2015 Consolidated Financial Statements

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

Management's Report

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

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

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

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

"signed"

Walter J. Vrataric
President & Chief Executive Officer

"signed"

Jason Dranchuk
Vice President, Finance & Chief Financial Officer

Calgary, Alberta

March 7, 2016

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, 2015 and December 31, 2014, the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Chinook Energy Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 7, 2016
Calgary, Canada

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)	December 31 2015	December 31 2014
Assets		
Current		
Cash	$ 37,947	$ 46,018
Accounts receivable (note 16)	11,173	24,952
Prepaids & deposits	2,101	2,207
Derivative contracts (note 16)	-	1,481
Assets held for sale (note 9)	-	23,066
	51,221	97,724
Development & production assets (note 5)	246,036	309,217
Exploration & evaluation assets (note 6)	24,307	27,377
	$ 321,564	$ 434,318
Liabilities & Shareholders' Equity		
Current		
Accounts payable, accrued liabilities & other (note 16)	$ 21,607	$ 44,389
Current portion of provision (note 10)	2,700	-
Liabilities held for sale (note 9)	-	752
	24,307	45,141
Provisions (note 10)	96,042	106,726
Shareholders' Equity		
Share capital (note 13)	782,705	782,071
Contributed surplus	18,916	17,180
Deficit	(600,406)	(516,800)
	201,215	282,451
	$ 321,564	$ 434,318

Commitments and guarantees (note 17)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

"signed"
Matthew J. Brister
Chairman of the Board of Directors and Director

"signed"
Robert J. Herdman
Chairman of the Audit Committee and Director

Consolidated Statements of Operations and Comprehensive Loss

	Year ended December 31	
(in thousands of Canadian dollars, except per share amounts)	**2015**	2014
Continuing operations		
Petroleum & natural gas revenues	**$ 51,206**	$ 137,445
Royalties	**(1,505)**	(18,783)
Petroleum & natural gas revenues, net of royalties	**49,701**	118,662
Processing & gathering revenues	**3,873**	5,308
Petroleum, natural gas & other revenues, net of royalties	**53,574**	123,970
Realized gain (loss) on derivative contracts	**1,587**	(2,933)
Unrealized (loss) gain on derivative contracts	**(1,481)**	2,428
Gain (loss) on derivatives	**106**	(505)
	53,680	123,465
Production & operating	**36,628**	56,324
General & administrative	**9,797**	13,980
Exploration & evaluation (note 6)	**1,648**	1,632
Depletion, depreciation & amortization (notes 5 & 6)	**32,508**	48,813
Impairment of development & production assets (note 5)	**75,000**	63,500
Gains on disposition of properties (notes 8 & 9)	**(23,331)**	(15,124)
Share-based compensation (note 14)	**2,370**	938
Bad debt expense (note 16)	**1,072**	1,206
Foreign exchange gains & other	**(639)**	(2,293)
Deferred lease obligation amortization	**-**	(528)
	135,053	168,448
Loss from continuing operations before finance expenses	**(81,373)**	(44,983)
Interest & financing (income) charges	**(243)**	2,634
Amortization of deferred financing cost	**-**	343
Accretion of decomissioning obligations (note 10)	**2,476**	2,712
Finance expenses	**2,233**	5,689
Net loss from continuing operations	**(83,606)**	(50,672)
Discontinued operations		
Net income from discontinued operations, net of income taxes	**-**	12,272
Net loss	**(83,606)**	(38,400)
Foreign currency translation gain from discontinued operations	**-**	3,305
Transfer of accumulated comprehensive income on disposition of foreign operations	**-**	(9,546)
Other comprehensive loss	**-**	(6,241)
Comprehensive loss	**$ (83,606)**	$ (44,641)
Net (loss) income per share, basic & diluted (note 13):		
Continuing operations	**$ (0.39)**	$ (0.24)
Discontinued operations	**$ -**	$ 0.06
Net loss per share	**$ (0.39)**	$ (0.18)

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, 2013	**214,188**	**$ 778,070**	**$ 20,846**	**$ (478,400)**	**$ 6,241**	**$ 326,757**
Share options exercised (note 13)	894	4,001	(3,874)	-	-	127
Share options surrendered (note 14)	-	-	(922)	-	-	(922)
Share-based compensation (note 14)	-	-	938	-	-	938
Transaction costs on discontinued operations (note 19)	-	-	192	-	-	192
Foreign currency translation gain on discontinued operations	-	-	-	-	3,305	3,305
Transfer of accumulated other comprehensive income on disposition of foreign operations (note 19)	-	-	-	-	(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**
Settlement of share options, restricted & performance share awards (note 14)	267	634	(634)	-	-	-
Share-based compensation (note 14)	-	-	2,370	-	-	2,370
Net loss	-	-	-	(83,606)	-	(83,606)
Balance as at December 31, 2015	**215,349**	**$ 782,705**	**$ 18,916**	**$ (600,406)**	**$ -**	**$ 201,215**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Year ended December 31 2015	 2014
Operating Activities		
Net loss	**$ (83,606)**	$ (38,400)
Deduct: net income from discontinued operations	**-**	(12,272)
Net loss from continuing operations	**(83,606)**	(50,672)
Add (deduct):		
Depletion, depreciation & amortization (notes 5 & 6)	**32,508**	48,813
Gains on disposition of properties (notes 8 & 9)	**(23,331)**	(15,124)
Impairment of development & production assets (note 5)	**75,000**	63,500
Accretion of decomissioning obligations (note 10)	**2,476**	2,712
Share-based compensation (note 14)	**2,370**	938
Unrealized loss (gain) on derivative contracts	**1,481**	(2,428)
Bad debt expense (note 16)	**1,072**	1,206
Foreign exchange gain & other	**(585)**	(602)
Amortization of deferred financing cost	**-**	343
Deferred lease obligation amortization	**-**	(528)
Decommissioning obligation expenditures & other (note 10)	**(3,888)**	(2,692)
Change in operating non-cash working capital (note 18)	**(116)**	791
Cash flow from operating activities:		
Continuing operations	**3,381**	46,257
Discontinued operations	**-**	6,847
Cash flow from operating activities	**3,381**	53,104
Financing Activities		
Net consideration on share issuance	**-**	127
Long-term debt repayments	**-**	(78,500)
Deferred financing charges	**-**	(135)
Cash flow from continuing financing activities	**-**	(78,508)
Investing Activities		
Proceeds on property dispositions (notes 8 & 9)	**42,799**	35,578
Development & exploration expenditures (notes 5 & 6)	**(44,325)**	(82,366)
Business combination (note 7)	**(658)**	(15,850)
Change in investing non-cash working capital (note 18)	**(8,197)**	8,792
Cash flow from investing activities:		
Continuing operations	**(10,381)**	(53,846)
Consideration on sale of discontinued operations	**-**	140,480
Discontinued operations (note 19)	**(1,925)**	(43,805)
Cash flow from investing activities	**(12,306)**	42,829
Change in cash, during the period		
Continuing operations	**(7,000)**	54,383
Discontinued operations	**(1,925)**	(36,958)
Cash, beginning of period	**46,018**	25,979
Cash, foreign currency translation gain	**854**	2,614
Cash, end of period	**$ 37,947**	$ 46,018

Other supplementary information (note 18)

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Year ended December 31, 2015 and 2014

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 the year ended December 31, 2015 and 2014 (these “Financial Statements”) include the accounts of Chinook Energy Inc. and its directly held 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, 2015, the subsidiaries included: 1542991 Alberta Ltd. and Storm Ventures International (BVI) Limited (“Storm (BVI)”). For the year ended December 31, 2014, these subsidiaries included those companies just mentioned as well as: 1398216 Alberta Ltd., Cyries Wyoming Inc. and Iteration Energy (Texas), LLC.

Cyries Wyoming, Inc. and Iteration Energy (Texas), LLC, were dissolved in December 2014, and on January 1, 2015, 1398216 Alberta Ltd. was amalgamated with Chinook Energy Inc. to form the same.

The Financial Statements for the year ended December 31, 2014 also include the accounts of Storm Ventures International (Barbados) Limited (“SVI Barbados”) and its wholly-owned subsidiary Storm Sahara Limited (“SSL”) (combined the “Discontinued Operations”) up to August 19, 2014, the date control ceased. On that date Storm (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 pursuant to a share purchase and sale agreement dated as of June 14, 2014. The Discontinued Operations’ financial results are separately presented as such in these Financial Statements.

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 7, 2016.

Certain comparative amounts have been reclassified to conform to the current year’s presentation.

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 19 “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 groups 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 in the Financial Statements:

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, production costs, testing and production levels and changes to forward petroleum and natural gas prices.

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 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)

Joint Arrangements:

Chinook conducts many of its petroleum and natural gas production activities through joint 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 100% working interest, govern that the partners have rights to the assets and obligations for the liability. 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

Cash and cash equivalents are comprised of cash and short-term investments that are highly liquid in nature and have a maturity date of three months or less.

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. 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 a 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 operating segment 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.

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 applies a present value to these cash flows using a discount rate range depending on the category of reserves being discounted. When it is determined that any 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 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 non-current on the Consolidated Statements of Financial Position. Conditions which must be met in order to classify an asset 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;
- The sale should be expected to take place within one year of the date of classification as held for sale.

Assets held for sale are not depleted or amortized.

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 values. 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 Statement of Operations and Comprehensive 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 as reported in accretion expense and 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 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 balance sheet 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 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.

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 two types of incentive plans: share awards and share options that may be granted to directors, officers and employees:

Share award incentive plan

The Company has a Restricted and Performance Award Incentive Plan (the "Share Award Incentive Plan"). Chinook began to grant restricted awards (RSUs) and performance awards (PSUs) 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.

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. 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 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.

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.

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.

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. 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 or 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 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.

Earnings (Loss) per Share

Basic earnings (loss) per share is calculated by dividing the net earnings or loss attributable to Chinook's common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by the same calculation as basic earnings (loss) per share except diluted earnings per share includes the weighted average number of common shares outstanding during the period for the dilutive effects of outstanding options, RSUs and PSUs at the end of the reporting period.

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. The discontinued operations' foreign currency revenues and expenditures were translated at the period average rates of exchange. The difference that arose upon translation from the functional currency to the reporting currency between the period average foreign exchange rate and the rate of exchange in effect on August 19, was recorded as a foreign currency translation gain on foreign operations in other comprehensive income as offset within accumulated other comprehensive loss. On August 19, 2014, the sale of these discontinued operations gave rise to a realized foreign exchange gain which was recorded in retained earnings.

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.

In May 2014 the IASB issued IFRS 15 "Revenue from Contracts with Customers" to replace International Accounting Standard ('IAS") 18, Revenue, IAS 11 "Construction Contracts", and related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

As of January 1, 2018, Chinook will be required to adopt the above two standards.

In January 2016, the IASB issued IFRS 16 “Leases”. The goal of the standard is to bring leases on the balance sheet for lessees. There will be a single lease accounting model for all leases, there will no longer be a classification test between finance and operating leases. The lessee will recognize a Right of Use (“ROU”) asset and a lease liability, and the lease will be treated as an asset on a financed basis. There will be an optional exemption from the above for short term leases, defined at 12 months or less and an option for portfolio accounting on leases that have similar criteria. From the lessor’s perspective, there will still be a dual lease accounting model, that follows the criteria set out in IAS 17. As of January 1, 2019, Chinook will be required to adopt this standard.

Management is evaluating the impact these standards may have on Chinook’s financial statements.

5. Development and Production Assets

The following table reconciles Chinook’s D&P Assets as at December 31, 2015 and 2014:

Cost of Assets	**2015**	2014
Beginning balance	**$ 694,361**	$ 691,407
Capital expenditures	**41,975**	51,558
Business combination cash consideration (note 7)	**658**	15,850
Business combination non-cash consideration (note 7)	**-**	4,997
Business combination decommissioning asset additions (note 7)	**-**	2,368
Assets held for sale (note 9)	**-**	(44,145)
Cost of properties sold/swapped (note 8)	**(24,019)**	(68,824)
Transfer from exploration & evaluation assets (note 6)	**3,436**	11,009
Decommissioning asset additions and change in estimates (note 10)	**2,788**	30,141
Ending balance	**$ 719,199**	$ 694,361
Accumulated Depletion & Depreciation		
Beginning balance	**$ (385,144)**	$ (329,171)
Depletion & depreciation	**(28,843)**	(45,871)
Impairment	**(75,000)**	(63,500)
Reversed on assets held for sale (note 9)	**-**	21,103
Reversed on sale/swap of properties (note 8)	**15,824**	32,295
Ending balance	**$ (473,163)**	$ (385,144)
Net book values	**$ 246,036**	$ 309,217

Impairment

During the year ended December 31, 2015, Chinook identified triggers indicating impairment in the carrying values of the development and production assets. These triggers resulted from a significant reduction in both short and long-term forward Canadian petroleum and natural gas prices. The carrying value of these assets was sensitive to changes in forward commodity prices as Chinook last reported impairment totaling $63.5 million against all three CGUs in the fourth quarter of 2014. Upon reporting that impairment charge, each CGU’s carrying value approximated its recoverable value. Given continued forward commodity price deterioration, Chinook calculated an initial impairment test on each CGU’s carrying values as at September 30, 2015. This testing revealed impairment in each of the three CGUs totaling $75.0 million. On the December 31, 2015 carrying values, Chinook re-tested for impairment on each CGU. This subsequent test did not reveal any further impairment. Although forward pricing further deteriorated between September 30, 2015 and December 31, 2015, the impact on each CGU’s recoverable value was offset by additional proved undeveloped and probable reserves.

Each CGU's recoverable value was estimated using a value in use calculation based on expected future net revenues anticipated to be produced from total proved plus probable reserves, using an average discount rate ranging from 10% to 20%, depending on the category of reserves, and the following forward commodity price estimates:

	Edmonton Light Crude Oil ($/bbl) (1)		AECO Gas ($/mmbtu) (2)	
As at December 31,	**2015 (3)**	**2014 (4)**	**2015 (3)**	**2014 (4)**
2016	$ 50.74	$ 83.20	$ 2.56	$ 4.00
2017	$ 66.40	$ 88.90	$ 3.20	$ 4.25
2018	$ 72.80	$ 94.60	$ 3.55	$ 4.50
2019	$ 80.90	$ 99.60	$ 3.85	$ 4.70
2020	$ 83.20	$ 104.70	$ 3.95	$ 5.00
Thereafter	1.94% to 2.07%/yr	1.94% to 2.07%/yr	1.6% to 3.77%/yr	1.6% to 3.77%/yr

(1) Central market point for Canadian crude oil.

(2) Central market point for Canadian natural gas.

(3) Source: 2016 forward strip pricing per Bloomberg. 2017 and onwards is McDaniel & Associates Consultants Ltd. price forecast, effective January 1, 2016.

(4) Source: McDaniel & Associates Consultants Ltd. price forecast, effective January 1, 2015.

Capitalized Overhead Charges

The Company capitalized $1.4 million of direct general and administrative costs related to its development activity during the year ended December 31, 2015 (December 31, 2014 - $1.1 million).

6. Exploration & Evaluation Assets

The following table reconciles Chinook's E&E Assets as at December 31, 2015 and 2014:

Cost of Assets	**2015**	2014
Beginning balance	**$ 69,168**	$ 52,589
Capital expenditures	**2,350**	29,176
Fair value of property swaps (note 8)	**1,981**	-
Assets held for sale (note 9)	**-**	(208)
Cost of properties sold/swapped (note 8)	**(1,441)**	(1,480)
Transfer to development & production assets (note 5)	**(3,436)**	(11,009)
Decommissioning asset addition (note 10)	**-**	100
Ending balance	**$ 68,622**	$ 69,168
Accumulated Amortization		
Beginning balance	**$ (41,791)**	$ (40,326)
Amortization	**(3,665)**	(2,942)
Reversed on assets held for sale (note 9)	**-**	183
Reversed on sale/swap of properties (note 8)	**1,141**	1,294
Ending balance	**$ (44,315)**	$ (41,791)
Net book values	**$ 24,307**	$ 27,377

During each year ended December 31, 2015 and 2014, pre-licensing evaluation, exploratory lease rental and geological and geophysical costs of $1.6 million were expensed through the line item "exploration and evaluation" on the consolidated statements of operations and comprehensive loss.

During the year ended December 31, 2015, Chinook identified facts and circumstances that indicated impairment in its carrying value of exploration and evaluation assets. Chinook compared this asset's carrying value to an internally prepared market valuation of its portfolio of undeveloped lands. This comparison did not indicate impairment of the carrying value of these assets.

7. Business Combination

On November 6, 2014 Chinook acquired primarily natural gas producing properties near its Birley/Umbach operations located in north eastern British Columbia along with operatorship of gas processing and transportation infrastructure for both a cash purchase price of $15.9 million after adjustments and 3.5 sections of undeveloped lands in the Wapiti area of Alberta with an assessed 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 gain on property dispositions as included in the net loss. The decommissioning obligation acquired was recorded 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:

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**

8. Property Dispositions

During the year ended December 31, 2015, Chinook completed the sale of several petroleum and natural gas properties including undeveloped lands and other adjustments for aggregated net proceeds of $1.3 million ($35.6 million for the year ended December 31, 2014). These proceeds do not include the proceeds from the assets held for sale discussed in note 9. Chinook also determined that the fair value of its undeveloped lands that it swapped as partial consideration for certain property dispositions was $2.0 million. The fair value of the undeveloped lands swapped as partial consideration of a business combination was $5.0 million for the year ended December 31, 2014 (see note 7). The carrying amount of these sold properties, less $9.4 million of associated decommissioning obligations ($11.3 million for the year ended December 31, 2014), was less than the sales proceeds received. This contributed to the gain on properties disposition of $4.1 million for the year ended December 31, 2015 ($15.1 million for the year ended December 31, 2014).

9. Assets 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 net proceeds of $41.5 million. At December 31, 2014, the Karr 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 Karr properties was reclassified from E&E Assets and D&P Assets to assets held for sale and the associated decommissioning obligations of $0.8 million were reclassified from provisions to liabilities held for sale on the consolidated statements of financial position. This transaction closed on January 6, 2015. This contributed $19.2 million to the gain on property dispositions. When combined with the gain from other property dispositions, (note 8) the total reported gain for the year ended December 31, 2015 was $23.3 million.

10. Provisions

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, 2015, Chinook has estimated the net present value of its total decommissioning obligation based on a total future undiscounted liability of $99.5 million ($117.6 million - December 31, 2014). At December 31, 2015, management estimates that these payments are expected to be made over an average of 18.5 years (December 31, 2014 – 18.0 years). At December 31, 2015, a risk free rate of 2.16% and an inflation rate of 2.0% were used to calculate the present values of the decommissioning obligations (December 31, 2014 – 2.33% and 2.0%, respectively).

The following table reconciles Chinook's provisions for the year ended December 31, 2015 and 2014:

		2015		2014
Beginning balance	**$**	**106,726**	$	85,335
Business combination		**-**		2,368
Decommissioning assets additions and change in estimates (note 5)		**2,788**		30,239
Property dispositions		**(9,360)**		(11,264)
Decommissioning obligation expenditures		**(3,708)**		(2,692)
Accretion expense		**2,476**		2,712
Liabilities held for sale		**-**		(752)
(Decrease) increase related to other provisions		**(180)**		780
Total provision	**$**	**98,742**	$	106,726

As reported on the statement of financial position, Chinook's provision balance consists of:

		2015		2014
Short-term portion of provision	**$**	**2,700**	$	-
Long-term portion of provision		**96,042**		106,726
Total provision	**$**	**98,742**	$	106,726

The increase in change in estimates of the decommissioning obligation for the years ended December 31, 2015 and 2014 were substantially due to a decrease in the weighted average risk free rate used to calculate the present values of this obligation. There were no significant partially offsetting decreases in the decommission obligation's change in estimate for the year ended December 31, 2015 and 2014.

11. Long-Term Debt

During the year ended December 31, 2015, Chinook's reserve-based 364 day revolving credit facility (the "Revolving Term Credit Facility"), which it holds with a syndicate of Canadian banks, was amended twice following the completion of the semi-annual reviews. At December 31, 2015, the amended Revolving Term Credit Facility has a borrowing base of $50.0 million, down from $75 million at June 30, 2015 and $125.0 million at December 31, 2014, primarily as a result of reduced commodity pricing and non-core asset dispositions. The Revolving Term Credit Facility is subject to re-determination on a semi-annual basis, with a maturity date of June 23, 2016, subject to further extension, and does not include any financial covenants. In the event that the revolving period is not extended at the next redetermination date, all amounts then outstanding under the facility must be repaid before June 23, 2017. Changes in the availability in 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. The Revolving Term Credit Facility is collateralized by floating charges and security interests over all present and future properties and other assets of Chinook. At December 31, 2015 and 2014, Chinook was undrawn on the Revolving Term Credit Facility.

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%.

12. Income Taxes

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 2015	December 31 2014
Net loss before tax from continuing operations	$ (83,606)	$ (50,672)
Expected tax rate	26.0%	25.0%
Expected income tax recovery	$ (21,738)	$ (12,668)
Effect on income tax resulting from:		
Stock-based compensation	617	234
Change in unrecognized tax asset	23,260	13,271
Difference between foreign tax rates & Canadian tax rates	-	(454)
Adjustments to opening deferred tax balances	788	(383)
Change in enacted tax rates	(2,927)	-
Total income tax expense	$ -	$ -

The statutory tax rate consists of the combined federal and provincial tax rates applicable for the Company and its subsidiaries.

Unrecognized deferred tax assets

As at December 31, 2015, the Company had Canadian tax losses carried forward of $211.2 million (December 31, 2014 - $183.3 million). If not utilized, the majority of the losses will expire from 2026 to 2035.

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, 2015, the Company did not recognize deferred tax assets related to $211 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 2015	December 31 2014
Deferred tax liabilities:		
Development & production/exploration & evaluation assets	$ 23,269	$ 35,932
Derivative contracts	-	370
	23,269	36,302
Less deferred tax assets:		
Non-capital losses	-	(9,227)
Provisions	(23,269)	(27,075)
Net deferred tax liability	$ -	$ -

Movement in deferred taxes related to temporary differences during the year ended December 31, 2015:

	December 31 2014	Recognized in statement of loss	December 31 2015
Development & production/exploration & evaluation assets	$ 35,932	$ (12,663)	$ 23,269
Non-capital tax losses	(9,227)	9,227	-
Derivative contracts	370	(370)	-
Provisions	(27,075)	3,807	(23,269)
	$ -	$ -	$ -

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 & 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)	$ -

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.

13. Share Capital

Authorized:

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

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	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**
Settlement of share options, RSUs & PSUs	267	634
Balance as at December 31, 2015	**215,349**	**$ 782,705**

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.

Per Share Amounts

The per share amounts for the years ended December 31, 2015 and 2014, were calculated as per the following table:

	Year ended December 31	
	2015	2014
Weighted average shares outstanding - basic & diluted (thousands)	**215,197**	214,601
Net loss from continuing operations	**$ (83,606)**	$ (50,672)
Per share - basic & diluted ($/share)	**$ (0.39)**	$ (0.24)
Net income from discontinued operations	**$ -**	$ 12,272
Per share - basic & diluted ($/share)	**$ -**	$ 0.06
Net loss	**$ (83,606)**	$ (38,400)
Per share - basic & diluted ($/share)	**$ (0.39)**	$ (0.18)

For the years ended December 31, 2015 and 2014, because Chinook reported net losses from continuing operating 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 share outstanding.

For the year ended December 31, 2014, diluted discontinued net 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 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 shares.

14. 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 the net loss from continuing operations, for the years ended December 31, 2015 and 2014, was $2.4 million and $1.0 million, respectively.

Share Option Plan

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	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**
Granted	4,304	$ 0.82
Forfeited or cancelled	(2,359)	$ (1.75)
Expired	(3,009)	$ (2.41)
Balance as at December 31, 2015	**9,466**	**$ 1.21**

The table below summarizes the outstanding share options and their respective weighted average exercise prices and remaining life at December 31, 2015 and the number of exercisable options and their respective weighted average exercise prices and remaining life as at December 31, 2015.

	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)**
$0.54 - $0.84	2,476	$	0.55	4.9	44	$	0.84	2.9
$0.94 - $1.19	2,493	$	1.16	3.5	602	$	1.15	2.3
$1.22 - $1.35	1,648	$	1.26	3.4	778	$	1.25	2.7
$1.42 - $1.67	1,485	$	1.47	1.0	1,485	$	1.47	1.0
$1.68 - $2.46	1,364	$	2.18	2.4	802	$	2.09	1.6
	9,466	**$**	**1.21**	**3.3**	**3,711**	**$**	**1.50**	**1.7**

The following factors were used in the Black-Scholes pricing model for the determination of the fair value of options granted during the years ended December 31, 2015 and 2014:

December 31	**2015**	**2014**
Expected average life (years)	**3 to 5**	**3 to 5**
Risk-free interest rate (%)	**0.72 to 1.22**	**1.05 to 1.77**
Estimated forfeiture rate per annum (%)	**12.8 to 13.1**	**12.8 to 13.1**
Volatility factor (%)	**52 to 60**	**49 to 56**
Share option exercise price ($/option)	**0.84 to 2.09**	**1.26 to 2.46**

The weighted average fair value determined for options granted during the year ended December 31, 2015 was $0.36 per option (December 31, 2014 - $0.69 per option).

Share Award Incentive Plan

A summary of restricted 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**
Granted	1,039	940
Distributed	(96)	(117)
Forfeited	(66)	(60)
Balance as at December 31, 2015	**1,084**	**1,007**

The factors used to fair value the restricted award and/or performance award grants for the year ended December 31, 2015 and 2014 were as follows:

Year ended December 31, 2015		**2015**		2014
	Restricted Awards	**Performance Awards**	Restricted Awards	Performance Awards
Weighted average common share trading price ($/share)	**1.21**	**1.25**	2.37	2.34
Estimated forfeiture rate per annum (%)	**12.9 to 13.1**	**12.9 to 13.1**	13 to 13.1	13 to 13.1
Estimated performance award payout multiplier	**N/A**	**1.0**	N/A	1.5

15. **Related Party and Significant Shareholder**

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 the share option plan and the Share Award Incentive Plan. The officers' salaries, directors' fees and other benefits as included in general and administrative expenses for the years ended December 31, 2015 and 2014 totaled $2.6 million and $2.5 million, respectively. Long-term incentive benefits for our officers' and directors as included in share-based compensation for the years ended December 31, 2015 and 2014 totaled $1.3 million and $0.5 million, respectively.

The officers associated with our discontinued operations were paid salaries, including severances plus other benefits and share-based compensation as included in discontinued operations net income for the year ended December 31, 2014 totaling $2.5 million.

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 Energy Inc., WOGH GP engaged Chinook Energy Inc. 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, which is reported against the Company's general and administrative expense of $1.7 million and $1.3 million for the years ended December 31, 2015 and 2014, respectively. The recovery for the year ended December 31, 2015 was generally determined from WOGH Limited Partnership's pro rata share as estimated at 14 percent of its and Chinook's combined Canadian production volumes (December 31, 2014 – 19 percent). At December 31, 2015, $0.2 million of this general and administrative recovery was included in accounts receivable (December 31, 2014 - $0.3 million).

16. **Financial Instruments and Market Risk Management**

Financial Instrument Classification and Measurement

Chinook's financial instruments carried on the consolidated statements of financial position as at December 31, 2015 were carried at amortized cost with the exception of cash which was carried at fair value. Chinook's cash was assessed on the fair value hierarchy as Level 1 as it is transacted in active markets. 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 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, 2015. 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. In the past Chinook has entered into various financial derivative contracts to mitigate the exposure to commodity price risk. 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. As at December 31, 2015, Chinook had not entered into any financial derivative contracts. Had it entered into such an arrangement, the fair value estimate would have been 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.

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, 2015 and 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, 2015, Chinook held US$1.5 million in cash and management estimates that an increase (decrease) in the US dollar, relative to the Canadian dollar, of 20% is possible and this would result in a $0.4 million increase (decrease) in foreign exchange gains.

Financial Assets and Credit Risk

Credit risk is the risk of financial loss to Chinook if a partner or counterparty to a product sales contract or financial instrument fails to meet its contractual obligations. As at December 31, 2015, 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 joint interest activities and are subject to typical industry credit risk. The credit exposure of $3.6 million as included in accounts receivable at December 31, 2015 pertained to accrued revenue for December 2015 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. The remainder of Chinook's accounts receivable pertains to joint interest receivables. These are typically collected within one to three months following production. Of Chinook's accounts receivable at December 31, 2015, approximately 32 percent was owed from two companies and was subsequently collected by Chinook.

Chinook's accounts receivable balance was aged as follows:

	December 31 2015	December 31 2014
Not past due	**$ 9,755**	$ 21,294
Past due by more than 90 days, net of allowance	**1,418**	3,658
	$ 11,173	$ 24,952

During the year ended December 31, 2015, Chinook reported $1.1 million (2014 - $1.2 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 $2.5 million as at December 31, 2015 (December 31, 2014 - $1.5 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, 2015, $1.4 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. All of Chinook's accounts payable and accrued liabilities listed on the Consolidated Statements of Financial Position are due within one year.

17. Commitments and Guarantees

At December 31, 2015, 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	2016	2017	2018	2019	2020	Thereafter	Total
Office leases	$ 2,381	$ 2,400	$ 2,400	$ 1,921	$ -	$ -	$ 9,102
Operating & transportation contracts	3,385	1,338	1,019	924	829	202	7,697
	$ 5,766	**$ 3,738**	**$ 3,419**	**$ 2,845**	**$ 829**	**$ 202**	**$ 16,799**

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

Chinook is involved in litigation and claims arising in the normal course of operations and from indemnifications provided to the buyer of the Discontinued Operations (note 19). Such claims are not expected to have a material impact on Chinook's results of operations or cash flows.

18. Other Supplementary Information

Changes in non-cash working capital

	December 31 2015	December 31 2014
Cash provided by (used for):		
Accounts receivable	**$ 12,707**	$ 4,258
Accounts payable, accrued liabilities & other	**(21,126)**	4,600
Prepaids & deposits	**106**	725
	$ (8,313)	$ 9,583
Cash provided by (used for):		
Operating activities	**$ (116)**	$ 791
Investing activities	**(8,197)**	8,792
	$ (8,313)	$ 9,583

Cash interest and financing fees paid

	December 31 2015	December 31 2014
Cash interest & financing fees paid	**$ 494**	$ 2,634

Consolidated statements of operations and comprehensive loss presentation

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

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

Year ended December 31,	2015	2014
Production & operating	**$ 1,315**	$ 1,607
General & administrative	**2,332**	618
Exploration & evaluation	**601**	883
Total employee compensation costs	**$ 4,248**	$ 3,108

19. **Discontinued Operations**

On August 19, 2014, Chinook's wholly-owned subsidiary, Storm (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 a share purchase and sale agreement dated as of June 14, 2014 (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 loss and the consolidated statements of cash flows.

Chinook is subject to certain obligations guaranteed in favour of the buyer in connection with the sale of the Discontinued Operations on August 19, 2014. Chinook has guaranteed the payment of the indemnification obligations of Storm BVI, a wholly-owned subsidiary, under a share purchase and sale agreement with the buyer dated as of June 14, 2014. These obligations relate to any claims under the agreement in respect of breaches of certain representations, warranties and covenants of Storm BVI without a limit on amount or time. Consequently, any failure by Storm BVI to pay claims under these indemnification obligations could result in a substantial payment from Chinook to the buyer.

Management has received claims under the agreement from the buyer of the Discontinued Operations, at December 31, 2015, totaling $16 million as it received from a former Tunisian service provider and the Tunisian Tax Authority. Storm BVI has provided the buyer indemnifications for claims of this nature which are guaranteed by Chinook. As of December 31, 2015, an estimate of possible future disbursements for these indemnifications, including professional costs, totaled $1.2 million (2014 - $2.8 million) and is recorded in accounts payable, accrued liabilities and other on the statement of financial position. During the year to date, Chinook paid $1.9 million of such costs as reported on the consolidated statements of cash flow as a change in investing activities from discontinued operations. While the outcome of the remaining claims in excess of $1.2 million is not known with certainty, management is of the view that such claims are without merit and will represent Chinook's interests vigorously in any future legal or arbitration proceedings.

During the year ended December 31, 2014, 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		(129,491)
Less transaction costs		(9,952)
Gain on sale of discontinued operations	**$**	**1,037**

During the year ended December 31, 2014, and as a result of the sale of the Discontinued Operations, 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.

Chinook had sufficient surplus tax pools associated with its investment in Storm (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 from discontinued operations, net of income taxes are presented below:

		August 19 2014
Income from ordinary activities of discontinued operations	$	6,576
Gain on sale of discontinued operations		1,037
Realized accumulated other comprehensive income on disposition of foreign operations		9,546
Income taxes of discontinued operations		(4,887)
Net income from discontinued operations, net of income taxes	**$**	**12,272**