Q3 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)	September 30 2014	December 31 2013
Assets		
Current		
Cash	**$ 47,450**	$ 25,979
Accounts receivable (note 5)	**29,720**	36,200
Prepaids & deposits	**3,409**	3,263
Inventory	**-**	634
	80,579	66,076
Development & production assets (note 6)	**362,739**	476,806
Exploration & evaluation assets (note 6)	**28,923**	12,459
	$ 472,241	$ 555,341
Liabilities and Shareholders' Equity		
Current		
Accounts payable, accrued liabilities & other (note 7)	**$ 44,709**	$ 48,332
Derivative contracts (note 8)	**584**	1,572
Income taxes payable	**-**	3,696
	45,293	53,600
Decommissioning obligation (note 9)	**84,524**	90,369
Long-term debt (note 10)	**-**	75,897
Deferred income taxes	**-**	8,718
Shareholders' Equity		
Share capital (note 11)	**782,062**	778,070
Contributed surplus	**16,814**	20,846
Deficit	**(456,452)**	(478,400)
Accumulated other comprehensive income	**-**	6,241
	342,424	326,757
	$ 472,241	$ 555,341

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Operations and Comprehensive Income

(unaudited)

	Three months ended September 30		Nine months ended September 30	
(in thousands of Canadian dollars, except per share amounts)	**2014**	2013	**2014**	2013
Continuing operations				
Revenues				
Petroleum & natural gas revenues	**$ 30,633**	$ 29,065	**$ 109,643**	$ 86,085
Royalties	**(4,661)**	(2,718)	**(15,046)**	(9,707)
Petroleum & natural gas revenues, net of royalties	**25,972**	26,347	**94,597**	76,378
Processing & gathering revenues	**1,676**	1,330	**4,460**	6,037
Petroleum, natural gas & other revenues, net of royalties	**27,648**	27,677	**99,057**	82,415
Expenses				
Production & operating	**13,451**	13,972	**40,582**	41,647
General & administrative	**3,274**	2,117	**10,822**	6,713
Exploration & evaluation	**478**	276	**1,063**	2,631
Derivative contracts (gains) losses (note 8)	**(1,709)**	(892)	**3,238**	(1,252)
Net financing (note 13)	**1,788**	1,909	**4,877**	5,614
Depletion, depreciation & amortization	**11,503**	12,067	**36,136**	39,297
Gains on disposition of properties	**(2,754)**	(1,291)	**(2,920)**	(13,015)
Foreign exchange & other (gains) losses	**(2,079)**	(165)	**(2,380)**	82
	23,952	27,993	**91,418**	81,717
Net income (loss) from continuing operations	**3,696**	(316)	**7,639**	698
Discontinued operations				
Net income from discontinued operations, net of income taxes (note 4)	**7,776**	4,128	**14,309**	11,604
Net income	**11,472**	3,812	**21,948**	12,302
Other comprehensive (loss) income				
Foreign currency translation gain (loss) on foreign operations prior to disposition	**3,123**	(3,047)	**3,305**	3,696
Transfer of accumulated comprehensive income on disposition of foreign operations (note 4)	**(9,546)**	–	**(9,546)**	–
	(6,423)	(3,047)	**(6,241)**	3,696
Comprehensive income	**$ 5,049**	$ 765	**$ 15,707**	$ 15,998
Net income per share, basic & diluted (note 11)				
Continuing operations	**$ 0.02**	$ –	**$ 0.04**	$ 0.01
Discontinued operations	**$ 0.03**	$ 0.02	**$ 0.06**	$ 0.05
Net income	**$ 0.05**	$ 0.02	**$ 0.10**	$ 0.06

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)	-	-	1,095	-	-	1,095
Foreign currency translation gain on foreign operations	-	-	-	-	3,696	3,696
Net income	-	-	-	12,302	-	12,302
Balance as at September 30, 2013	**214,188**	**$ 778,070**	**$ 20,612**	**$ (439,398)**	**$ 1,411**	**$ 360,695**
Balance as at December 31, 2013	**214,188**	**$ 778,070**	**$ 20,846**	**$ (478,400)**	**$ 6,241**	**$ 326,757**
Share options exercised (note 11b)	891	3,992	(3,864)	-	-	128
Share options surrendered (note 12)	-	-	(922)	-	-	(922)
Share-based compensation (note 12)	-	-	561	-	-	561
Transaction costs on discontinued operations (note 12)	-	-	193	-	-	193
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 4)	-	-	-	-	(9,546)	(9,546)
Net income	-	-	-	21,948	–	21,948
Balance as at September 30, 2014	**215,079**	**$ 782,062**	**$ 16,814**	**$ (456,452)**	**$ –**	**$ 342,424**

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

Nine months ended September 30	2014	2013
(in thousands of Canadian dollars)		
Operating Activities		
Net income	$ **21,948**	$ 12,302
Deduct: net income from discontinued operations	**(14,309)**	(11,604)
Net income from continuing operations	**7,639**	698
Add (deduct):		
Accretion	**2,031**	1,965
Amortization of deferred financing costs	**343**	195
Depletion, depreciation & amortization	**36,136**	39,297
Exploration & evaluation expense (note 6)	**1,063**	2,631
Unrealized gain on derivative contracts (note 8)	**(363)**	(447)
Gains on disposition of properties (note 6)	**(2,920)**	(13,015)
Non-cash general & administrative expenses	**198**	1,007
Foreign exchange	**(2,038)**	(3)
Decommissioning expenditures	**(1,760)**	(2,100)
Change in operating non-cash working capital (note 14)	**(2,274)**	(15,030)
Cash flow from operating activities		
Continuing operations	**38,055**	15,198
Discontinued operations	**6,847**	33,469
Cash flow from operating activities	**44,902**	48,667
Financing Activities		
Net consideration on share issuance (note 11b)	**128**	-
Long-term debt repayments	**(97,815)**	(11,000)
Long-term debt borrowings	**19,315**	-
Deferred financing charges	**(135)**	(115)
Cash flow from financing activities		
Continuing operations	**(78,507)**	(11,115)
Discontinued operations	**-**	(2,686)
Cash flow from financing activities	**(78,507)**	(13,801)
Investing Activities		
Capital expenditures (note 6)	**(56,913)**	(32,732)
Exploration & evaluation expenditures (note 6)	**(1,063)**	(1,241)
Proceeds on property dispositions (note 6)	**5,446**	19,703
Change in investing non-cash working capital (note 14)	**9,360**	1,389
Cash flow from investing activities		
Continuing operations	**(43,170)**	(12,881)
Proceeds on sale of discontinued operations (note 4)	**140,480**	-
Discontinued operations – other	**(44,652)**	(41,625)
Cash flow from investing activities	**52,658**	(54,506)
Change in cash, during the period		
Continuing operations	**56,858**	(8,798)
Discontinued operations	**(37,805)**	(10,842)
Cash, beginning of period	**25,979**	30,647
Cash, foreign currency translation gain	**2,418**	397
Cash, end of period	$ **47,450**	$ 11,404
Supplementary information (note 14)		

See accompanying notes to the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

Three and nine months ended September 30, 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 unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2014 and 2013 (these “Financial Statements”) include the accounts of Chinook Energy Inc. and its direct and indirect wholly-owned subsidiaries: 1398216 Alberta Ltd., Cyries Wyoming Inc., Iteration Energy (Texas), LLC, 1542991 Alberta Ltd. and Storm Ventures International (BVI) Limited (“SVI (BVI)”). 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.

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 (collectively, including all subsidiaries, “Chinook” or the “Company”). 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 4 “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 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 audited 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 November 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. 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 4 “Discontinued Operations”), the Tunisian segment’s functional currency was the United States dollar.

3. New Accounting Standards, Amendments and Interpretation and Significant Accounting Policy

New Accounting Standards Not Yet Adopted

In July 2014, the International Accounting Standards Board issued a new accounting standard related to the classification, measurement, impairment and the impact of credit on financial instruments, which form part of IFRS 9, *Financial Instruments*. As part of the new standard the classifications of financial assets will be based on their cash flow characteristics and the business model in which the assets are held. When assessing impairment of financial instruments, the new standard requires more timely recognition of expected credit losses. IFRS 9 also eliminates the recognition in profit or loss of changes in the fair value of liabilities related to a change in a company's own credit risk. This new standard along with the new general hedge accounting standard issued in November 2013 as part of IFRS 9, come into effect for periods beginning on or after January 1, 2018, with early adoption permitted. Chinook has not completed its assessment of the impact of the above standards.

New Adopted 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 September 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 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 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. 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 Chinook's Tunisian operating branches previously reported as the Tunisian segment and a portion of the Corporate segment. Results of operations from the Tunisia Segment and a portion of the Corporate segment are presented in the line item discontinued operations on the condensed consolidated statements of operations and comprehensive income and the condensed consolidated statements of cash flows. Chinook's continuing operations are represented by its western Canadian petroleum and natural gas producing assets, as previously reported as the Canadian segment, and the remaining portion of the Corporate segment. 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 which indemnities have been guaranteed by Chinook in accordance with the PSA. Management has estimated a provision of $0.6 million in respect of these indemnities as included in transaction costs on the sale of the discontinued operations. 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 Canadian-based staff dedicated to the discontinued operations. Included in this severance expense is $1.6 million for Chinook's international officers. As at September 30, 2014, Chinook had accrued $3.4 million of transaction costs. Non-cash transaction costs of $2.3 million include 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 $132.8 million of cash proceeds from the sale of its Tunisian operations and associated net assets from the British Virgin Islands to Canada on a tax free basis, net of transaction costs. The remainder of the cash proceeds were left in the British Virgin Islands to finance the reported transaction costs.

Details of the net income from discontinued operations are presented below:

	Three months ended September 30		Nine months ended September 30	
(in thousands of Canadian dollars, except per share amounts)	2014	2013	2014	2013
Discontinued Operations				
Petroleum & natural gas revenues	**$ 1,367**	$ 19,340	**$ 36,911**	$ 52,815
Royalties & expenses	**(3,066)**	(15,165)	**(29,398)**	(38,495)
(Loss) income from ordinary activities of discontinued operations	**(1,699)**	4,175	**7,513**	14,320
Gain on sale of discontinued operations	**1,037**	-	**1,037**	-
Realized accumulated other comprehensive income on disposition of foreign operations	**9,546**	-	**9,546**	-
Income from discontinued operations	**8,884**	4,175	**18,096**	14,320
Income taxes of discontinued operations	**1,108**	47	**3,787**	2,716
Net income from discontinued operations	**$ 7,776**	$ 4,128	**$ 14,309**	$ 11,604

Other notes to these Financial Statements detail changes in account balances for the nine months ended September 30, 2014, caused by the sale of the Tunisian operations and associated net assets. However, the following accounts have no carrying values on the condensed consolidated statements of financial position as at September 30, 2014, as compared to December 31, 2013, as these accounts comprised amounts related to the discontinued operations:

- Inventory as previously measured at cost was comprised of unsold Tunisian crude oil production.
- 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.
- Accumulated other comprehensive income resulted from the accumulated differences arising upon translation from the Tunisian operations US dollar functional currency to Chinook's Canadian dollar reporting currency. The disposal of the Tunisian segment resulted in accumulated other comprehensive income of $9.5 million being transferred to net income from discontinued operations. This move had a nil effect on comprehensive income.

5. Accounts Receivable

Chinook's accounts receivable were comprised of:

	September 30 2014	December 31 2013
From Canadian Operations:		
Trade accounts receivable & accrued receivables	**$ 27,502**	$ 25,591
Other receivables	**1,652**	368
Cash call receivables	**2,052**	5,579
Allowance for doubtful accounts	**(1,486)**	(1,750)
Tunisian operations	**-**	6,412
	$ 29,720	$ 36,200

Chinook's accounts receivable balance was aged as follows:

	September 30 2014	December 31 2013
Not past due	**$ 25,904**	$ 31,103
Past due by more than 90 days, net of allowance	**3,816**	5,097
	$ 29,720	$ 36,200

6. 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**
Canadian operations			
Capital expenditures	32,892	24,021	56,913
Cost of properties sold	(7,674)	(431)	(8,105)
Change in decommissioning assets	349	100	449
Transfer from E&E to D&P	5,286	(5,286)	-
Total change – Canadian operations	30,853	18,404	49,257
Tunisian operations			
Capital expenditures	26,057	-	26,057
Change in decommissioning assets	538	-	538
Foreign exchange adjustment	5,547	5	5,552
Cost of discontinued operations sold (note 4)	(238,938)	(332)	(239,270)
Total change – Tunisian operations	(206,796)	(327)	(207,123)
Balance as at September 30, 2014	**$ 722,292**	**$ 70,992**	**$ 793,284**
Accumulated Depletion, Depreciation & Amortization			
Balance as at December 31, 2013	**$ (421,429)**	**$ (40,456)**	**$ (461,885)**
Canadian operations			
Depletion, depreciation & amortization	(34,017)	(2,119)	(36,136)
Reversed on sale of properties	3,669	375	4,044
Total change – Canadian operations	(30,348)	(1,744)	(32,092)
Tunisian operations			
Depletion, depreciation & amortization	(10,756)	(74)	(10,830)
Inventoried depletion	(3,745)	-	(3,745)
Foreign exchange adjustment	(2,466)	-	(2,466)
Reversed on discontinued operations sold (note 4)	109,191	205	109,396
Total change – Tunisian operations	92,224	131	92,355
Balance as at September 30, 2014	**$ (359,553)**	**$ (42,069)**	**$ (401,622)**
Net Book Values			
Balance as at December 31, 2013	$ 476,806	$ 12,459	$ 489,265
Balance as at September 30, 2014	**$ 362,739**	**$ 28,923**	**$ 391,662**

Chinook incurred $56.9 million in capital expenditures from continuing operations during the nine months ended September 30, 2014 ($32.7 million for the nine months ended September 30, 2013). The Company capitalized $0.9 million and $0.8 million of direct general & administrative costs as related to its continuing exploration and development activity during the nine months ended September 30, 2014 and 2013, respectively.

Exploration Wells

For the nine months ended September 30, 2014 and 2013, respectively, $1.1 million and $1.2 million of cash pre-licensing evaluation, exploratory lease rental and geological and geophysical costs were incurred on continuing operations. In addition, during the nine months ended September 30, 2013, management completed its evaluation and determined that a Canadian exploration well drilled during 2012 was unsuccessful for petroleum or natural gas reserves. As a result, a non-cash charge of $1.4 million was expensed, resulting in a total exploration and evaluation expense of $2.6 million for the nine months ended September 30, 2013.

Property Dispositions

During the nine months ended September 30, 2014, the Company completed the sale of several petroleum and natural gas properties for aggregated net proceeds of $5.4 million ($19.7 million for the nine months ended September 30, 2013). The carrying amount of these sold properties, less $1.5 million of associated decommissioning obligations (see note 9), was less than the sales proceeds received resulting in a gain of $2.9 million for the nine months ended September 30, 2014 ($13.0 million for the nine months ended September 30, 2013).

Impairment

At September 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.

7. Accounts Payable, Accrued Liabilities & Other

	September 30 2014	December 31 2013
From Canadian Operations:		
Trade accounts payable	**$ 7,691**	$ 7,597
Accrued liabilities	**29,094**	24,369
Joint operations accounts payable	**3,336**	4,325
Other payables	**1,225**	719
Transaction costs on sale of discontinued operations (note 4)	**3,363**	-
Tunisian operations	**-**	11,322
	$ 44,709	$ 48,332

8. Derivative Contracts

Chinook's commodity price contracts were assessed as level 2 on the fair value hierarchy and were reported at September 30, 2014 and December 31, 2013, at their fair value liability as follows:

	September 30 2014	December 31 2013
Derivative contracts liability		
Canadian operations	**$ 584**	$ 947
Tunisian operations	**-**	625
	$ 584	$ 1,572

These 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.

Chinook's realized gains and losses and unrealized gains from commodity price risk management contracts related to continuing operations for the three and nine months ended September 30, 2014 and 2013 were as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Realized losses (gains) on derivative contracts	**$ 731**	$ (875)	**$ 3,601**	$ (805)
Unrealized gains on derivative contracts	**(2,440)**	(17)	**(363)**	(447)
	$ (1,709)	$ (892)	**$ 3,238**	$ (1,252)

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 September 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	October 1, 2014 to December 31, 2014
AECO	5,000 GJ/d	\$3.68/GJ	October 1, 2014 to December 31, 2014
AECO	5,000 GJ/d	\$3.5025/GJ	October 1, 2014 to October 31, 2014
WTI	500 bbl/d	\$101.30/bbl	October 1, 2014 to December 31, 2014

Immediately prior to the closing of the PSA (see note 4 "Discontinued Operations"), Chinook paid $0.1 million to cancel the Brent indexed costless collar contract which had a fair value liability of $0.6 million as at December 31, 2013.

9. 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 September 30, 2014, Chinook has estimated the net present value of its total decommissioning obligation based on a total future undiscounted liability of $115.4 million ($123.6 million, including $6.2 million related to discontinued operations – December 31, 2013). At September 30, 2014, management estimates that these payments are expected to be made over an average of 17.8 years. At September 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**
Canadian operations	
Property dispositions	**(1,535)**
Development and exploration activities	**449**
Settlement/expenditures	**(1,760)**
Accretion expense	**2,031**
Total change – continuing operations	**(815)**
Tunisian operations	
Development activities	**538**
Accretion expense	**94**
Foreign exchange	**138**
Discontinued operations sold (note 4)	**(5,800)**
Total change – discontinued operations	**(5,030)**
Balance as at September 30, 2014	**$ 84,524**

10. Long-Term Debt

	September 30 2014	**December 31 2013**
Canadian revolving term credit facility	**$ -**	$ 78,500
Unamortized deferred financing costs – Canadian Revolving Term Credit Facility	**-**	(208)
Unamortized deferred financing costs – International Credit Facility	**-**	(2,395)
	$ -	$ 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. During the three and nine months ended September 30, 2014, Chinook repaid the entire outstanding principal drawn from the facility. As a result, at September 30, 2014, Chinook had no drawings under the facility although it had an outstanding letter of credit of $0.3 million against the Canadian Revolving Term Credit Facility, 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 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 nine months ended September 30, 2014, was 4.6% and 4.2%, respectively (three and nine months ended September 30, 2013 – 5.4% and 5.3%, respectively). The Canadian 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 September 30, 2014, since Chinook had no outstanding bank debt, it 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 4 "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 three months ended September 30, 2014, and corresponding to the repayment of all the outstanding principal of the Canadian Revolving Term Credit Facility, the remaining deferred financing charges were expensed through the line item continuing operations net financing charges as included on the condensed consolidated statements of operations and comprehensive income.

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 three and nine months ended September 30, 2014, $2.1 million of deferred financing costs were expensed as transaction costs as further included in the line item net income from discontinued operations on the condensed consolidated statements of operations and comprehensive income. Prior to the closing of the PSA, deferred financing charges of $0.3 million were amortized through expenses as further included in the line item net income from discontinued operations.

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 (thousands)	Share capital
Balance as at December 31, 2013	**214,188**	**$ 778,070**
Issued upon exercise of share options	891	1,586
Consideration forgiven on share options forfeited on cash-less exercise	-	(1,458)
Net consideration on share issuance	891	128
Fair value of exercised options	-	3,864
Balance as at September 30, 2014	**215,079**	**$ 782,062**

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 nine months ended September 30, 2014 and 2013, were calculated as per the following table:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Weighted average shares outstanding – basic (thousands)	**214,895**	214,188	**214,439**	214,188
Dilutive impact of share options, restricted awards and performance awards (thousands)	**1,878**	-	**1,151**	-
Weighted average shares outstanding – diluted (thousands)	**216,773**	214,188	**215,590**	214,188
Continuing operations:				
Net income (loss)	**$ 3,696**	$ (316)	**$ 7,639**	$ 698
Per share – basic & diluted ($/share)	**$ 0.02**	$ -	**$ 0.04**	$ 0.01
Discontinued operations:				
Net income	**$ 7,776**	$ 4,128	**$ 14,309**	$ 11,604
Per share – basic & diluted ($/share)	**$ 0.03**	$ 0.02	**$ 0.06**	$ 0.05
Net income	**$ 11,472**	$ 3,812	**$ 21,948**	$ 12,302
Per share – basic & diluted ($/share)	**$ 0.05**	$ 0.02	**$ 0.10**	$ 0.06

For the three and nine months ended September 30, 2014 and 2013, diluted income 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 three and nine months ended September 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 1.9 million shares and 1.2 million shares, respectively. At September 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 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.

Total share-based compensation, included in continuing operations general & administrative expense in the condensed consolidated statements of operations and comprehensive income, for the three and nine months ended September 30, 2014, was $0.3 million and $0.6 million, respectively (three and nine months ended September 30, 2013 – $0.4 million and $1.1 million, respectively).

During the three and nine months ended September 30, 2014, and as a result of the sale of the discontinued operations (see note 4), 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 condensed 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.

Chinook also has committed to certain Canadian-based optionees, who were previously dedicated to its discontinued operations, including certain officers, that their unvested options will vest on December 1, 2014. At that time, and consistent with Chinook’s option plan, these Canadian-based optionees will then have 60 days to exercise any of their “in-the-money” options. At September 30, 2014, Chinook anticipates that 325,837 options held by these Canadian-based optionees with a weighted average exercise price of $1.32 per option will have their vesting date accelerated, of which 193,335 options are held by certain Chinook officers with a weighted average exercise price of $1.34 per option.

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 from discontinued operations on the condensed consolidated statements of operations and comprehensive income as offset by an increase in contributed surplus.

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 ($/option)
Balance as at December 31, 2013	**14,320**	**$ 1.89**
Granted	1,103	$ 2.05
Exercised for common shares	(891)	$ (1.78)
Forfeited, cancelled or surrendered	(4,850)	$ (1.87)
Expired	(35)	$ (2.72)
Balance as at September 30, 2014	**9,647**	**$ 1.92**

The table below summarizes the outstanding share options and their respective weighted average exercise prices and remaining life at September 30, 2014 and the number of exercisable options and their respective weighted average exercise prices and remaining life as at September 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	1,847	$ 1.18	3.5	610	$ 1.18	3.2
$ 1.42 – $1.77	2,260	$ 1.50	2.2	1,479	$ 1.51	2.2
$ 1.80 – $2.19	2,571	$ 2.14	1.1	2,571	$ 2.14	1.1
$ 2.22 – $2.43	1,505	$ 2.39	2.0	1,072	$ 2.41	0.8
$ 2.46 – $2.72	1,464	$ 2.65	1.3	1,164	$ 2.70	0.4
	9,647	**$ 1.92**	**2.0**	**6,896**	**$ 2.06**	**1.4**

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

Nine months ended September 30	2014	2013
Expected average life (years)	**3 to 5**	3 to 5
Risk-free interest rate (%)	**1.15 to 1.77**	1.07 to 1.93
Estimated forfeiture rate per annum (%)	**12.8 to 13.1**	13.0
Volatility factor (%)	**49 to 54**	49 to 54
Share option exercise price ($/option)	**1.35 to 2.46**	0.94 to 1.19

The weighted average fair value determined for options granted during the three and nine months ended September 30, 2014, was $0.97 per option and $0.86 per option, respectively (three and nine months ended September 30, 2013 – $0.40 per option and $0.35 per option, respectively).

b) Share Award Incentive Plan

	Number of Restricted Awards (thousands)	Number of Performance Awards (thousands)
Balance as at December 31, 2013	-	**-**
Granted	198	231
Forfeited	(6)	(6)
Balance as at September 30, 2014	**192**	**225**

Chinook began to grant restricted awards and performance awards pursuant to the Share Award Incentive Plan on June 26, 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 table below summarizes the outstanding restricted awards and performance awards and their respective grant date prices and remaining life at September 30, 2014

	Restricted Awards		Performance Awards	
Grant Date Common Share Trading Prices ($/award)	Restricted Awards Outstanding (thousands)	Weighted Average Remaining Life (years)	Performance Awards Outstanding (thousands)	Weighted Average Remaining Life (years)
$2.33	27	1.4	94	1.4
$2.43	160	1.2	124	1.2
$2.46	5	1.3	7	1.3
	192	**1.3**	**225**	**1.3**

The fair value to be expensed per 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 determine the fair value to be expensed for the restricted awards and/or performance awards granted for the nine months ended September 30, 2014 were as follows:

Nine months ended September 30, 2014	Restricted Awards	Performance Awards
Weighted average common share trading price ($/share)	**2.42**	**2.39**
Estimated forfeiture rate per annum (%)	**13 to 13.1**	**13 to 13.1**
Performance award payout multiplier	**-**	**1.0**

The weighted average fair value to be expensed for restricted awards granted during the three and nine months ended September 30, 2014, was $2.05 and $2.10 per award, respectively. The weighted average fair value to be expensed for performance awards granted during the three and nine months ended September 30, 2014, was $2.04 and $2.08 per award, respectively.

13. Continuing Operations Net Financing Expenses

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Interest on bank debt and other interest	**$ 837**	$ 1,148	**$ 2,482**	$ 3,609
Interest earned	**(3)**	(34)	**(173)**	(357)
Finance charges and fees	**78**	75	**194**	202
Amortization of deferred financing costs	**195**	73	**343**	195
Accretion of decommissioning obligation	**681**	647	**2,031**	1,965
	$ 1,788	$ 1,909	**$ 4,877**	$ 5,614

14. Continuing Operations Supplemental Disclosures

Changes in non-cash working capital:

Nine months ended September 30	2014	2013
Cash provided by (used for):		
Accounts receivable	**$ 11**	$ (1,956)
Accounts payable, accrued liabilities & other	**7,552**	(11,515)
Prepaids & deposits	**(477)**	(170)
	$ 7,086	$ (13,641)
Cash provided by (used for):		
Operating activities	**$ (2,274)**	$ (15,030)
Investing activities	**9,360**	1,389
	$ 7,086	$ (13,641)

Other supplemental cash flow information:

Nine months ended September 30	2014	2013
Cash taxes paid (refunded)	**$ -**	$ -
Cash interest paid	**$ 2,482**	$ 3,609