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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Anterra Energy Inc.:

We have audited the accompanying financial statements of Anterra Energy Inc., which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Anterra Energy Inc. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Anterra Energy Inc.'s ability to continue as a going concern.

Deloitte & Touche LLP

Chartered Accountants
April 28, 2011
Calgary, Canada

Anterra Energy Inc.
Balance Sheets

As at December 31	2010	2009
Assets		
Current		
Cash	$ 43,293	$ 25,839
Accounts receivable	1,083,969	878,936
Deposits and prepaid expenses	1,414,992	279,456
	2,542,254	1,184,231
Property and equipment (Note 4)	27,944,712	25,144,168
Intangible assets	-	10,001
	$ 30,486,966	$ 26,338,400

	2010	2009
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	$ 1,262,031	$ 2,968,623
Bank loan (Note 5)	1,299,841	3,277,664
Debentures (Note 6)	487,455	-
	3,049,327	6,246,287
Debentures (Note 6)	-	483,924
Asset retirement obligation (Note 7)	2,392,701	2,110,747
Future income taxes (Note 10)	955,383	1,822,589
	6,397,411	10,663,547
Share capital (Note 8)	30,437,032	18,785,041
Contributed surplus (Note 9)	1,408,079	1,092,825
Deficit	(7,755,556)	(4,203,013)
	24,089,555	15,674,853
	$ 30,486,966	$ 26,338,400

Commitments and contingencies (Note 14)
Going concern (Note 2)
Subsequent events (Note 17)

The accompanying notes are an integral part of these financial statements

Approved on behalf of the Board:

"Signed" Director
Owen Pinnell

"Signed" Director
Ross O. Drysdale

Anterra Energy Inc.
Statements of Operations, Comprehensive Loss and Deficit

For the years ended December 31		2010		2009
Revenues				
Revenue	**$**	**5,681,083**	$	4,214,324
Royalties		**(358,826)**		(159,460)
		5,322,257		4,054,864
Expenses				
Operating and transportation expenses		**4,157,186**		2,835,246
General and administrative		**2,775,342**		1,597,847
Stock-based compensation (Note 8 (c))		**315,254**		84,373
Interest		**79,262**		335,575
Accretion of asset retirement obligation		**195,688**		167,260
Depletion, depreciation and amortization		**2,112,937**		2,081,772
Creditor restructuring (Note 8)		**-**		(345,762)
Impairment of property and equipment (Note 5)		**-**		233,681
		9,635,669		6,989,992
Loss before income taxes		**(4,313,412)**		(2,935,128)
Income taxes (Note 10)				
Current		**-**		20,323
Future		**(760,869)**		(870,443)
		(760,869)		(850,120)
Net loss and comprehensive loss for the year		**(3,552,543)**		(2,085,008)
Deficit, beginning of year		**(4,203,013)**		(2,118,005)
Deficit, end of year	**$**	**(7,755,556)**	$	(4,203,013)
Basic loss per share (Note 13)	**$**	**(0.015)**	$	(0.044)
Diluted loss per share (Note 13)	**$**	**(0.015)**	$	(0.044)

The accompanying notes are an integral part of these financial statements

Anterra Energy Inc.
Statement of Cash Flows

For the years ended December 31		2010		2009
Cash flows from operating activities				
Net loss for the year	$	(3,552,543)	$	(2,085,008)
Items not involving cash				
Stock-based compensation		315,254		84,373
Depletion, depreciation and amortization		2,112,937		2,081,772
Accretion of asset retirement obligation		195,688		167,260
Non-cash interest expense		3,531		-
Impairment of property and equipment		-		233,681
Future income taxes		(760,869)		(870,443)
Asset retirement obligations settled		(56,419)		-
		(1,742,421)		(388,365)
Change in non-cash working capital (Note 12)		(2,058,672)		510,053
		(3,801,093)		121,688
Cash flows from financing activities				
Issue of Class A shares and warrants		12,060,000		3,400,011
Share issuance costs		(514,346)		(293,410)
Bank loan		(1,977,823)		(2,099,099)
		9,567,831		1,007,502
Cash flows used in investing activities				
Additions to property and equipment		(4,760,795)		(1,698,757)
Disposal proceeds for property and equipment		-		225,676
Change in non-cash working capital (Note 12)		(988,489)		369,730
		(5,749,284)		(1,103,351)
Increase in cash		17,454		25,839
Cash, beginning of year		25,839		-
Cash, end of year	$	43,293	$	25,839

The accompanying notes are an integral part of these financial statements

1. Nature of Operations

The Company was incorporated under the Alberta Business Corporations Act on March 22, 2000 as Holy Smoke Capital Corp. On November 1, 2002 the Company changed its name to Anterra Corporation.

On January 1, 2007, Anterra Corporation and its wholly owned subsidiaries Anterra Resources Inc. and Anterra Midstream Inc. were amalgamated under the name of Anterra Corporation. On May 1, 2007, Anterra Corporation completed an amalgamation with Resolve Energy Inc. under the name of Anterra Energy Inc.

The principal activities of the Company are the exploration, development and production of petroleum and natural gas properties.

2. Going Concern

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company reported a net loss of $3,552,543 and generated a negative cash flow from operating activities of $3,801,093 for the year ended December 31, 2010. The Company had a net working capital deficit of $507,073 at December 31, 2010 and had an accumulated deficit of $7,755,556.

The Company's ability to continue as a going concern is dependent upon the ability to raise capital, the generation of positive cash flow, the maintenance of its existing reserve and production base, the success of the development and exploration program and the continued support of its lender. There is no certainty that such events will occur and that sources of financing will be obtained on terms acceptable to management. Whether and when the Company can attain profitability and positive cash flows is also uncertain. These uncertainties cast significant doubt about the Company's ability to continue as going concern.

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

3. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Revenue recognition

Revenues associated with the sale of crude oil and natural gas are recorded when the title passes to the customer. Revenues from crude oil and natural gas production from properties in which the Company has an interest with other producers are recognized on the basis of the Company's net working interest. Revenues from midstream processing are recognized when the service is completed.

(b) Stock-based compensation plan

The Company records compensation expense for stock options granted to employees and directors using the fair value method with amounts expensed over the vesting period. Fair values are determined using the Black-Scholes option pricing model. Upon exercise the cash proceeds and the amounts previously recorded in contributed surplus for the fair value of the options are recorded as an increase to share capital. If options are forfeited, the compensation expense is not recorded to the extent that the options have not vested.

(c) Property and equipment

Petroleum and Natural Gas Properties and Equipment

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs relating to the acquisition, exploration and development of oil and natural gas reserves, including asset retirement costs, are initially capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, certain integrated processing facilities, costs of drilling both productive and non-productive wells, related production equipment costs, asset retirement and abandonment costs and overhead charges directly related to acquisition, exploration and development activities.

Capitalized costs, excluding costs related to unproven properties, are depleted and depreciated using the unit-of-production method based on estimated proven oil and natural gas reserves after deduction of royalties as determined by independent petroleum engineers. Petroleum and natural gas reserves and production are converted to equivalent barrels of oil using a ratio of six thousand cubic feet of natural gas to one barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether

3. Significant Accounting Policies - continued

impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a greater than 20% change in the depletion and depreciation rate. An impairment loss is recognized in net earnings when the carrying amount of a cost centre is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than the carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of:

i. the fair value of proved and probable reserves; and

ii. the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

Furniture and Fixtures

Furniture and fixtures are carried at cost and depreciated net of estimated salvage values on a straight line basis over the estimated service lives of the assets, from 5 to 20 years. These assets are assessed periodically to ascertain whether impairment has occurred.

(d) Intangible assets
Intangible assets consist of certain permits, licenses, trademarks and agreements. Amortization is provided for, where applicable, on a straight-line basis over the useful life of the assets, up to twenty years.

(e) Impairment of long-lived assets
On a periodic basis management assesses the carrying value of long-lived assets, which are not part of the oil and gas operations, for indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in technology, processes or the expected economic environment. When an indication of impairment is present, the Company will test for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value. The Company uses undiscounted future cash flows to determine the net recoverable amount and measures the amount of impairment using discounted cash flows, expected salvage values and other relevant data in the market.

(f) Asset retirement obligation (“ARO”)
Retirement costs equal to the retirement obligation are capitalized as part of the cost of property and equipment and amortized to expense through depletion and depreciation over the life of the asset. The change in the liability due to the passage of time is measured by applying an interest

3. Significant Accounting Policies - continued

method of allocation to the opening liability and is recognized as an increase in the carrying value of the liability and an expense. The expense is recorded as asset retirement accretion expense in the statement of operations, not as a component of interest expense. A change in the liability resulting from revisions to either the timing or the amount of the original estimate of undiscounted cash flows is recognized as an increase or decrease in the carrying amount of the liability, with an offsetting increase or decrease in the carrying amount of the associated asset. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized in earnings in the period in which the settlement occurs.

(g) Measurement uncertainty

Amounts recorded for depreciation, depletion and amortization, asset retirement costs and obligations and amounts used for impairment calculations are based on estimates of oil and natural gas reserves, future costs required to develop those reserves, production rates, oil and gas prices and other relevant assumptions. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

The capital expenditures classification made with respect to the renouncement of flow-through shares is based on estimates from geological and geophysical information obtained and the classification of the expenditures may be challenged by the taxation authorities and in this regard the assessments may be different from that of management. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes of estimates in future periods could be significant.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

(h) Future income taxes

The Company follows the tax liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the carrying value and the tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change occurs.

(i) Per share information

Basic loss per share is computed by dividing earnings by weighted average number of shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted to shares. The treasury stock method is used to determine the dilutive instruments.

3. Significant Accounting Policies - continued

(j) Flow-through shares
The Company has financed a portion of its planned exploration and development activities through the issue of flow-through shares. Under terms of the flow-through agreements, the income tax deductions attributable to the capital expenditures are renounced to the subscribers. This renunciation increases the Company's future tax liability and the cost is charged against the gross proceeds of the share issuance at the time the capital expenditures are renounced to the subscribers on the date of filing the renunciations.

(k) Joint venture operations
Certain of the Company's petroleum and natural gas operations are conducted through the use of joint ventures. These financial statements reflect only the Company's proportionate interest in such operations.

(n) Comprehensive Income
Comprehensive income consists of net earnings and other comprehensive income ("OCI"). The Company does not have any items that would be reported as OCI. As such, the Company has not presented accumulated other comprehensive income ("AOCI") within shareholders' equity in the balance sheet and has not included a Statement of Accumulated Other Comprehensive Income, which would otherwise provide the continuity of the AOCI balance.

(o) Financial Instruments
All financial instruments are measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurements in subsequent periods depend on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities".

Financial assets and financial liabilities classified as "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. The methods used by the Company in determining fair value of financial instruments remained unchanged.

Cash is designated as "held-for-trading" and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable and deposits are designated as "loans and receivables". Accounts payable and accrued liabilities, bank loans and debentures are designated as "other liabilities". Risk management assets and liabilities are derivative financial instruments classified as "held-for-trading" unless designated for hedge accounting. The Company has no commodity contracts or fixed price physical contracts in place at this time.

3. Significant Accounting Policies - continued

(p) Future Accounting Changes

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") for Canadian profit-oriented publicly accountable entities ("PAE's"). The AcSB requires that IFRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. For PAE's with a December 31 year end, the first unaudited interim financial statements under IFRS will be for the quarter ending March 31, 2011, with comparative financial information for the quarter ending March 31, 2010. The first audited annual financial statements will be for the year ending December 31, 2011, with comparative financial information for the year ending December 31, 2010. This also means that all opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the January 1, 2010 opening balance sheet which will be issued as part of the comparative financial information in the March 31, 2011 unaudited interim financial statements.

4. Property and Equipment

	2010			2009		
	Cost	**Accumulated depletion, depreciation and amortization**	**Net Book Value**	Cost	Accumulated depletion, depreciation and amortization	Net Book Value
Petroleum and natural gas properties and equipment	**$ 37,410,806**	**$ 10,766,188**	**$ 26,644,618**	$ 32,522,741	$ 8,773,422	$ 23,749,319
Processing facilities and furniture and fixtures	**3,124,360**	**1,824,266**	**1,300,094**	3,108,945	1,714,096	1,394,849
	$ 40,535,166	**$ 12,590,454**	**$ 27,944,712**	$ 35,631,686	$ 10,487,518	$ 25,144,168

Costs aggregating various amounts up to $3,079,706 (2009 - $678,000) relating to unproved lands and seismic work on unproved properties, and a salvage value amounting to $2,867,639 (2009 - $690,000) on property and equipment were excluded from the depletion and depreciation calculations. At December 31, 2009, an impairment test was performed on the value of unproved lands and, after a write-down of $212,000, $678,000 of costs relating to unproved land were excluded from the depletion calculations at December 31, 2009. There was no additional write-down in the value of unproved lands during 2010. The Company does not capitalize interest or general and administrative costs.

An impairment test was performed on the Company's petroleum and natural gas properties and recorded an impairment loss of $nil in 2010 (2009 - $233,681).

4. Property and Equipment - continued

The following table outlines benchmark prices used in the impairment test at December 31, 2010:

Year	WTI Crude Oil US$/bbl	Exchange Rate US$/CDN$	Edm Light Crude Cdn$/bbl	AECO Natural Gas Net of Transportation CDN$/Mcf
2011	81.60	.95	84.45	6.70
2012	85.85	.95	88.90	7.05
2013	90.20	.95	93.45	7.45
2014	97.40	.95	101.05	7.55
2015	104.90	.95	108.85	7.75
2016	112.60	.95	116.95	7.90
2017	114.85	.95	119.30	8.25
2018	117.15	.95	121.70	8.55
2019	119.50	.95	124.10	8.85
2020	121.90	.95	126.60	9.15
Thereafter	2%/Year		2%/Year	2%/Year

5. Bank Loans

At December 31, 2009, the Company had anon-revolving loan facility with an interest rate of prime plus 2% for an effective rate of 4.25% with another Canadian chartered bank. During the year, the Company moved their banking facility to another Canadian chartered bank. At December 31, 2010, the Company had available a $5,800,000 (December 31, 2009 - $5,250,000) revolving demand loan facility. The revolving loan bears interest at prime plus 0.75% in 2010 (2009 - prime plus 2%), an effective rate at December 31, 2010 of 3.75% (December 31, 2009 – 4.25%). Bank facilities are secured by a general assignment of book debts and a $10,000,000 first floating charge debenture over all assets of the Company. The Company had drawn $1,299,841 as at December 31, 2010 (December 31, 2009 - $3,277,664).

6. Debentures

The Company’s unsecured subordinated redeemable debentures were issued with an effective date of July 31, 2009 and mature on July 31, 2011. They bear interest at a rate of 5% per annum compounded annually, calculated and paid semi-annually on June 30 and December 31. The debentures are redeemable for cash, in whole or in part, at the option of the Company, at any time during the term on 30 days written notice to the holder.

These debentures mature on July 31, 2011 and were previously reflected as a long term liability as at December 31, 2009.

7. Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

	2010	2009
Asset retirement obligation, beginning of year	**$ 2,110,747**	$ 1,859,564
Change in future cash flows	**-**	51,606
Liabilities incurred	**142,685**	32,317
Liabilities settled	**(56,419)**	-
Accretion expense	**195,688**	167,260
Asset retirement obligation, end of year	**$ 2,392,701**	$ 2,110,747

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $5,260,995 (2009 - $4,842,844). The obligation was calculated using a credit-adjusted risk free discount rate of 9 percent and an inflation rate of 2 percent. It is expected that this obligation will be funded from general company resources at the time the costs are incurred with the majority of costs expected to occur between 2012 and 2023.

8. Share Capital

(a) Authorized

Unlimited number of Class A Shares
Unlimited number of Class B Shares
Unlimited number of Preferred shares issuable in series, rights and privileges to be determined upon issue.

The Class B shares were convertible into Class A shares, at the option of the Company, at any time after October 1, 2009 and before the close of business on September 30, 2011. Effective December 29, 2009, the Company converted all existing Class B shares into Class A shares, the Class B shares were delisted, and the holders of Class B shares received 10 Class A shares for each Class B share held, resulting in an aggregate of 7,530,140 Class A shares being issued.

8. Share Capital - continued

(b) Issued

Year Ended December 31, 2010

	Class A Shares	Class B Shares	Warrants	Amount
Balance, beginning of year	**94,488,032**	**-**	**1,066,666**	**$ 18,785,041**
Tax benefits renounced on flow-through shares	**-**	**-**	**-**	**(70,669)**
Private placement of Class A shares issued as the second investment under an investment agreement with an international investor	**150,000,000**	**-**	**-**	**12,000,000**
Class A Share warrants issued to brokers for private placement	**-**	**-**	**1,599,999**	**153,600**
Class A shares issued in settlement with Company's officer	**600,000**	**-**	**-**	**60,000**
Share issuance costs, net of tax of $117,006		**-**	**-**	**(490,940)**
Balance, end of year	**245,088,032**	**-**	**2,666,665**	**$ 30,437,032**

Year Ended December 31, 2009

	Class A Shares	Class B Shares	Warrants	Amount
Balance, beginning of year	38,001,398	753,014	-	$ 15,677,369
Tax benefits renounced on flow-through shares	-	-	-	(463,671)
Private placement of Units including one flow through Class A share and one Class A share for cash	5,333,480	-	-	400,011
Class A Share warrants issued to brokers for private placement	-	-	133,333	6,667
Class A shares issued in settlement with Creditors	3,623,014	-	-	362,301
Private placement of Class A shares issued as the first investment under an investment agreement with an international investor	40,000,000	-	-	3,000,000
Class A share warrants issued to brokers pursuant to first investment under investment agreement		-	933,333	86,499
Share issuance costs, net of tax of $102,443	-	-	-	(284,135)
Conversion of Class B shares to Class A shares	7,530,140	(753,014)	-	-
Balance, end of year	94,488,032	-	1,066,666	$ 18,785,041

8. Share Capital - continued

(b) Issued - continued

On July 20, 2009 the Company closed the first tranche of a private placement of Units, each Unit being priced at $0.15 and comprising one Class A Share priced at $0.05 per share and on Flow Through Class A Share priced at $0.10 per share. The initial closing resulted in the receipt of $400,011 from the sale of 2,666,740 Class A shares and 2,666,740 Flow-Through Class A Shares. Following completion of the private placement, the Company commenced the settlement process with creditors. The Company was authorized to issue up to 5,000,000 Class A Shares at a deemed price of $0.10 in satisfaction of 25% of the outstanding obligation to each creditor. The Company also authorized issuance of up to $600,000 of debentures, paying an interest rate of 5%, which can be fully redeemed at the option of the Company at any time up to the twenty four month anniversary of the issuance and will, in any event, be fully redeemed on the twenty four month anniversary of the issuance of the debentures. At December 31, 2009, the Company had settled an aggregate $1,511,327 in outstanding creditor balances as follows:

Cash payments	$319,340
Debenture (note 7) 5% unsecured subordinated debenture	$483,924
Equity (note 8) 3,623,014 Class A shares	$362,301
Write down of balance	$345,762

The Company entered into an investment agreement with an international investor, dated September 10, 2009, under which the investor agreed to invest, subject to the satisfaction of certain conditions, up to $15 million in the Company. On October 6, 2009, the Company closed the first tranche of the investment whereby the investor acquired 4,666,666 Class A Shares for gross proceeds of $350,000. On November 23, 2009, a further 35,333,334 Class A Shares were acquired for gross proceeds of $2,650,000.

On January 15, 2010, pursuant to an investment agreement with an international investor as discussed above, the Company closed the final tranche of the investment, whereby the investor acquired 150,000,000 Class A Shares at a price of $0.08 per Class A Share for gross proceeds of $12,000,000. In conjunction with the closing, the Company paid finder’s fees to two agents in an aggregate amount of $480,000 and issued an aggregate of 1,599,999 warrants, each warrant entitling the holder to purchase one Class A Share at a price of $0.15 per share exercisable for two years from the date of the closing. Following the closing of the final installment of this investment, the investor held 77.7% of the outstanding Class A Shares.

On July 13, 2010, as part of an arrangement to change executive management and retain the services of certain officers, the Company agreed to issue 600,000 Class A Shares, at a price of $0.10 per share, to two officers of the Company.

Pursuant to the rules of the TSX Venture Exchange, certain shares of the previous directors, officers and insiders of Resolve (which were exchanged for shares of the Company) were subject to escrow conditions, whereby the Class A shares were released from escrow over a period of 36 months. Pursuant to these conditions, at December 31, 2009, 555,900 Class A shares remained in escrow; and during the first quarter of 2010, all Class A Shares were released.

8. Share Capital - continued

(c) Stock options

On July 13, 2010, the Company granted 18,500,000 stock options to directors, officers and employees to purchase Class A shares at an exercise price of $0.10. Of the total options granted, one third vested immediately, with the balance vesting equally on the first and second anniversary of the grant date. Included in these options were 750,000 options granted to consultants providing investor relations services to the Company.

A stock-based compensation expense of $315,254 has been recorded for the year ended December 31, 2010 (2009 - $84,373)

A summary of the status of the Company's stock option plan as at December 31, 2010 and 2009 and changes during the period ending on those dates is presented below.

	Year Ended December 31, 2010		Year Ended December 31, 2009	
Stock Options	**Number of options**	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding beginning of year	**-**	**-**	3,113,333	$0.51
Granted	**18,500,000**	**$0.10**	-	-
Forfeited	**(3,500,000)**	**$0.10**	(116,666)	$0.53
Cancelled	**-**	**-**	(2,996,667)	$0.51
Outstanding end of year	**15,000,000**	**$0.10**	-	-
Exercisable, end of year	**5,000,000**	**$0.10**	-	-

There were no options granted in 2009. The fair value of share options granted in 2010 was estimated using the Black-Scholes option pricing model with the following assumptions:

	2010	2009
Dividend yield	**Nil**	Nil
Expected volatility	**75%**	-
Risk free interest rate	**2%**	-
Weighted average life	**5 years**	-

(d) Warrants

On October 6, 2009 and November 23, 2009, the Company issued an aggregate of 933,334 warrants as finders fees to two agents, each warrant entitling the holder to purchase one Class A Share at a price of $0.15 per share exercisable for two years from the date of the respective closing. The warrants have been fair valued and the value estimated at $77,666 included in share issue costs. The value was estimated using the Black-Scholes option pricing model with a current share price of $0.15 on October 6, 2009 and $0.205 on November 23, 2009; a strike price of $0.15 per warrant; a risk free interest rate of 1.88%; expected volatility of 70%; and a two year average life.

8. Share Capital - continued

(d) Warrants - continued

On July 17, 2009, the Company issued 133,333 broker warrants providing the right to purchase units, each unit being comprised of one Class A Share issued at a price of $0.05 per share and one Flow Through Class A Share issued at a price of $0.10 per share. Each broker warrant is exercisable until July 17, 2010 at an exercise price of $0.15 per warrant; and at $0.20 per warrant until July 17, 2011. The warrants have been fair valued and the value estimated at $6,667 included in share issue costs. The value was estimated using the Black-Scholes option pricing model with a current share price of $0.08; a strike price of $0.175 per warrant; a risk free interest rate of 1.86%; expected volatility of 70%; and an 18 month average life.

On January 15, 2010, the Company issued an aggregate of 1,599,999 warrants as finder's fees to two agents, each warrant entitling the holder to purchase one Class A Share at a price of $0.15 per share exercisable for two years from the closing date. The estimated value of the warrants amounted to $153,600 was recorded as share issuance costs. The value was estimated using the Black-Scholes option pricing model with a current share price of $0.20 on January 15, 2010; a strike price of $0.15 per warrant; a risk free interest rate of 1.72%; expected volatility of 70%; and a two year average life.

The following is a continuity of the warrants outstanding:

	Year Ended December 31, 2010		Year Ended December 31,2009	
	Number of warrants	**Weighted average Class A exercise price**	Number of warrants	Weighted average exercise price
Beginning of year	**1,066,666**	**$ 0.14**	-	-
Broker warrants issued in private placements during year	**1,599,999**	**0.15**	1,066,666	$0.14
Exercised	**-**	**-**	-	-
Expired	**-**	**-**	-	-
End of year	**2,666,665**	**$0.15**	1,066,666	$ 0.14
Exercisable, end of year	**2,666,665**	**$0.15**	1,066,666	$ 0.14

9. Contributed Surplus

	2010	2009
Contributed surplus, beginning of year	**$ 1,092,825**	$ 1,008,452
Stock-based compensation expense	**315,254**	84,373
Contributed surplus, end of year	**$ 1,408,079**	$ 1,092,825

10. Income Taxes

(a) The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate income tax rate to income (loss) before income taxes. The major components of these differences are explained as follows:

	2010	2009
Loss before taxes	**$ (4,313,412)**	$ (2,935,128)
Corporate income tax rate	**28.50%**	29.50%
Expected tax recovery	**$ (1,229,322)**	$ (865,863)
Increase (decrease) in future income taxes resulting from:		
Effect of change in tax rate	**36,556**	85,454
Stock compensation expense	**89,847**	24,890
Non-deductible expenses	**1,741**	673
Change in previously estimated tax pools	**415,756**	(77,163)
Other	**(75,447)**	(38,434)
Future income tax recovery	**$ (760,869)**	$ (870,443)
Current income taxes	**$ -**	20,323
Income tax recovery	**$ (760,869)**	$ (850,120)

(b) Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

Nature of temporary differences	**2010**	2009
Property, plant and equipment	**$ (4,040,810)**	$ (3,791,759)
Asset retirement obligations	**598,175**	559,348
Non-capital losses	**2,198,140**	1,084,332
Share issue costs and finance fees	**289,112**	325,490
Future income tax liability	**$ (955,383)**	$ (1,822,589)

(c) The Company has non-capital losses available for income tax purposes of approximately $8,792,561 (December 31, 2009 - $4,092,000) which are available to reduce taxable income in future years. The losses expire after 2014.

11. Capital Disclosures

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The Company's objectives in managing the capital structure are to maintain a flexible financial structure to preserve the Company's access to capital markets, and to finance the Company's growth and continue to meet its financial obligations. The capital structure of the Company consists of bank credit facilities (Note 5), working capital and Shareholder's equity comprised of issued share capital, contributed surplus and deficit. The Company's ability to meet these objectives for managing the Company's capital has been severely challenged by the current economic conditions, and in particular by the pace at which oil and gas prices have declined and the availability of new sources of capital has diminished.
The capital structure is as follows:

	2010	2009
Current assets	**$ 2,542,254**	$ 1,184,231
Accounts payable	**(1,262,031)**	(2,968,623)
Debentures	**(487,455)**	-
Current portion of bank loans	**(1,299,841)**	(3,277,664)
Net working capital deficiency	**$ (507,073)**	$ (5,062,056)
Debentures	**$ -**	$ 483,924
Shareholder's equity	**24,099,556**	$ 15,674,853
Bank Facility		
Undrawn portion of revolving demand loan facility	**$ 4,500,159**	$ 1,972,336

In a normal economic environment, the Company is able to manage its capital structure and makes adjustments to it in light of market and economic conditions as well as the risk characteristics of the Company's underlying assets. The Company monitors capital and its financing requirements through the annual budget process and monthly updates to the budget forecast and working capital projections. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, the use of bank credit facilities, adjusting capital spending, or by undertaking other strategies as deemed appropriate under the specific circumstances.

Under its credit facility agreement, the Company is required to maintain a working capital ratio, after adding the unused portion of the revolving demand loan and after excluding outstanding bank debt under the facility, of not less than 1:1. The Company was in compliance with this covenant at December 31, 2010 and 2009.

12. Supplementary Information – Statement of Cash Flows

During the year ended December 31, 2010, the Company paid $79,262 in interest (2009 - $335,575) and no income tax was paid (2009 - $20,323).

The change in non-cash working capital is allocated between operating and investing activities as follows:

	2010	2009
Accounts receivable	**(205,033)**	409,647
Deposits and prepaid expenses	**(1,135,536)**	(5,984)
Accounts payable and accrued liabilities	**(1,706,592)**	(370,106)
Non-cash financial transactions	**-**	846,225
Net change	**(3,047,161)**	879,782
Net change in operating activities	**(2,058,672)**	510,052
Net change in investing activities	**(988,489)**	369,710
	(3,047,161)	879,782

Non-cash financing transactions relate to Class A shares.

Deposits and prepaid expenses reflect an increase in the Company's Licensee Liability Rating ("LLR") deposit with the Energy Resources Conservation Board of $1,238,076 during the year resulting from the impact of the commodity price decline as reflected in the deemed value of the Company's producing assets when compared to the deemed value of its reclamation liabilities.

13. Loss per share

	2010	2009
Net loss available to Class A share shareholders	**(3,552,543)**	(2,085,008)
Weighted-average number of Class A shares outstanding	**239,017,347**	46,912,090
Dilutive effect of stock options and warrants (1)	**-**	-
Weighted-average number of common shares outstanding – basic and diluted	**239,017,347**	46,912,090
Net loss per share ($/share) - Basic and diluted	**$(0.015)**	$(0.044)

(1) Excluded from the above dilutive stock options and warrants are 15,000,000 options and 2,666,665 warrants, respectively, at December 31, 2010 (December 31, 2009 – nil options and 1,066,666 warrants). All options and warrants are not dilutive as the Company suffered a loss.

14. Commitments and Contingencies

The Company is involved in various claims arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favour, the Company does not currently believe that the outcome of adverse decisions in any proceedings related to these matters or any amount which it may be required to pay would have a material adverse impact on its financial position, results of operations or liquidity.

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. As disclosed in note 7, the Company has recognized a liability at December 31, 2010 of $2,392,701 (2009 - $2,110,747) related to the retirement of its long-lived petroleum assets based on current legislation and estimated costs. Any changes in these estimates will affect future earnings. Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded mainly from the Company's cash provided by operating activities.

The operations of the Company are complex, and regulations and legislation affecting the Company are continually changing. Although the ultimate impact of these matters on net earnings cannot be determined at this time, it could be material for any one quarter or year.

The Company entered into a lease arrangement for office space and related services for five years commencing January 1, 2008. As at December 31, 2010, the remaining minimum lease payments total $372,480 will be expended equally over the remaining three years ending December 31, 2012.

15. Related Party Transactions

Except as disclosed elsewhere, the Company had the following related party transactions:

(a) In July 2009, the Company completed a private placement of Units, each Unit comprising one Class A Share and one flow-through Class A Share, for a total of 2,666,740 Class A Shares and 2,666,740 flow-through Class A Shares, at a price of $0.15 per Unit. Directors and officers of the Company subscribed for an aggregate of 1,000,040 Class A Shares and 1,000,040 flow-through Class A Shares.

(b) During the year, a legal firm, of which a director is a partner, charged the Company $21,257 (2009 - $32,341) for legal fees and services. There is no accounts payable at December 31, 2010.

(c) At December 31, 2010, the Company has a receivable for $21,399 due from Alliance Success Holding Group Limited ("Alliance"), which owns 42% of the Company's shares at December 31, 2009, for services paid for by the Company on behalf of Alliance, relating to Alliance's investment in the Company.

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

16. Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to fair value, commodity price, foreign currency, interest rate, industry credit, and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Fair value of financial assets and liabilities

The carrying value of cash, accounts receivable, deposits, accounts payable and accrued liabilities, and the bank loan approximates their fair value due to the relatively short period to maturity. The carrying value of the debentures approximates fair value as the amount bears interest at a rate that is based on current bank prime rates and short-term maturity. The Company's cash is transacted in active markets and have been assessed using the following fair value hierarchy and are classified as Level 1. 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.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

(b) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. The Company is subject to commodity price risk for the delivery of natural gas and crude oil, the price of which is subject to world economic events that dictate the levels of supply and demand. The Company had no financial derivative contracts in place as at or during the year ended December 31, 2010 and has not entered into any forward physical delivery contracts.

(c) Foreign currency risk

Foreign currency exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no financial instruments denominated in foreign currencies and no forward exchange contracts in place at or during the year ended December 31, 2010.

16. Financial Instruments - continued

(d) Credit risk

Credit risk represents the risk that a counterparty to a financial asset will default, resulting in the Company incurring a financial loss. Substantially all the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Approximately 85% of the Company's monthly revenue is receivable from the marketing arm of a major energy company. The Company also attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure or through cash calling a partner in advance of completion of work. Additionally the Company has the ability to withhold production or net payables from joint venture partners in the event on non-payment. Maximum credit risk is calculated as the total recorded value of accounts receivable.

During the year ended December 31, 2010, $467,821 of receivables were written-off (2009 - $145,150). The aging of accounts receivable, including cash call receivables is as follows:

Aging	**December 31, 2010 $,000**
Current (0-30 days)	$ 522
31 – 60 days	27
61 – 90 days	1
Over 90 days	534
Total	$1,084

When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company considers all amounts greater than 90 days to be past due. As at December 31, 2010, $534,000 (2009 – $155,000) of accounts receivable are past due, all of which are considered to be collectible.

(e) Interest rate risk management

Interest rate risk is the risk that fair values or future cash flows will fluctuate as a result of changes in market interest rates. The Company's borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at December 31, 2010, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $12,000 (2009 - $32,800). The related disclosures regarding the debt instruments are included in Notes 5 and 6 of these financial statements. The Company had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2010.

16. Financial Instruments - continued

(f) Liquidity risk

Liquidity risk represents the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due without incurring unacceptable losses or risking harm to the Company's reputation.

The Company monitors its financial obligations and its ability to meet those obligations through an annual budget process and monthly updates to the budget forecast and working capital projections. In addition, the Company requires authorizations for expenditures on its capital projects and defers timing of capital expenditures as necessary.

During 2010, the Company's liquidity risk increased with the volatile economic conditions. However, as a result of the investment funds received late in the year, at December 31, 2010, the Company was in a position to pay its outstanding accounts payable in a timely manner. At December 31, 2010, the aging of accounts payable and accrued liabilities was as follows:

Aging	December 31, 2010 $,000
Current (0-30 days)	$ 892
31 – 60 days	16
61 – 90 days	21
More than 90 days	333
Total	$ 1,262

17. Subsequent Events

On March 29, 2011, the bank increased revolving demand loan facility from $5,800,000 to $8,500,000. The revolving loan bears interest at prime plus 0.75%. The loans are secured by a general assignment of book debts and a $10,000,000 first floating charge debenture over all assets of the Company.

On March 29, 2011, the Company granted additional 5,350,000 stock options to directors, officers and employees to purchase Class A shares at an exercise price of $0.255. Of the total options granted, one third vested immediately, with the balance vesting equally on the first and second anniversary of the grant date. The options granted to directors can be vested immediately.

Between January 27, 2011 and April 1, 2011, the Company issued an aggregate of 796,677 Class A Shares on the exercise of broker warrants at a price of $0.15 per share.

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CORPORATE INFORMATION

Directors

Gary Chang;	Vancouver BC Canada	(1) (2)
James H. Coleman;	Calgary AB Canada	(1) (3)
Ross O. Drysdale;	Calgary AB Canada	(1) (3)
Gang Fang;	Calgary AB Canada	(3)
Hong Lei;	Beijing P.R. China	
Owen C. Pinnell;	Calgary AB Canada	(2)
Zhen Xiang Huo;	Beijing P.R. China	

Notes: (1) Member of the Audit and Reserves Committee
(2) Member of the Environment and Safety Committee
(3) Member of the Compensation and Governance Committee.

Officers

Owen C. Pinnell	– Chairman and Chief Financial Officer
Gang Fang	– President and Chief Executive Officer
Bob D. McCuaig	– Executive Vice President and General Manager
Qiping Men	– Financial Controller

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Legal Counsel
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