Management's Report

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

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

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

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

"signed"

Walter J. Vrataric

President & Chief Executive Officer

"signed"

Geoff Barlow
Vice President, Finance & Chief Financial Officer

Calgary, Alberta
March 25, 2014

Independent Auditors’ Report

To the Shareholders of Chinook Energy Inc.

We have audited the accompanying consolidated financial statements of Chinook Energy Inc. which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of operations and comprehensive loss, changes in shareholders’ equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditors’ Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Chinook Energy Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 25, 2014
Calgary, Canada

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)	December 31 2013	December 31 2012
Assets		
Current		
Cash	$ 25,979	$ 30,647
Accounts receivable (note 7)	36,200	51,011
Inventory	634	690
Prepaids & deposits	3,263	3,829
	66,076	86,177
Development & production assets (note 8)	476,806	522,807
Exploration & evaluation assets (note 8)	12,459	13,492
	$ 555,341	$ 622,476
Liabilities and Shareholders' Equity		
Current		
Accounts payable, accrued liabilities & other (note 9)	$ 48,332	$ 64,187
Derivative contracts (note 16)	1,572	-
Deferred disposition proceeds on joint arrangement (note 8)	-	3,051
Taxes payable	3,696	2,185
	53,600	69,423
Long-term debt (note 10)	75,897	89,137
Decommissioning obligation (note 11)	90,369	110,453
Deferred income taxes (note 12)	8,718	9,333
Deferred lease obligation	-	528
Shareholders' Equity		
Share capital	778,070	778,070
Contributed surplus	20,846	19,517
Deficit	(478,400)	(451,700)
Accumulated other comprehensive income (loss)	6,241	(2,285)
	326,757	343,602
	$ 555,341	$ 622,476
Commitments, contingencies and guarantees (note 17)		

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations and Comprehensive Loss

(in thousands of Canadian dollars, except per share amounts)	Year ended December 31 2013	2012
Revenues		
Petroleum & natural gas revenues	**$ 189,252**	$ 193,795
Royalties	**(15,334)**	(11,993)
Petroleum & natural gas revenues, net of royalties	**173,918**	181,802
Processing & gathering revenues	**7,205**	7,922
Petroleum, natural gas & other revenues, net of royalties	**181,123**	189,724
Expenses		
Production & operating	**74,262**	85,579
General & administrative	**12,611**	16,416
Exploration & evaluation (note 8)	**11,435**	9,566
Derivative contracts losses (gains) (note 16)	**954**	(3,943)
Net financing (note 14)	**8,284**	7,767
Depletion, depreciation & amortization (note 8)	**74,070**	98,535
Impairment of development & production assets (note 8)	**35,500**	82,000
Gains on disposition of properties (note 8)	**(12,928)**	(22,511)
Foreign exchange & other (gains) losses	**(2,793)**	528
	201,395	273,937
Loss before income taxes	**(20,272)**	(84,213)
Income tax expenses		
Current income tax expense (note 12)	**7,638**	6,193
Deferred income tax (recovery) expense (note 12)	**(1,210)**	622
	6,428	6,815
Net loss	**(26,700)**	(91,028)
Foreign currency translation gain (loss) on foreign operations	**8,526**	(2,358)
Comprehensive loss	**$ (18,174)**	$ (93,386)
Net loss per share, basic & diluted (note 13 d)	**$ (0.13)**	$ (0.42)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars, except common shares)	Common Shares (thousands)	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
Balance as at December 31, 2011	**214,188**	**$ 778,070**	**$ 17,240**	**$ (360,672)**	**$ 73**	**$ 434,711**
Share-based compensation (note 13c)	-	-	2,277	-	-	2,277
Other comprehensive loss	-	-	-	-	(2,358)	(2,358)
Net loss	-	-	-	(91,028)	-	(91,028)
Balance as at December 31, 2012	**214,188**	**$ 778,070**	**$ 19,517**	**$ (451,700)**	**$ (2,285)**	**$ 343,602**
Share-based compensation (note 13c)	-	-	1,329	-	-	1,329
Other comprehensive income	-	-	-	-	8,526	8,526
Net loss	-	-	-	(26,700)	-	(26,700)
Balance as at December 31, 2013	**214,188**	**$ 778,070**	**$ 20,846**	**$ (478,400)**	**$ 6,241**	**$ 326,757**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Year ended December 31 2013	2012
Operating Activities		
Net loss	**$ (26,700)**	$ (91,028)
Add (deduct):		
Accretion (note 11)	**2,724**	2,853
Amortization of deferred financing costs (note 10)	**679**	-
Depletion, depreciation & amortization (note 8)	**74,070**	98,535
Impairment of development & production assets (note 8)	**35,500**	82,000
Exploration & evaluation expense (note 8)	**11,435**	9,566
Unrealized losses (gains) on derivative contracts (note 16)	**1,572**	(3,029)
Gains on disposition of properties (note 8)	**(12,928)**	(22,511)
Non-cash general and administrative expenses	**2,065**	1,221
Deferred income tax (recovery) expense (note 12)	**(1,210)**	622
Deferred disposition proceeds on joint arrangement (note 8)	**(3,051)**	-
Foreign exchange	**(185)**	468
Decommissioning expenditures (note 11)	**(3,105)**	(2,982)
Change in operating non-cash working capital (note 18b)	**(1,233)**	8,229
Cash flow from operating activities	**79,633**	83,944
Financing Activities		
Long-term debt repayment	**(11,000)**	(137,500)
Long-term debt borrowings	**-**	89,500
Deferred financing charges (note 10)	**(2,802)**	(363)
Cash flow from financing activities	**(13,802)**	(48,363)
Investing Activities		
Capital expenditures (note 8)	**(83,228)**	(79,714)
Business combination (note 6)	**-**	(29,943)
Exploration & evaluation expenditures (note 8)	**(9,862)**	(9,355)
Proceeds on property dispositions (note 8)	**20,984**	106,287
Change in investing non-cash working capital (note 18b)	**911**	(3,599)
Cash flow from investing activities	**(71,195)**	(16,324)
Change in cash, during the year	**(5,364)**	19,257
Cash, beginning of year	**30,647**	11,475
Cash, foreign currency translation gain (loss)	**696**	(85)
Cash, end of year	**$ 25,979**	$ 30,647
Other supplementary cash flow information (note 18b)		

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

Tabular amounts in thousands of Canadian dollars, except as noted

1. Reporting Entity

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

These consolidated financial statements include the accounts of Chinook Energy Inc. and its direct and indirect wholly-owned subsidiaries and foreign branches: Chinook Energy Partnership, Chinook Energy Ltd., 1398216 Alberta Limited, Cyries Wyoming Inc., Iteration (Texas) llc, Iteration Energy Inc., Iteration Energy (an Alberta partnership), 1542991 Alberta Limited, Storm Ventures International (BVI) Limited and the Tunisian branches as included in both Storm Ventures International (Barbados) Limited and Storm Sahara Limited (collectively, "Chinook" or the "Company"). On December 31, 2013, Chinook Energy Partnership and Iteration Energy were dissolved. On January 1, 2014, Chinook Energy Inc. was amalgamated with two of its wholly owned subsidiaries, Chinook Energy Ltd. and Iteration Energy Inc. to form "Chinook Energy Inc." All intercompany balances and transactions have been eliminated.

Chinook's operations, located in western Canada and onshore and offshore in Tunisia, are focused on the development and production of natural gas, crude oil and natural gas liquids in addition to exploration predominately for crude oil. 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 current head office and principal address of Chinook is Suite 700, 700 – 2nd Street SW, Calgary, Alberta, Canada T2P 2W1.

2. Basis of Presentation

Statement of Compliance

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

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 25, 2014.

Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis with the exception of cash and derivative contracts which are measured at fair value. The method used to measure fair values is discussed in Note 16.

Functional and Presentation Currency

These consolidated financial statements and the notes thereto are presented in thousands of Canadian dollars, unless otherwise noted. The Company's Canadian and Corporate segments' functional currency is also the Canadian dollar. The Tunisian segment's functional currency is the United States dollar. References to "US$" are to United States dollars.

Management Judgments and Estimation Uncertainty

The preparation of financial statements requires management judgments and estimation uncertainty that affect the reported amounts at the date of the consolidated financial statements of assets, liabilities, shareholders' equity, revenues and expenses in addition to the disclosure of contingencies. Actual results could differ from those estimated. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Management judgments and the key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below:

Cash Generating Units

The recoverability of development and production asset carrying values was assessed at the Cash Generating Unit ("CGU") level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein.

Recoverability of asset carrying values

When assessing the recoverability of petroleum and natural gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use.

At December 31, 2013, Chinook assessed for any indicators of potential impairment or related recovery of previously reported impairments. In making this assessment, Chinook used the following information:

a) The net present value of before and after tax cash flows from each of its Canadian and Tunisian segments' CGUs, respectively, for petroleum and natural gas proved plus probable reserves as estimated by Chinook's independent reserve evaluators;

b) Evaluation of third party consideration for recent market transactions completed on similar assets to those contained within the relevant CGU; and

c) The fair value of Canadian undeveloped land based on estimates provided by Chinook's independent land evaluator.

Key input estimates used in the determination of before and after tax cash flows from petroleum and natural gas reserves include the following:

a) Reserves – assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, recovery rates or timing of capital expenditures may change the economic status of reserves and may ultimately result in reserves being revised.

b) Petroleum and natural gas prices – forward price estimates of the petroleum and natural gas prices are used in the cash flow model. Commodity prices can fluctuate widely due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

c) Discount rates – an approximate industry peer group weighted average cost of capital is used to discount the net present values of cash flows from Chinook's Canadian and Tunisian segments CGUs. Changes in the global economic environment could result in significant changes to the discount rates used to calculate the net present value of cash flows.

Depletion of petroleum and natural gas assets

Depletion of petroleum and natural gas assets is determined based on total proved plus probable reserve values as well as future development costs as estimated by Chinook's external reserve evaluators. Reserve assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, recovery rates or timing of capital expenditures may change the economic status of reserves and may ultimately result in reserves being revised.

Decommissioning obligation

The provision for the decommissioning obligation is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

Deferred taxes

Tax interpretations, regulations and legislation are subject to change and as such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

Foreign currency

The determination of the Company's Tunisian operation's functional currency requires assessing several factors, including the dominant currency used in transactions such as the settlement of revenues and operational and capital expenditures, and the denomination of the credit facility for this operation.

Joint Operations

Chinook conducts many of its petroleum and natural gas production activities through jointly controlled operations with other participants. It is possible that at some future date allocation adjustments to revenues or expenditures could result from revised billings, audit or litigation with these other participants. Where the final outcome of these matters is different from the amounts initially recorded, such differences will affect the revenue or expenditures in the period in which such determination is made.

3. Summary of Accounting Policies

Basis of Consolidation

Subsidiaries:

Subsidiaries are entities controlled by Chinook. Chinook controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Jointly controlled operations:

Chinook conducts many of its petroleum and natural gas production activities through jointly controlled operations and the consolidated financial statements reflect only its proportionate interest in such operations. Contractual arrangements for Chinook's jointly controlled operations, whereby it does not have a complete working interest, govern that all partners have collective control of the jointly controlled operations, share the associated risks and require unanimous partners' consent prior to spending on these operations. Chinook does not have any joint venture arrangements.

Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Business Combinations

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed on the date of closing. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of operations and comprehensive loss. Transaction costs that Chinook incurs in connection with a business combination are expensed as incurred.

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids produced by Chinook is recognized when title is transferred from Chinook to its customers. Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of crude oil, natural gas and natural gas liquids is recognized when all of the following conditions have been satisfied:

- Chinook has transferred the significant risks and rewards of ownership of the production to the buyer;
- Chinook retains no continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to Chinook; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Share-based Compensation

Chinook has established a share option plan for employees, officers, directors, consultants and other service providers that will settle through the issuance of equity. The fair value of share options granted to optionees is determined on their grant date using a valuation model and recorded as share-based compensation expense, and included in the line item general & administrative expense as reported on the consolidated statements of operations and comprehensive loss, over the period that the share options vest, with a corresponding increase to contributed surplus, as reported on the consolidated statements of financial position. Forfeitures are estimated through the vesting period based on past experience and future expectations, and adjusted upon actual vesting. When share options are exercised, the proceeds, together with the amounts recorded in contributed surplus, are recorded in share capital.

Exploration & Evaluation Assets ("E&E Assets")

Exploration and evaluation expenditures are capitalized within E&E Assets until the technical feasibility and commercial viability of the project has been determined. Such E&E expenditures may include undeveloped land license acquisitions, certain technical services and studies and exploration drilling and testing. Expenditures incurred prior to obtaining the legal right to explore are expensed as incurred. If an E&E project is determined to be unsuccessful, all associated costs are charged through exploration and evaluation expense as reported on the consolidated statements of operations and comprehensive loss.

If commercial reserves are established for a project classified as an E&E Asset, the relevant cost is transferred from E&E Assets to development and production assets as presented on the consolidated statements of financial position. The expenditures for an E&E project are reviewed for impairment prior to any such transfer.

Development & Production Assets ("D&P Assets")

D&P Assets, which include petroleum and natural gas development and production assets, in addition to administrative assets, are measured at cost less accumulated depletion, depreciation and amortization and accumulated impairment losses.

Gains and losses on the disposals of D&P Assets are in part determined by comparing the proceeds from the disposals with the carrying amount of disposed D&P Assets and are reported on the line item gains or losses on disposal of properties on the consolidated statements of operations and comprehensive loss. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reasonably measured. Where the exchange is measured at fair value, a gain or loss is recognized in the consolidated statements of operations and comprehensive loss.

Overhead costs which are directly attributable to bringing an asset to the location and condition necessary for it to be capable of use in the manner intended by management are capitalized. These costs include directly attributable compensation costs paid to internal personnel.

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

D&P Assets are componentized into groups of assets with similar useful lives for the purposes of performing depletion calculations. Depletion expense is calculated on the unit-of-production basis based on:

a) Total estimated proved plus probable reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;

b) Total capitalized costs plus estimated future development costs of proved plus probable reserves; and

c) Relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of crude oil.

E&E Assets as included in Chinook's Canadian Segment are generally amortized over a term of ten years, whereas E&E Assets in its Tunisian Segment are amortized over the next specific exploration permit's work commitment term.

Depreciation of corporate assets is calculated on a straight-line basis over the useful life of the related assets.

Impairment or Recovery of Prior Periods' Reported Impairment

D&P Assets

Chinook's D&P Assets are grouped into CGUs for the purpose of assessing impairment or recovery of prior periods' reported impairments. A CGU is a grouping of assets that generate or have the potential to generate cash inflows independently of other assets held by the Company. Geographical location, geological formation, product type, proximity to shared infrastructure and internal management are key factors Chinook considers when grouping its petroleum and natural gas assets into CGUs.

CGUs are reviewed at each reporting date for indicators of potential impairment. If such indicators exist, an impairment test is performed by comparing each CGU's carrying value to its recoverable amount, defined as the greater of a CGU's fair value less cost to sell and its current value in use. Any excess of carrying value over recoverable amount is recognized on the consolidated statements of operations and comprehensive loss as reported on the line item impairment expense.

If there is an indicator that a previously recognized impairment charge may no longer be valid, the recoverable amount of the relevant CGU is calculated and compared against the carrying amount. An impairment charge is reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, if no impairment loss had been recognized.

E&E Assets

E&E Assets are assessed for impairment at the operating segment level. Impairment tests are carried out when E&E Assets are transferred to D&P Assets following the declaration of commercial reserves, and any time that circumstances arise which could indicate a potential impairment.

Decommissioning Obligation

Chinook recognizes a decommissioning obligation in the period in which it has a present legal or constructive liability and a reasonable estimate of the amount can be made. On a periodic basis, management reviews these estimates, and changes, if any, are prospectively applied. The decommissioning obligation is recorded as a long-term liability, with a corresponding increase to the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the associated proved plus probable reserves. The decommissioning obligation is increased each reporting period with the passage of time and the associated accretion charge is recognized in the line item net financing expenses as reported on the consolidated statements of operations and comprehensive loss. Periodic revisions to the liability specific discount rate, estimated timing of cash flows or to the original estimated undiscounted costs can also result in an increase or decrease to the decommissioning obligation. Actual costs incurred upon settlement of the obligation are recorded against the decommissioning obligation to the extent of the liability recorded.

Deferred Taxes

Deferred tax is recognized by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been substantively enacted by the reporting date.

Deferred income tax expense is recognized in the consolidated statements of operations and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Deferred tax assets and tax liabilities are offset to the extent there is a legally enforceable right to offset the recognized amounts and the intent is to either settle on a net basis or to simultaneously realize the asset and settle the liability.

Deferred tax assets are not recognized unless it is possible that taxable profits will be available against which the deductible temporary differences can be utilized.

Financial Instruments

Financial assets and liabilities are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument's classification, as described below:

a) Fair value through profit and loss

   Financial instruments designated as fair value through profit and loss are subsequently measured at fair value with changes in those fair values charged immediately to earnings. Chinook's derivative contracts, in addition to cash, are classified as fair value through profit and loss.

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

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

Chinook classifies its fair value through profit and loss financial instruments according to the following hierarchy on the basis of the lowest level observable input that is significant to the fair value measurement of each instrument in its entirety:

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

Foreign Currency Translation

Chinook's Tunisian segment's assets and liabilities, as denominated in the United States dollar, are translated into Canadian dollars, the Company's presentation currency, at the rate of exchange in effect on the date of the consolidated statements of financial position. The Tunisian segment's foreign currency revenues and expenditures are translated at the period average rates of exchange. The differences arising upon translation from the functional currency to the reporting currency are recorded as foreign currency translation gains or losses on foreign operations in other comprehensive income and are held within accumulated other comprehensive income (loss) until a disposal or partial disposal of an international subsidiary or its net assets. A disposal or partial disposal of an international subsidiary or its net assets will then give rise to a realized foreign exchange gain or loss which is recorded in retained earnings. The Company's Canadian segment's functional currency is Canadian dollars.

Earnings (Loss) per Share

Basic earnings (loss) per share is calculated by dividing the net earnings or loss attributable to Chinook's common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the net earnings or loss attributable to Chinook's common shareholders and the weighted average number of common shares outstanding for the dilutive effects of options and share purchase warrants as outstanding at the end of the reporting period.

Inventory

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

4. New Standards and Interpretations

New Standards and Interpretations Not Yet Adopted

In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 Financial Instruments (2013) and aligns hedge accounting more closely with risk management. A new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. This new standard does not fundamentally change the types of hedging relationships or the requirement to continually measure and recognize if a hedge is actually ineffective; however it will provide more risk management hedging strategies to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. Currently, Chinook does not apply hedge accounting for its outstanding risk management contracts. Once this new standard is finalized and a new mandatory effective date is set by the IASB, Chinook will then assess the impact of this new standard.

In December 2011, the IASB published amendments to International Accounting Standard ("IAS") 32 "Financial Instruments: Presentation". The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively. The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to offset the presentation of financial instruments by counterparty if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity or the counterparty.

The amendments to IAS 32 also clarify when a settlement mechanism provides for net or gross settlement. Chinook intends to adopt the amendments to IAS 32 in its consolidated financial statements for the annual period beginning January 1, 2014. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

Adopted New Standards

On January 1, 2013, the Company adopted new standards in accordance with the transitional provision of each standard. A brief description of each new standard and their impact on Chinook's financial statements are as follows:

- IFRS 10, "Consolidated Financial Statements" supersedes IAS 27 "Consolidated 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 operations and joint ventures, each with their own accounting model. Joint ventures are accounted for using the equity method of accounting, whereas joint operations are accounted for by recognizing the venturer's share of the assets, liabilities, revenue and expenses. All joint arrangements were reassessed on transition to IFRS 11 to determine their type and to apply the appropriate accounting treatment. The standard provides for a more substance based reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12, "Disclosure of Interest in Other Entities" combines into a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.
- IFRS 13, "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- IFRS 7, "Financial Instruments: Disclosures" provides more extensive quantitative disclosures for financial instruments that are offset in the consolidated statements of financial position or that are subject to enforceable master netting or similar agreements.

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

5. Determination Of Fair Values

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

D&P Assets and E&E Assets

The fair value of D&P Assets and E&E Assets recognized in a business combination, is based on market values. The fair market value of D&P Assets and E&E Assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair market value of petroleum and natural gas interests (included in D&P assets) or E&E assets can also be estimated with reference to the discounted cash flows expected to be derived from petroleum and natural gas production based on externally prepared reserve or undeveloped land reports, respectively. The risk-adjusted discount rate applied to these cash flows is specific to the asset's segment with reference to an approximate industry weighted average cost of capital.

Accounts Receivable, Accounts Payable and Accrued Liabilities and Bank Debt

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

Derivatives Contracts

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

Share Options

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

6. Business Combination

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

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

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

Between the acquisition date and December 31, 2012, approximately $0.5 million of production revenue was recognized related to this business combination. If this business combination had been effective January 1, 2012, management estimates petroleum and natural gas revenues for the year ended December 31, 2012 would have been $5.4 million.

7. Accounts Receivable

Chinook's accounts receivable was comprised of:

	December 31 2013	December 31 2012
Trade accounts receivable & accrued receivables	**$ 27,728**	$ 43,909
Other receivables	**3,048**	2,793
Cash call receivables	**7,174**	5,366
Allowance for doubtful accounts	**(1,750)**	(1,057)
	$ 36,200	$ 51,011

Chinook's accounts receivable balance was aged as follows:

	December 31 2013	December 31 2012
Not past due	**$ 31,103**	$ 45,092
Past due by more than 90 days, net of allowance	**5,097**	5,919
	$ 36,200	$ 51,011

During the year ended December 31, 2013, Chinook reported $1.8 million of accounts receivables that were deemed uncollectible as charged to general & administrative expense on the consolidated statements of operations and comprehensive loss.

8. Development & Production and Exploration & Evaluation Assets

The following table reconciles Chinook's D&P Assets and E&E 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	72,509	7,205	79,714
Business combination (note 6)	30,322	250	30,572
Cost of properties sold	(120,916)	(2,069)	(122,985)
Transfer from E&E to D&P	4,652	(4,652)	-
Change in decommissioning asset additions	30,030	-	30,030
Foreign exchange adjustment	(2,483)	-	(2,483)
Balance as at December 31, 2012	**$ 844,031**	**$ 58,960**	**$ 902,991**
Capital expenditures	74,590	8,638	83,228
Cost of exploration efforts expensed	(16)	(1,390)	(1,406)
Cost of properties sold	(25,699)	(9,371)	(35,070)
Transfer from E&E to D&P	3,931	(3,931)	-
Change in decommissioning assets	(10,729)	-	(10,729)
Foreign exchange adjustment	12,127	9	12,136
Balance as at December 31, 2013	**$ 898,235**	**$ 52,915**	**$ 951,150**
Accumulated Depletion, Depreciation & Amortization			
Balance as at December 31, 2011	**$ (182,405)**	**$ (27,526)**	**$ (209,931)**
Depletion, depreciation & amortization	(79,183)	(19,352)	(98,535)
Impairment	(82,000)	-	(82,000)
Inventoried depletion	(5)	-	(5)
Reversed on sale of properties	22,230	1,410	23,640
Foreign exchange adjustment	139	-	139
Balance as at December 31, 2012	**$ (321,224)**	**$ (45,468)**	**$ (366,692)**
Depletion, depreciation & amortization	(72,151)	(1,919)	(74,070)
Impairment	(35,500)	-	(35,500)
Inventoried depletion	(12)	-	(12)
Reversed on sale of properties	10,575	6,931	17,506
Foreign exchange adjustment	(3,117)	-	(3,117)
Balance as at December 31, 2013	**$ (421,429)**	**$ (40,456)**	**$ (461,885)**
Net Book Values			
Balance as at December 31, 2012	$ 522,807	$ 13,492	$ 536,299
Balance as at December 31, 2013	**$ 476,806**	**$ 12,459**	**$ 489,265**

The Company capitalized $5.4 million and $4.1 million of direct G&A costs as related to its exploration and development activity during the years ended December 31, 2013 and 2012, respectively.

Joint Arrangement

In April 2013, NZOG Hammamet Pty. Ltd ("NZOG") acknowledged that it had given a negative final investment decision ("FID") as defined under the terms of the amended farmout agreement (the "Amended Farmout Agreement") as dated March 19, 2013, which terminated NZOG's optional right to complete its earning and acquisition of an interest in the Tunisian Cosmos Concession per the terms of the Amended Farmout Agreement. Given the termination of this optional right, Chinook reported during the year ended December 31, 2013 the initial US$3.0 million deferred disposition proceeds on joint arrangement it received from NZOG as realized through the line item foreign exchange & other (gains) losses on the consolidated statements of operations and comprehensive loss.

Impairment

For the year ended December 31, 2013, Chinook recognized an impairment charge of $32.0 million on its Tunisian segment's non-producing offshore CGU. This was as a result of Chinook's decision to further evaluate the development options for this CGU, the withdrawal of a potential partner and the change in classification of this CGU's proved plus probable reserves to a contingent resource. Management assessed this CGU's recoverable value based on a measure of its contingent resource using relative fair value third party market transactions for offshore North African early stage development projects with contingent resources. Given the uniqueness of such a project, third party market transactions were not always directly comparable resulting in significant measurement uncertainty. This uncertainty could result in this Tunisian offshore CGU's future realized recoverable amount being significantly below or above management's evaluation of its fair market value.

At December 31, 2013, Chinook determined that there were no indications of impairment for its Tunisian onshore CGU that would warrant testing for impairment; however there were triggers indicating impairment on its Canadian CGUs. These triggers partially result from Chinook's reporting of $82.0 million in impairment expense on its Canadian CGUs for the year ended December 31, 2012, as then triggered through a reduction in forward Canadian petroleum and natural gas prices as listed by McDaniel & Associates Consultants Ltd. Upon reporting this impairment expense, each Canadian CGU's carrying value approximated its recoverable value. This situation created sensitivity to any changes in the recoverable values of Chinook's Canadian CGUs when measured at December 31, 2013, relative to the same measure as previously reported. Observed triggers that indicated impairment of Chinook's Canadian CGUs included a decrease in the long term forward Canadian natural gas prices as at December 31, 2013, as listed by McDaniel & Associates Consultants Ltd., relative to those estimated at December 31, 2012, and changes in recoverable value from the continued disposition of Canadian producing assets. Chinook's testing of each of its Canadian CGU's recoverable value relative to its carrying value revealed an impairment charge of $3.5 million in one non-core CGU and did not reveal any recovery of prior periods' impairment on the remaining CGUs. Each Canadian CGU's impairment test was based on proved plus probable reserves, used an average Canadian CGU discount rate of 10 percent and forward commodity price estimates.

A five percent decrease in the forward commodity price estimate, as determined for each CGU, would have resulted in an additional impairment charge totaling approximately $11.0 million. The impairment tests as carried out at December 31, 2013 and 2012 were based on the following price estimates:

	Edmonton Light Crude Oil ($/bbl)(1)(2)		AECO Gas ($/mmbtu)(1)(3)	
As at December 31	2013	2012	2013	2012
2014	**$ 95.00**	$ 90.50	**$ 4.00**	$ 3.85
2015	**$ 96.50**	$ 92.60	**$ 4.25**	$ 4.35
2016	**$ 97.50**	$ 94.50	**$ 4.55**	$ 4.70
2017	**$ 98.00**	$ 96.40	**$ 4.75**	$ 5.10
2018	**$ 98.30**	$ 98.30	**$ 5.00**	$ 5.45
Thereafter	**2%/yr**	2%/yr	**2%/yr**	2%/yr

(1) Source: McDaniel & Associates Consultants Ltd. price forecast, effective January 1, 2013 and 2014

(2) Central market point for Canadian crude oil.

(3) Central market point for Canadian natural gas.

Exploration Wells

In Tunisia during the year ended December 31, 2013, Chinook drilled and cased its El Bell exploration well on the onshore Sud Remada Permit, at a cost of $3.9 million excluding an estimated decommissioning obligation of $0.2 million, but then suspended this well when no economical petroleum or natural gas reserves were identified in its target zone. Also during the year ended December 31, 2013, Chinook spent $1.1 million on an attempted completion operation on the TT4 well on its BBT Concession to access a lower non-productive interval but the objective of this operation was not met.

In Canada during the year ended December 31, 2013, management completed its evaluation and determined that a Canadian exploration well drilled during 2012, at a cost of $1.4 million, was unsuccessful for petroleum or natural gas reserves. Also, during the year ended December 31, 2013, Chinook evaluated the recoverability of a an exploration well's costs prior to transferring these costs to D&P Assets on the basis of establishing commercial reserves, at which time it was determined that the drilling and completion costs of the well were impaired by $0.8 million relative to the associated proved plus probable discounted reserves.

During the year ended December 31, 2012, Chinook drilled its BJA-2 exploration well, located on its Sud Remada permit, along with its Nessma non-operated exploratory well near its Adam Concession with both programs being unsuccessful for petroleum or natural gas reserves for combined charges of $3.6 million, excluding decommissioning obligation of $0.2 million.

In addition to the above, $4.0 million and $5.8 million of pre-licensing evaluation, exploratory lease rental and geological and geophysical costs were incurred for the years ended December 31, 2013 and 2012, respectively.

In total these charges resulted in an exploration and evaluation expense of $11.4 million and $9.6 million, respectively, for the years ended December 31, 2013 and 2012. Excluding charges reported as capital expenditures in prior years or related to decommissioning obligations, cash exploration and evaluation costs of $9.9 million and $9.4 million were included as investing activities on the consolidated statements of cash flows for the years ended December 31, 2013 and 2012, respectively.

Property Dispositions

During the year ended December 31, 2013, Chinook completed the sale of several petroleum and natural gas properties for aggregate net proceeds of $21.0 million ($106.3 million for the year ended December 31, 2012). The carrying amount of these sold properties, less $9.5 million of associated decommissioning obligations (see note 11), was less than the received sales proceeds resulting in a gain of $12.9 million for the year ended December 31, 2013 ($22.5 million for the year ended December 31, 2012).

9. Accounts Payable, Accrued Liabilities and Other

	December 31 2013	December 31 2012
Trade accounts payable	**$ 13,086**	$ 16,685
Accrued liabilities	**29,177**	29,812
Joint operations accounts payable	**5,350**	16,240
Other payables	**719**	1,450
	$ 48,332	$ 64,187

10. Long-Term Debt

	December 31 2013	December 31 2012
Canadian revolving term credit facility	**$ 78,500**	$ 89,500
Unamortized deferred financing costs	**(2,603)**	(363)
Balance, end of year	**$ 75,897**	$ 89,137

Canadian Revolving Term Credit Facility

At December 31, 2013 and 2012, Chinook's Canadian reserve-based 364 day revolving credit facility (the "Canadian Revolving Term Credit Facility"), which it holds with a syndicate of Canadian banks, had a maximum availability of $115.0 million. In June 2013, Chinook extended the current revolving period to June 26, 2014 at which time this facility's revolving period and availability will be redetermined. In the event that the revolving period is not extended by the banking syndicate on 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 December 31, 2013, Chinook had drawings of $78.5 million and outstanding letters of credit of $0.4 million (see Note 17) against the Canadian Revolving Term Credit Facility (December 31, 2012 – $89.5 million and $0.4 million, respectively), resulting in available credit on this facility of $36.1 million (December 31, 2012 – $25.1 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 the applicable pricing rate as combined with either the 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 year ended December 31, 2013, was 5.0% (year ended December 31, 2012 – 4.4%). The Canadian Revolving Term Credit Facility contains a covenant whereby the ratio of Chinook's drawings against this facility to the earnings attributable to its Canadian operations before interest, taxes, depreciation and amortization cannot be greater than 4:1 as determined on a rolling four quarter basis for the most current fiscal quarter. At December 31, 2013, Chinook was in compliance with this covenant.

International Credit Facility

On March 15, 2013, Chinook signed a US$75.0 million international amortizing reserve-based credit facility ("International Credit Facility") for a term of five years with an international bank. At December 31, 2013, the availability of this facility was US$46.5 million as subject to a semi-annual review and redetermination. At December 31, 2013, Chinook had no outstanding drawings against the International Credit Facility. Effective January 1, 2014, Chinook's available borrowing base was reduced to US$23.8 million. This reduction was due to an increase in estimated future costs, as included in Chinook's December 31, 2013 reserve report for its Tunisian producing properties, over this facility's remaining four year term despite an increase in these reserves estimated net recoverable value. The International Credit Facility's next semi-annual review is scheduled for June 2014 where the available amount will be reassessed and any outstanding draws must be paid down to the lower of the new available amount or the current repayment commitment. The term of the International Credit Facility can be reduced from the anticipated final maturity date in March 2018 to a date when 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.

Unamortized Deferred Financing Costs

	Canadian Revolving Term Credit Facility	International Credit Facility	Total
Balance as at December 31, 2011	$ -	$ -	**$ -**
Additions	363	-	**363**
Balance as at December 31, 2012	$ 363	$ -	**$ 363**
Additions	115	2,687	**2,802**
Amortization	(270)	(409)	**(679)**
Foreign exchange adjustment	-	117	**117**
Balance as at December 31, 2013	$ 208	$ 2,395	**$ 2,603**

The unamortized deferred financing costs are currently being amortized through to the anticipated expiry of each facility's agreement.

11. 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 December 31, 2013, Chinook has estimated the net present value of its total decommissioning obligation based on a total future undiscounted liability of $123.6 million ($118.2 million at December 31, 2012). At December 31, 2013, management estimates that these payments are expected to be made before and after an average of 18.6 years. At December 31, 2013, a risk free rate of 1.1% to 3.2% and an inflation rate of 2.0% were used to calculate the present values of the decommissioning obligations (December 31, 2012 – 2.5% and 2.0%, respectively).

Year ended December 31	2013	2012
Balance, beginning of the year	**$ 110,453**	$ 95,432
Dispositions	**(9,508)**	(15,569)
Development and exploration activities	**1,142**	1,024
Business combination	**-**	629
(Decrease) increase relating to change in estimates	**(11,688)**	29,217
Settlement	**(3,105)**	(2,982)
Accretion expense	**2,724**	2,853
Foreign exchange adjustment	**351**	(151)
Balance as at December 31, 2013	**$ 90,369**	$ 110,453

The decrease in change in estimates for the year ended December 31, 2013 was due to an increase in the weighted average risk free rate used to calculate the present value of the decommissioning obligation. Partially offsetting this decrease, and as observed with an increase in Chinook's undiscounted decommissioning obligation, was a change in Chinook's estimate for Canadian well abandonment and reclamation costs.

12. Income Taxes

The major components of income tax expense for the years ended December 31, 2013 and 2012 were as follows:

Year ended December 31	2013	2012
Current tax		
Current income tax charge	**$ 7,444**	$ 5,742
Adjustments in respect of current income tax of previous years	**194**	451
	7,638	6,193
Deferred income tax		
Relating to the creation and reversal of temporary differences	**(2,119)**	(3,683)
Rate adjustments on opening temporary differences	**572**	-
Change in unrecognized tax assets	**(3,828)**	-
Adjustments to opening deferred tax balances	**4,166**	4,305
	(1,210)	622
Total income tax expenses	**$ 6,428**	$ 6,815

Current taxes arise mainly from the Tunisia business segment.

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

	December 31 2013	December 31 2012
Loss before tax	**$ (20,272)**	$ (84,213)
Expected tax rate	**25.0%**	25.0%
Expected income tax recovery	**$ (5,068)**	$ (21,053)
Effect on income tax resulting from:		
Difference between current and future tax rates	**572**	-
Share-based compensation	**332**	569
Change in unrecognized tax asset	**(3,828)**	23,374
Difference between foreign tax rates and Canadian tax rates	**7,950**	(385)
Adjustments to opening current tax balances	**194**	-
Adjustments to opening deferred tax balances	**4,166**	-
Other non-deductible expenses	**2,110**	4,310
Total income tax expense	**$ 6,428**	$ 6,815

The statutory tax rate consists of the combined federal and provincial tax rates applicable for the Company and its domestic subsidiaries. The combined statutory rate was consistent for the year ended December 31, 2013 as compared to December 31, 2012.

Unrecognized deferred tax assets

As at December 31, 2013, the Company had Canadian tax losses carried forward of $177.0 million and tax losses in Barbados of $101.6 million (combined December 31, 2012 – $99.6 million). If not utilized, the losses will expire in 2017 or later.

Deferred tax assets are recognized for tax loss carry-forwards and other tax deductions to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose. At December 31, 2013, the Company did not recognize deferred tax assets related to $143.1 million of tax losses.

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	December 31 2013	December 31 2012
Deferred tax liabilities:		
Development and production / exploration and evaluation assets	**$ 45,043**	$ 34,486
Less deferred tax assets:		
Non-capital losses	**(13,130)**	(1,081)
Derivative contracts	**(237)**	-
Provisions	**(22,958)**	(24,072)
Net deferred tax liability	**$ 8,718**	$ 9,333

Movement in deferred taxes related to temporary differences during the year ended December 31, 2013:

	Balance as at December 31, 2012	Recognized in statement of loss	Recognized in equity and OCI	Balance as at December 31, 2013
Development & production/exploration and evaluation assets	$ 34,486	$ 9,828	$ 729	**$ 45,043**
Non-capital tax losses	(1,081)	(11,981)	(68)	**(13,130)**
Derivative contracts	-	(237)	-	**(237)**
Provisions	(24,072)	1,180	(66)	**(22,958)**
	$ 9,333	$ (1,210)	$ 595	**$ 8,718**

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

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

Uncertain Tax Position

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

13. 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, all of the 1,279,000 share purchase warrants ("Warrants") that Chinook issued on May 27, 2010, expired unexercised.

c) Share-Based Compensation Plan

Chinook has a share option plan pursuant to which options to purchase its common shares may be granted to employees, directors, officers, and its other service providers. The maximum number of common shares issuable on exercise of options granted pursuant to the share option plan may not exceed 10% of Chinook's issued and outstanding common shares. Chinook's outstanding options 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 ($/option)	Number of Options (thousands)
Balance as at December 31, 2011	**$ 2.05**	**15,455**
Granted	$ 1.44	1,279
Forfeited	$ (2.03)	(2,873)
Balance as at December 31, 2012	**$ 1.99**	**13,861**
Granted	$ 1.12	1,929
Forfeited	$ (1.85)	(1,470)
Balance as at December 31, 2013	**$ 1.89**	**14,320**

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 as at December 31, 2013.

	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)
$0.84 - $1.24	2,181	$ 1.14	4.2	153	$ 1.20	3.4
$1.42 - $1.64	2,626	$ 1.42	3.0	1,700	$ 1.42	3.0
$1.67 - $1.97	3,551	$ 1.89	1.4	3,059	$ 1.91	1.1
$2.13 - $2.19	3,220	$ 2.19	1.8	3,132	$ 2.19	1.8
$2.22 - $2.72	2,742	$ 2.58	1.3	2,723	$ 2.59	1.3
	14,320	**$ 1.89**	**2.2**	**10,767**	**$ 2.08**	**1.7**

Total share-based compensation, as included in the line item general and administrative expense as reported in the consolidated statements of operations and comprehensive loss, for the year ended December 31, 2013, was $1.3 million (year ended December 31, 2012 – $2.3 million). The following Black-Scholes pricing model factors were used for the determination of the fair value of options granted during the years ended December 31, 2013 and 2012:

Year ended December 31	2013	2012
Expected average life (years)	**3 to 5**	1 to 3
Risk-free interest rate (%)	**1.07 to 1.93**	0.97 to 1.34
Estimated forfeiture rate per annum (%)	**12.7 to 13.0**	9.3 to 11.2
Volatility factor (%)	**49 to 54**	40 to 55

The weighted average fair values determined for options granted during the year ended December 31, 2013, was $0.47 per option (year ended December 31, 2012 – $0.35).

d) Per Share Amounts

The per share amounts for the years ended December 31, 2013 and 2012, were calculated as per the following table:

	Year ended December 31	
	2013	2012
Net loss	$ (26,700)	$ (91,028)
Weighted average shares outstanding – basic & diluted (thousands)	214,188	214,188
Net loss per share – basic & diluted ($/share)	$ (0.13)	$ (0.42)

For the years ended December 31, 2013 and 2012, because Chinook reported net losses, the effect, if any, of "in-the-money" options would have been anti-dilutive resulting in them being excluded in the calculation of dilutive weighted average shares outstanding. For the year ended December 31, 2012, this effect would have also excluded Warrants as outstanding at the end of that year.

14. Net Financing Expenses

	Year ended December 31	
	2013	2012
Interest on bank debt and other interest	$ 4,434	$ 4,500
Interest earned	(370)	(286)
Finance charges and fees	817	700
Amortization of deferred financing costs	679	-
Accretion of decommissioning obligation	2,724	2,853
Net financing expenses	$ 8,284	$ 7,767

15. Related Party Transactions

Chinook has determined that the key management personnel consist of its officers and directors. In addition to the salaries and directors fees paid to the officers and directors respectively, the officers and directors participate in the Company's share option plan. The officers' salaries and directors fees paid, in addition to other benefits and share-based compensation, as included in general and administrative expenses relating to key management personnel for 2013 was $2.7 million and $1.0 million, respectively (2012 – $2.9 million and $1.9 million, respectively).

Her Majesty the Queen in Right of the Province of Alberta ("HMQ") is a significant Chinook shareholder. Alberta Investment Management Corporation ("AIMCo"), as investment manager to HMQ, maintains investment control and direction over Chinook's common shares for the benefit of HMQ. Chinook provides certain services to nominees of AIMCo pursuant to an administrative services and cost sharing agreement. Chinook's services include managing the working interests of AIMCo's nominees as held in a limited partnership. The calculated fee from AIMCo's nominees to Chinook during the year ended December 31, 2013 was $4.0 million as applied against Chinook's general & administrative expense (year ended December 31, 2012 – $3.5 million), of which $0.1 million as at December 31, 2013, was included in accounts receivable (December 31, 2012 – $1.9 million). At December 31, 2013, a net receivable of $0.3 million remained related to the ongoing joint operations of producing and non-producing petroleum and natural gas properties (at December 31, 2012, a net payable of $10.8 million).

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

16. Financial Instruments and Market Risk Management

Financial Instrument Classification and Measurement

Chinook's financial instruments carried on the consolidated statements of financial position as at December 31, 2013 are carried at amortized cost with the exception of cash and derivative contracts which are carried at fair value. Chinook's cash was assessed on the fair value hierarchy as Level 1 as it is transacted in active markets and its derivative contracts were assessed as Level 2. The estimated derivative contracts' fair values are subject to changes in historical benchmark price volatilities and forward benchmark prices and interest rates. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Market Risk Management

Chinook is exposed to a number of market risks that are part of its normal course of business. Management has primary responsibility for monitoring and managing financial instrument risks under direction from the Board of Directors, which has overall responsibility for establishing the Company's risk management framework. In the sections below, Chinook has prepared a sensitivity analyses in an attempt to demonstrate the effect of changes in these market risk factors on its consolidated statements of operations and comprehensive loss. For the purposes of the sensitivity analyses, the effect of a variation in a particular variable is calculated independently of any change in another variable. In reality, changes in one variable may contribute to changes in another, which may increase or decrease the change. The assumptions made to derive the changes in the relevant risk variables in each sensitivity analysis are based on Chinook's assessment of reasonably possible changes that could occur at December 31, 2013. The results of the sensitivity analyses should not be considered to be predictive of future performance.

Commodity Price Risk

Chinook is constantly exposed to the risk of changing commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also global economic events that dictate the levels of supply and demand. Movement in commodity prices could have a significant positive or negative impact on Chinook's consolidated statements of operations and comprehensive loss. To partially mitigate exposure to commodity price risk, Chinook entered into various financial derivative instruments (see Derivative Contracts) during the year ended December 31, 2013. The use of such instruments is subject to limits established and approved by the Board of Directors. The Company's policy precludes the use of derivative financial instruments for speculative purposes.

Interest Rate Risk

Changes in interest rates would result in a change in the amount Chinook pays to service variable interest rate debt. If the interest rate applicable to Chinook's variable rate debt were to increase by 100 basis points it is estimated that Chinook's consolidated statements of operations and comprehensive loss would increase by $0.8 million for the year ended December 31, 2013. This change assumes that the increase in the interest rate is effective from the beginning of the year and the amount of variable interest rate debt remains constant from December 31, 2013.

Foreign Exchange Risk

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

The Company's Tunisian production revenues are received in US dollars and a significant portion of this segment's operational and capital expenditures are paid in US dollars. Chinook translates the financial results and net assets of its Tunisian segment from US dollars to Canadian dollars using the average rate for the period and the spot rate in effect on the date of the statement of financial position, respectively. Translation gains or losses are reported on the line item foreign currency translation gain (loss) of foreign operations as included within the consolidated statements of operations and comprehensive loss. The following table illustrates the effects on Chinook's Tunisian segment's net book value at December 31, 2013 of a 10 percent increase or decrease in the US dollar relative to the Canadian dollar:

	Decrease in USD/CAD	Increase in USD/CAD
Comprehensive income increase (decrease) due to revaluation of USD to CAD	$ 10,175	$ (10,175)

As at December 31, 2013 and 2012, the Company had no derivative contracts in place to reduce foreign exchange risk.

Derivative Contracts

Chinook uses commodity price derivative contracts to reduce its exposure to fluctuations in crude oil and natural gas prices. Chinook presents the fair value of each derivative contract by counterparty on the consolidated statements of financial position. The following commodity price derivative contracts were in place as at December 31, 2013:

Indexed Price	Notional Volumes	Company's Received Price	Contractual Term
AECO	5,000 GJ/d	$3.25/GJ to $3.50/GJ	January 1, 2014 to December 31, 2014
AECO	5,000 GJ/d	$3.68/GJ	January 1, 2014 to December 31, 2014
AECO	5,000 GJ/d	$3.5025/GJ	April 1, 2014 to October 31, 2014
WTI	500 bbl/d	$101.30/bbl	January 1, 2014 to December 31, 2014
Brent	500 bbl/d	$98.00 US/bbl to $108.00 US/bbl	January 1, 2014 to December 31, 2014

The commodity price contracts were assessed as level 2 on the fair value hierarchy and were reported at December 31, 2013 at their fair value liability of $1.6 million as included in current derivative liabilities on the consolidated statements of financial position. This estimate was partially determined through the difference in the referenced benchmark forward price as compared to each contract's strike price multiplied by the notional volumes during the contractual term.

The impact on Chinook's consolidated statements of operations and comprehensive loss of the risk management derivative contracts for the years ended December 31, 2013 and 2012 were as follows:

	Year ended December 31	
	2013	2012
Realized gain on derivative contracts	**$ (618)**	$ (914)
Unrealized loss (gain) on derivative contracts	**1,572**	(3,029)
	$ 954	$ (3,943)

Financial Assets and Credit Risk

Credit risk is the risk of financial loss to Chinook if a partner or counterparty to a product sales contract or financial instrument fails to meet its contractual obligations. As at December 31, 2013, Chinook is mostly exposed to credit risk with respect to its accounts receivable. Most of Chinook's accounts receivable relate to oil and natural gas sales and are subject to typical industry credit risk. The majority of the credit exposure on accounts receivable at December 31, 2013 pertains to accrued revenue for December 2013 sales volumes. Chinook transacts with a number of commodity purchasers. Purchasers typically remit amounts to Chinook prior to the end of the month following production. Joint interest receivables are typically collected within one to three months following production. At December 31, 2013, no one counterparty accounted for more than ten percent of the total accounts receivable balance.

Chinook's allowance for doubtful accounts is $1.8 million as at December 31, 2013 (December 31, 2012 – $1.1 million). When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Chinook considers all amounts greater than 90 days after the due date to be past due. As at December 31, 2013, $5.1 million of accounts receivable were past due but considered to be collectible.

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

Financial Liabilities and Liquidity Risk

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

The following table details Chinook's financial liabilities as at December 31, 2013:

	Within 1 year	1 to 2 years
Accounts payable and accrued liabilities	**$ 48,332**	$ -
Derivative contracts	**1,572**	-
Long-term debt	**-**	78,500
Total financial liabilities	**$ 49,904**	$ 78,500

17. Commitments, Contingencies and Guarantees

At December 31, 2013, Chinook's contractual commitments required the following minimum future payments without giving effect to any offsetting third party agreements which are anticipated to reduce some of these amounts:

Year ended December 31	2014	2015	2016	2017	2018	Total
Long-term debt and interest	$ 4,454	$ 80,991	$ 529	$ 529	$ 529	$ 87,032
Office leases	1,990	1,630	1,668	1,708	920	7,916
Operating and transportation contracts	5,019	440	125	9	-	5,593
Minimum financial work commitments	-	6,913	-	-	-	6,913
	$ 11,463	**$ 89,974**	**$ 2,322**	**$ 2,246**	**$ 1,449**	**$ 107,454**

Chinook is involved in litigation and claims arising in the normal course of operations. Such claims are not expected to have a material impact on Chinook's results of operations or cash flows.

As at December 31, 2013, Chinook issued letters of credit in the total amount of $0.4 million mostly to secure the services of a Canadian midstream operator. These issued letters of credit reduce the available credit from Chinook's Canadian Revolving Term Credit Facility.

18. Supplemental Disclosure

a) Consolidated statements of operations and comprehensive loss presentation

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

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

Year ended December 31	2013	2012
Operating	**$ 13,206**	$ 14,115
General and administrative	**1,897**	6,379
Total employee compensation costs	**$ 15,103**	$ 20,494

b) Consolidated statements of cash flows

Changes in non-cash working capital:

Year ended December 31	2013	2012
Cash provided by (used for):		
Accounts receivable	**$ 13,620**	$ (3,038)
Accounts payable, accrued liabilities & other	**(16,321)**	4,163
Inventory	**274**	(403)
Prepaids & deposits	**595**	2,314
Taxes payable	**1,510**	1,595
	$ (322)	$ 4,631
Cash provided by (used for):		
Operating activities	**$ (1,233)**	$ 8,229
Investing activities	**911**	(3,599)
	$ (322)	$ 4,631

Other supplemental cash flow information:

Year ended December 31	2013	2012
Cash taxes paid	**$ 6,127**	$ 4,599
Cash interest paid	**$ 4,434**	$ 4,430

19. Segmented Information

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

- **Canada** – includes four CGUs in the Company's Western Canadian Sedimentary Basin producing properties and undeveloped land predominately located in north western Alberta and north eastern British Columbia.
- **Tunisia** – includes two CGUs: an offshore CGU in the Gulf of Hammamet within the Pelagian Basin (Cosmos and Yasmin) and an onshore CGU containing the Bir Ben Tartar and Adam producing properties and undeveloped onshore blocks all located within the Ghadames Basin.
- **Corporate** – includes derivative transactions, general and administrative costs and assets held corporately.

Selected Segment Information

Year ended December 31				2013				2012
	Canada	Tunisia	Corporate	Consolidated	Canada	Tunisia	Corporate	Consolidated
Capital expenditures and business combination	**$ 42,551**	**$ 40,585**	**$ 92**	**$ 83,228**	$ 58,550	$ 51,038	$ 69	$ 109,657

As at				December 31, 2013				December 31, 2012
Development & production and exploration & evaluation assets	**$ 371,295**	**$ 114,700**	**$ 3,270**	**$ 489,265**	$ 411,768	$ 121,343	$ 3,188	$ 536,299
Total assets	**$ 409,926**	**$ 127,314**	**$ 18,101**	**$ 555,341**	$ 465,576	$ 141,140	$ 15,760	$ 622,476

	Canada		Tunisia		Corporate		Consolidated	
Year ended December 31	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Revenues								
Petroleum, natural gas & other revenues, net of royalties	**$108,638**	$ 112,251	**$ 72,485**	$ 77,473	**$ -**	$ -	**$ 181,123**	$ 189,724
Expenses								
Production & operating	**54,382**	67,769	**19,880**	17,810	**-**	-	**74,262**	85,579
General & administrative	**1,838**	3,914	**1,959**	1,950	**8,814**	10,552	**12,611**	16,416
Exploration & evaluation	**3,951**	3,589	**7,484**	5,977	**-**	-	**11,435**	9,566
Derivative contract losses (gains)	**-**	-	**-**	-	**954**	(3,943)	**954**	(3,943)
Net financing	**7,237**	7,619	**1,047**	145	**-**	3	**8,284**	7,767
Depletion, depreciation & amortization	**50,199**	75,540	**23,871**	22,995	**-**	-	**74,070**	98,535
Impairment of development & production assets	**3,500**	82,000	**32,000**	-	**-**	-	**35,500**	82,000
Gains on disposition of properties	**(12,928)**	(22,511)	**-**	-	**-**	-	**(12,928)**	(22,511)
Foreign exchange & other (gains) losses	**(297)**	79	**(2,515)**	389	**19**	60	**(2,793)**	528
	107,882	218,000	**83,726**	49,266	**9,787**	6,671	**201,395**	273,937
Income (loss) before income taxes	**756**	(105,749)	**(11,241)**	28,207	**(9,787)**	(6,671)	**(20,272)**	(84,213)
Income taxes								
Current income tax expense	**809**	5	**6,829**	6,188	**-**	-	**7,638**	6,193
Deferred income tax (recovery) expense	**-**	(893)	**(1,226)**	1,515	**16**	-	**(1,210)**	622
	809	(887)	**5,603**	7,703	**16**	-	**6,428**	6,815
Net (loss) income	**$ (53)**	$(104,861)	**$ (16,844)**	$ 20,504	**$ (9,803)**	$ (6,671)	**$ (26,700)**	**$ (91,028)**