (32,804) | (4,833) | (37,637) |
| Inventoried depletion | (1,819) | - | (1,819) |
| Reversed on sale of properties | 9,526 | 10,122 | 19,648 |
| Foreign exchange adjustment | (2,346) | - | (2,346) |
| **Balance as at June 30, 2013** | **$ (348,667)** | **$ (40,179)** | **$ (388,846)** |
| **Net Book Values** | | | |
| Balance as at December 31, 2012 | $ 522,807 | $ 13,492 | $ 536,299 |
| **Balance as at June 30, 2013** | **$ 530,459** | **$ 7,564** | **$ 538,023** |

The Company capitalized $3.0 million and $2.0 million of direct G&A costs as related to its exploration and development activity for the six months ended June 30, 2013 and 2012, respectively.

## Exploration Wells

During the six months ended June 30, 2013, Chinook drilled its El Bell exploration well on the onshore Tunisian Sud Remada Permit. Prior to June 30, 2013, the well was cased and suspended as no economical petroleum or natural gas reserves were identified in its target zone. The El Bell well's drilling costs of $3.2 million, including $0.1 million of estimated decommissioning obligations, in addition to $3.5 million of exploratory lease rental and geological and geophysical costs were directly charged to exploration and evaluation expense on the condensed consolidated statement of operations and comprehensive income (loss) for the six months ended June 30, 2013.

Subsequent to March 26, 2013, management completed its evaluation and determined that a Canadian exploration well drilled during 2012 was unsuccessful for petroleum or natural gas reserves. The $1.4 million of drilling costs initially reported as exploration and evaluation assets at December 31, 2012 related to this Canadian exploration well were then charged to exploration and evaluation expense for the six months ended June 30, 2013.

## Property Dispositions

During the six months ended June 30, 2013, Chinook completed the sale of several petroleum and natural gas properties for aggregate net proceeds of $16.4 million ($71.8 million for the six months ended June 30, 2012). The carrying amount of these sold properties, less $8.7 million of associated decommissioning obligations (see note 8), was less than the sales proceeds received resulting in a gain of $11.7 million for the six months ended June 30, 2013 ($4.9 million for the six months ended June 30, 2012). For the three months ended June 30, 2013, the carrying amount of the sold properties, less $3.1 million of associated decommissioning obligations was less than the sales proceeds received resulting in a gain of $5.5 million ($3.5 million for the three months ended June 30, 2012).

## Joint Arrangement

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

### Impairment

At June 30, 2013 Chinook determined that there were no indications of impairment that would warrant a test for impairment.

For the three and six months ended June 30, 2012, Chinook recognized an impairment charge of $26.5 million as triggered through a reduction in the forward price outlook of North American natural gas as posted by McDaniel & Associates Consultants Ltd.

## 7. Debt

| | June 30 2013 | December 31 2012 |
|---|---|---|
| Canadian revolving term credit facility | **$ 89,500** | $ 89,500 |
| Unamortized deferred financing costs | **(2,805)** | (363) |
| **Balance, end of period** | **$ 86,695** | $ 89,137 |

### Canadian Revolving Term Credit Facility

On December 11, 2012, Chinook signed a new Canadian reserve-based 364 day revolving credit facility (the "Canadian Revolving Term Credit Facility") with a syndicate of Canadian banks with a maximum availability of $115.0 million. During the three months ended June 30, 2013, Chinook extended the current revolving period to June 26, 2014. In the event that the revolving period is not extended by the banks prior to this date, all amounts then outstanding under the Canadian Revolving Term Credit Facility must be repaid before June 26, 2015. The Canadian Revolving Term Credit Facility is subject to a semi-annual review and redetermination. Changes in the availability of the Canadian Revolving Term Credit Facility are possible, from one renewal period to the next, with draws in excess of availability becoming payable within 60 days. At June 30, 2013 and December 31, 2012, Chinook had drawn $89.5 million on the Canadian Revolving Term Credit Facility resulting in available credit from this facility of $25.5 million.

The Canadian Revolving Term Credit Facility is guaranteed by Chinook's Canadian subsidiaries and collateralized by floating charges and security interests over all present and future Canadian properties and other Canadian assets of Chinook and its Canadian subsidiaries. Interest payable on amounts drawn on this facility vary based on Canadian prime, U.S. Base rate, U.S. LIBOR or Bankers' Acceptances depending on the borrowing option selected by Chinook. The effective interest rate on draws against the Canadian Revolving Term Credit Facility for the three and six months ended June 30, 2013, was 5.2% (three and six months ended June 30, 2012 – 4.4%). The Canadian Revolving Term Credit Facility contains a covenant whereby the ratio of Chinook's debt in Canada to the earnings attributable to its Canadian operations before interest, taxes, depreciation and amortization cannot be greater than 4:1 as determined on a rolling four quarter basis for the most current fiscal quarter. At June 30, 2013, Chinook was in compliance with this covenant.

Subsequent to June 30, 2013, Chinook made a debt repayment of $5.0 million bringing the total outstanding draws on the Canadian Revolving Term Credit Facility to $84.5 million and increasing Chinook's available credit from this facility to $30.5 million.

### International Credit Facility

On March 15, 2013, Chinook signed a US$75.0 million international amortizing reserve-based credit facility ("International Credit Facility") for a term of five years with an international bank. The availability of this facility is US$46.5 million. The International Credit Facility is subject to a semi-annual review and redetermination, where the available amount will be reassessed and outstanding draws must be paid down to the lower of the new available amount or the current repayment commitment. At June 30, 2013 Chinook had no outstanding drawings against the International Credit Facility resulting in available credit from this facility of US$46.5 million. The term of the International Credit Facility can be reduced from the anticipated final maturity date of March 2018 to a date where the estimated reserve recoveries of the borrowing base assets fall below a prescribed rate.

The International Credit Facility is collateralized by floating charges and security interests over all of Chinook's Tunisian assets, including the shares of Chinook's international subsidiaries. Interest payable on drawings from the International Revolving Credit Facility will vary based on a prescribed margin plus U.S. LIBOR.

### Deferred Financing Costs

| | Canadian Revolving Term Credit Facility | International Credit Facility | Total |
|---|---|---|---|
| Balance as at December 31, 2012 | $ 363 | $ - | **$ 363** |
| Additions | 115 | 2,484 | **2,599** |
| Amortization | (121) | (125) | **(246)** |
| Foreign currency translation | - | 89 | **89** |
| **Balance as at June 30, 2013** | $ 357 | $ 2,448 | **$ 2,805** |

At June 30, 2013, the unamortized deferred financing costs associated with each facility will be amortized through to each facility's expiration.

# 8. Decommissioning Obligation

The total future decommissioning obligations were estimated by management based on Chinook's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. At June 30, 2013, Chinook has estimated the net present value of its total decommissioning obligation based on a total future undiscounted liability of $110.3 million ($118.2 million at December 31, 2012). At June 30, 2013, management estimates that these payments are expected to be made over the next 51 years. At June 30, 2013 and December 31, 2012, a risk free rate of 2.5% and an inflation rate of 2% were used to calculate the present values of the decommissioning obligations.

| | |
|---|---|
| **Balance as at December 31, 2012** | **$ 110,453** |
| Dispositions | (8,744) |
| Development activities | 750 |
| Settlement | (1,413) |
| Accretion expense | 1,380 |
| Foreign exchange adjustment | 289 |
| **Balance as at June 30, 2013** | **$ 102,715** |

# 9. Share Capital

## a) Authorized:

An unlimited number of no par value common shares and first preferred shares.

## b) Issued and Outstanding:

### Common Shares

All of the 214,187,681 common shares issued and outstanding 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

On June 30, 2013, the 1,279,000 share purchase warrants ("Warrants") that Chinook issued on May 27, 2010, expired unexercised.

## c) Share-Based Compensation Plan

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

A summary of options outstanding is as follows:

| | Weighted Average Exercise Price ($/option) | Number of Options (thousands) |
|---|---|---|
| **Balance as at December 31, 2012** | **$ 1.99** | **13,861** |
| Granted | 1.19 | 1,503 |
| Forfeited or cancelled | 1.91 | (756) |
| **Balance as at June 30, 2013** | **$ 1.91** | **14,608** |

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

| | Outstanding Options | | | | Options Exercisable | | |
|---|---|---|---|---|---|---|---|
| Range of Exercise Prices ($/option) | Options Outstanding (thousands) | | Weighted Average Exercise Prices ($/option) | Weighted Average Remaining Life (years) | Options Outstanding (thousands) | | Weighted Average Exercise Prices ($/option) | Weighted Average Remaining Life (years) |
| $1.10 - $1.85 | 6,182 | $ | 1.44 | 3.7 | 1,833 | $ | 1.57 | 3.2 |
| $1.86 - $2.20 | 5,574 | | 2.10 | 1.8 | 4,452 | | 2.08 | 1.7 |
| $2.21 - $2.72 | 2,852 | | 2.58 | 1.8 | 2,494 | | 2.61 | 1.8 |
| | 14,608 | $ | 1.91 | 2.6 | 8,779 | $ | 2.12 | 2.0 |

Total share-based compensation, as included in the line item general and administrative expense as reported in the condensed consolidated statements of operations and comprehensive income (loss), for the three and six months ended June 30, 2013, was $0.3 million and $0.7 million, respectively (three and six months ended June 30, 2012 - $0.9 million and $1.7 million, respectively). The following factors were used in the Black-Scholes pricing model for the determination of the fair value of options granted during the six months ended June 30, 2013 and 2012:

| Six months ended June 30 | 2013 | 2012 |
|---|---|---|
| Expected average life (years) | **3 to 5** | 1 to 3 |
| Risk-free interest rate (%) | **1.07 to 1.24** | 0.98 to 1.25 |
| Estimated forfeiture rate per annum (%) | **13** | 10 |
| Volatility factor (%) | **52 to 54** | 47 to 49 |

The weighted average fair value determined for options granted during the three and six months ended June 30, 2013, was $0.50 per option (three and six months ended June 30, 2012 - $0.33 and $0.34 per option, respectively).

## d) Per Share Amounts

The per share amounts for the three and six months ended June 30, 2013 and 2012, were calculated as per the following table:

| | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2013 | | 2012 | | 2013 | | 2012 |
| Net income (loss) | **$** | **3,990** | $ | (24,812) | **$** | **8,490** | $ | (41,903) |
| Weighted average shares outstanding - basic and diluted (thousands) | | **214,188** | | 214,188 | | **214,188** | | 214,188 |
| **Net income (loss) per share - basic and diluted ($/share)** | **$** | **0.02** | $ | (0.12) | **$** | **0.04** | $ | (0.20) |

For the three and six months ended June 30, 2013, diluted income per share assumes the exercise of options as if issued at the later of the date of grant or the beginning of the period. This calculation takes into account only the options that are considered to be “in-the-money”. At June 30, 2013, Chinook’s options were considered to be “out-of-the-money” per the treasury stock method and had no effect on the diluted weighted average shares outstanding. For the three and six months ended June 30, 2012, because the Company reported net losses, the effect, if any, of “in-the-money” options and Warrants would have been anti-dilutive resulting in them being excluded in the calculation of dilutive weighted average shares outstanding.

# 10. Net Financing Expenses

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Interest on bank debt and other interest | **$ 1,357** | $ 1,064 | **$ 2,632** | $ 2,405 |
| Interest earned on bank and other deposits | **(29)** | (3) | **(328)** | (5) |
| Finance charges and fees | **77** | 425 | **149** | 582 |
| Amortization of deferred financing costs | **185** | - | **246** | - |
| Accretion of decommissioning obligation | **676** | 652 | **1,380** | 1,496 |
| **Net financing expenses** | **$ 2,266** | $ 2,138 | **$ 4,079** | $ 4,478 |

# 11. Supplemental Disclosure

### Changes in non-cash working capital:

| Six months ended June 30 | **2013** | 2012 |
|---|---|---|
| Cash provided by (used for): | | |
| Accounts receivable | **$ 701** | $ (854) |
| Accounts payable, accrued liabilities & other | **(5,366)** | (8,033) |
| Inventory | **(1,123)** | (1,865) |
| Prepaids & deposits | **(1,269)** | (128) |
| Taxes payable | **111** | (190) |
| | **$ (6,946)** | $ (11,070) |
| Cash provided by (used for): | | |
| Operating activities | **$ (13,491)** | $ (6,221) |
| Investing activities | **6,545** | (4,849) |
| | **$ (6,946)** | $ (11,070) |

### Other supplemental cash flow information:

| Six months ended June 30 | **2013** | 2012 |
|---|---|---|
| Cash taxes paid | **$ 2,826** | $ 2,505 |
| Cash interest paid | **$ 2,632** | $ 2,405 |

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

### Selected Segment Information

| Six months ended June 30 | | | | 2013 | | | | 2012 |
|---|---|---|---|---|---|---|---|---|
| | Canada | Tunisia | Corporate | Consolidated | Canada | Tunisia | Corporate | Consolidated |
| Capital expenditures | **$ 22,686** | **$ 25,339** | **$ 80** | **$ 48,105** | $ 18,465 | $ 18,013 | $ 51 | $ 36,529 |
| As at | | | | June 30, 2013 | | | | December 31, 2012 |
| Development & production and exploration & evaluation assets | **$392,789** | **$141,980** | **$ 3,254** | **$538,023** | $ 411,768 | $ 121,343 | $ 3,188 | $536,299 |
| Total assets | **$450,845** | **$154,052** | **$ 16,246** | **$ 621,143** | $ 465,576 | $ 141,140 | $ 15,760 | $ 622,476 |

### Results by Segment

| | | Canada | | Tunisia | | Corporate | | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Three months ended June 30 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| **Revenues** | | | | | | | | |
| Petroleum, natural gas & other revenues, net of royalties | **$ 26,692** | $ 24,536 | **$ 19,421** | $ 7,599 | **$ -** | $ - | **$ 46,113** | $ 32,135 |
| **Expenses** | | | | | | | | |
| Production & operating | **12,655** | 14,647 | **4,725** | 1,642 | **-** | - | **17,380** | 16,289 |
| General & administrative | **913** | 866 | **394** | 663 | **1,521** | 2,747 | **2,828** | 4,276 |
| Exploration & evaluation | **457** | 999 | **3,136** | 2,313 | **-** | - | **3,593** | 3,312 |
| Derivative contract gains | **-** | - | **-** | - | **(1,086)** | (13,408) | **(1,086)** | (13,408) |
| Net financing | **1,927** | 2,099 | **338** | 39 | **-** | - | **2,266** | 2,138 |
| Depletion, depreciation & amortization | **13,462** | 18,331 | **6,206** | 2,072 | **-** | - | **19,668** | 20,403 |
| Impairment of development & production assets | **-** | 26,500 | **-** | - | **-** | - | **-** | 26,500 |
| Gains on disposition of properties | **(5,465)** | (3,543) | **-** | - | **-** | - | **(5,465)** | (3,543) |
| Foreign exchange & other (gains) losses | **(352)** | (7) | **476** | 8 | **(24)** | 697 | **100** | 698 |
| | **23,597** | 59,892 | **15,275** | 6,737 | **(411)** | (9,964) | **39,284** | 56,665 |
| Income (loss) before income taxes | **3,095** | (35,356) | **4,146** | 862 | **(411)** | 9,964 | **6,829** | (24,530) |
| **Income taxes** | | | | | | | | |
| Current income tax expense (recovery) | **130** | - | **2,179** | 583 | **-** | - | **2,309** | 583 |
| Deferred income tax expense (recovery) | **-** | - | **530** | (301) | **-** | - | **530** | (301) |
| | **130** | - | **2,709** | 282 | **-** | - | **2,839** | 282 |
| **Net income (loss)** | **$ 2,965** | $ (35,356) | **$ 1,437** | $ 580 | **$ (411)** | $ 9,964 | **$ 3,990** | $ (24,812) |

| | Canada | | Tunisia | | Corporate | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| Six months ended June 30 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| **Revenues** | | | | | | | | |
| Petroleum, natural gas & other revenues, net of royalties | **$ 54,738** | $ 58,022 | **$ 32,514** | $ 25,276 | **$ -** | $ - | **$ 87,252** | $ 83,298 |
| **Expenses** | | | | | | | | |
| Production & operating | **27,675** | 35,278 | **7,984** | 5,542 | **-** | - | **35,659** | 40,820 |
| General & administrative | **2,129** | 2,072 | **561** | 712 | **2,860** | 5,817 | **5,550** | 8,601 |
| Exploration & evaluation | **3,555** | 2,053 | **4,537** | 4,448 | **-** | - | **8,092** | 6,501 |
| Derivative contract gains | **-** | - | **-** | - | **(482)** | (6,226) | **(482)** | (6,226) |
| Net financing | **3,705** | 4,403 | **374** | 75 | **-** | - | **4,079** | 4,478 |
| Depletion, depreciation & amortization | **27,230** | 39,905 | **10,407** | 6,541 | **-** | - | **37,637** | 46,446 |
| Impairment of development & production assets | **-** | 26,500 | **-** | - | **-** | - | **-** | 26,500 |
| Gains on disposition of properties | **(11,724)** | (4,867) | **-** | - | **-** | - | **(11,724)** | (4,867) |
| Foreign exchange & other (gains) losses | **(154)** | 27 | **(2,670)** | 84 | **(24)** | 900 | **(2,848)** | 1,011 |
| | **52,416** | 105,371 | **21,193** | 17,402 | **2,354** | 491 | **75,963** | 123,264 |
| Income (loss) before income taxes | **2,322** | (47,349) | **11,321** | 7,874 | **(2,354)** | (491) | **11,289** | (39,966) |
| **Income taxes** | | | | | | | | |
| Current income tax expense (recovery) | **130** | - | **2,809** | 2,315 | **-** | - | **2,939** | 2,315 |
| Deferred income tax expense (recovery) | **-** | (893) | **(140)** | 515 | **-** | - | **(140)** | (378) |
| | **130** | (893) | **2,669** | 2,830 | **-** | - | **2,799** | 1,937 |
| **Net income (loss)** | **$ 2,192** | $ (46,456) | **$ 8,652** | $ 5,044 | **$ (2,354)** | $ (491) | **$ 8,490** | $ (41,903) |