Q2

Condensed Consolidated Financial Statements

CHINOOK energy inc

Chinook Energy Inc. | 1000, 517 – 10th Avenue S.W. Calgary, Alberta T2R 0A8 TSX:CKE

Condensed Consolidated Statements of Financial Position

(unaudited)

(in thousands of Canadian dollars)	June 30 2014	December 31 2013
Assets		
Current		
Cash	**$ 16,435**	$ 25,979
Accounts receivable (note 5)	**43,781**	36,200
Inventory (note 6)	**2,702**	634
Prepaids & deposits	**4,886**	3,263
	67,804	66,076
Development & production assets (note 8)	**496,591**	476,806
Exploration & evaluation assets (note 8)	**25,120**	12,459
	$ 589,515	$ 555,341
Liabilities and Shareholders' Equity		
Current		
Accounts payable, accrued liabilities & other	**$ 49,156**	$ 48,332
Derivative contracts (note 7)	**3,531**	1,572
Taxes payable	**3,683**	3,696
	56,370	53,600
Long-term debt (note 9)	**95,501**	75,897
Decommissioning obligation (note 10)	**91,263**	90,369
Deferred income taxes	**8,438**	8,718
Shareholders' Equity		
Share capital (note 11)	**780,619**	778,070
Contributed surplus	**18,825**	20,846
Deficit	**(467,924)**	(478,400)
Accumulated other comprehensive income	**6,423**	6,241
	337,943	326,757
	$ 589,515	$ 555,341

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income

(unaudited)

	Three months ended June 30		Six months ended June 30	
(in thousands of Canadian dollars, except per share amounts)	**2014**	2013	**2014**	2013
Revenues				
Petroleum & natural gas revenues	**$ 55,094**	$ 49,340	**$ 114,554**	$ 90,495
Royalties	**(6,488)**	(4,535)	**(11,402)**	(7,950)
Petroleum & natural gas revenues, net of royalties	**48,606**	44,805	**103,152**	82,545
Processing & gathering revenues	**1,466**	1,308	**2,784**	4,707
Petroleum, natural gas & other revenues, net of royalties	**50,072**	46,113	**105,936**	87,252
Expenses				
Production & operating	**19,546**	17,380	**38,002**	35,659
General & administrative	**3,531**	2,828	**8,696**	5,550
Transaction costs (note 4)	**502**	-	**502**	-
Exploration & evaluation (note 8)	**1,346**	3,593	**2,220**	8,092
Derivative contracts losses (gains) (note 7)	**458**	(1,086)	**4,957**	(482)
Net financing (note 13)	**2,005**	2,266	**3,771**	4,079
Depletion, depreciation & amortization (note 8)	**17,568**	19,668	**35,157**	37,637
Gains on disposition of properties	**(166)**	(5,465)	**(166)**	(11,724)
Foreign exchange & other (gains) losses	**(76)**	100	**(352)**	(2,848)
	44,714	39,284	**92,787**	75,963
Income before income taxes	**5,358**	6,829	**13,149**	11,289
Income taxes				
Current income tax expense	**1,062**	2,309	**2,993**	2,939
Deferred income tax (recovery) expense	**(95)**	530	**(320)**	(140)
	967	2,839	**2,673**	2,799
Net income	**4,391**	3,990	**10,476**	8,490
Foreign currency translation (loss) gain on foreign operations	**(4,560)**	4,599	**182**	6,743
Comprehensive (loss) income	**$ (169)**	$ 8,589	**$ 10,658**	$ 15,233
Net income per share, basic & diluted (note 11)	**$ 0.02**	$ 0.02	**$ 0.05**	$ 0.04

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(in thousands of Canadian dollars, except common shares)	Common Shares (thousands)	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
Balance as at December 31, 2012	**214,188**	**$ 778,070**	**$ 19,517**	**$ (451,700)**	**$ (2,285)**	**$ 343,602**
Share-based compensation (note 12)	-	-	725	-	-	725
Other comprehensive income	-	-	-	-	6,743	6,743
Net income	-	-	-	8,490	-	8,490
Balance as at June 30, 2013	**214,188**	**$ 778,070**	**$ 20,242**	**$ (443,210)**	**$ 4,458**	**$ 359,560**
Balance as at December 31, 2013	**214,188**	**$ 778,070**	**$ 20,846**	**$ (478,400)**	**$ 6,241**	**$ 326,757**
Share options exercised (note 11b, 12)	486	2,549	(2,324)	-	-	225
Share-based compensation (note 12)	-	-	303	-	-	303
Other comprehensive income	-	-	-	-	182	182
Net income	-	-	-	10,476	-	10,476
Balance as at June 30, 2014	**214,674**	**$ 780,619**	**$ 18,825**	**$ (467,924)**	**$ 6,423**	**$ 337,943**

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

Six months ended June 30	2014	2013
(in thousands of Canadian dollars)		
Operating Activities		
Net income	**$ 10,476**	$ 8,490
Add (deduct):		
Accretion (note 10)	**1,423**	1,380
Amortization of deferred financing costs (note 9)	**432**	246
Depletion, depreciation & amortization (note 8)	**35,157**	37,637
Transaction costs (note 4)	**502**	-
Exploration & evaluation expense (note 8)	**2,220**	8,092
Unrealized loss (gain) on derivative contracts (note 7)	**1,959**	(556)
Gains on disposition of properties (note 8)	**(166)**	(11,724)
Non-cash general & administrative (recoveries) expenses	**(160)**	197
Deferred income tax recovery	**(320)**	(140)
Deferred disposition proceeds on joint arrangement (note 8)	**-**	(3,051)
Foreign exchange	**(1)**	75
Decommissioning expenditures (note 10)	**(1,162)**	(1,413)
Change in operating non-cash working capital (note 14)	**(9,692)**	(13,491)
Cash flow from operating activities	**40,668**	25,742
Financing Activities		
Share issuance (note 11b, 12)	**225**	-
Long-term debt borrowings	**19,315**	-
Deferred financing charges (note 9)	**(136)**	(2,599)
Change in financing non-cash working capital (note 14)	**(285)**	-
Cash flow from financing activities	**19,119**	(2,599)
Investing Activities		
Capital expenditures (note 8)	**(67,683)**	(48,105)
Transaction costs (note 4)	**(502)**	-
Exploration & evaluation expenditures (note 8)	**(2,220)**	(6,584)
Proceeds on property dispositions	**33**	16,420
Change in investing non-cash working capital (note 14)	**673**	6,545
Cash flow from investing activities	**(69,699)**	(31,724)
Use of cash, during the period	**(9,912)**	(8,581)
Cash, beginning of period	**25,979**	30,647
Cash, foreign currency translation gain	**368**	791
Cash, end of period	**$ 16,435**	$ 22,857
Supplementary information (note 14)		

See accompanying notes to the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

Three and six months ended June 30, 2014 and 2013

Tabular amounts in thousands of Canadian dollars, except as noted

1. Reporting Entity

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

These unaudited condensed consolidated financial statements for the three and six months ended June 30, 2014 and 2013 (the "Financial Statements") include the accounts of Chinook Energy Inc. and its direct and indirect wholly-owned subsidiaries and foreign branches: 1398216 Alberta Limited, Cyries Wyoming Inc., Iteration (Texas) llc, 1542991 Alberta Limited, Storm Ventures International (BVI) Limited and Storm Ventures International (Barbados) Limited and Storm Sahara Limited and their Tunisian branches as included in them (collectively, "Chinook" or the "Company"). On December 31, 2013, Chinook Energy Partnership and Iteration Energy were dissolved. On January 1, 2014, Chinook Energy Inc. was amalgamated with two of its wholly owned subsidiaries, Chinook Energy Ltd. and Iteration Energy Inc. to form "Chinook Energy Inc.". All intercompany balances and transactions have been eliminated.

Chinook's operations, located in western Canada and onshore and offshore in Tunisia, are focused on the exploration, development and production of natural gas, crude oil and natural gas liquids. In addition to the Corporate segment, Chinook has treated each country in which it conducts business as an identifiable reporting segment.

Chinook's common shares are listed on the Toronto Stock Exchange under the symbol CKE. The head office and principal address of Chinook is Suite 1000, 517 – 10th Avenue S.W., Calgary, Alberta, Canada T2R 0A8.

2. Basis of Presentation

Statement of Compliance

These Financial Statements have been prepared following the same accounting policies as disclosed in note 3 in the audited consolidated financial statements of Chinook for the years ended December 31, 2013 and 2012 with the exception of the new accounting amendments and interpretation and a revised significant accounting policy as disclosed in note 3, below. These Financial Statements do not include all of the required disclosures for annual consolidated financial statements and therefore should be read in conjunction with the consolidated financial statements of Chinook for the years ended December 31, 2013 and 2012 and the notes thereto.

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

These Financial Statements were approved and authorized for issuance by Chinook's Board of Directors on August 13, 2014.

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.

Functional and Presentation Currency

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

3. New Accounting Amendments and Interpretation and Significant Accounting Policy

New Accounting Amendments and Interpretation

Chinook adopted the following new amendments and interpretation:

- Amendments to IAS 32, Financial Instruments: Presentation, and
- IFRS Interpretation Committee ("IFRIC") 21, Levies.

The adoption of these amendments and interpretation had no material impact on the financial results recorded in the consolidated financial statements of the Company as at June 30, 2014 and December 31, 2013.

Significant Accounting Policy

Share-based Compensation

a) Share Award Incentive Plan

On March 25, 2014, Chinook's Board of Directors approved the establishment of a Restricted and Performance Award Incentive Plan (the "Share Award Incentive Plan"). On May 14, 2014, Chinook's shareholders approved the issuance of common shares from the treasury of Chinook pursuant to the Share Award Incentive Plan. Restricted awards and performance awards granted pursuant to the Share Award Incentive Plan may be settled at the option of Chinook, in its sole and absolute discretion, 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. 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. Share-based compensation expense, included in the line item general & administrative expense on the condensed consolidated statements of operations and comprehensive (loss) income, is recorded over the period that the restricted awards and performance awards vest, with a corresponding increase to contributed surplus on the condensed consolidated statements of financial position, 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 the Company's best estimate for the effects of non-transferability and exercise restrictions. When either the restricted awards or performance awards vest they are immediately settled, at which time the related fair value amounts previously recorded in contributed surplus are reclassified to share capital.

b) Share Option Plan (cashless exercise feature)

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. Share-based compensation expense, included in the line item general & administrative expense on the condensed consolidated statements of operations and comprehensive (loss) income, is recorded over the period that the share options vest, with a corresponding increase to contributed surplus on the condensed consolidated statements of financial position. 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.

4. Share Purchase and Sale Agreement for Tunisian-based Operations Subsidiary

Chinook's wholly-owned subsidiary, Storm Ventures International (BVI) Limited, entered into a share purchase and sale agreement dated as of June 14, 2014 (the "PSA") to sell, effective January 1, 2014, all of the issued and outstanding shares of its wholly-owned subsidiary Storm Ventures International (Barbados) Limited ("SVI Barbados"). SVI Barbados' wholly-owned subsidiary is Storm Sahara Limited ("SSL"). Combined, SVI Barbados and SSL hold both of Chinook's Tunisian operating branches. The PSA is expected to result in the disposition of Chinook's Tunisian Segment and a portion of its Corporate Segment for cash consideration of US$127.7 million, including positive working capital of approximately US$13.7 million, subject to customary closing adjustments. As at June 30, 2014, Chinook had expensed $0.5 million of transaction costs related to the pending sale, as reported on the condensed consolidated statement of operations and comprehensive (loss) income. As of the date of issuance of these Financial Statements, but subsequent to June 30, 2014, the significant closing conditions have been met but the disposition transaction contemplated by the PSA has not closed. The financial effect of the Tunisian Segment's disposition relative to Chinook's consolidated financial results can be found in the Segmented Information section of note 15.

5. Accounts Receivable

Chinook's accounts receivable were comprised of:

	June 30 2014	December 31 2013
Trade accounts receivable & accrued receivables	**$ 38,332**	$ 27,728
Other receivables	**3,442**	3,048
Cash call receivables	**3,568**	7,174
Allowance for doubtful accounts	**(1,561)**	(1,750)
	$ 43,781	$ 36,200

Chinook's accounts receivable balance was aged as follows:

	June 30 2014	December 31 2013
Not past due	**$ 39,621**	$ 31,103
Past due by more than 90 days, net of allowance	**4,160**	5,097
	$ 43,781	$ 36,200

6. Inventory

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

At June 30, 2014, Chinook had approximately 36,000 barrels of crude oil inventory as valued at a cost of $2.7 million. During the three months ended March 31, 2014, Chinook sold and reported through the condensed consolidated statements of operations and comprehensive (loss) income approximately 12,000 barrels of crude oil that was held as inventory and valued at a cost of $0.6 million at December 31, 2013.

7. Derivative Contracts

Chinook's realized losses and unrealized gains and losses from commodity price risk management contracts for the three and six months ended June 30, 2014 and 2013 were as follows:

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Realized losses on derivative contracts	**$ 1,806**	$ 63	**$ 2,998**	$ 74
Unrealized (gains) losses on derivative contracts	**(1,348)**	(1,149)	**1,959**	(556)
	$ 458	$ (1,086)	**$ 4,957**	$ (482)

Chinook uses commodity price risk management contracts to reduce its exposure to fluctuations in commodity prices. The following price risk management contracts were in place as at June 30, 2014:

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

The commodity price contracts were assessed as level 2 on the fair value hierarchy and were reported at June 30, 2014 at their fair value liability of $3.5 million as included in current derivative liabilities on the condensed consolidated statements of financial position (December 31, 2013 - $1.6 million). This estimate was partially determined through the difference in the referenced benchmark forward price as compared to each contract's strike price multiplied by the notional volumes during the remaining contractual term.

Subsequent to June 30, 2014, Chinook paid $0.1 million to cancel the Brent indexed costless collar contract.

8. Development & Production ("D&P") and Exploration & Evaluation ("E&E") Assets

The following table reconciles Chinook's D&P assets and E&E assets:

	Development & Production Assets	Exploration & Evaluation Assets	Total
Cost of Assets			
Balance as at December 31, 2013	**$ 898,235**	**$ 52,915**	**$ 951,150**
Capital expenditures	48,631	19,052	67,683
Transfer from E&E to D&P	5,040	(5,040)	-
Change in decommissioning assets	761	-	761
Foreign exchange adjustment	14	2	16
Balance as at June 30, 2014	**$ 952,681**	**$ 66,929**	**$ 1,019,610**
Accumulated Depletion, Depreciation & Amortization			
Balance as at December 31, 2013	**$ (421,429)**	**$ (40,456)**	**$ (461,885)**
Depletion, depreciation & amortization	(33,804)	(1,353)	(35,157)
Inventoried depletion	(897)	-	(897)
Foreign exchange adjustment	40	-	40
Balance as at June 30, 2014	**$ (456,090)**	**$ (41,809)**	**$ (497,899)**
Net Book Values			
Balance as at December 31, 2013	$ 476,806	$ 12,459	$ 489,265
Balance as at June 30, 2014	**$ 496,591**	**$ 25,120**	**$ 521,711**

Chinook incurred $67.7 million in capital expenditures during the six months ended June 30, 2014 ($48.1 million for the six months ended June 30, 2013). The Company capitalized $1.9 million and $3.0 million of direct general & administrative costs as related to its exploration and development activity during the six months ended June 30, 2014 and 2013, respectively.

Exploration Wells

For the six months ended June 30, 2014 and 2013, respectively, $2.2 million and $3.5 million of pre-licensing evaluation, exploratory lease rental and geological and geophysical costs were incurred.

In addition to the above, during the six months ended June 30, 2013, the following costs were directly charged to exploration and evaluation expense on the condensed consolidated statements of operations and comprehensive (loss) income:

- Management completed its evaluation and determined that a Canadian exploration well drilled during 2012, at a cost of $1.4 million, was unsuccessful for petroleum or natural gas reserves; and
- The Tunisian El Bell well which was drilled and cased during the six months ended June 30, 2013 for costs of $3.2 million, including $0.1 million of estimated decommissioning obligations, was evaluated as non-commercial.

In total, these charges resulted in an exploration and evaluation expense of $2.2 million and $8.1 million, respectively, for the six months ended June 30, 2014 and 2013. Excluding charges reported as capital expenditures in prior years, cash exploration and evaluation costs of $2.2 million and $6.6 million were included as investing activities on the condensed consolidated statements of cash flows for the six months ended June 30, 2014 and 2013, respectively.

Property Dispositions

During the six months ended June 30, 2014, the Company completed the sale of petroleum and natural gas properties resulting in a gain of $0.2 million (six months ended June 30, 2013 - $11.7 million).

Impairment

The potential sale of the Tunisian operations and its associated net assets (see note 4), was assessed as a trigger of potential impairment of Chinook's two Tunisian cash generating units' ("CGU"s) net carrying value at June 30, 2014. Chinook conducts testing for impairment at the CGU level by comparing each CGU's carrying value to the higher of its fair value or value in use. For Chinook's offshore Tunisian CGU, its carrying value at June 30, 2014 approximated its fair value. Chinook assessed this CGU's recoverable value based on a measure of its contingent resource using relative fair value third party market transactions for offshore North African early stage development projects with contingent resources. Given the uniqueness of such a project, third party market transactions were not always directly comparable resulting in significant measurement uncertainty. Testing of Chinook's onshore Tunisian CGU's recoverable value relative to its carrying value did not result in an impairment at June 30, 2014. Chinook's onshore Tunisian CGU's recoverable amount was estimated using expected after tax future cash flows generated from proved reserves, using a discount rate of 15% and forward commodity price estimates.

At June 30, 2014, Chinook determined that there were no indications of impairment that would warrant conducting an impairment test in respect of any of its Canadian CGUs. In addition, Chinook determined that there were no sustained indicators that a recovery of prior periods' impairment was warranted at this time.

Joint Arrangement

During the six months ended June 30, 2013, a third party terminated its optional right to complete its earning and acquisition of an interest in the Company's Cosmos Concession. Pursuant to this termination, Chinook reported the US$3.0 million it had received for this optional right as realized through the line item foreign exchange & other gains on the condensed consolidated statements of operations and comprehensive (loss) income during the six months ended June 30, 2013.

9. Long-Term Debt

	June 30 2014	December 31 2013
Canadian revolving term credit facility	**$ 97,815**	$ 78,500
Unamortized deferred financing costs	**(2,314)**	(2,603)
	$ 95,501	$ 75,897

Canadian 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 "Canadian 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 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 Canadian Revolving Term Credit Facility is subject to a semi-annual review and redetermination. Changes in the availability of the Canadian Revolving Term Credit Facility are possible, from one renewal period to the next, with draws in excess of availability becoming payable within 60 days. At June 30, 2014, Chinook had drawings under the facility and borrowings of $97.8 million as well as outstanding letters of credit of $0.3 million against the Canadian Revolving Term Credit Facility, resulting in available credit on this facility of $26.9 million (December 31, 2013 - $78.5 million, $0.4 million and $36.1 million, respectively).

The Canadian Revolving Term Credit Facility is guaranteed by Chinook's Canadian subsidiaries and collateralized by floating charges and security interests over all present and future Canadian properties and other Canadian assets of Chinook and its Canadian subsidiaries. Interest payable on amounts drawn on this facility vary based on the applicable pricing rate as combined with either the Canadian prime, U.S. Base rate, U.S. LIBOR or Bankers' Acceptances depending on the borrowing option selected by Chinook. The effective interest rate on draws against the Canadian Revolving Term Credit Facility for the three and six months ended June 30, 2014, was 4.0% and 3.9%, respectively (three and six months ended June 30, 2013 – 5.2%). The Canadian Revolving Term Credit Facility contains a covenant whereby the ratio of Chinook's debt or borrowed money which include drawings against this facility, to the earnings attributable to its Canadian 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 June 30, 2014, Chinook was in compliance with this covenant.

International Credit Facility

On March 15, 2013, Chinook signed a US$75.0 million international amortizing reserve-based credit facility (the "International Credit Facility") for a term of five years with an international bank. Effective January 1, 2014, Chinook's available borrowing base on the facility was reduced from US$46.5 million to US$23.8 million. This reduction was due to an increase in estimated future costs, included in Chinook's December 31, 2013 reserve report for its Tunisian producing properties, over the facility's remaining anticipated term, despite an increase in these reserves' estimated net recoverable value. At June 30, 2014 and December 31, 2013, Chinook had no outstanding drawings against the International Credit Facility. The International Credit Facility's next semi-annual review and redetermination is scheduled for December 2014 where the available amount will be reassessed and any outstanding draws must be paid down to the lower of the new available amount or the current repayment commitment. The term of the International Credit Facility can be reduced from the anticipated final maturity date in March 2018 to a date when the estimated reserve recoveries of the borrowing base assets fall below a prescribed rate.

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

A condition for closing of the disposition transaction contemplated by the PSA (see note 4) is that the International Credit Facility will be cancelled.

Unamortized Deferred Financing Costs

	Canadian Revolving Term Credit Facility	International Credit Facility	Total
Balance as at December 31, 2013	$ 208	$ 2,395	**$ 2,603**
Additions	136	-	**136**
Amortization	(149)	(283)	**(432)**
Foreign exchange adjustment	-	7	**7**
Balance as at June 30, 2014	$ 195	$ 2,119	**$ 2,314**

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

10. Decommissioning Obligation

The total future decommissioning obligations were estimated by management based on Chinook's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. At June 30, 2014, Chinook has estimated the net present value of its total decommissioning obligation based on a total future undiscounted liability of $123.1 million ($123.6 million - December 31, 2013). At June 30, 2014, management estimates that these payments are expected to be made over an average of 18.1 years. At June 30, 2014 and December 31, 2013, a risk free rate of up to 3.2% and an inflation rate of 2.0% were used to calculate the present values of the decommissioning obligations.

Balance as at December 31, 2013	**$ 90,369**
Dispositions	**(133)**
Development and exploration activities	**761**
Settlement	**(1,162)**
Accretion expense	**1,423**
Foreign exchange adjustment	**5**
Balance as at June 30, 2014	**$ 91,263**

11. 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	Share capital
Balance as at December 31, 2013	**214,187,681**	**$ 778,070**
Issued upon exercise of share options	486,272	225
Fair value of exercised options	-	2,324
Balance as at June 30, 2014	**214,673,953**	**$ 780,619**

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 three and six months ended June 30, 2014 and 2013, were calculated as per the following table:

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Weighted average shares outstanding - basic (thousands)	**214,226**	214,188	**214,207**	214,188
Dilutive impact of share options, restricted awards and performance awards (thousands)	**1,588**	-	**709**	-
Weighted average shares outstanding - diluted (thousands)	**215,814**	214,188	**214,916**	214,188
Net income	**$ 4,391**	$ 3,990	**$ 10,476**	$ 8,490
Net income per share - basic & diluted ($/share)	**$ 0.02**	$ 0.02	**$ 0.05**	$ 0.04

For the three and six months ended June 30, 2014 and 2013, diluted income per share assumes the vesting and exercise of share options and the vesting and settlement of restricted 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 three and six months ended June 30, 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 1.6 million shares and 0.7 million shares, respectively. At June 30, 2013, Chinook's options were considered to be "out-of-the-money" per the treasury stock method and had no effect on the diluted weighted average shares outstanding.

12. Long-Term Incentive Plans

Chinook grants share options, restricted awards and performance awards (collectively, "Share-Based Units") 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 Units may not exceed 10% of Chinook's issued and outstanding common shares.

Total share-based compensation, included in the line item general & administrative expense in the condensed consolidated statements of operations and comprehensive (loss) income, for the three and six months ended June 30, 2014, was $0.1 million and $0.3 million, respectively (three and six months ended June 30, 2013 - $0.3 million and $0.7 million, respectively).

a) Share Option Plan

Chinook has a share option plan where granted options 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 ($/option)
Balance as at December 31, 2013	**14,320**	**$ 1.89**
Granted	495	$ 1.62
Exercised for common shares	(486)	$ 1.86
Forfeited and cancelled	(2,419)	$ 2.01
Expired	(35)	$ 2.72
Balance as at June 30, 2014	**11,875**	**$ 1.85**

The table below summarizes the outstanding share options and their respective weighted average exercise prices and remaining life in years at June 30, 2014 and the number of exercisable options and their respective weighted average exercise prices and remaining life as at June 30, 2014.

	Outstanding Options			Options Exercisable		
Range of Exercise Prices ($/option)	Options Outstanding (thousands)	Weighted Average Exercise Prices ($/option)	Weighted Average Remaining Life (years)	Options Outstanding (thousands)	Weighted Average Exercise Prices ($/option)	Weighted Average Remaining Life (years)
$ 0.84 - $1.35	2,466	$ 1.17	3.8	683	$ 1.19	3.2
$ 1.42 - $1.48	2,179	$ 1.42	2.5	1,341	$ 1.42	2.7
$ 1.67 - $1.97	2,265	$ 1.86	1.1	2,018	$ 1.88	1.0
$ 2.13 - $2.19	2,428	$ 2.18	1.3	2,428	$ 2.18	1.6
$ 2.22 - $2.72	2,537	$ 2.56	1.1	2,412	$ 2.57	1.1
	11,875	**$ 1.85**	**2.0**	**8,882**	**$ 2.03**	**1.5**

The following factors were used in the Black-Scholes pricing model for the determination of the fair value of options granted during the six months ended June 30, 2014 and 2013:

Six months ended June 30	2014	2013
Expected average life (years)	**3 to 5**	3 to 5
Risk-free interest rate (%)	**1.20 to 1.77**	1.07 to 1.24
Estimated forfeiture rate per annum (%)	**12.8 to 13.1**	13.0
Volatility factor (%)	**49 to 54**	52 to 54
Weighted average exercise price ($/option)	**1.62**	1.19

The weighted average fair value determined for options granted during the three and six months ended June 30, 2014, was $0.68 per option (three and six months ended June 30, 2013 - $0.50).

b) Share Award Incentive Plan

On June 26, 2014, Chinook granted 165,675 restricted awards and 129,765 performance awards, pursuant to the Share Award Incentive Plan, which remained outstanding as at June 30, 2014. Subject to the terms and conditions of the Share Award Incentive Plan, restricted awards and performance awards 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. In the case of restricted awards, the Award Value is calculated at the Payment Date(s) 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 Payment Date as the volume weighted 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.

With respect to performance awards, on each Payment Date, or such other dates as may be determined by the Compensation, Nominating and Corporate Governance Committee (the “Committee”) of the Board of Directors, the holder will be entitled to an amount equal to one-half of the Award Value underlying such performance awards multiplied by a payout multiplier. The payout multiplier is determined by the Committee based on an assessment of the achievement of the pre-defined corporate performance measures in respect of 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.

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.

When a restricted award or performance award vests on a payment date, it is immediately settled by Chinook. As a result, the reported outstanding awards will always be unvested.

The fair value of issued restricted awards or performance awards is determined as of their grant date using 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. The factors used to fair value the restricted award and/or performance award grants for the six months ended June 30, 2014 were as follows:

Six months ended June 30	2014
Weighed average common share trading price ($/share)	**2.43**
Estimated forfeiture rate per annum (%)	**13.1**
Performance award payout multiplier	**1.0**

The weighted average fair value determined for both restricted awards and performance awards granted during the three and six months ended June 30, 2014, was $2.11 per award.

13. Net Financing Expenses

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Interest on bank debt and other interest	**$ 869**	$ 1,357	**$ 1,646**	$ 2,632
Interest earned	**(45)**	(29)	**(175)**	(328)
Finance charges and fees	**246**	77	**445**	149
Amortization of deferred financing costs	**219**	185	**432**	246
Accretion of decommissioning obligation	**716**	676	**1,423**	1,380
	$ 2,005	$ 2,266	**$ 3,771**	$ 4,079

14. Supplemental Disclosures

Changes in non-cash working capital:

Six months ended June 30	2014	2013
Cash provided by (used for):		
Accounts receivable	**$ (7,850)**	$ 701
Accounts payable, accrued liabilities & other	**1,450**	(5,366)
Inventory	**(1,232)**	(1,123)
Prepaids & deposits	**(1,645)**	(1,269)
Taxes payable	**(27)**	111
	$ (9,304)	$ (6,946)
Cash provided by (used for):		
Operating activities	**$ (9,692)**	$ (13,491)
Investing activities	**673**	6,545
Financing activities	**(285)**	-
	$ (9,304)	$ (6,946)

Other supplemental cash flow information:

Six months ended June 30	2014	2013
Cash taxes paid	**$ 3,006**	$ 2,826
Cash interest paid	**$ 1,646**	$ 2,632

15. Segmented Information

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

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

Selected Segment Information

Six months ended June 30				2014				2013
	Canada	**Tunisia**	**Corporate**	**Consolidated**	Canada	Tunisia	Corporate	Consolidated
Capital expenditures	**$ 42,331**	**$ 25,046**	**$ 306**	**$ 67,683**	$ 22,686	$ 25,339	$ 80	$ 48,105
As at				**June 30, 2014**				**December 31, 2013**
Development & production and exploration & evaluation assets	**$389,389**	**$128,916**	**$ 3,406**	**$ 521,711**	$ 371,295	$ 114,700	$ 3,270	$ 489,265
Total assets	**$429,274**	**$146,723**	**$ 13,518**	**$589,515**	$ 409,926	$ 127,314	$ 18,101	$ 555,341

Results by Segment

Three months ended June 30	Canada 2014	Canada 2013	Tunisia 2014	Tunisia 2013	Corporate 2014	Corporate 2013	Consolidated 2014	Consolidated 2013
Revenues								
Petroleum, natural gas & other revenues, net of royalties	**$ 34,061**	$ 26,692	**$ 16,011**	$ 19,421	**$ -**	$ -	**$ 50,072**	$ 46,113
Expenses								
Production & operating	**13,750**	12,655	**5,796**	4,725	**-**	-	**19,546**	17,380
General & administrative	**438**	913	**496**	394	**2,597**	1,521	**3,531**	2,828
Transaction costs	**-**	-	**-**	-	**502**	-	**502**	-
Exploration & evaluation	**116**	457	**1,230**	3,136	**-**	-	**1,346**	3,593
Derivative contract losses (gains)	**-**	-	**-**	-	**458**	(1,086)	**458**	(1,086)
Net financing	**1,633**	1,927	**372**	338	**-**	-	**2,005**	2,266
Depletion, depreciation & amortization	**12,346**	13,462	**5,222**	6,206	**-**	-	**17,568**	19,668
Gains on disposition of properties	**(166)**	(5,465)	**-**	-	**-**	-	**(166)**	(5,465)
Foreign exchange & other losses (gains)	**452**	(352)	**(634)**	476	**106**	(24)	**(76)**	100
	28,569	23,597	**12,482**	15,275	**3,663**	411	**44,714**	39,284
Income (loss) before income taxes	**5,492**	3,095	**3,529**	4,146	**(3,663)**	(411)	**5,358**	6,829
Income taxes								
Current income tax (recovery) expense	**(4)**	130	**1,066**	2,179	**-**	-	**1,062**	2,309
Deferred income tax (recovery) expense	**-**	-	**(95)**	530	**-**	-	**(95)**	530
	(4)	130	**971**	2,709	**-**	-	**967**	2,839
Net income (loss)	**$ 5,496**	$ 2,965	**$ 2,558**	$ 1,437	**$ (3,663)**	$ (411)	**$ 4,391**	$ 3,990

Six months ended June 30	Canada 2014	Canada 2013	Tunisia 2014	Tunisia 2013	Corporate 2014	Corporate 2013	Consolidated 2014	Consolidated 2013
Revenues								
Petroleum, natural gas & other revenues, net of royalties	**$ 71,408**	$ 54,738	**$ 34,528**	$ 32,514	**$ -**	$ -	**$105,936**	$ 87,252
Expenses								
Production & operating	**27,131**	27,675	**10,871**	7,984	**-**	-	**38,002**	35,659
General & administrative	**1,210**	2,129	**1,078**	561	**6,408**	2,860	**8,696**	5,550
Transaction costs	**-**	-	**-**	-	**502**	-	**502**	-
Exploration & evaluation	**585**	3,555	**1,635**	4,537	**-**	-	**2,220**	8,092
Derivative contract losses (gains)	**-**	-	**-**	-	**4,957**	(482)	**4,957**	(482)
Net financing	**3,089**	3,705	**682**	374	**-**	-	**3,771**	4,079
Depletion, depreciation & amortization	**24,633**	27,230	**10,524**	10,407	**-**	-	**35,157**	37,637
Gains on disposition of properties	**(166)**	(11,724)	**-**	-	**-**	-	**(166)**	(11,724)
Foreign exchange & other losses (gains)	**59**	(154)	**(347)**	(2,670)	**(64)**	(24)	**(352)**	(2,848)
	56,541	52,416	**24,443**	21,193	**11,803**	2,354	**92,787**	75,963
Income (loss) before income taxes	**14,867**	2,322	**10,085**	11,321	**(11,803)**	(2,354)	**13,149**	11,289
Income taxes								
Current income tax (recovery) expense	**(4)**	130	**2,997**	2,809	**-**	-	**2,993**	2,939
Deferred income tax recovery	**-**	-	**(320)**	(140)	**-**	-	**(320)**	(140)
	(4)	130	**2,677**	2,669	**-**	-	**2,673**	2,799
Net income (loss)	**$ 14,871**	$ 2,192	**$ 7,408**	$ 8,652	**$ (11,803)**	$ (2,354)	**$ 10,476**	$ 8,490