Management’s Report

The management of Chinook Energy Inc. (“Chinook”) is responsible for the preparation of the consolidated financial statements (the ”Financial Statements”). The 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 Financial Statements are presented fairly, in all material respects.

Management is responsible for the integrity of the 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 Financial Statements. The Auditor’s examination included such tests and procedures, as the Auditor considered necessary, to provide a reasonable assurance that the 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 Financial Statements and recommend that the Financial Statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the Auditor 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”

Jason Dranchuk
Vice President, Finance & Chief Financial Officer

Calgary, Alberta

March 9, 2015

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, 2014 and December 31, 2013, the consolidated statements of operations and comprehensive income (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 the 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, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

March 9, 2015

Calgary, Canada

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)		December 31 2014		December 31 2013
Assets				
Current				
Cash	**$**	**46,018**	$	25,979
Accounts receivable (note 7)		**24,952**		36,200
Prepaids & deposits		**2,207**		3,263
Derivative contracts (note 19)		**1,481**		-
Inventory		**-**		634
Assets held for sale (note 11)		**23,066**		-
		97,724		66,076
Development & production assets (note 9)		**309,217**		476,806
Exploration & evaluation assets (note 8)		**27,377**		12,459
	$	**434,318**	$	555,341
Liabilities and Shareholders' Equity				
Current				
Accounts payable, accrued liabilities & other (note 12)	**$**	**44,389**	$	48,332
Derivative contracts (note 19)		**-**		1,572
Taxes payable		**-**		3,696
Liabilities held for sale (note 11)		**752**		-
		45,141		53,600
Provisions (note 13)		**106,726**		90,369
Long-term debt (note 14)		**-**		75,897
Deferred income taxes (note 15)		**-**		8,718
Shareholders' Equity				
Share capital (note 16)		**782,071**		778,070
Contributed surplus		**17,180**		20,846
Deficit		**(516,800)**		(478,400)
Accumulated other comprehensive income		**-**		6,241
		282,451		326,757
	$	**434,318**	$	555,341

Commitments and guarantees (note 20)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations and Comprehensive Income (Loss)

	Year ended December 31	
(in thousands of Canadian dollars, except per share amounts)	**2014**	2013
Continuing operations		
Petroleum & natural gas revenues	**$ 137,445**	$ 114,647
Royalties	**(18,783)**	(13,214)
Petroleum & natural gas revenues, net of royalties	**118,662**	101,433
Processing & gathering revenues	**5,308**	7,205
Petroleum, natural gas & other revenues, net of royalties	**123,970**	108,638
Realized (loss) gain on derivative contracts	**(2,933)**	734
Unrealized gain (loss) on derivative contracts	**2,428**	(947)
Loss on derivatives	**(505)**	(213)
Income	**123,465**	108,425
Production & operating	**56,324**	54,382
General & administrative	**13,980**	8,243
Exploration & evaluation (note 8)	**1,632**	3,951
Depletion, depreciation & amortization (note 8 & 9)	**48,813**	50,199
Impairment of development & production assets (note 9)	**63,500**	3,500
Gains on disposition of properties (note 10)	**(15,124)**	(12,928)
Share-based compensation (note 17)	**938**	1,329
Deferred lease obligation amortization	**(528)**	(1,057)
Bad debt expense (note 19)	**1,206**	1,793
Foreign exchange & other (gains) losses	**(2,293)**	1,228
Expenses	**168,448**	110,640
Loss from continuing operations before finance expenses	**(44,478)**	(2,002)
Interest and financing charges	**2,634**	4,382
Amortization of deferred financing cost	**343**	270
Accretion of decomissioning obligations (note 13)	**2,712**	2,586
Finance expenses	**5,689**	7,238
Net loss from continuing operations	**(50,672)**	(9,453)
Discontinued operations		
Net income (loss) from discontinued operations, net of income taxes (note 5)	**12,272**	(17,247)
Net loss	**(38,400)**	(26,700)
Other comprehensive (loss) income		
Foreign currency translation gain on foreign operations prior to disposition	**3,305**	8,526
Transfer of accumulated comprehensive income on disposition of foreign operations (note 5)	**(9,546)**	-
	(6,241)	8,526
Comprehensive loss	**$ (44,641)**	$ (18,174)
Net income (loss) per share, basic & diluted (note 16)		
Continuing operations	**$ (0.24)**	$ (0.04)
Discontinued operations	**$ 0.06**	$ (0.08)
Net loss	**$ (0.18)**	$ (0.12)

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, 2012	**214,188**	**$ 778,070**	**$ 19,517**	**$ (451,700)**	**$ (2,285)**	**$ 343,602**
Share-based compensation (note 17)	-	-	1,329	-	-	1,329
Foreign currency translation gain on foreign operations	-	-	-	-	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**
Share options exercised (note 16)	894	4,001	(3,874)	-	-	127
Share options surrendered (note 17)	-	-	(922)	-	-	(922)
Share-based compensation (note 17)	-	-	938	-	-	938
Transaction costs on discontinued operations (note 17)	-	-	192	-	-	192
Foreign currency translation gain on foreign operations prior to disposition	-	-	-	-	3,305	3,305
Transfer of accumulated other comprehensive income on disposition of foreign operations (note 5)	-	-	-	-	(9,546)	(9,546)
Net loss	-	-	-	(38,400)	-	(38,400)
Balance as at December 31, 2014	**215,082**	**$ 782,071**	**$ 17,180**	**$ (516,800)**	**$ -**	**$ 282,451**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended December 31	
	2014	2013
(in thousands of Canadian dollars)		
Operating Activities		
Net loss	**$ (38,400)**	$ (26,700)
Deduct: net (income) loss from discontinued operations	**(12,272)**	17,247
Net loss from continuing operations	**(50,672)**	(9,453)
Add (deduct):		
Accretion of decomissioning obligations (note 13)	**2,712**	2,586
Amortization of deferred financing cost	**343**	270
Depletion, depreciation & amortization (notes 8 & 9)	**48,813**	50,199
Impairment of development & production assets (note 9)	**63,500**	3,500
Exploration & evaluation (note 8)	**1,632**	3,951
Unrealized (gain) loss on derivative contracts	**(2,428)**	947
Gains on disposition of properties (note 10)	**(15,124)**	(12,928)
Share-based compensation (note 17)	**938**	1,329
Deferred lease obligation amortization	**(528)**	(1,057)
Bad debt expense (note 19)	**1,206**	1,793
Foreign exchange & other gains	**(2,234)**	(32)
Decommissioning expenditures (note 13)	**(2,692)**	(2,716)
Change in operating non-cash working capital (note 21b)	**791**	(11,167)
Cash flow from operating activities:		
Continuing operations	**46,257**	27,222
Discontinued operations	**6,847**	52,411
Cash flow from operating activities	**53,104**	79,633
Financing Activities		
Net consideration on share issuance (note 16b)	**127**	-
Long-term debt repayments	**(78,500)**	(11,000)
Deferred financing charges	**(135)**	(115)
Cash flow from financing activities:		
Continuing operations	**(78,508)**	(11,115)
Discontinued operations	**-**	(2,687)
Cash flow from financing activities	**(78,508)**	(13,802)
Investing Activities		
Development & production capital expenditures (note 9)	**(51,558)**	(34,253)
Exploration & evaluation capital expenditures (note 8)	**(29,176)**	(8,333)
Business combination (note 6)	**(15,850)**	-
Exploration & evaluation expenditures (note 8)	**(1,632)**	(2,561)
Proceeds on property dispositions (note 10)	**35,578**	20,984
Change in investing non-cash working capital (note 21b)	**8,792**	1,353
Cash flow from investing activities:		
Continuing operations	**(53,846)**	(22,810)
Consideration on sale of discontinued operations (note 5)	**140,480**	-
Discontinued operations	**(43,805)**	(48,385)
Cash flow from investing activities	**42,829**	(71,195)
Change in cash, during the year		
Continuing operations	**54,383**	(6,703)
Discontinued operations	**(36,958)**	1,339
Cash, beginning of year	**25,979**	30,647
Cash, foreign currency translation gain	**2,614**	696
Cash, end of year	**$ 46,018**	$ 25,979

Other supplementary cash flow information (note 21b).

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2014 and 2013

Tabular amounts in thousands of Canadian dollars, except as noted

1. Reporting Entity

Chinook Energy Inc. is a Calgary-based petroleum and natural gas production company focused on development and exploration opportunities in western Canada.

These consolidated financial statements for years ended December 31, 2014 and 2013 (these “Financial Statements”) include the accounts of Chinook Energy Inc. and its direct and indirect wholly-owned subsidiaries (collectively, including all subsidiaries, “Chinook” or the “Company”). All intercompany balances and transactions have been eliminated.

For the year ended December 31, 2014, the subsidiaries included: 1398216 Alberta Ltd., 1542991 Alberta Ltd. and Storm Ventures International (BVI) Limited (“SVI (BVI)”). For the year ended December 31, 2013, these subsidiaries included those companies just mentioned as well as: Cyries Wyoming, Inc., Iteration Energy (Texas), LLC, Chinook Energy Partnership, Iteration Energy, Chinook Energy Ltd., and Iteration Energy Inc.

These Financial Statements also include the accounts of Storm Ventures International (Barbados) Limited (“SVI Barbados”) and its wholly-owned subsidiary Storm Sahara Limited (“SSL”) through to August 19, 2014, the date control of these companies ceased. On August 19, 2014, SVI (BVI) completed the sale, effective January 1, 2014, of all of the issued and outstanding shares of its wholly-owned subsidiary SVI Barbados in consideration for $140.5 million, including $15.8 million in working capital (see note 5 “Discontinued Operations”) pursuant to a share purchase and sale agreement dated as of June 14, 2014 (the “PSA”).

Chinook was incorporated under the laws of the Province of Alberta, Canada, on August 28, 2003 and its common shares are listed and posted for trading on the Toronto Stock Exchange under the symbol CKE. The head office and principal address of Chinook is Suite 1000, 517 – 10th Avenue S.W., Calgary, Alberta, Canada T2R 0A8.

2. Basis of Presentation

Statement of Compliance

These Financial Statements have been prepared by management using accounting principles consistent with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). A summary of Chinook’s significant IFRS accounting policies are presented in note 3.

These Financial Statements were approved and authorized for issuance by Chinook’s Board of Directors on March 9, 2015.

Basis of Measurement

These Financial Statements have been prepared on the historical cost basis with the exception of cash and derivative contracts which are measured at fair value with the changes in their fair values recorded in net loss. The methods used to measure fair values are discussed in note 3.

Functional and Presentation Currency

These Financial Statements and the notes thereto are presented in thousands of Canadian dollars, unless otherwise noted. Chinook’s functional currency is the Canadian dollar. Prior to the cessation of control of SVI Barbados on August 19, 2014, which directly and indirectly held the Tunisian branches (see note 5 “Discontinued Operations”), the Tunisian segment’s functional currency was the United States dollar.

Management Judgments and Estimation Uncertainty

The preparation of these Financial Statements requires management judgments and estimation uncertainty that affect the reported amounts at the date of these 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.

Judgments that management has made through applying accounting policies that have the most significant effect on the Financial Statements are discussed below:

Cash generating units

Cash Generating Units ("CGUs") are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or group of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors Chinook's operations.

Impairment indicators

Judgments are required to assess when impairment indicators exist and impairment testing is required. 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. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on reserve estimates, market value of undeveloped lands and other relevant assumptions.

Key estimates that management has made that affect the measurement of balances and transactions are discussed below:

Reserve estimates

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretation. Management expects that over time Chinook's reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, testing and production levels and changes to forward petroleum and natural gas prices and production costs.

Decommissioning obligation

Decommissioning obligations are recognized for the future decommissioning and restoration of property, plant and equipment. These obligations are 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. The expected timing of future decommissioning and restoration may change due to certain factors, including reserve life. Changes to assumptions related to future expected costs, discount rates and timing may have a material impact on the amounts presented.

Deferred income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which Chinook operates are subject to change. The deferred tax asset and/or liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized from future taxable earnings.

Foreign currency

Prior to its sale on August 19, 2014, SVI Barbados and its wholly-owned subsidiary's functional currency required assessing several factors, including the dominant currency used in transactions such as the settlement of revenues and operational and capital expenditures.

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 Financial Statements from the date that control commences until the date that control ceases. (See note 1)

Jointly controlled operations:

Chinook conducts many of its petroleum and natural gas production activities through jointly controlled operations and the 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 and share the associated risks. 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. Chinook does not have any joint venture arrangements.

Transactions eliminated on consolidation:

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the Financial Statements.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term investments that are highly liquid in nature and have an original maturity date of three months or less at the time of purchase.

Financial Instruments

Financial assets and liabilities are initially measured at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Initial determination and subsequent measurements of fair values are described below:

Held to maturity loans and receivables and other financial liabilities:

Chinook classifies accounts receivable as loans and receivables and accounts payable and accrued liabilities and long-term debt as other financial liabilities.

Initial determination of fair values

The fair value of this financial instruments' classification is estimated using the present value of future cash flows, discounted at the market rate of interest at the reporting date. Attributable transaction costs incurred on initially acquiring these financial instruments are included in the recognized amount of the related financial instrument and are reported over that instrument's life using the effective interest rate method.

Subsequent determination of fair value

These financial instruments are subsequently measured at amortized cost using the effective interest method.

Fair value through profit or loss:

Chinook's derivative contracts, in addition to cash, are classified as fair value through profit and loss.

Initial determination of fair values

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.

The fair value of cash approximates its carrying amount.

Subsequent determination of fair value

Financial instruments designated as fair value through profit and loss are subsequently measured at fair value using the same methodology as initially used to measure their fair values with any changes charged immediately to earnings.

Inputs

Chinook classifies these 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 financial instruments 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 a financial instrument that are not based on observable market data.

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

Exploration and evaluation expenditures

Exploration and evaluation expenditures are initially capitalized within E&E Assets until the technical feasibility and commercial viability of the project has been determined. Such exploration and evaluation expenditures may include undeveloped land license acquisitions, exploration drilling and testing and directly attributable general and administrative costs. Expenditures incurred prior to obtaining the legal right to explore are expensed as incurred. All other exploration and evaluation expenses, including geological, geophysical and annual lease costs for undeveloped lands, are expensed as incurred.

Amortization

Undeveloped land license acquisition costs for continuing operations are amortized over a term of ten years, which is based on the license term assuming capital requirements are met. The discontinued operations (see note 5) undeveloped land license acquisition costs were amortized over each exploration permit's work commitment term. All other E&E Assets are not amortized.

Impairment

E&E Asset expenditures are accumulated by well and are carried forward until the existence of commercial reserves are established. Chinook defines commercial reserves as the existence of proved and probable reserves which are determined to be technically feasible and commercially viable to extract. On discovering commercial reserves, the specific exploration and evaluation expenditures are tested for impairment. The carrying value, after any impairment loss, of the relevant exploration and evaluation expenditures are then reclassified as developed and producing assets. If specific exploration and evaluation expenditures, or portion thereof, are determined to be unsuccessful, the relevant costs are charged through exploration and evaluation expense.

In the absence of establishing commercial reserves, E&E Assets are assessed for impairment at the country level. These assets are assessed for impairment if:

- Sufficient data exists to determine technical feasibility and commercial viability; and
- Facts and circumstances suggest that the carrying amount exceeds the recoverable amount, defined as the greater of fair value less costs to sell or its value in use.

Development and 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 and impairment. These costs are accumulated on an area-by-area basis and represent the cost of developing commercial reserves and bringing them into production, together with the exploration and evaluation expenditures incurred in finding commercial reserves transferred from E&E Assets as outlined above.

Development and production expenditures

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts are recognized as D&P Assets only when they are expected to increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including costs of the day-to-day servicing of such assets, are expensed as incurred. Such capitalized costs generally represent expenditures incurred in the development of proved undeveloped or probable reserves in addition to enhancing production from proved producing reserves.

Depletion

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:

- Total estimated proved plus probable reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;
- Total capitalized costs plus estimated future development costs of proved plus probable reserves, which are reviewed annually by independent reserve engineers; and
- 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.

Management reviews these estimates, and changes, if any, are prospectively applied.

Impairment or recovery of previously reported impairment

Chinook's D&P Assets are grouped into CGUs for the purpose of assessing impairment or recovery of prior periods' reported impairments. An impairment test is performed whenever events and circumstances arising during the development and production phase indicate that the carrying value of a CGU may exceed its recoverable amount. On a CGU basis, each carrying amount is compared against its expected recoverable amount, defined as the greater of fair value less costs to sell or its value in use. Fair value less costs to sell is determined as the amount that would be obtained for the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell of a CGU can also be determined by using assumptions that an independent market participant may take into account. This evaluation could use discounted future net cash flows of proved and probable reserves using forecast prices and costs including the development of prospective lands. Chinook's management determines fair value in use for each CGU by estimating the present value of future net cash flows from continued production through exploitation of its proved and probable reserves. Management present values these cash flows using a discount rate range depending on the category of reserves being discounted. When it is determined that a CGU's carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

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

Capitalized overhead costs

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 Chinook's personnel.

Held for Sale

Assets and their associated liabilities are classified as “assets and liabilities held for sale” if their carrying amounts will be recovered through sale transactions rather than through their continued use. Assets held for sale are measured at the lower of their carrying amounts and fair value less costs to sell and presented as current on the consolidated statements of financial position only if such assets were not acquired exclusively with a view to resale.

Conditions which must be met in order to classify assets and liabilities as held for sale are:

- The sale is highly probable;
- The asset is available for immediate sale in its present condition;
- Management must be committed to a plan to sell; and,
- The sale should be expected to have substantially closed within one year of the date of classification as held for sale.

Depletion, depreciation & amortization ceases on the earlier of the date the asset is classified as held for sale or the date the asset is derecognized.

Business Combinations

The acquisition method of accounting is used to account for acquisitions of subsidiaries or assets that meet the IFRS definition of a business. Determination if an acquisition meets the IFRS definition requires judgment and is assessed on a case by case basis. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at their acquisition date fair market values. The fair market value is the estimated amount for which the acquired identifiable net 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 can also be estimated with reference to the discounted cash flows. Any excess cost over the fair value of the acquired identifiable net assets is recorded as goodwill. If the cost is less than the fair value of the acquired identifiable net assets, the difference is immediately recognized in the consolidated statements of operations and comprehensive income (loss). Transaction costs that Chinook incurs in connection with a business combination are expensed as incurred.

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 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. Periodic revisions to the liability specific discount rates, estimated timing of cash flows and/or to the original estimated undiscounted costs can also result in change to the decommissioning obligation. The decommissioning obligation is increased each reporting period with the passage of time, which is reported as accretion expense and any changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the obligation are recorded against the decommissioning obligation to the extent of the liability recorded.

Deferred Income 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 tax assets are not recognized unless it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. 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 income tax expense is recognized in the consolidated statements of operations and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, share options, and share awards are recognized as a deduction from equity, net of any tax effects.

Foreign Currency Translation

SVI Barbados and its wholly-owned subsidiary's net assets, as denominated in the United States dollar, were translated into Canadian dollars, Chinook's presentation currency, at the rate of exchange in effect on August 19, 2014, the date control of these companies ceased, and prior to that on December 31, 2013. The discontinued operations' foreign currency revenues and expenditures were translated at the period average rates of exchange. The differences that arose upon translation from the functional currency to the reporting currency between these period average foreign exchange rates and the rate of exchange in effect on August 19, 2014 and December 31, 2013 were recorded as foreign currency translation gains or losses on foreign operations in other comprehensive (loss) income as offset within accumulated other comprehensive income. On August 19, 2014, the sale of these discontinued operations gave rise to a realized foreign exchange gain which was recorded in retained earnings.

Revenue Recognition

Revenue from the sale of petroleum and natural gas 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. This revenue 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 which usually occurs at the time petroleum or natural gas passes through a terminal point;
- 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 reliably measured.

Share-based Compensation

Chinook has the following two types of incentive plans, pursuant to which, share awards and share options may be granted to employees, officers, directors, consultants, and other service providers:

Share award incentive plan

Chinook established a restricted and performance award incentive plan pursuant to the Share Award Plan (the "Share Award Plan") on June 26, 2014. Subject to the terms and conditions of the Share Award Plan, restricted awards and performance awards granted pursuant to the plan will entitle the holder to a sum (the "Award Value") to be paid in equal tranches on the first and second anniversaries of the date of grant (the "Payment Date") of such restricted awards or performance awards, as applicable. On the applicable Payment Date, Chinook, at its sole and absolute discretion, shall have the option of settling the Award Value to which a holder of restricted awards or performance awards is entitled in the form of either cash or in common shares which may either be acquired by Chinook on the stock exchange on which the common shares may be listed from time to time or issued from the treasury of Chinook, or some combination thereof. Chinook's current non-binding intention is to settle the Award Value in common shares and it has therefore accounted for the fair value of the restricted awards and performance awards as though they will be equity-settled. Provided Chinook maintains this intention and settles the Award Value through the issuance of common shares, it will continue to account for the restricted awards and performance awards as equity-settled throughout their vesting period. The fair value of the restricted awards and performance awards is determined as of their grant date based on the market price of Chinook's common shares adjusted for an estimated forfeiture rate. The fair value of the performance awards is further adjusted by an estimated payout multiplier. As prescribed for equity-settled awards, this fair value is reported over the restricted and performance awards' vesting periods with no subsequent adjustments for changes in the trading price of Chinook's common shares.

Share-based compensation expense is recorded over the period that the restricted awards and performance awards vest, with a corresponding increase to contributed surplus, on the basis that the award is expected to be equity-settled. Forfeitures are re-estimated throughout the vesting period based on past experience and future expectations with a final adjustment upon actual vesting. The expected life of these granted awards is adjusted based on Chinook's best estimate for the effects of non-transferability and vesting restrictions. When either the restricted awards or performance awards vest they are immediately settled. As a result, the reported outstanding awards will always be unvested. At the time of settlement the related fair value amounts previously recorded in contributed surplus are reclassified to share capital.

Although Chinook's current intention is to equity-settle the Award Value in the form of common shares, Chinook could, at a future date, decide to settle the Award Value in cash. Should this occur, the fair value of these awards would be redetermined at each reporting date and reported as a liability (the "Share Award Liability") calculated as follows:

In the case of restricted awards, the Share Award Liability is calculated by multiplying the number of restricted awards by the fair market value of the Chinook common shares. The fair market value is determined on the applicable reporting date as the volume weighed average trading price of the common shares on the Toronto Stock Exchange (or other stock exchange on which the common shares may be listed) for the five trading days immediately preceding such date.

In the case of performance awards, the Share Award Liability is calculated by first adjusting the number of performance awards by the most current estimate of the payout multiplier and multiplying the adjusted number of performance awards by the fair market value of the common shares. The final payout multiplier is determined by the Compensation, Nominating and Corporate Governance Committee (the "Committee") based on its assessment of the achievement of the pre-defined corporate performance measures for the applicable period. The payout multiplier for a particular period can range from one-half to two depending on the point within the target range that Chinook satisfies the corporate performance measures. Annually, prior to the Payment Date in respect of any performance award, the Committee shall assess the performance of Chinook for the applicable period.

The Award Value settled as cash on the Payment date for both restricted awards and performance awards is calculated in the same manner as the Share Award Liability.

Share option plan

Share options granted pursuant to Chinook's share option plan are intended to be settled through the issuance of common shares of the Company. The fair value of share options is determined on their grant date 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. Share-based compensation expense is recorded over the period that the share options vest, with a corresponding increase to contributed surplus. Forfeitures are re-estimated throughout the vesting period based on past experience and future expectations with a final adjustment upon actual vesting. When share options are exercised, the proceeds, together with the amounts recorded in contributed surplus, are recorded in share capital. The cashless exercise of share options results in a portion of the optionee's share options being forfeited in consideration for the share option exercise price. Upon exercise, the consideration received plus the amount previously recorded as contributed surplus are recognized as share capital.

Gains and Losses on Disposition of Properties

Gains and losses on the disposition of properties are determined by comparing the proceeds from each sale with the specific E&E Assets' and/or D&P Assets' carrying amounts and disposed decommissioning obligations.

Exchanges of properties are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired property is measured at the fair value of the property given up, unless the fair value of the property received is more clearly evident. Chinook will report a gain or loss equal to the difference between the fair value determined for the property acquired relative to the carrying amount of the property given up.

Income (Loss) per Share

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

4. New Accounting Standards and Amendments

New Accounting Standards Not Yet Adopted

In July 2014, the IASB issued IFRS 9 “Financial Instruments” to replace IAS 39, “Financial Instruments Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial instruments with a single model that has only two classifications categories: amortized cost and fair value. As of January 1, 2018, Chinook will be required to adopt this standard. Management is evaluating the impact this standard may have on Chinook’s financial statements.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. Management is evaluating the impact this standard may have on Chinook’s Financial Statements.

New Adopted Accounting Amendments and Interpretation

Chinook adopted the following new amendments and interpretation:

Amendments to IAS 32, Financial Instruments: Presentation;

Amendments to IAS 36, Impairment of Assets; and,

IFRS Interpretation Committee (“IFRIC”) 21, Levies.

The adoption of these amendments and interpretation had no material impact on the financial results recorded in Chinook’s Financial Statements as at December 31, 2014 and December 31, 2013.

5. Discontinued Operations

On August 19, 2014, Chinook’s wholly-owned subsidiary, SVI (BVI), completed the sale, effective January 1, 2014, of all of the issued and outstanding shares of its wholly-owned subsidiary SVI Barbados, which in turn owned all of the issued and outstanding shares of SSL, pursuant to the PSA. Combined, SVI Barbados and SSL held both of the Tunisian operating branches. Results of these Tunisia operations are presented in the line item discontinued operations on the consolidated statements of operations and comprehensive income (loss) and the consolidated statements of cash flows.

Chinook’s continuing operations are represented by its western Canadian petroleum and natural gas producing assets. As a result of the discontinued Tunisian operations, management has reevaluated its segmentation disclosure. It determined that Chinook’s continuing operations represent one segment as presented in these Financial Statements, excluding the line item discontinued operations.

SVI (BVI) has provided the purchaser with certain indemnities pursuant to the PSA. Such indemnities have been guaranteed by Chinook in accordance with the PSA. Management has estimated a provision of $2.1 million in respect of these indemnities as included in transaction costs, expenses and income taxes on the sale of the discontinued operations. As of December 31, 2014, these accrued indemnifications in addition to unpaid transaction costs totaled $2.8 million.

Chinook recognized a gain on the sale of all the issued and outstanding shares of SVI Barbados calculated as follows:

	August 19 2014
Consideration on sale of discontinued operations	$ 140,480
Less net assets of discontinued operations sold:	
Working capital	(14,453)
Net development, production, exploration & evaluation assets	(129,874)
Decommissioning obligation	5,800
Deferred income taxes	9,036
Net assets of discontinued operations sold	(129,491)
Less transaction costs	(9,952)
Gain on sale of discontinued operations	**$ 1,037**

Transaction costs include both cash and non-cash expenses. Cash transaction costs of $7.6 million include a success fee to Chinook's advisor and expenses for legal fees and severance of Chinook's former Canadian-based staff dedicated to the discontinued operations. Included in this severance expense is $1.6 million for Chinook's former international officers. Non-cash transaction costs of $2.3 million included the accelerated amortization of both deferred financing costs and share-based compensation.

Chinook had sufficient surplus tax pools associated with its investment in SVI (BVI) which allowed the Company to repatriate substantially all of these cash proceeds, net of a portion of the transaction costs, from the British Virgin Islands. The residual cash proceeds were left in the British Virgin Islands and have been used to finance the remainder of the reported transaction costs.

Details of the net income (loss) from discontinued operations, net of income taxes are presented below:

	Year ended December 31	
	2014	2013
Discontinued Operations		
Petroleum & natural gas revenues	**$ 36,911**	$ 74,605
Royalties & expenses	**(30,335)**	(86,233)
Income (loss) from ordinary activities of discontinued operations	**6,576**	(11,628)
Gain on sale of discontinued operations	**1,037**	-
Realized accumulated other comprehensive income on disposition of foreign operations	**9,546**	-
Income (loss) from discontinued operations	**17,159**	(11,628)
Income taxes of discontinued operations	**4,887**	5,619
Net income (loss) from discontinued operations, net of income taxes	**$ 12,272**	$ (17,247)

Other notes to these Financial Statements detail changes in account balances for the year ended December 31, 2014, caused by the sale of the Tunisian operations and associated net assets. However, the following accounts had no carrying values on the consolidated statements of financial position as at December 31, 2014, as compared to December 31, 2013, as these accounts comprised amounts related to the discontinued operations:

I. Inventory as previously measured at cost was comprised of unsold Tunisian crude oil production. Cost was measured from expenses related to operating, depletion and, if applicable, the royalties associated with the production of this crude oil inventory.

II. Deferred income tax liability was the provision for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes of the subsidiaries holding the Tunisian branches.

III. Accumulated other comprehensive income resulted from the accumulated differences arising upon translation from the Tunisian operation's US dollar functional currency to Chinook's Canadian dollar reporting currency. The disposal of the former Tunisian segment resulted in accumulated other comprehensive income of $9.5 million being transferred to net income (loss) from discontinued operations. This transfer had a nil effect on comprehensive loss.

6. Business Combination

On November 6, 2014, Chinook acquired primarily natural gas producing properties near its Birley/Umbach operations located in northeastern British Columbia along with operatorship of natural gas processing and transportation infrastructure. The purchase price was comprised of both cash of $15.9 million, after adjustments, and 3.5 sections of undeveloped lands in the Wapiti area of Alberta which had an estimated fair value of $5.0 million. Chinook measured the fair value of what was given up as the basis of the fair value due to the non-monetary component of the transaction.

The undeveloped lands were measured at their fair value of $5.0 million using recent market sales transactions of similar undeveloped lands in the immediate surrounding area. When compared with the carrying amount for this undeveloped land of $1.3 million, this resulted in Chinook realizing a gain of $3.7 million as reported through the line item gains on disposition of properties as included in net loss from continuing operations. The decommissioning obligation was measured at its fair value, which was determined using the timing and estimated costs associated with the abandonment, restoration and reclamation of the acquired wells and infrastructure.

A summary of the business combination is as follows:

	December 31 2014
Estimated fair value of business combination:	
Assets acquired	$ 23,215
Asset retirement obligation	(2,368)
	20,847
Estimated fair value of consideration:	
Cash	15,850
Undeveloped land	4,997
	20,847
Carrying value of consideration:	
Cash	15,850
Undeveloped land	1,273
	17,123
Gain on disposition of properties	$ 3,724

Between the acquisition date and December 31, 2014, approximately $3.0 million of petroleum and natural gas revenues, net of royalties, $1.5 million of production & operating expenses and $1.5 million in net income were recognized from primarily natural gas production from these properties acquired through this business combination. Had this business combination been effective January 1, 2014, management estimates revenues, net of royalties, operating expenses and net income could have been higher by $17.4 million, $9.1 million and $8.3 million, respectively, for the year ended December 31, 2014.

7. Accounts Receivable

Chinook's accounts receivable were comprised of:

	December 31 2014	December 31 2013
From Continuing Operations:		
Trade accounts receivable & accrued receivables	$ 22,435	$ 25,591
Other receivables	1,213	368
Cash call receivables	2,790	5,579
Allowance for doubtful accounts	(1,486)	(1,750)
Discontinued operations	-	6,412
	$ 24,952	$ 36,200

8. Exploration & Evaluation Assets

The following table reconciles Chinook's E&E Assets as at December 31, 2014 and 2013:

Continuing operations		
Cost of Assets	**2014**	2013
Beginning balance	**$ 52,589**	$ 58,948
Capital expenditures	**29,176**	8,333
Cost of exploration expenditures expensed	**-**	(1,390)
Assets held for sale (note 11)	**(208)**	-
Cost of properties sold (note 10)	**(1,480)**	(9,371)
Transfer to development and production assets (note 9)	**(11,009)**	(3,931)
Decommissioning asset addition (note 13)	**100**	-
Ending balance	**$ 69,168**	$ 52,589
Accumulated Depletion, Depreciation & Amortization		
Beginning balance	**$ (40,326)**	$ (45,469)
Amortization	**(2,942)**	(1,788)
Reversed on assets held for sale (note 11)	**183**	-
Reversed on sale of properties (note 10)	**1,294**	6,931
Ending balance	**$ (41,791)**	$ (40,326)
Net book value of continuing operations	**$ 27,377**	$ 12,263
Net book value of discontinued operations	**$ -**	$ 196
Total net book value	**$ 27,377**	$ 12,459

During the years ended December 31, 2014 and 2013, pre-licensing evaluation, exploratory lease rental and geological and geophysical costs for $1.6 million and $1.8 million, respectively, were incurred on continuing operations. Also, during the year ended December 31, 2013, Chinook evaluated the recoverability of an exploration well's costs prior to transferring these costs to D&P Assets on the basis of establishing commercial reserves. At the time of transfer, 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. All of these costs were charged directly to exploration & evaluation expense which is included in the net loss from continuing operations. Finally, during the year ended December 31, 2013, management completed its evaluation and determined that an exploration well drilled during 2012, at a cost of $1.4 million, was unsuccessful for petroleum or natural gas reserves. These costs were transferred from E&E Assets to exploration and evaluation expense which is included in the net loss.

9. Development and Production Assets

The following table reconciles Chinook's D&P Assets as at December 31, 2014 and 2013:

Continuing operations				
Cost of Assets		**2014**		2013
Beginning balance	**$**	**691,407**	$	689,296
Capital expenditures		**51,558**		34,253
Business combination cash consideration (note 6)		**15,850**		-
Business combination non-cash consideration (note 6)		**4,997**		-
Business combination decommissioning asset additions (note 6)		**2,368**		-
Assets held for sale (note 11)		**(44,145)**		-
Cost of properties sold (note 10)		**(68,824)**		(25,699)
Transfer from exploration and evaluation assets (note 8)		**11,009**		3,931
Decommissioning asset additions & changes in estimate (note 13)		**30,141**		(10,374)
Ending balance	**$**	**694,361**	$	691,407
Accumulated Depletion and Depreciation				
Beginning balance	**$**	**(329,171)**	$	(287,835)
Depletion and depreciation		**(45,871)**		(48,411)
Impairment		**(63,500)**		(3,500)
Reversed on assets held for sale (note 11)		**21,103**		-
Reversed on sale of properties (note 10)		**32,295**		10,575
Ending balance		**(385,144)**		(329,171)
Net book value of continuing operations	**$**	**309,217**	$	362,236
Discontinued operations (note 5)				
Cost of Assets				
Beginning balance	**$**	**206,796**	$	154,703
Capital expenditures		**26,057**		40,337
Cost of exploration efforts expensed		**-**		(16)
Decommissioning asset additions & changes in estimate (note 13)		**538**		(355)
Foreign exchange adjustment		**5,547**		12,127
Cost of discontinued operations sold		**(238,938)**		-
Ending balance	**$**	**-**	$	206,796
Accumulated Depletion and Depreciation				
Beginning balance	**$**	**(92,226)**	$	(33,355)
Depletion and depreciation		**(10,754)**		(23,742)
Impairment		**-**		(32,000)
Inventoried depletion		**(3,745)**		(12)
Foreign exchange adjustment		**(2,466)**		(3,117)
Reversed on sale of Tunisian operations		**109,191**		-
Ending balance	**$**	**-**	$	(92,226)
Net book value of discontinued operations	**$**	**-**	$	114,570
Total net book value	**$**	**309,217**	$	476,806

Continuing Operations

Evaluation of composition of CGUs

Management reviewed and adjusted its CGUs as a result of changes to both Chinook's commodity mix achieved through core area development and the disposition of non-core properties. Chinook's management is focused on the development of the Company's Montney based CGU which includes the Birley/Umbach area located in northeastern British Columbia and its Grande Prairie CGU which includes the Albright and Gold Creek areas located in northwestern Alberta. Chinook anticipates funding future development of these areas through the proceeds it received on August 19, 2014 from the sale of the discontinued operations in addition to proceeds from other non-core property dispositions. The majority of property dispositions over the last year, including a significant disposition during the second half of 2014, were located in Chinook's other two CGUs of central and eastern Alberta. As a result, effective October 1, 2014, Chinook's management combined the two central and eastern Alberta CGUs into one. Chinook now has three CGUs.

Impairment

Management identified triggers indicating impairment of Chinook's CGUs. These triggers resulted from changes in recoverable value from the continued disposition of producing assets and the reduction in forward Canadian petroleum and natural gas prices. Chinook reported impairment in all of its CGUs for the year ended December 31, 2012 and in one of its CGUs for $3.5 million for the year ended December 31, 2013. Upon reporting these previous impairment expenses, each CGU's carrying value approximated its recoverable value. As at December 31, 2014, management's testing of each of Chinook's CGU's recoverable value relative to its carrying values revealed an impairment charge totaling $63.5 million with impairment being recorded in each of the three CGUs. Had Chinook continued to have four CGUs, the impairment charge would not have changed relative to that being reported. Each CGU's recoverable value was estimated using a value in use calculation based on expected future cash flows anticipated to be produced from proved plus probable reserves, using a discount rate ranging between 10 percent to 15 percent, depending on the category of reserves, and forward commodity price estimates.

A five percent decrease in the forward commodity price estimate or a one percent increase in the applied discount rate, as determined for each CGU, would have resulted in an additional impairment charge totaling approximately $28.0 million and $7.0 million, respectively. The impairment tests carried out at December 31, 2014 and 2013 were based on the following forward price estimates:

	Edmonton Light Crude Oil ($/bbl) (1) (2)		AECO Gas ($/mmbtu) (1) (3)	
As at December 31	**2014**	**2013**	**2014**	**2013**
2015	$ 68.60	$ 96.50	$ 3.50	$ 4.25
2016	$ 83.20	$ 97.50	$ 4.00	$ 4.55
2017	$ 88.90	$ 98.00	$ 4.25	$ 4.75
2018	$ 94.60	$ 98.30	$ 4.50	$ 5.00
2019	$ 99.60	$ 99.60	$ 4.70	$ 5.25
Thereafter	2%/yr	2%/yr	2%/yr	2%/yr

(1) Source: McDaniel & Associates Consultants Ltd. price forecast, effective January 1, 2014 and 2015.
(2) Central market point for Canadian crude oil.
(3) Central market point for Canadian natural gas.

Capitalized Overhead Charges

The Company capitalized $1.1 million of direct general & administrative costs related to its continuing development activity during both years ended December 31, 2014 and 2013.

Discontinued Operations

Impairment

For the year ended December 31, 2013, Chinook previously reported a $32.0 million impairment charge from a discontinued operations' CGU as triggered by management's decision to further evaluate the development options for this CGU and the change in classification of this CGU's proved plus probable reserves to a contingent resource. This impairment charge is reported in the line item net income (loss) from discontinued operations, net of income taxes. Management assessed this CGU's recoverable value based on a fair value less costs to sell as determined from third party market transactions for similar contingent resource development projects.

Capitalized Overhead Charges

The Company capitalized $1.4 million and $4.3 million of direct general & administrative costs as previously related to its discontinued development activity during the period ended August 19, 2014 and the year ended December 31, 2013, respectively.

10. Property Dispositions

During the year ended December 31, 2014, Chinook completed the sale of several petroleum and natural gas properties including undeveloped lands for aggregated net proceeds of $35.6 million ($21.0 million for the year ended December 31, 2013). Chinook also determined that the fair value of undeveloped lands it swapped for partial consideration of a business combination was $5.0 million (see note 6). The carrying amounts of these sold or swapped properties, less $11.3 million of associated decommissioning obligations ($9.5 million for the year ended December 31, 2013), was less than the sales proceeds received and the determined fair value of the swapped undeveloped lands resulting in a gain of $15.1 million for the year ended December 31, 2014 ($12.9 million for the year ended December 31, 2013).

11. Held for Sale

Effective October 1, 2014, Chinook entered into an agreement to sell certain of its petroleum and natural gas properties and undeveloped lands located in the Karr area of northwestern Alberta for gross proceeds of $40.9 million. At December 31, 2014, these properties were classified as assets held for sale as it was highly probable that their carrying value would be received through a sales transaction rather than through continued use. The net carrying value of $23.1 million for these properties was reclassified from E&E Assets and D&P Assets to assets held for sale on the consolidated statements of financial position. Decommissioning obligations of $0.8 million were reclassified to liabilities held for sale on the consolidated statements of financial position. This transaction closed on January 6, 2015.

12. Accounts Payable, Accrued Liabilities & Other

	December 31 2014	December 31 2013
From Canadian Operations:		
Trade accounts payable	**$ 12,353**	$ 7,597
Accrued liabilities	**25,870**	24,369
Joint operations accounts payable	**2,790**	4,325
Other payables	**619**	719
Transaction costs on the sale of discontinued operations (note 5)	**2,757**	-
Discontinued operations	**-**	11,322
	$ 44,389	$ 48,332

13. **Provisions**

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, 2014, Chinook estimated the net present value of its total decommissioning obligation based on a total future undiscounted liability of $117.6 million ($123.6 million, including $6.2 million related to discontinued operations - December 31, 2013). At December 31, 2014, management estimated that these payments are expected to be made over an average of 18.0 years. At December 31, 2014 and December 31, 2013, a risk free rate of 2.33% and 3.20%, respectively, and an inflation rate of 2.0% were used to calculate the present values of the decommissioning obligations.

The following table reconciles Chinook's decommissioning obligation as at December 31, 2014 and 2013:

	2014	2013
Continuing operations		
Beginning balance	**$ 85,335**	$ 105,346
Property dispositions (note 10)	**(11,264)**	(9,508)
Provisions added during the year (notes 8 & 9)	**633**	636
Business combination (note 6)	**2,368**	-
Increase (decrease) relating to change in estimates (note 9)	**29,606**	(11,009)
Settlement/expenditures	**(2,692)**	(2,716)
Accretion expense	**2,712**	2,586
Liabilities held for sale (note 11)	**(752)**	-
Ending balance	**$ 105,946**	$ 85,335

Discontinued operations	**2014**	2013
Beginning balance	**$ 5,034**	$ 5,107
Provisions added during the year	**538**	507
Decrease relating to change in estimates	**-**	(680)
Settlement/expenditures	**-**	(389)
Accretion expense	**94**	138
Foreign exchange adjustment	**134**	351
Reversed on sale of Tunisia operations (note 5)	**(5,800)**	-
Ending balance	**$ -**	$ 5,034

The increase in change in estimates of the decommissioning obligation for the year ended December 31, 2014 was substantially due to a decrease in the weighted average risk free rate used to calculate the present value of this obligation. There were no significant partially offsetting decreases in the decommission obligation's change in estimate for the year ended December 31, 2014. The decrease in change in estimate 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 for $17.3 million. Partially offsetting this decrease was a change in Chinook's estimate for Canadian well abandonment and reclamation costs of $6.3 million.

Other provisions:

December 31	**2014**	2013
Continuing operations	**$ 780**	$ -

Total provisions:

December 31	**2014**	2013
Total provisions	**$ 106,726**	$ 90,369

14. Long-Term Debt

	December 31 2014	December 31 2013
Revolving term credit facility	$ -	$ 78,500
Unamortized deferred financing costs - Revolving Term Credit Facility	-	(208)
Unamortized deferred financing costs - International Credit Facility	-	(2,395)
	$ -	$ 75,897

Revolving Term Credit Facility

On June 25, 2014, Chinook extended the current revolving period of its Canadian reserve-based 364 day revolving credit facility (the "Revolving Term Credit Facility"), which it holds with a syndicate of Canadian banks, to June 25, 2015 and the maximum availability of the facility was increased to $125.0 million (December 31, 2013 - $115.0 million). On or before June 25, 2015, the facility's revolving period and availability will be redetermined and in the event that the revolving period is not extended further by the banking syndicate, all amounts then outstanding under the facility must be repaid before June 24, 2016. The Revolving Term Credit Facility is subject to a semi-annual review and redetermination. Changes in the availability of the Revolving Term Credit Facility are possible, from one renewal period to the next, with draws in excess of availability becoming payable within 60 days. During the year ended December 31, 2014, Chinook repaid the entire outstanding principal drawn from the facility. As a result, at December 31, 2014, Chinook had no drawings under the facility although it had an outstanding letter of credit of $0.3 million resulting in available credit on this facility of $124.7 million (December 31, 2013 – drawings of $78.5 million, outstanding letters of credit of $0.4 million and $36.1 million of available credit).

The 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 Revolving Term Credit Facility for the year ended December 31, 2014, was 4.1% (year ended December 31, 2013 – 5.4%). The Revolving Term Credit Facility contains a covenant whereby the ratio of Chinook's debt or borrowed money which includes drawings against this facility, to the earnings attributable to its continuing operations before interest, taxes, depreciation/depletion 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, 2014, Chinook was in compliance with this covenant.

Cancellation of International Credit Facility

On August 18, 2014, as a condition precedent to the closing of the PSA (see note 5 "Discontinued Operations"), Chinook cancelled its US$75.0 million international amortizing reserve-based credit facility (the "International Credit Facility"). Chinook had not drawn on this facility at the time it was cancelled.

Unamortized Deferred Financing Costs

During the year ended December 31, 2014, and corresponding to the repayment of all the outstanding principal of the Revolving Term Credit Facility, the remaining deferred financing charges were expensed as included in the net loss from continuing operations.

On cancellation of the International Credit Facility, Chinook accelerated the amortization of the remaining deferred financing costs. As the cancellation of the International Credit Facility was a condition precedent of the PSA, for the year ended December 31, 2014, $2.1 million of deferred financing costs were expensed as transaction costs as further included in the line item net income (loss) from discontinued operations. Prior to the closing of the PSA, deferred financing charges of $0.3 million were amortized through expenses included in the line item net income (loss) from discontinued operations, net of income taxes.

15. Income Taxes

The major components of income tax expense for the years ended December 31, 2014 and 2013 were as follows:

	Year ended December 31	
	2014	2013
Current tax		
Current income tax charge	**$ -**	$ -
Adjustments in respect of current income tax of previous years	**-**	-
	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	**(12,888)**	(1,116)
Rate adjustment on opening temporary differences	**-**	-
Change in unrecognized tax assets	**13,271**	(4,026)
Adjustments to opening deferred tax balances	**(383)**	5,142
	-	-
Total income tax expense	**$ -**	$ -

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 2014	December 31 2013
Net loss before tax from continuing operations	**$ (50,672)**	$ (9,453)
Expected tax rate	**25.0%**	25.0%
Expected income tax recovery	**$ (12,668)**	$ (2,363)
Effect on income tax resulting from:		
Stock-based compensation	**234**	333
Change in unrecognized tax asset	**13,271**	(4,026)
Difference between foreign tax rates and Canadian tax rates	**(454)**	-
Adjustments to opening deferred tax balances	**(383)**	5,161
Other non-deductible expenses	**-**	895
Total income tax expense	**$ -**	$ -

The statutory tax rate consists of the combined federal and provincial tax rates applicable for the Company and its subsidiaries. The combined statutory rate was consistent for the year ended December 31, 2014 as compared to December 31, 2013.

Unrecognized deferred tax assets

As at December 31, 2014, the Company had Canadian tax losses carried forward of $183.3 million (December 31, 2013 - $177.0 million). If not utilized, the majority of the losses will expire from 2026 to 2034, with $0.2 million expiring in 2015.

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 continuing operations in Canada where these tax losses arose. At December 31, 2014, the Company did not recognize deferred tax assets related to $146.3 million of tax losses.

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities of continuing operations were attributable to the following:

	December 31 2014	December 31 2013
Deferred tax liabilities:		
Development and production / exploration and evaluation assets	**$ 35,932**	$ 33,275
Derivative contracts	**370**	-
	36,302	33,275
Less deferred tax assets:		
Non-capital losses	**(9,227)**	(11,090)
Derivative contracts	**-**	(237)
Provisions	**(27,075)**	(21,948)
Net deferred tax liability	**$ -**	$ -

Movement in deferred taxes related to temporary differences during the year ended December 31, 2014:

	December 31 2013	Recognized in statement of loss	Discontinued operations	**December 31 2014**
Development & production/exploration and evaluation assets	$ 45,043	$ 2,657	$ (11,768)	**$ 35,932**
Non-capital tax losses	(13,130)	2,893	1,010	**(9,227)**
Derivative contracts	(237)	607	-	**370**
Provisions	(22,958)	(6,157)	2,040	**(27,075)**
	$ 8,718	$ -	$ (8,718)	**$ -**

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

	December 31 2012	Recognized in statement of loss	Recognized in equity and OCI	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)	1,197	(83)	(22,958)
	$ 9,333	$ (1,193)	$ 578	$ 8,718

Uncertain Tax Position

Chinook is subject to taxation in Canada and was subject to taxation in international 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 audits 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.

16. Share Capital

a) Authorized:

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

b) Issued and Outstanding:

Common Shares

The change in issued common shares and share capital is as follows:

	Number of Common Shares (thousands)	Share capital
Balance as at December 31, 2012 and 2013	**214,188**	**$ 778,070**
Issued upon exercise of share options	894	1,582
Consideration forgiven on share options forfeited on cash-less exercise	-	(1,455)
Net consideration received on share issuance	894	127
Fair value of exercised options	-	3,874
Balance as at December 31, 2014	**215,082**	**$ 782,071**

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.

c) Per Share Amounts

The per share amounts for the years ended December 31, 2014 and 2013, were calculated as per the following table:

	Year ended December 31	
	2014	2013
Weighted average shares outstanding - basic (thousands)	**214,601**	214,188
Dilutive impact of share options, restricted awards and performance awards (thousands) (1)	**-**	-
Weighted average shares outstanding - diluted (thousands) (1)	**214,601**	214,188
Net loss from continuing operations	**$ (50,672)**	$ (9,453)
Per share - basic & diluted ($/share)	**$ (0.24)**	$ (0.04)
Net income (loss) from discontinued operations	**$ 12,272**	$ (17,247)
Per share - basic & diluted ($/share)	**$ 0.06**	$ (0.08)
Net loss	**$ (38,400)**	$ (26,700)
Per share - basic & diluted ($/share)	**$ (0.18)**	$ (0.12)

(1) See narrative below for a description of the dilutive impact related to the discontinued operations. There was no dilutive impact of share options, restricted awards and performance awards on net loss and net loss from continuing operations.

For the years ended December 31, 2014 and 2013, because Chinook reported net losses from continuing operations and 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. This situation also applies to the net loss from discontinued operations for the year ended December 31, 2013.

For the year ended December 31, 2014, diluted net income from discontinued operations per share assumes the vesting and exercise of share options and the vesting and settlement of restricted awards and performance awards 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". For the year ended December 31, 2014, the dilutive effect of Chinook's "in-the-money" options, calculated using the treasury stock method, and its restricted awards and performance awards, resulted in an increase to the diluted weighted average shares outstanding of approximately 0.9 million.

17. Long-Term Incentive Plans

Chinook grants share options, restricted awards and performance awards (collectively, “Share-Based Awards”) under its long-term incentive plans to employees, officers, directors, consultants and other service providers. The maximum number of common shares issuable from treasury pursuant to all Share-Based Awards may not exceed 10% of Chinook’s issued and outstanding common shares. Share-based compensation, included in continuous operations net losses, for the year ended December 31, 2014, was $0.9 million (year ended December 31, 2013 - $1.3 million).

During the year ended December 31, 2014, and as a result of the sale of the discontinued operations (see note 5), Chinook paid $0.9 million to certain Tunisian-based optionees in consideration for them voluntarily surrendering 1,383,750 of “in-the-money” options. This cash payment represented the fair value of “in-the-money” options at the time of their surrender. It was reported as an increase in the line item of contributed surplus as included on the consolidated statements of financial position. During this period, Chinook also accelerated the vesting date of 311,668 options to August 19, 2014, the date the PSA closed. These options were then exercised by the remaining Tunisian-based optionees at a weighted average exercise price of $1.14 per option. None of these Tunisian-based optionees were officers of Chinook.

On November 30, 2014, certain Canadian-based optionees’ unvested options vested. These optionees were previously dedicated to Chinook’s discontinued operations. Consistent with Chinook’s option plan, these Canadian-based optionees had 60 days to exercise their options. At December 31, 2014, 325,837 options held by these Canadian-based optionees with a weighted average exercise price of $1.32 per option had their vesting date accelerated, of which 193,335 options were held by former Chinook officers with a weighted average exercise price of $1.34 per option. Other than 16,667 options at a weighted average exercise price of $1.19 per option, the remaining options held by Canadian-based optionees as previously dedicated to Chinook’s discontinued operations have now been cancelled.

As a result of the surrender and acceleration of vesting dates of certain options as described above, the associated unamortized fair value of these options was reported as a non-cash expense of $0.2 million. This expense was included in the transaction costs as reported in the line item net income (loss) from discontinued operations, net of income taxes as offset by an increase in contributed surplus on the consolidated statements of financial position.

a) Share Option Plan

Except as described previously, outstanding options granted pursuant to Chinook’s share option plan evenly vest over a period of three years and expire five years after the grant date. A summary of options outstanding is as follows:

	Number of Options (thousands)		Weighted Average Exercise Price ($/option)
Balance as at December 31, 2012	**15,455**	**$**	**1.99**
Granted	1,279	$	1.12
Forfeited	(2,873)	$	(1.85)
Balance as at December 31, 2013	**14,320**	**$**	**1.89**
Granted	2,443	$	1.63
Exercised for common shares	(3,199)	$	(1.77)
Forfeited, cancelled or surrendered	(2,849)	$	(1.99)
Expired	(185)	$	(2.11)
Balance as at December 31, 2014	**10,530**	**$**	**1.83**

The table below summarizes the outstanding share options and their respective weighted average exercise prices and remaining life at December 31, 2014 and the number of exercisable options and their respective weighted average exercise prices and remaining life as at December 31, 2014.

Range of Exercise Prices ($/option)	Outstanding Options: Options Outstanding (thousands)		Outstanding Options: Weighted Average Exercise Prices ($/option)	Outstanding Options: Weighted Average Remaining Life (years)	Options Exercisable: Options Outstanding (thousands)		Options Exercisable: Weighted Average Exercise Prices ($/option)	Options Exercisable: Weighted Average Remaining Life (years)
$ 0.84 - $1.24	1,619	$	1.16	3.1	759	$	1.17	3.0
$ 1.26 - $1.35	1,450	$	1.27	4.8	-	$	-	-
$ 1.42 - $1.85	2,542	$	1.53	2.0	2,288	$	1.52	1.9
$ 2.13 - $2.33	2,506	$	2.20	1.3	2,198	$	2.18	0.9
$ 2.42 - $2.72	2,413	$	2.56	1.1	1,988	$	2.58	0.3
	10,530	**$**	**1.83**	**2.0**	**7,233**	**$**	**1.98**	**1.3**

The following factors were used in the Black-Scholes pricing model for the determination of the fair value of options granted during the year ended December 31, 2014 and 2013:

Year ended December 31	**2014**	2013
Expected average life (years)	**3 to 5**	3 to 5
Risk-free interest rate (%)	**1.05 to 1.77**	1.07 to 1.93
Estimated forfeiture rate per annum (%)	**12.8 to 13.1**	13.0
Volatility factor (%)	**49 to 56**	49 to 54
Share option exercise price ($/option)	**1.26 to 2.46**	0.84 to 1.19

The weighted average fair value determined for options granted during the year ended December 31, 2014 was $0.69 per option (December 31, 2013 - $0.47 per option).

b) Share Award Incentive Plan

A summary of restricted awards and performance awards outstanding are as follows:

	Number of Restricted Awards (thousands)	Number of Performance Awards (thousands)
Balance as at December 31, 2013	**-**	**-**
Granted	213	250
Forfeited	(6)	(6)
Balance as at December 31, 2014	**207**	**244**

The table below summarizes the outstanding restricted awards and performance awards and their respective grant date prices and remaining life at December 31, 2014.

Grant Date Common Share Trading Prices ($/award)	Restricted Awards: Restricted Awards Outstanding (thousands)	Restricted Awards: Weighted Average Remaining Life (years)	Performance Awards: Performance Awards Outstanding (thousands)	Performance Awards: Weighted Average Remaining Life (years)
$1.68 - $2.46	207	1.0 - 1.4	244	1.0 - 1.4

The factors used to determine the fair value to be expensed for the restricted awards and/or performance awards granted for the year ended December 31, 2014 were as follows:

	Restricted Awards	Performance Awards
Weighted average common share trading price ($/share)	**2.37**	**2.34**
Estimated forfeiture rate per annum (%)	**13 to 13.1**	**13 to 13.1**
Estimated performance award payout multiplier	**N/A**	**1.0**

18. 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 Chinook's long-term incentive plans, which include share options, restricted awards and performance awards. The officers' salaries, directors' fees and other benefits included in general & administrative expenses for the years ended December 31, 2014 and 2013 totaled $2.5 million and $2.4 million, respectively. Long-term incentive benefits for Chinook's officers and directors included in share-based compensation for the years ended December 31, 2014 and 2013 totaled $0.5 million and $0.8 million, respectively.

The former officers associated with Chinook's discontinued operations were paid salaries, plus other benefits and share-based compensation for the years ended December 31, 2014 and 2013 totaling $2.5 million and $1.2 million, respectively. This compensation for 2014 included $1.6 million in severance costs.

Alberta Investment Management Corporation ("AIMCo"), as investment manager to Her Majesty the Queen in Right of the Province of Alberta ("HMQ"), maintains investment control and direction over approximately 37.4% of Chinook's outstanding common shares for the benefit of HMQ. Pursuant to a management and administration services agreement (the "Services Agreement") dated June 29, 2010 between 1542991 Alberta Ltd. ("WOGH GP") (a wholly owned subsidiary of Chinook and the general partner of WOGH Limited Partnership) and Chinook, WOGH GP engaged Chinook to perform its duties under the partnership agreement and to manage, administer and maintain the properties and the books, accounts and records of WOGH Limited Partnership in connection with the partnership business and to make all decisions relating thereto. WOGH Limited Partnership was formed to hold working interests in certain of Chinook's assets which are held by nominees of AIMCo on behalf of HMQ. As Chinook manages, administers and maintains the properties and the books, accounts and records of WOGH Limited Partnership, the Company is reimbursed for such services. In accordance with the Services Agreement, Chinook reported a recovery from WOGH Limited Partnership, as reported against the Company's general & administrative expense, of $1.3 million and $4.0 million for the years ended December 31, 2014 and 2013. The recovery for the years ended December 31, 2013 and 2014 was generally determined from WOGH Limited Partnership's pro rata share as estimated at 19 percent of its and Chinook's combined Canadian production volumes. At December 31, 2014, $0.3 million of this general & administrative recovery was included in accounts receivable (December 31, 2013 - $0.1 million).

19. 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, 2014 were carried at amortized cost with the exception of cash and a derivative contract which were 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 contract was assessed as Level 2. The estimated derivative contract's fair value is 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 prepared a sensitivity analysis in an attempt to demonstrate the effect of changes in these market risk factors on its consolidated statements of operations and comprehensive income (loss). For the purposes of the sensitivity analysis, the effect of a variation in a particular variable was 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 were based on Chinook's assessment of reasonably possible changes that could occur at December 31, 2014. The results of the sensitivity analysis should not be considered to be predictive of future performance.

Commodity Price Risk

Commodity price risk occurs as the fair value of Chinook's financial instruments fluctuate as a result of changes in commodity prices. To partially mitigate exposure to commodity price risk, Chinook entered into various financial derivative instruments during the year ended December 31, 2014 and December 31, 2013. The use of such instruments is subject to limits established and approved by the Board of Directors. Chinook's policy precludes the use of derivative financial instruments for speculative purposes.

Chinook's commodity price contract's asset as at December 31, 2014 and its commodity price contracts' liability as at December 31, 2013 were as follows:

	December 31 2014	December 31 2013
Derivative contracts asset (liability)		
Canadian operations	**$ 1,481**	$ (947)
Tunisian operations	**-**	(625)
	$ 1,481	$ (1,572)

These fair value estimates were 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 remaining contractual term.

Immediately prior to the closing of the PSA (see note 5 "Discontinued Operations"), Chinook paid $0.1 million to cancel the Brent indexed costless collar contract as reported through transaction costs and included in net income (loss) from discontinued operations, net of taxes. This contract had a fair value liability of $0.6 million as at December 31, 2013.

The following price risk management contract was in place as at December 31, 2014:

Indexed Price	Notional Volumes	Chinook's Received Price	Contractual Term
AECO	5,000 GJ/d	$3.50/GJ	January 1, 2015 to December 31, 2015

As at December 31, 2014, management estimates that an increase (decrease) in the natural gas price of $0.50/GJ would have resulted in approximately $0.9 million decrease (increase) in the fair value of this commodity contract.

Interest Rate Risk

Interest rate risk occurs when the fair value of debt, which was carried at amortized cost prior to being repaid during the year ended December 31, 2014, fluctuates because of changes in market interest rates. Chinook is exposed to interest rate fluctuations on its Revolving Term Credit Facility which bears a floating rate of interest. As mentioned, Chinook had no outstanding long-term debt drawn from this credit facility as at December 31, 2014.

Foreign Exchange Risk

Foreign exchange risk occurs as financial instruments fluctuate as a result of changes in foreign exchange rates. Most of Chinook's financial instruments are indirectly exposed to currency risk as the underlying commodity prices in Canada for petroleum and natural gas are impacted by changes in exchange rate between the Canadian and the United States dollars.

As at December 31, 2014, Chinook held US$4.8 million in cash and management estimates that an increase (decrease) in the US dollar, relative to the Canadian dollar, of 10% is possible and this would result in a $0.5 million increase (decrease) in foreign exchange gains.

Financial Assets and Credit Risk

Credit risk is the risk of financial loss to Chinook if a counterparty to a product sales contract or partner to a financial instrument fails to meet their contractual obligations. As at December 31, 2014, Chinook was mostly exposed to credit risk with respect to its accounts receivable. Most of Chinook's accounts receivable relate to petroleum and natural gas sales and are subject to typical industry credit risk. The majority of the credit exposure on accounts receivable at December 31, 2014 pertained to accrued revenue for December 2014 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. Of Chinook's accounts receivable at December 31, 2014, approximately 54 percent was owed from four companies, two purchasers of production and two partners and was subsequently collected.

Chinook's accounts receivable balance was aged as follows:

	December 31 2014	December 31 2013
Not past due	**$ 21,294**	$ 31,103
Past due by more than 90 days, net of allowance	**3,658**	5,097
	$ 24,952	$ 36,200

During the year ended December 31, 2014, Chinook reported $1.2 million (2013 - $1.8 million) of accounts receivable that were deemed uncollectable and charged to bad debt expense as included in the net loss from continuing operations.

Chinook's allowance for doubtful accounts was $1.5 million as at December 31, 2014 (December 31, 2013 - $1.8 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, 2014, $3.7 million of accounts receivable were past due and considered to be collectible. None of the individual counterparty's positions that were past due are significant.

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

Financial Liabilities and Liquidity Risk

Liquidity difficulties could emerge if Chinook is unable to meet its financial obligations as they fall 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, 2014:

	Within 1 year
Accounts payable, accrued liabilities & other	$ 44,389

20. Commitments and Guarantees

At December 31, 2014, 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:

December 31	2015	2016	2017	2018	2019	Thereafter	Total
Office leases	$ 1,351	$ 1,370	$ 1,388	$ 1,388	$ 695	$ -	$ 6,192
Operating and transportation contracts	1,165	221	-	-	-	-	1,386
	$ 2,516	**$ 1,591**	**$ 1,388**	**$ 1,388**	**$ 695**	**$ -**	**$ 7,578**

Office lease commitments relate to Chinook's head office in Calgary, Alberta. Operating and transportation contracts relate to minimal contractual payments regardless if Chinook does not utilize the pipeline capacity or benefit from the operating service.

As at December 31, 2014, Chinook issued a letter of credit totaling $0.3 million to guarantee the services of a Canadian midstream operator. This issued letter of credit reduced the available credit from Chinook's Revolving Term Credit Facility.

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

21. Continuing Operations Supplemental Disclosures

a) Consolidated statements of operations and comprehensive income (loss) presentation

Chinook's consolidated statements of operations and comprehensive income (loss) was prepared primarily by nature of expense, with the exception of employee compensation costs which were included in both the production & operating and general & administrative expense line items.

The following table details the amount of total employee compensation costs included in the production & operating and general & administrative expense line items, before associated recoveries, in the consolidated statements of operations and comprehensive income (loss).

Year ended December 31	2014	2013
Production & operating	**$ 9,838**	$ 11,102
General & administrative	**10,923**	10,151
Total employee compensation costs	**$ 20,761**	$ 21,253

b) Other supplemental cash flow information

(i) Changes in non-cash working capital

Year ended December 31	2014	2013
Cash provided by (used for):		
Accounts receivable	**$ 4,258**	$ (2,839)
Accounts payable, accrued liabilities & other	**4,600**	(7,512)
Prepaids & deposits	**725**	537
	$ 9,583	$ (9,814)
Cash provided by (used for):		
Operating activities	**$ 791**	$ (11,167)
Investing activities	**8,792**	1,353
	$ 9,583	$ (9,814)

(ii) Cash taxes and interest paid

Year ended December 31	2014	2013
Cash taxes paid (refunded)	**$ -**	$ -
Cash interest paid	**$ 2,634**	$ 4,382