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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Anterra Energy Inc.

We have audited the accompanying financial statements of Anterra Energy Inc., which comprise the statements of financial position as at December 31, 2012 and December 31, 2011, the statements of income (loss) and comprehensive income (loss), changes in 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' 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 our 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, we consider 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 audits 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, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
April 23, 2013
Calgary, Canada

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ANTERRA ENERGY INC

Statements of Financial Position

	Note		**December 31, 2012**		December 31, 2011
Assets					
Trade and other receivables		**$**	**3,170,757**	$	2,043,722
Deposits and prepaid expenses			**375,626**		445,308
Total current assets			**3,546,383**		2,489,030
Property, plant and equipment	10		**35,303,079**		30,763,208
Evaluation and exploration assets	11		**4,547,147**		4,887,788
Total non-current assets			**39,850,226**		35,650,996
Total assets		**$**	**43,396,609**	$	38,140,026
Liabilities					
Bank debt	14	**$**	**5,748,169**	$	4,603,313
Trade and other payables			**5,727,798**		2,220,538
Total current liabilities			**11,475,967**		6,823,851
Decommissioning liabilities	16		**6,034,657**		4,672,013
Deferred tax liability	9		**1,199,171**		1,341,061
Total non-current liabilities			**7,233,828**		6,013,074
Total liabilities			**18,709,795**		12,836,925
Equity					
Share capital	12		**31,110,546**		31,264,146
Contributed surplus			**2,830,727**		2,479,901
Deficit			**(9,254,459)**		(8,440,946)
Total equity			**24,686,814**		25,303,101
Total equity and liabilities		**$**	**43,396,609**	$	38,140,026

The 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 Income (Loss) and Comprehensive Income (Loss)

For the years ended December 31, 2012 and 2011

	Notes		2012		2011
Revenue		$	**7,815,050**	$	11,478,420
Royalties			**(920,344)**		(1,757,136)
			6,894,706		9,721,284
Production and operating expenses			**(3,515,768)**		(3,263,183)
Depletion, depreciation and amortization	10		**(1,498,459)**		(1,909,205)
General and administrative	6		**(2,133,798)**		(2,166,016)
Share-based payment expense	15		**(197,226)**		(996,753)
Impairment expense	10		**(180,800)**		-
Results from operating activities			**(631,345)**		1,386,127
Finance expense	7		**(324,058)**		(186,050)
Income (loss) before income tax			**(955,403)**		1,200,077
Deferred income tax expense (recovery)	9		**(141,890)**		543,230
Net income (loss) and comprehensive income (loss)		$	**(813,513)**	$	656,847
Income (loss) per share					
Basic and diluted		$	**(0.003)**	$	0.003

The notes are an integral part of these financial statements.

ANTERRA ENERGY INC

Statements of Changes in Equity

	Note	Number of common shares	Share capital	Contributed surplus	Accumulated deficit	Total equity
Balance at January 1, 2011		245,088,032	$ 31,085,812	$ 1,483,148	$ (9,097,793)	$ 23,471,167
Issue of common shares	12	1,200,000	166,667	–	–	166,667
Flow through share premium		–	(3,333)	–	–	(3,333)
Share based payments	15	–	–	996,753	–	996,753
Options exercised	12	150,000	15,000	–	–	15,000
Profit for the year		–	–	–	656,847	656,847
Balance at December 31, 2011		246,438,032	$ 31,264,146	$ 2,479,901	$ (8,440,946)	$ 25,303,101
Warrants expired	12		(153,600)	153,600	–	–
Share based payments	15	–	–	197,226	–	197,226
Loss for the year		–	–	–	(813,513)	(813,513)
Balance at December 31, 2012		246,438,032	$ 31,110,546	$ 2,830,727	$ (9,254,459)	$ 24,686,814

The notes are an integral part of these financial statements.

ANTERRA ENERGY INC

Statements of Cash Flows

For the years ended December 31, 2012 and 2011

	Note	2012	2011
Cash flow from operating activities:			
Income (loss) for the year		**$ (813,513)**	$ 656,847
Adjustments for:			
Depletion, depreciation and amortization	10	**1,498,459**	1,909,205
Accretion of decommissioning obligations	7	**86,326**	36,531
Share based payments	15	**197,226**	996,753
Deferred income tax expense (recovery)		**(141,890)**	543,230
Impairment expense		**180,800**	-
Decommissioning expenditures	16	**(280,033)**	(111,900)
Change in non-cash working capital	8	**109,685**	932,810
Net cash from operating activities		**837,060**	4,963,476
Cash flow from investing activities:			
Property, plant and equipment expenditures	10	**(4,220,107)**	(5,093,525)
Additions to intangible exploration assets	11	**(102,031)**	(2,946,555)
Change in non-cash working capital	8	**2,340,222**	35,627
Net cash (used in) investing activities		**(1,981,916)**	(8,004,453)
Cash flow from financing activities:			
Proceeds from issue of share capital	12	**-**	166,667
Proceeds from exercise of stock options		**-**	15,000
Settlement of debenture		**-**	(487,455)
Proceeds from bank debt		**1,144,856**	3,303,472
Net cash from financing activities		**1,144,856**	2,997,684
Change in cash and cash equivalents		**$ -**	$ (43,293)
Cash and cash, equivalents beginning of year		**$ -**	$ (43,293)
Cash and cash, equivalents end of year		**$ -**	$ -

The notes are an integral part of these financial statements.

1. Reporting entity:

The Company is engaged in the exploration for and development and production of oil and natural gas and conducts many of its activities jointly with others; these financial statements reflect only the Company's proportionate interest in such activities. The address of the registered office is #1420, 1122 4th Street SW, Calgary, Alberta.

The Company's parent company, holding 77% of the Company's common shares, is Alliance Success Group Holding Ltd ("Alliance"). Alliance is a private Hong Kong based Investment Company.

The Company has two reportable operating segments and a corporate segment. The oil and gas production segment explores for, develops and produces oil and gas. The midstream processing segment provides processing and disposal services in the oil and gas industry.

Segmented Financial Information:

For the year ended December 31, 2012	Oil and Gas Production	Midstream Processing	Corporate Segment	Eliminations	Total
Revenue	$ 5,195,928	$ 2,708,535	$ -	$ (89,413)	$ 7,815,050
Royalties	(920,344)				(920,344)
	4,275,584	2,708,535		(89,413)	6,894,706
Production and operating expenses	2,549,122	1,056,059	-	(89,413)	3,515,768
Depletion, depreciation and amortization	1,378,269	108,526	11,664	-	1,498,459
General and administrative expenses	1,266,225	715,117	152,456	-	2,133,798
Share-based payments	-	-	197,226	-	197,226
Impairment Expense	180,800	-	-	-	180,800
Finance expense	-	-	324,058	-	324,058
Deferred income tax expense (recovery)	(190,098)	(3,505)	51,713	-	(141,890)
Net income	$ (1,112,903)	$ 832,338	$ (532,948)	-	$ (813,513)
Capital expenditures:					
Exploration and evaluation assets	$ 102,031	$ -	$ -	$ -	$ 102,031
Property, plant and equipment	4,067,929	151,245	933	-	4,220,107
Total Assets	$ 38,777,532	$ 1,071,947	$3,547,130	$ -	$ 43,396,609

For the year ended December 31, 2011	Oil and Gas Production	Midstream Processing	Corporate Segment	Eliminations	Total
Revenue	$ 8,616,995	$ 2,989,890	$ -	$ (128,465)	$ 11,478,420
Royalties	(1,757,136)	-	-	-	(1,757,136)
	6,859,859	2,989,890	-	(128,465)	9,721,284
Production and operating expenses	2,628,928	762,720	-	(128,465)	3,263,183
Depletion, depreciation and amortization	1,736,090	153,783	19,332	-	1,909,205
General and administrative expenses	1,440,678	539,338	186,000	-	2,166,016
Share-based payments	-	-	996,753	-	996,753
Finance expense	26,645	9,885	149,520	-	186,050
Deferred income tax expense	276,871	360	265,999	-	543,230
Net income	$ 1,925,326	$ 2,063,142	$(3,331,621)	$ -	$ 656,847
Capital expenditures:					
Exploration and evaluation assets	$ 2,946,555	$ -	$ -	$ -	$ 2,946,555
Property, plant and equipment	5,061,721	31,804	-	-	5,093,525
Total Assets	$34,441,420	$ 1,198,098	$ 2,500,508	$ -	$ 38,140,026

2. Basis of preparation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on April 23, 2013.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments:

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below.

2. Basis of preparation (continued):

Critical judgments in applying accounting policies:

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these financial statements.

The Company's assets are aggregated into cash-generating units, for the purpose of calculating impairment. Cash generating units are based on an assessment of a unit's ability to generate largely independent cash flows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

Judgments are required to assess when impairment indicators exist and impairment testing is required.

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves has been found.

Key sources of estimation uncertainty:

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities in future periods:

(i) Decommissioning obligations

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires estimates regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

(ii) Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and an assessment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

2. Basis of preparation (continued):

(iii) Reserves

Estimation of reported recoverable quantities of proved and probable reserves include judgmental assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries.

The economical geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Anterra's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if producibility is supported by either production or conclusive formation tests. Anterra's petroleum and gas reserves are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

(iv) *Share-based payments*

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the share price, expected volatility, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these financial statements, and have been applied consistently by the Company and its subsidiaries.

(a) Jointly controlled operations and jointly controlled assets:

Many of the Company's oil and natural gas activities involve jointly controlled assets. The financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(b) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, bank debt, and trade and other payables. These financial assets have been classified as loans and receivables. These financial liabilities have been classified as other financial liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these non-derivative financial instruments are measured at amortized cost using the effective interest rate method, less any impairment losses.

(ii) Derivative financial instruments:

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments will not be used for trading or speculative purposes. The Company will not designate its financial derivative contracts as effective accounting hedges, and therefore will not apply hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts will be classified as fair value through profit or loss and will be recorded on the statements of financial position at fair value. Transaction costs are recognized in profit or loss when incurred.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(iii) Share capital:

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

(d) Property, plant and equipment and intangible exploration assets:

(i) Recognition and measurement:

Exploration and evaluation expenditures:

Pre-license costs are recognized in the statement of income (loss) as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible exploration or evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units. The cost of undeveloped land that expires or any impairment recognized during a period is charged as additional depletion and depreciation expense.

3. Significant accounting policies (continued):

(d) Property, plant and equipment and intangible exploration assets (continued):

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within tangible assets referred to as oil and natural gas interests.

Development and production costs:

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGU's for impairment testing. The Company has grouped its development and production assets into the following four CGU's: Breton oil and gas properties, Breton midstream, Alberta oil and gas properties other than Breton, and Saskatchewan oil and gas properties.

When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income" or "other expenses" in profit or loss.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

3. Significant accounting policies (continued):

(d) Property, plant and equipment and intangible exploration assets (continued):

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proven component of proven and probable reserves are 90 percent and 10 percent, respectively.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if the producibility is supported by either actual production or conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

3. Significant accounting policies (continued):

(d) Property, plant and equipment and intangible exploration assets (continued):

Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proven and probable classification when successful testing by a pilot project, the operation of an installed program in the reservoir, or other reasonable evidences (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provide supports for the engineering analysis on which the project or program was based.

The estimated useful lives for certain production assets for the current and comparative years are as follows:

Midstream processing equipment	20 years

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for other assets for the current and comparative years are as follows:

Office equipment	5 years
Fixtures and fittings	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Leased assets:

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

3. Significant accounting policies (continued):

(e) Leased assets (continued):

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Company's statement of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(f) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

3. Significant accounting policies (continued):

(f) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use an impairment test is completed each year.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of oil and natural gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. Consideration is given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGU's that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

3. Significant accounting policies (continued):

(f) Impairment (continued):

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount in the period that led to impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to CGUs.

(g) Share based payments:

The Company uses the fair value method for valuing share based compensation. Under this method, the compensation cost attributed to stock options are measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the settlement of the stock options, the previously recognized value in contributed surplus is recorded as an increase to share capital.

(h) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(i) Decommissioning obligations:

3. Significant accounting policies (continued):

(h) Provisions (continued):

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date using a risk free discount rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision is established.

(ii) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on associated assets.

(i) Revenue:

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(j) Finance income and expenses:

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

3. Significant accounting policies (continued):

Interest income is recognized as it accrues in profit or loss, using the effective interest rate method.

(k) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized 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 not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. 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 enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Earnings per share:

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted.

(m) Flow through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. On issuance the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes is

3. Significant accounting policies (continued):

recognized on the statement of financial position. As expenditures are incurred the deferred tax liability associated with the renounced tax deductions are recognized through profit and loss along with a pro-rata portion of the deferred premium.

(n) New standards and interpretations not yet adopted:

The following pronouncements become effective for periods beginning on or after January 1, 2013 unless otherwise noted.

IFRS 9, “Financial Instruments,” which covers the classification and measurement of financial assets and liabilities is effective for annual periods beginning on or after January 1, 2015. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has two classification categories: amortized cost and fair value. Early adoption is permitted and the standard is required to be applied retrospectively.

IFRS 10, “Consolidated Financial Statements” replaces IAS 27 “Consolidated Separate Financial Statements”. It introduces a new principle-based definition of control, applicable to all investees to determine the scope of consolidation. The standard provides the framework for financial statements and their preparation based on the principle of control.

IFRS 11 “Joint Arrangements” replaces IAS 31, “Interests in Joint Ventures”. IFRS 11 divides joint arrangements into two types, each having its own accounting model. A “joint operation” continues to be accounted for using proportionate consolidation, whereas a “joint venture” must be accounted for using equity accounting. This differs from IAS 31, where there was the choice to use proportionate consolidation or equity accounting for joint venture. A “joint operation” is defined as the joint operators having right to the assets, and obligations for the liabilities, relating to the arrangement. In a “joint venture”, the joint ventures partners have rights to the net assets of the arrangement, typically through their investment in a separate joint venture entity.

IFRS 12 “Disclosure of Interests in Other Entities” is a new standard, which combines all of the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

3. Significant accounting policies (continued):

IFRS 13 "Fair Value Measurement" is a new standard meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement.

The Company is currently evaluating the impact of adopting all of the newly issued and amended standards.

4. Determination of fair values:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Cash and cash equivalents, trade and other receivables, bank debt, and trade and other payables

The fair value of cash and cash equivalents, trade and other receivables, bank debt and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2012 and 2011, the fair value of these balances approximated their carrying value due to their short term to maturity. The carrying value of bank debt approximates fair value due to the floating interest rate.

(ii) Stock options:

The fair value of stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

5. Financial risk management:

(a) Overview:

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. The maximum exposure to credit risk at year-end is as follows:

	Carrying amount	
	2012	2011
Trade and other receivables	$ 3,170,757	$ 2,043,722
	$ 3,170,757	$ 2,043,722

5. Financial risk management (continued):

(b) Credit risk (continued):

Trade and other receivables:

All of the Company's operations are conducted in Canada. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any collection issues with its oil and natural gas marketers. Receivables from joint interest partners are typically collected within one to three months of the joint interest bill being issued. The Company attempts to mitigate the risk from joint interest receivables by obtaining partner pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint interests; as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint interests; however, the Company does have the ability to withhold production from joint partners in the event of non-payment.

At December 31, 2112, the Company has recorded $690,104 (2011 – $756,648) for doubtful accounts.

The maximum exposure to credit risk for loans and receivables at the reporting date by type of customer was:

	Carrying amount	
	2012	2011
Oil and natural gas marketing companies	$ 510,655	$ 703,779
Joint interest partners	3,350,256	2,096,591
Allowance for doubtful accounts	(690,154)	(756,648)
Total trade and other receivables	$ 3,170,757	$ 2,043,722

The Company's most significant customer, a Canadian oil and natural gas marketer, accounts for $510,655 of the trade receivables at December 31, 2012 (2011- $703,779).

5. Financial risk management (continued):

(b) Credit risk (continued):

As at December 31, 2012 and 2011, the Company's trade and other receivables are aged as follows:

	2012	2011
Current (less than 90 days)	$ 2,307,480	$ 1,495,351
Past due (more than 90 days)	1,553,431	1,305,019
Allowance for doubtful accounts	(690,154)	(756,648)
Total	$ 3,170,757	$ 2,043,722

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand or bank debt available to be drawn to meet expected operational expenses for a period of 120 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditure. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month. In addition, the Company maintains a $12 million credit facility to provide capital when needed, of which $6.3 million was available at the end of the year.

The Company's financial liabilities as at December 31, 2012 of $11,475,967 are all current.

5. Financial risk management (continued):

(d) Market risk:

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors. No financial derivative or physical delivery sales contracts were entered into during 2012 and 2011.

Currency risk:

Prices for oil are determined in global markets and generally denominated in United States dollars. Natural gas prices obtained by the Company are influenced by both US and Canadian demand and the corresponding North American supply, and recently, by imports of liquefied natural gas. The exchange rate effect can not be quantified but generally an increase in the value of the $CDN as compared to the $US will reduce the prices received by the Company for its petroleum and natural gas sales.

Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the outstanding bank loan fluctuates with the interest rates posted by the lenders. The Company is exposed to interest rate risk and has not entered into any mitigating interest rate contracts.

For the year ended December 31, 2012, a 1% or 100 basis point increase or decrease in market interest rates on the Company's floating rate bank debt would change net earnings by $57,482.

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. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand.

5. Financial risk management (continued):

(e) Capital management:

The Company manages its capital 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 debt (Note 14), working capital and shareholder's equity as follows:

	December 31, 2012	December 31, 2011
Current assets	$ 3,546,383	$ 2,489,030
Trade and other payables	(5,727,798)	(2,220,538)
Bank indebtedness	(5,748,169)	(4,603,313)
Net working capital deficiency	$ (7,929,584)	$ (4,334,821)
Shareholder's equity	$ 24,648,709	$ 25,303,101
<u>Bank facility</u>		
Undrawn portion of revolving demand loan facility	$ 6,251,831	$ 7,396,687

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 issuances, 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, 2012 and December 31, 2011.

Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the year ended December 31, 2012. The Company is not subject to externally imposed capital requirements.

6. Personnel expenses:

Key management personnel are comprised of directors and executive management having authority and responsibility for planning, directing and controlling the activities of the Company.

Personnel expenses directly attributed to capital activities will be, if any, capitalized and included in property, plant and equipment and intangible exploration assets.

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers. Key management personnel compensation is comprised of the following:

	2012	2011
Salaries and wages	$ 363,484	$ 296,667
Short-term employee benefits	3,943	3,373
Share-based payments (i)	125,428	757,551
	$ 492,855	$ 1,057,591

(i) Represents the amortization of share based compensation associated with options granted to executive officers as recorded in the financial statements.

7. Finance income and expenses:

	2012	2011
Finance income:		
Interest income on bank deposits	$ 5,794	$ 7,444
Financial expenses:		
Interest on bank debt	243,526	156,963
Accretion of decommissioning liabilities	86,326	36,531
	329,852	193,494
Net finance expenses	$ 324,058	$ 186,050

8. Supplemental cash flow information:

Changes in non-cash working capital is comprised of:

	2012	2011
Source/ (use) of cash:		
Trade and other receivables	$(1,127,035)	$ (959,753)
Deposit and prepaid expenses	69,682	969,684
Trade and other payables	3,507,260	958,506
	$ 2,449,907	$ 968,437
Related to operating activities	$ 109,685	$ 932,810
Related to investing activities	$ 2,340,222	$ 35,627

	2012	2011
Interest paid	$ 243,526	$ 156,963

9. Income tax expense:

Reconciliation of effective tax rate:

	2012	2011
Income (loss) before tax	$ (955,403)	$ 1,200,077
Expected tax rate	25%	27%
Expected income tax expense (recovery)	(238,851)	318,020
Change in statutory tax rates	-	(33,028)
Share based compensation	49,307	264,140
Flow through shares	-	3,333
Other	47,654	(5,902)
Sub-total	(141,890)	546,563
Flow through share premium	-	(3,333)
Total income tax expense (recovery)	$ (141,890)	$ 543,230

The non-capital losses of $10.5 million expire up to 2032. The deductible temporary differences do not expire under current tax legislation.

Recognized deferred tax assets and liabilities:

Deferred tax assets and liabilities are attributable to the following:

	2012	2011
Deferred tax liabilities:		
Property, plant and equipment (including E&E assets)	$ 5,416,009	$ 4,754,656
Less deferred tax assets:		
Non-capital losses	(2,624,391)	(2,092,703)
Share issue costs	(83,783)	(152,888)
Decommissioning Liabilities	(1,508,664)	(1,168,004)
Net deferred tax liability	$ 1,199,171	$ 1,341,061

10. Property, plant and equipment:

	Petroleum and natural gas properties $	Processing facilities and furniture and fixtures $	Total $
Cost			
At January 1, 2011	25,726,108	3,138,545	28,864,653
Additions	5,061,721	31,804	5,093,525
Transfer from E&E assets	926,406	-	926,406
Decommissioning provisions	860,474	36,608	897,082
At December 31, 2011	32,574,709	3,206,957	35,781,666
Additions	4,068,929	151,178	4,220,107
Transfer from E&E assets	442,672	-	442,672
Decommissioning provisions	1,724,221	(167,870)	1,556,351
At December 31, 2012	38,810,531	3,190,265	42,000,796
Depletion, depreciation and impairment			
At January 1, 2011			
At January 1, 2011	1,284,987	1,824,266	3,109,253
Depletion for the year	1,736,090	173,115	1,909,205
At December 31, 2011	3,021,077	1,997,381	5,018,458
Depletion for the year	1,429,044	69,415	1,498,459
Impairment for the year	180,800	-	180,800
At December 31, 2012	4,630,921	2,066,796	6,697,717
Net book value			
31-Dec-11	29,553,632	1,209,576	30,763,208
31-Dec-12	34,179,610	1,123,469	35,303,079

Future development costs on proved plus probable reserves totaling approximately $19,926,700 (2011 - $21,415,300) are included in the depletion calculation. During the year ended December 31, 2012, personnel expenses of $209,548 (2011 - $213,642) directly attributed to capital activities were capitalized in property, plant and equipment. During the year ended December 31, 2012, the Company acquired from an arm's length party an additional 55% interest in the Matziwin area for $675,000.

Impairment charge

At December 31, 2012, due to changes in reserve estimates and a decline in commodity prices, the Company performed an impairment test on its CGUs using fair value less costs to sell to calculate recoverable amounts. An impairment loss of $180,800 was recognized in the Company's Saskatchewan CGU.

The estimate of fair value less costs to sell was determined using a discount rate of 10 percent (2011: 10 percent) and forecasted cash flows of proved and probable reserves, with escalating prices and

future development costs, as obtained from the reserve report. The prices used to estimate the fair value less cost to sell are those used by independent reserve engineers.

The following table outlines the December 31, 2012 crude oil and natural gas price forecast of the Company's reserve evaluators:

Year	Price Inflation rate	Crude oil Edmonton Gate ($cdn/bbl)	AECO Gas price (cdn/MMBtu)
2013	2%	85.00	3.2
2014	2%	83.00	3.75
2015	2%	85.95	4.05
2016	2%	85.95	4.35
2017	2%	82.95	4.65
2018	2%	82.95	5.1
2019	2%	82.95	5.4
2020	2%	82.95	5.75
2021	2%	82.95	6.1
2022	2%	82.95	6.45
Escalation rate of 2% per year thereafter			

A 1% increase in the discount rate used would increase the impairment charge by approximately $22,000.

11. Evaluation and exploration assets:

	$
At January 1, 2011	2,867,639
Additions	2,946,555
Transfers to property, plant and equipment	(926,406)
At December 31, 2011	4,887,788
Additions	102,031
Transfers to property, plant and equipment	(442,672)
At December 31, 2012	4,547,147

Exploration and evaluation (E&E) assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the year.

12. Share capital:

At December 31, 2012 and 2011, the Company was authorized to issue an unlimited number of Class A common shares without par value and an unlimited number of preferred shares issuable in series, rights and privileges to be determined upon issue.

		Class A Shares	Warrants	$
As at December 31, 2010		245,088,032	2,666,666	31,085,812
Class A shares issued in exercising of warrants	(a)	933,334	(933,334)	140,000
Class A shares issued in exercising of options	(b)	150,000	-	15,000
Class A shares issued in exercising of warrants	(c)	266,666	(133,333)	26,667
Flow through share premium	(c)	-	-	(3,333)
As at December 31, 2011		246,438,032	1,599,999	31,264,146
Warrants Expired	(d)		(1,599,999)	(153,600)
As at December 31, 2012		246,438,032	-	31,110,546

(a) Between January 27 to May 26, 2011, the Company issued Class A Shares of 933,334 at $0.15 per share on the exercise of warrants.
(b) On July 19, 2011, the Company issued Class A Shares of 150,000 at $0.10 per share on the exercise of options
(c) On July 28, 2011, the Company issued Class A Shares of 266,666, including 133,333 flow through shares, at $0.10 per share on the exercise of warrants.
(d) On January 14, 2012, 1,599,999 warrants expired.

13. Earnings per share:

Basic earnings per share were calculated as follows:

	2012	2011
Income (loss) for the year	$ (813,513)	$ 656,847
Weighted average number of common shares (basic)		
Issued common shares at January 1	246,438,032	245,088,032
Share options exercised	-	68,033
Effects of shares issued	-	866,491
Weighted average number of common shares - basic	246,438,032	246,022,556

Excluded from diluted earnings per share is the effect of 19,850,000 options (2011 – 20,200,000 options) as their effect is anti-dilutive.

14. Bank debt:

At December 31, 2012, the Company had a $12,000,000 (December 31, 2011 - $12,000,000) revolving demand loan facility, of which $5,748,169 was drawn at December 31, 2012 (December 31, 2011- $4,603,313). The revolving loan bears interest at prime plus 0.75% in 2012 (2011 - prime plus 0.75%), with an effective rate at December 31, 2012 of 3.75% (December 31, 2011 – 3.75%). Bank facilities are secured by a single first floating charge debenture in the amount of $35 million over all assets of the Company. The borrowing base is determined based on reserves and the lender's view of future commodity prices.

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, 2012. The next annual review will be in May 2013.

15. Share based payments:

On March 26, 2011, the Company granted 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, 3,500,000 options vested immediately and of the remaining 1,850,000 options, 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 engineering services to the Company.

A summary of the status of the Company's stock option plan as December 31, 2011 and December 31, 2012 and changes during the period ending on those dates is presented below.

	Number of options	Weighted average exercise price $
Outstanding at January 1, 2011	15,000,000	0.10
Granted	5,350,000	0.255
Exercised	(150,000)	0.10
Outstanding at December 31, 2011	20,200,000	0.14
Forfeited	(350,000)	0.255
Outstanding at December 31, 2012	19,850,000	0.14

The following table summarizes stock options outstanding and exercisable:

Options Outstanding					
Range of exercise prices	Number outstanding at December 31, 2012	Expiry date	Weighted average exercise price	Number exercisable at December 31, 2012	Weighted average remaining contractual life
$0.10	14,850,000	July 13, 2015	$0.10	9,900,000	2.5 years
$0.255	5,000,000	March 26, 2016	$0.255	4,500,000	3.2 years
$0.10 - $0.255	19,850,000		$0.14	14,400,000	2.8 years

No options were granted during the year ended December 31, 2012.The estimated weighted average fair value of share options granted during the year ended December 31, 2011 was $0.109 per option. The fair value of each share option grant was estimated on the date of the grant, as determined by using the Black-Scholes option-pricing model with the following assumptions:

	2011
Expected free interest rate (%)	2%
Expected volatility (%)	75%
Expected life (in years)	5
Expected dividends ($)	Nil
Forfeiture estimate (%)	Nil

16. Decommissioning provisions:

	$
At January 1, 2011	3,850,300
Changes to estimate	855,698
Provision made during the year	41,384
Decommissioning expenditure	(111,900)
Accretion expense	36,531
At December 31, 2011	4,672,013
Changes to estimate	1,520,362
Additions	35,989
Liabilities settled	(280,033)
Accretion expense	86,326
At December 31, 2012	6,034,657

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning obligations to be $6,034,657as at December 31, 2012 (2011- $4,672,013) based on an undiscounted total future liability of $7,495,558(2011 - $5,001,409). These payments are expected to be made over the next 25 years with the majority of costs to be incurred between 2015 and 2025. The discount factor, being the risk free rate related to the liability, is 1.83% (2011- 2.5%).

17. Commitments:

The Company has entered into a new lease arrangement for five years commencing January 1, 2013. The new lease amount of $1,109,460 will be expended equally over the next five years.

18. Subsequent events:

Terrex Energy Inc. acquisition

On December 21, 2012, the Company and Terrex Energy Inc. ("Terrex") announced that they had entered into an agreement (the "Arrangement Agreement") whereby the Company will acquire 100% of the issued and outstanding shares of Terrex in exchange for Class A common shares of the Company. The transaction was completed on March 14, 2013, after receipt of all shareholder, court and regulatory approvals.

In conjunction with the Arrangement Agreement, the Company also completed settlement arrangements with Sandstorm Metals & Energy Ltd. and 0905896 BC Ltd. (collectively, "Sandstorm"), whereby the obligations of Terrex to Sandstorm were fully satisfied. Under the Arrangement Agreement and the settlement with Sandstorm, the Company issued an aggregate of approximately 36.7 million Class A common shares of the Company, replacement warrants entitling former holders of Terrex warrants to acquire up to 1.58 million Class A common shares of the Company and a secured convertible debenture in the aggregate principal amount of $4 million (bearing interest at 6% and convertible at $0.10 per Class A common share).

The initial accounting for the acquisition is incomplete as the Company is in the process of evaluating the fair value of the assets acquired in order to complete the purchase price equation for recognition, measurement and presentation in the Company's financial results.

Equity financing

On April 5, 2013, the Company issued 107,692,308 Class A common shares to LandOcean Energy Services Co., Ltd. ("LandOcean"), for gross proceeds of $7 million.

19. Related party transactions:

The Company had the following related party transactions:

(a) During the year ended December 31, 2012, an accounting firm, of which an officer is a shareholder, charged the Company $16,625 (2011 - $74,620) for accounting services. Of this amount, $ 3,544 was included in accounts payable at December 31, 2012(2011- $ Nil)

(b) During the year ended December 31, 2012, a consulting company, of which an officer is a shareholder, charged the Company $77,160 (2011 - $101,440) for consulting services. Of this amount, $6,430 was included in accounts payable at December 31, 2012 (2011 - $6,430).

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.

ANTERRA ENERGY INC.

For the years ended December 31, 2012 and 2011
(tabular amounts are Canadian dollars except share and per share information)

CORPORATE INFORMATION

Directors

Gary Chang;	Vancouver BC Canada	(1) (2)
Ross O. Drysdale;	Calgary AB Canada	(1) (3)
Gang Fang;	Calgary AB Canada	(2) (3)
Hong Lei;	Beijing P.R. China	
Owen C. Pinnell;	Calgary AB Canada	(1) (2)
Zhen Xiang Huo;	Beijing P.R. China	
Gengwen Sun	Beijing P.R. China	(4)
Ghengfeng Tang	Beijing P.R. China	(4)

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.
(4) Appointed a director on April 5, 2013

Officers

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

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Fax: (403)-261-6601
Website: www.anterraenergy.com
Email: info@anterraenergy.com

Registrar and Transfer Agent
Olympia Trust Company
2300, 125 Ninth Avenue S.E.
Calgary, Alberta T2G 0P6

Stock Exchange
TSXV Venture Exchange
Trading Symbol: AE.A

Auditors
KPMG LLP

Bankers
Canadian Western Bank

Legal Counsel
Norton Rose Canada LLP

Securities fillings

www.sedar.com
Information request and other investor relations inquiries can be directed to menq@anterraenergy.com or by telephone at (403) 215 0860. Additional corporation information can be obtained through Anterra's website at www.anterraenergy.com.