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## **Management Discussion and Analysis**

The following discussion is management's analysis of Anterra Energy Inc.'s ("Anterra" or the "Company") operating and financial data for the three months and year ended December 31, 2009 and prior periods, as well as estimates of future operating and financial performance based on information currently available. It should be read in conjunction with the audited financial statements and notes for Anterra Energy Inc. for the year ended December 31, 2009. The Management Discussion and Analysis ("MD&A") was prepared as of April 1, 2010.

### **Overall Performance Summary**

During the fourth quarter of 2009, there was improvement in both oil and gas prices compared to the previous two quarters. Offset by further production declines net oil and gas revenues increased marginally from \$0.71 million in the third quarter of 2009 to \$0.72 million in the fourth quarter of 2009, both being lower than the \$0.87 million in the fourth quarter of 2008. In response to the economic conditions, during the year ended December 31, 2009, the Company reduced operating costs by 25% compared to 2008, shut-in uneconomic production and suspended Company funded capital expenditures. As a result of postponed maintenance on certain wells and significant declines in gas production, the Company's average production declined in the fourth quarter to an average 142 boepd from the third quarter at 157 boepd, and overall for the year to 165 boepd from 222 boepd in 2008. Cold weather conditions and delays in closing the new investment funds delayed the repairs and workovers to several wells that the Company was expecting to complete during the fourth quarter. Expenditures in December and the first quarter of 2010 are gradually bringing production back to 200 boepd. The average sale price per boe for the fourth quarter improved to \$59.15 from \$51.57 in the third quarter and is 14% higher than \$52.05 in the fourth quarter of 2008. Funds flow from operations is expected to remain at breakeven levels into 2010 as strengthening oil prices in recent months have been offset by production declines, lower gas prices and an increase in maintenance costs to bring back production.

Market conditions during 2009 limited the Company's ability to raise capital through equity financings or dispositions of assets and created financial difficulties for the Company. In July, 2009, the Company closed a small private placement of equity with insiders and an investment fund for \$400,000, resulting in an improvement in the working capital deficit. However, the Company had been notified that it was in default of its obligations to the Bank in respect of the working capital covenant and, in the third quarter, the Company signed a forbearance agreement with the lender, which required the Company to complete a restructuring and bring the Company back into compliance with its covenants. During the third quarter, the Company signed an agreement with an international investor under which, subject to certain conditions, the investor would invest a total of \$15 million. The first installment of this investment closed in early October for \$350,000 and, on November 23, 2009, the Company closed on a further \$2,650,000. The balance, being \$12 million, of the investment was closed on January 15, 2010. During 2009, as part of the restructuring process, the Company had submitted a proposal to its creditors to settle outstanding debts for a cash payment (20%), a two year debenture (30%), 25% in Class A Shares, and 25% of the debt written down and an aggregate \$1.51 million was settled through this process. The result of the investments in the last quarter was that the Company completed its arrangements with existing creditors; brought the Company back into compliance with its lender's covenants; provided funding for workovers and recompletions aimed at increasing production levels; and allowed the Company to continue with its development plans.

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## Operating Summary

The Company's primary focus through 2009 was on maintaining maximum production and income from its legacy assets while retaining its potential for future growth through the development of its non-conventional oil and gas resource play opportunities in Alberta and Saskatchewan. Production during the fourth quarter of 2009 was 142 boe/d compared to 157 boe/d in the third quarter of 2009 and 202 boe/d in the fourth quarter of 2008. The first horizontal oil well into the lower Shaunavon prospect in SW Saskatchewan is back on production after a workover in December and early January to rectify mechanical problems and clean out the well, however half of the horizontal leg remains obstructed. The Company drilled and abandoned a second horizontal well into this formation in December, and further drilling will be required to define the extent of this resource. In addition, through a farmout agreement an infill horizontal well was drilled in December on the Company's Matziwin property in Alberta, and this well is now on production. Under terms of the agreement the partner funds 100% of the drilling, completion and tie-in costs to earn 60% interest in the well for the first 9 months and 55% thereafter. The Company is currently evaluating other potential locations on this property.

In the first quarter of 2010, the Company has acquired seven sections of land over the Cardium play in the Breton / Buck Lake area and seventeen sections of land in Saskatchewan which are prospective for Bakken oil, at an aggregate cost of approximately \$3.9 million. The Company continues to hold over 51,000 gross acres of land and 31,000 net acres of land in Alberta and Saskatchewan. During 2010, the Company plans to drill up to five horizontal wells in the Cardium and is currently seeking joint venture partners to participate in the program. Anterra plans a 3-D seismic program over the Bakken lands during the summer with the drilling of a first well scheduled for late 2010 or early 2011. The Company also intends to pursue acquisitions in Alberta and Saskatchewan when and as opportunities arise. Anterra also offers fee based third party midstream processing services and, during the quarter throughput and revenues improved by 5% and 10% respectively compared to the third quarter of 2009.

The following table outlines the operations of the Company for the three months and year ended December 31, 2009, compared to the same periods in 2008 along with the other costs of the Company for the periods.

	Three Months December 31, 2009	Three Months December 31, 2008	Twelve Months December 31, 2009	Twelve Months December 31, 2008
<b>Oil and Gas Production</b>				
Revenue	773,596	962,410	2,942,566	6,703,888
Royalties	(57,630)	(89,526)	(159,460)	(580,252)
Gross overriding royalties	4,228	395	4,228	7,640
Net revenue	720,194	873,279	2,787,334	6,131,276
Operating costs	632,891	646,423	2,093,771	2,942,376
<b>Oil and gas operating margin</b>	<b>87,303</b>	<b>226,856</b>	<b>693,563</b>	<b>3,188,900</b>
<b>Midstream Processing</b>				
Revenue	368,919	407,917	1,348,406	1,601,311
Operating costs	269,996	272,580	822,351	1,006,147
<b>Midstream operating margin</b>	<b>98,923</b>	<b>135,337</b>	<b>526,055</b>	<b>595,164</b>
Intersegment revenue and cost	(20,595)	(31,798)	(80,876)	(162,305)
<b>Total Net Revenue</b>	<b>1,068,518</b>	<b>1,249,398</b>	<b>4,054,864</b>	<b>7,570,282</b>
Total Operating Costs	882,292	887,205	2,835,246	3,786,218
<b>Total Operating Margin</b>	<b>186,226</b>	<b>362,193</b>	<b>1,219,618</b>	<b>3,784,064</b>
Expenses				
General and administration	360,280	403,755	1,597,847	1,694,419
Stock compensation	-	26,913	84,373	187,095
Interest	70,789	32,448	335,575	217,759
Depletion, depreciation, accretion	532,706	743,129	2,249,032	2,678,306
Creditor settlements	(12,832)	-	(345,762)	-
Goodwill/intangibles/property impairment	233,681	1,413,311	233,681	1,413,311
<b>Total Expenses</b>	<b>1,184,624</b>	<b>2,619,556</b>	<b>4,154,746</b>	<b>6,190,890</b>
<b>Net Loss Before Tax</b>	<b>(998,398)</b>	<b>(2,257,363)</b>	<b>(2,935,128)</b>	<b>(2,406,826)</b>
Provision For Taxes	(295,628)	(495,426)	(850,120)	(542,095)
<b>Net Loss</b>	<b>(702,770)</b>	<b>(1,761,937)</b>	<b>(2,085,008)</b>	<b>(1,864,731)</b>
<b>Earnings (loss) per Class A share</b>				
Basic	(0.011)	(0.048)	(0.044)	(0.046)
Fully Diluted	(0.011)	(0.048)	(0.044)	(0.046)
Weighted Average Number of Class A Shares In Thousands	66,411	37,050	46,912	40,929
<b>Funds Flow From Operations</b>	<b>(232,011)</b>	<b>(35,010)</b>	<b>(388,365)</b>	<b>1,910,886</b>
Funds Flow Per Class A Share	(0.004)	(0.001)	(0.008)	0.057
Cash Flow from operating activities	(99,719)	95,001	121,688	2,506,022

## Presentation

Funds flow from operations is not a recognized measure under Canadian generally accepted accounting principles (GAAP). However, management believes that funds flow from operations is a useful measure of financial performance as an indication of cash generated from operations of the Company during a period to fund its capital expenditures without regard to changes in non-cash working capital during the period and, further, it is a commonly accepted measure in the industry which is useful for knowledgeable investors for comparison purposes. For the purposes of funds flow from operations calculations, funds flow is defined as "Funds flow from operations" before changes in non-cash operating working capital. Anterra's determination of funds flow from operations may not be comparable to that reported by other companies. Operating margin is not a recognized measure under GAAP; however management believes it is a useful measure of financial performance for assessing the operations of the Company. Operating margin is defined as revenue less operating costs, both of which are GAAP measures.

In this MD&A, the calculation of barrels of oil equivalent (boe) is calculated at a conversion rate of 6,000

cubic feet (mcf) of natural gas for one barrel (bbl) of oil based on an energy equivalency conversion method. Boe's may be misleading particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

## Annual Financial Information

	Year Ended December 31		
	2009	2008	2007
<b>Revenues</b>	\$ 4,214,324	\$ 8,150,534	\$ 7,186,677
<b>Net Loss</b>	(2,085,008)	(1,864,731)	(27,102)
<b>Per Class A Share- Basic</b>	(0.044)	(0.046)	(0.001)
<b>Per Class A Share- Fully Diluted</b>	(0.044)	(0.046)	(0.001)
<b>Total Assets</b>	26,338,400	27,474,674	25,433,077

## Quarterly Financial Information

	4th Quarter 2009	3rd Quarter 2009	2nd Quarter 2009	1st Quarter 2009
<b>Net Revenue</b>	\$ 1,068,518	\$ 1,027,786	\$ 1,038,393	\$ 920,167
Oil and gas operating margin	87,303	186,595	305,344	114,321
Processing operating margin	98,923	166,190	131,628	129,314
<b>Net Loss</b>	<b>(702,770)</b>	<b>(396,293)</b>	<b>(439,964)</b>	<b>(545,981)</b>
<b>Loss per share</b>				
Basic	(0.011)	(0.009)	(0.012)	(0.014)
Fully Diluted	(0.011)	(0.009)	(0.012)	(0.014)
Weighted Average Number of Shares In Thousands	66,411	44,760	38,001	38,001
<b>Funds Flow From Operations</b>	<b>(232,011)</b>	<b>(38,211)</b>	<b>25,315</b>	<b>(143,458)</b>
Funds Flow Per Share	(0.004)	(0.001)	0.001	(0.004)
Cash flow from operating activities	(99,719)	(15,052)	183,420	53,039
	4th Quarter 2008	3rd Quarter 2008	2nd Quarter 2008	1st Quarter 2008
<b>Net Revenue</b>	\$ 1,249,398	\$ 2,059,826	\$ 2,204,524	\$ 2,056,534
Oil and gas operating margin	226,856	967,535	1,081,690	912,819
Processing operating margin	135,337	223,133	101,246	135,448
<b>Net Income (Loss)</b>	<b>(1,761,937)</b>	<b>(69,023)</b>	<b>18,994</b>	<b>(52,765)</b>
<b>Income (Loss) per share</b>				
Basic	(0.048)	(0.002)	0.001	(0.002)
Fully Diluted	(0.048)	(0.002)	0.001	(0.002)
Weighted Average Number of Shares In Thousands	37,050	32,169	32,169	32,169
<b>Funds Flow From Operations</b>	<b>(35,010)</b>	<b>637,295</b>	<b>690,022</b>	<b>618,579</b>
Funds Flow Per Share	(0.001)	0.020	0.021	0.019
Cash flow from operating activities	95,001	1,141,835	(120,328)	1,389,514

## Oil & Gas Production

Production during the fourth quarter of 2009 declined to 142 boe/d from 157 boe/d in the third quarter and was 30% lower than the fourth quarter of 2008. Production volumes declined during the year due to a lack of maintenance and development activity, and reductions in the Company's gas production. Efforts to restore production in the latter part of the year were delayed because of the Company's financial position. Fourth quarter production did not increase as previously anticipated because of further delays due to cold weather conditions and delays in financing the drilling of the Matziwin well. However, production increases are being seen from the workovers at Breton and from the new well at Matziwin in the first quarter of 2010. The Company's primary focus for 2010 is on the development of non-conventional oil and gas opportunities in the Cardium play at Breton and Buck Lake area. During 2009, production levels at Breton in central Alberta declined from approximately 160 boepd to 100 boe/d, comprised of 65 bbls/d of oil and 200 mscf/d of natural gas. In southwest Saskatchewan the first horizontal oil well into the Lower Shaunavon formation is on production but experienced mechanical problems during the year. During the third quarter the downhole pump was changed and in December the Company undertook additional maintenance of the well, with the result that the well has returned to its original production levels. Due to capital constraints during 2009, there was very little development activity, however late in December the Company drilled and abandoned a horizontal Lower Shaunavon well in the Claydon area.

## Oil & Gas Production

	Three Months December 31, 2009	Three Months December 31, 2008	Twelve Months December 31, 2009	Twelve Months December 31, 2008
Oil (bbl/d)	98	125	112	155
Natural Gas (mcf/d)	247	425	302	373
NGLs (bbl/d)	3	5	3	5
Total (boe/d)	142	202	165	222

## Oil & Gas Revenue and Realized Prices

The continuing uncertainty of the global economy has resulted in commodity price volatility. At current commodity price levels of approximately CA\$80.00 for oil and under CA\$4.00 for gas, revenues in 2010 are expected to remain constant with 2009 levels. During 2009, oil prices increased throughout the year, but the benefit of this increase in commodity price was offset by production declines and lower gas prices. With prices continuing at these levels, the Company expects to generate breakeven funds flow from existing operational levels, assuming no unforeseen increase to operating expenses. Incremental production from new development activity should lead to positive funds flow from operations as the year progresses.

	Three Months December 31, 2009	Three Months December 31, 2008	Twelve Months December 31, 2009	Twelve Months December 31, 2008
<b>Oil</b>				
Revenues	\$659,322	\$680,772	\$2,456,691	\$5,462,004
Prices \$/bbl	\$73.08	\$59.00	\$60.35	\$96.27
<b>Natural Gas</b>				
Revenues	\$99,660	\$255,287	\$437,356	\$1,103,256
Prices \$/mcf	\$4.39	\$6.53	\$3.97	\$8.10
<b>NGL's</b>				
Revenues	\$14,614	\$26,351	\$48,519	\$138,628
Prices \$/bbl	\$52.90	\$60.69	\$43.98	\$81.32
<b>Total</b>				
Revenues	\$773,596	\$962,410	\$2,942,566	\$6,703,888
Price \$/bbl	\$59.15	\$52.05	\$48.91	\$82.63

## Gross Overriding Royalty Income

Two farm-in gas wells drilled at Breton generate gross overriding royalties to the Company until payout. These wells have provided gross overriding royalties of \$4,228 for the twelve months ended December 31, 2009, (2008 – \$7,640).

## Oil & Gas Royalties Expense

Total royalties including crown royalties were \$57,630 for the fourth quarter of 2009 as compared to \$34,424 for the third quarter and \$89,526 for the three months ended December 31, 2008. This represented \$3.50 per boe for the fourth quarter of 2009 as compared to \$2.38 per boe for the third quarter and \$4.84 per boe for the three months ended December 31, 2008. For the twelve months ended December 31, 2009 total royalties amounted to \$159,460 compared to \$580,252 in the previous year, resulting in a rate of \$2.65 per boe in 2009 compared to \$7.15 per boe in 2008. Even with the unfavorable adjustments to Alberta royalty rates as of January 1, 2009, the Company's royalty rates have decreased with the decrease in commodity prices, declining production and also as the ratio of oil to gas has increased during the year. Subsequent announcements from the Alberta Government will likely provide future benefits for the Company as revenues increase, compared to the regime in 2009.

## Oil & Gas Operating Costs

Total oil and gas operating costs for the fourth quarter of 2009 were \$625,618 or \$47.83 per boe, including \$8,323 for inter-divisional processing charges and \$112,909 for well repairs and maintenance. In comparison, operating costs were \$523,399 for the third quarter of 2009 or \$36.26 per boe, including \$12,594 for inter-divisional processing charges and \$43,067 for repairs and maintenance. Operating costs for the fourth quarter of 2008 were \$646,423 or \$34.96 per boe, including \$17,153 for inter-divisional processing charges and \$106,832 for repairs and maintenance. Operating costs for the 2009 year were \$2,093,771, or \$34.68 per boe, including \$47,137 for inter-divisional processing charges and \$261,659 for repairs and maintenance. Operating costs for 2008 were \$2,942,376 or \$36.27 per boe, including \$100,209 for inter-divisional processing charges and \$544,340 for repairs and maintenance. During 2009, the Company took action to reduce its operating costs, primarily related to field payroll, maintenance costs and fuel costs, in response to low commodity prices. Overall, the Company achieved a reduction in operating cost in excess of \$800,000 for the year, but the operating cost per boe for the year only reduced by 5%, compared to the previous year, due to high maintenance costs in the fourth quarter related to well workovers to bring production back on line and site remediation at Breton. The Company's unit oil and gas operating costs are still high due to low production rates per operating well at the Company's producing properties. The unit operating costs are budgeted to improve in 2010 with the addition of new production from the Company's Cardium and Lower Shaunavon horizontal wells. Inter-divisional charges were eliminated in 2009 for consolidation purposes.

## Oil & Gas Operating Net Back

The operating net back for the fourth quarter of 2009 was \$6.91 per boe compared to \$12.93 per boe for the three months ended September 30, 2009 reflecting high maintenance costs in the fourth quarter as well as the reduction in production during 2009. For the fourth quarter of 2008 the net back was \$12.25 per boe. The Company incurs high unit operating costs due to the low productivity of most of its wells. Oil and Gas operating net back is a non-GAAP measure but it is derived entirely from GAAP measures and management believes it is commonly used in the industry and for comparison purposes by investors.

	Three Months December 31, 2009	Three Months December 31, 2008	Twelve Months December 31, 2009	Twelve Months December 31, 2008
Average realized price ( \$/boe)	\$59.15	\$52.05	\$48.91	\$82.63
Royalties ( \$/boe)	4.41	4.84	2.65	7.15
Operating expenses ( \$/boe)	47.83	34.96	34.68	36.27
Operating net back ( \$/boe)	\$ 6.91	\$12.25	\$11.58	\$39.21

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## **Processing**

Processing revenue for the fourth quarter of 2009 was \$368,919 and \$1,348,406 for the twelve months ended December 31, 2009 compared to \$407,917 for the fourth quarter of 2008 and \$1,601,311 for the year ended December 31, 2008. The Company experienced stronger third party volumes during the fourth quarter of 2009 compared to the previous nine months with a 10% increase compared to the third quarter in which midstream processing revenue was \$334,682. The Company anticipates the current business conditions continuing into 2010.

## **Processing Operating Costs**

Processing operating costs for the fourth quarter of 2009 were \$269,996 (including \$12,062 of inter-divisional charges) and \$822,351 (including \$33,529 of inter-divisional charges) for the year ended December 31, 2009 compared to \$272,580 (including \$14,645 of inter-divisional charges) for the three months ended December 31, 2008 and \$1,006,147 (including \$62,124 of inter-divisional charges) for the year ended December 31, 2008. For the first nine months of the year operating costs were reduced by 25% compared to the previous year. The reduction compared to 2008, reflected the Company's action to reduce operating costs, and in particular maintenance costs, in response to the current economic conditions. However, reductions in the fourth quarter were negatively impacted by a catch up on maintenance and plant turnaround costs. Nevertheless, overall operating costs for the year were 18% lower than in 2008. Inter-divisional charges were eliminated for consolidation purposes.

## **General and Administrative Expenses**

General and administrative expenses for the fourth quarter of 2009 totaled \$360,280 and \$1,597,847 for the twelve months ended December 31, 2009, compared to \$403,755 for the three months ended December 31, 2008 and \$1,694,419 for the twelve months ended December 31, 2008. During 2009, the Company responded to economic conditions, encouraging management to reduce administrative expenditures; however late in the year these savings were offset by a write down of \$145,000 in amounts owing to the Company, and in the fourth quarter the Company experienced a higher level of consulting costs as the Company ramped up its resources for future development plans after investment funds were received. During the year consulting costs and business development costs had been reduced although auditing, legal, engineering and other public company related expenses remained high. During the year, costs were offset by overhead income from joint venture projects, which totaled \$101,565 in 2009 (2008 - \$138,213). There is also a risk of other unforeseen costs offsetting the potential savings.

## **Interest Expense**

Interest expense for the fourth quarter of 2009 was \$70,789 compared to \$156,114 in the third quarter of 2009 and \$32,448 for the fourth quarter of 2008. Interest expense for the 2009 year was \$335,575 compared to \$217,759 in 2008. Compared to 2008, interest rates were lower in 2009 however, pursuant to a forbearance agreement with its lender, the Company was subjected to increased interest rates due to an increase in the bank's lending rate to prime + 2%. In addition, during the third and fourth quarters of 2009, the Company has reflected the lender's forbearance fee of \$110,000; accrued interest of \$10,000 on the debentures issued in settlement of the Company's payables; and accrued \$31,000, which was incurred under the Part XII.6 tax on flow-through commitments renounced for 2008.

## **Depletion, Depreciation and Accretion**

Depletion, depreciation and accretion expense was \$532,706 in the fourth quarter of 2009 compared to \$525,443 in the third quarter and \$743,129 for the fourth quarter of 2008. The expense for the year ended December 31, 2009 was \$2,249,032 compared to \$2,678,306 during the 2008 year. The reduction compared to the previous year reflects lower production rates; and also the impact of the impairment of certain assets at December 31, 2008.

## **Net Income and Loss**

The net loss in the fourth quarter of 2009 was \$702,770. It reflected a tax recovery of \$295,628, and a loss before tax of \$998,398. This compared to a net loss of \$396,293, and loss before tax of \$563,654, in the

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third quarter of 2009; and net loss of \$1,761,937, and loss before tax of \$2,257,363, in the fourth quarter of 2008. The operating margin for the fourth quarter of 2009 was \$186,226 compared to \$352,785 in the third quarter of 2009 and \$362,193 in the fourth quarter of 2008. For the full year, the net loss for 2009 was \$2,085,008, after a tax recovery for the year of \$850,120, compared to a net loss of \$1,864,731 in 2008.

The losses during 2009 reflect the fall in oil and gas prices since the third quarter of 2008 combined with declining production; resulting in negative impacts on revenues and funds generated from operations. While oil prices increased during the second and third quarters, the benefits were offset by lower production at marginal wells and lower gas prices. The actions of the Company to reduce operating and administrative costs during the year mitigated the impact of the lower commodity prices on the Company's loss. The net loss for the period is after reflecting a recovery of \$345,762 related to restructuring payables.

The increase in the net loss in the fourth quarter reflected an increase in maintenance, workover and plant turnaround costs which were required to reinstate production but had been deferred from earlier in the year when the Company was preserving available cash. In addition, the Company reflected an impairment test write down of \$233,681 on certain processing facilities.

### **Capital Expenditures, Commitments and Contingencies**

The Company spent \$1,698,757 on capital expenditures during the year, including \$16,000 on office assets. The balance was spent on oil and gas exploration and development expenditures, primarily \$1.15 million on drilling the Claydon well in December, which was subsequently abandoned. In December, a horizontal infill well was successfully drilled at Matziwin under terms of a farm out where the partner paid 100% of the cost for 60% for the first 9 months of production and 55% thereafter. The well has since been placed on production. Offsetting these amounts, in the third quarter, the Company received \$225,000 from a lease payment on certain rights at one of the Company's properties. At Frontier, in Saskatchewan, the company commenced a workover of the horizontal LSD 15-7 well to clean out the well. The well is now back on production at the same levels as prior to the clean out.

In the first quarter of 2010 the Company has expended approximately \$3.3 million on land holdings in the Cardium in the area of Buck Lake / Breton and has now accumulated seven gross sections of Cardium lands. The Company is presently assessing its drilling plans and anticipates drilling up to five Cardium wells during 2010. In addition, the Company has expended approximately \$600,000 on Bakken lands in Saskatchewan and has now accumulated approximately 17 sections. The Company plans a 3-D seismic program over these lands during the summer, with drilling of a first well scheduled for late 2010 or early 2011. Anterra now believes it has an inventory of over seventy development drilling locations in Alberta and Saskatchewan.

Pursuant to flow-through financings completed by the Company in October and November 2008, at December 31, 2009 the Company had incurred the necessary qualified exploration expenditures to meet its commitment by December 31, 2009. Pursuant to a flow-through financing completed by the Company on July 17, 2009, at December 31, 2009, the Company has a further outstanding commitment of approximately \$150,000 to spend on qualified exploration expenditures by December 31, 2010.

The Company has been reassessed by Canada Revenue Agency ("CRA") for 2004 and 2005 taxation years. The Company has filed a notice of objection respecting the reassessment and, while the outcome is unknown, the Company expects any net changes resulting to the financial statements to be immaterial.

The Company has entered into employment agreements with certain senior management. In addition to defining the terms of employment, the agreement entitles the employees to payments ranging from 6 months to 18 months of compensation for termination without cause or in the event of a change of control. On January 15, 2010 completion of the final installment of the new investment transaction described in the section on Share Capital triggered a change of control and, under the provisions of the agreements, the employees would have the option to elect to terminate their agreements, which could result in aggregate payments up to \$470,000.

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## Liquidity , Capital Resources and Subsequent Events

Funds flow from operations for the fourth quarter of 2009 totaled a negative \$232,011 compared to a positive \$38,211 for the third quarter of 2009 and negative funds flow from operations of \$35,010 for the fourth quarter of 2008.

During 2009, as part of the Company's restructuring process, the Company had submitted a proposal to its creditors to settle outstanding debts for a cash payment (20%), a two year debenture (30%), 25% in Class A Shares, and 25% of the debt written down and an aggregate \$1.51 million was settled through this process. In July the Company raised \$400,000 through a private placement of equity with directors and key shareholders of the Company, and the proceeds were used to pay the cash portion of the creditor settlement.

At December 31, 2009 the outstanding amount under the Company's revolving demand loan facility (see Bank Debt below) was \$3,277,664. The net working capital deficit, including bank debt, is approximately \$5.06 million, which is significantly reduced from \$7.45 million at June 30, 2009. The improvement in the working capital deficit results from the July private placement of Class A Shares; the settlement arranged with creditors of the Company; and the \$3 million investment by Alliance Success Holding Group. The Company's steps to reduce operating and administrative costs, and suspend all Company funded capital expenditures until economic conditions improve, coupled with some strengthening in oil price have created the opportunity to return to positive funds flow from operations as soon as the Company can apply new funds to bring production back on stream.

Following the receipt of investment funds described in the section on Share Capital and completion of the creditor restructuring, at December 31, 2009, the Company was back in compliance with the working capital covenant. The investment transaction also allowed the Company to terminate the forbearance agreement with its lender and return to a regular bank operating facility. On January 15, 2010, the Company completed the final installment of \$12 million from the investment transaction and has since completed its arrangements with previously existing creditors; brought the Company back into compliance with its lender's covenants; eliminated the outstanding bank debt; and provided funds for ongoing operations and project development plans.

In the first quarter of 2010, the Company has actively pursued and, to date, has expended \$3.9 million on land positions in Alberta and Saskatchewan. The Company has plans to drill up to five horizontal wells in the Cardium later in the year. In order to exploit its opportunities for the year, the Company will need to obtain additional debt and equity financing as the year progresses. The Company is also intending to partially finance the drilling program through joint ventures and is currently seeking partners to participate.

### Bank Debt

At December 31, 2009 the Company had a \$5,250,000 revolving demand loan facility with a Canadian chartered bank, against which the Company had drawn \$3,277,664. At year end the effective rate of interest was 4.25%.

Effective August 1, 2009, the Company was subject to a forbearance agreement with the Bank under which the Company had its revolving demand loan facility reduced from \$6,000,000 to \$5,250,000; the non-revolving acquisition and development loan facility cancelled; the interest rate on the facility increased to prime + 2%; and was subject to a forbearance fee. Under the agreement the Company committed to eliminate all long-term defaults by October 30, 2009, which was later extended to November 30, 2009. On November 23, 2009, the Company closed on the second tranche of its investment agreement described in the section on Share Capital, which effectively met the conditions of the forbearance agreement and brought the Company back into compliance with the Bank's covenants.

On January 4, 2010, the bank renewed its agreement with the Company providing a \$5,000,000 revolving demand loan facility, which bears interest at prime plus 1.25%, for a current effective rate of 3.50%. 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. In addition, at the request of the Bank, the Company has provided additional security by issuing fixed charges, mortgages and security interests over certain of the Company's oil and gas assets. The availability under the facility is subject to periodic review with the annual review

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scheduled by May 1, 2010. At December 31, 2009 the Company is in compliance with its working capital covenant. The loans are shown as a current liability due to their demand nature despite the lender having not demanded repayment of the loan.

### **Share Capital**

At December 31, 2009, there were 94,488,032 Class A Shares and nil Class B Shares outstanding. At December 31, 2009, there were 1,066,666 warrants outstanding. On January 15, 2010, the Company closed the final installment of the investment discussed below, resulting in the issue of 150,000,000 Class A Shares and, following this transaction, there are currently 244,488,032 Class A Shares outstanding. In addition, brokers involved in this transaction received 1,599,999 warrants and, following the transaction, there are currently 2,666,665 warrants outstanding.

At December 31, 2009, there were no stock options outstanding, following consent from all option holders and ratification from the Board for the cancellation of all stock options effective April 27, 2009. The Company proposed a resolution at the Annual General Meeting, granting the board of directors the option to issue new stock options within the existing Stock Option Plan, but this did not receive the approval of the shareholders at the meeting. No additional options have been issued since December 31, 2009.

Effective December 29, 2009, all Class B Shares were converted to Class A Shares on notice given to holders of such shares. The 753,014 Class B Shares then outstanding have converted to 7,530,140 Class A Shares.

On October 6, 2009, under the terms of an investment agreement with an international investor, the Company closed the initial tranche of a private placement of Class A Shares. The initial closing resulted in the receipt by the Company of gross proceeds of \$350,000 from the sale of 4,666,666 Class A Shares at a price of \$0.075 per share. In conjunction with this transaction, the Company issued 166,666 broker warrants as part of a finder's fee, each warrant entitling the holder to purchase one Class A Share at a price of \$0.15 per share exercisable until October 5, 2011. On November 23, 2009, a second closing resulted in the receipt by the Company of gross proceeds of \$2,650,000 from the sale of 35,333,334 Class A Shares at a price of \$0.075 per share. In conjunction with this transaction, the Company issued 766,667 broker warrants as part of a finder's fee, each warrant entitling the holder to purchase one Class A Share at a price of \$0.15 per share exercisable until November 22, 2011. On January 15, 2010, a further 150,000,000 Class A Shares were purchased at a price of \$0.08 per share for gross proceeds of \$12,000,000. On closing the final installment, a further 1,599,999 broker warrants to purchase Class A Shares at a price of \$0.15 per share were issued as part of a finder's fee.

On July 20, 2009, the Company closed a private placement of units, each unit comprised of one Class A Share priced at \$0.05 per share and one Flow-Through Class A Share priced at \$0.10 per share. The closing resulted in the receipt by the Company of gross proceeds of \$400,011, from the sale of 2,666,740 Class A Shares and 2,666,740 Flow-Through Class A Shares. In conjunction with this transaction, the Company issued 133,333 broker warrants as part of a finder's fee entitling the holder to purchase units, each unit comprising 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, being exercisable until June 17, 2010 at an exercise price of \$0.15 per warrant and at \$0.20 per warrant until July 17, 2011.

During the period from July 20, 2009 to December 31, 2009, the Company issued a total 3,623,014 Class A Shares of the Company at a price of \$0.10 per share as part of the consideration in the settlement agreement with the Company's creditors.

Pursuant to the rules of the TSXV, the shares of the previous directors, officers and insiders of Resolve (which were exchanged for shares of the Company) are subject to escrow conditions, whereby 10 percent of Class A shares were released from escrow upon receipt of a listing notice on the TSX Venture Exchange. The remaining 90 percent of the escrowed Class A shares shall be released in equal 15 percent tranches every six months thereafter, for a period of 36 months. As at December 31, 2009, 555,900 Class A shares remained in escrow pursuant to these conditions.

The Company has not paid dividends on its common shares to date.

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## 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) The Company completed a private placement of 5,832,358 flow-through Class A Shares in October and November 2008, at a price of \$0.30 per share. Directors and officers of the Company subscribed for an aggregate of 636,358 Class A Shares.

The above transactions were completed on the same terms as to other arms length participants in the private placements.

- (c) During the period, a legal firm, of which a director is a partner, charged the Company \$72,830 (2008 - \$62,702) for legal fees and services. The firm also agreed to settlement of amounts owing by the Company of \$34,819, which included a write down of the amount owing by \$8,704, the issuance of 87,050 Class A Shares, and the issuance of 10,446 5% unsecured subordinated debentures.
- (d) During the year, another legal firm, of which another director is Counsel, charged the Company \$31,144 (2008 - \$nil) for legal fees and services.
- (e) At December 31, 2009, 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 in the normal course of operations 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.

### **Changes in Accounting Policies** (See Note 3 to the interim financial statements).

Effective January 1, 2009, the Company adopted Section 3064, "Goodwill and Intangible Assets" issued by the Canadian Institute of Chartered Accountants ("CICA"). Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. This new section has no current impact on the Company or its Consolidated Financial Statements.

In May 2009, the CICA amended Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments are effective for the Corporation on December 31, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS and have been included as incremental disclosure in the financial statements.

The CICA issued Handbook Section 1582 "Business Combinations" that replaces the previous business combinations standard. This standard applies prospectively to business combinations on or after January 1, 2011 with earlier application permitted. The Company is currently assessing the impact of the standard. The CICA also issued Handbook Sections 1601 "Consolidated Financial Statements", and 1602 "Non-controlling Interests", which replaces existing guidance under Section 1600 "Consolidated Financial Statements". These standards will be effective for the Company for business combinations occurring on or after January 1, 2011 with early application permitted. The Company is currently assessing the impact of the standard.

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The Company is assessing the impact on its financial statements of these new standards, but management does not anticipate that this will have a material impact on the Company's financial position or results of operations.

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit oriented enterprises that are responsible to large or diverse groups of stakeholders. The Company will need to begin reporting under IFRS in the first quarter of 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP, but there could be significant differences in recognition, measurement, and disclosures that will need to be addressed.

The Company has been reviewing the requirements to IFRS but progress on adoption has been delayed due to limitations on the Company's available resources under the current economic conditions. Position papers are being prepared on issue-specific accounting differences between Canadian GAAP and IFRS and the impact on financial reporting. As a number of the IFRS standards are still changing, the position papers will have to be updated to reflect any changes from the final standards. The Company will continue to assess the impact of the proposed standards on its financial statements and disclosure as additional information becomes available. Financial impacts cannot be reasonably determined or estimated at this time.

Based on the initial assessments the Company has identified that the following areas have the greatest potential impact to the Company's accounting: property, plant and equipment, asset retirement obligations and employee benefits. There will also be a significant amount of effort to comply with IFRS' requirements for initial adoption of IFRS.

A more detailed analysis and evaluation of the financial impact of these issues and the impact on financial covenants, business contracts and computer systems is expected to be undertaken by the Company during 2010.

### **Business Risks**

Crude oil and natural gas exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

Operational risks include finding and developing reserves economically, marketing production and services, product deliverability uncertainties, changing government law and regulation, hiring and retaining skilled employees and contractors and conducting operations in a cost effective and safe manner. The Company continuously monitors and responds to changes in these factors and adheres to all regulations governing its operations. Insurance is also maintained at levels consistent with prudent industry practices to minimize risks, but the Company is not fully insured against all risks, nor are all such risks insurable.

Financial risks include commodity prices, interest rates and the Canadian/United States exchange rate, all of which have considerable impact on the estimates contained herein but are beyond the Company's control. The Company sells all of its production on the spot market and does not currently have a hedge program in place.

The Company relies on access to capital markets for new equity to supplement internally generated cash flow and debt to finance its growth plans. Periodically, these markets may not be receptive to offerings of new equity from treasury or debt, whether by way of private placement or public offerings. This may be further complicated by the limited market liquidity for shares of smaller companies, restricting access to some institutional investors. Periodic fluctuations in energy prices may also affect lending policies of the Company's bankers, whether for existing loans or new borrowings. This in turn could limit growth prospects over the short run or may even require the Company to dedicate cash flow, dispose of properties or raise new equity to reduce bank borrowings under circumstances of declining energy prices or disappointing drilling results.

The Company is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other

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parties. In the event such entities fail to meet their contractual obligations to the Company, such failures could have a material adverse effect on the Company and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner.

General adverse economic conditions globally, including recession in Canada and a worldwide economic slowdown, recent disruptions to the credit and financial markets in Canada and worldwide and local economic turmoil may adversely affect the value of the Company's business and value of its securities.

Regulatory risks include changes to Canadian federal and provincial laws, which are beyond the Company's control. The Government of Alberta has completed a comprehensive review of the province's oil and natural gas royalty structure. Anterra is currently evaluating how the potential changes may impact the Company's operations.

### **Forward Looking Statements**

This MD&A contains forward looking information related to the Company's planned drilling program, production, revenue, commodity prices, royalties, capital expenditures and commitments, operating costs, general and administrative expenses, funds flow from operations, financing plans, liquidity and capital resources and debt settlement. Forward-looking information is based on expectations and estimates as of the date of this document, and is information that is subject to known and unknown risks and other factors that may cause future actions, conditions or events to differ materially from the anticipated actions, conditions or events expressed or implied by such forward-looking information. Forward-looking information is information that does not relate strictly to historical or current facts, and can be identified by the use of the future tense or other forward-looking words such as "believe", "expect", "anticipate", "intend", "plan", "estimate", "should", "could", "may", "objective", "projection", "forecast", "continue", "strategy", "position" or the negative of those terms or other variations of them or comparable terminology.

Further examples of such forward-looking information in this document include but are not limited to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions, which may prove to be incorrect including: the amounts recorded for depletion, depreciation and accretion, the provision for asset retirement obligations and the ceiling test, which are based on estimates of reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. Stock-based compensation expense is based upon estimates using the Black-Scholes option pricing model.

Risks include, but are not limited to, the availability and costs of financing, general economic conditions and risks associated with the oil and gas industry (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the financial health of the Company's joint venture partners; health, safety and environmental risks; and the uncertainty of dealing with government and obtaining regulatory approvals).

At this time, the most significant risk relates to the uncertainty of future oil and gas prices and the current volatility in these markets. Revenues and funds flow from operations will be impacted positively or negatively depending on the ultimate variance to the Company's forecast assumptions. Furthermore, the outcome of commodity price changes are expected to impact the Company's capital spending plans and the ability of joint venture partners and other sources of capital funding to provide financing for the Company's projects.

Operations may be unsuccessful or delayed as a result of competition for services, supplies and equipment, mechanical and technical difficulties, ability to attract and retain employees on a cost effective basis, commodity and marketing risk and seasonality. The Company is subject to significant drilling risk and uncertainties including the ability to find oil and gas reserves on an economic basis. The Company is also exposed to risks relating to the inability to obtain timely regulatory approvals, surface access, access to third party gathering and processing facilities, transportation and other third party related operational risks. Financial risks that Anterra is exposed to include, but are not limited to, access to debt or equity markets and fluctuations in commodity prices, interest rates and the Canadian/US dollar exchange rate.

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It is anticipated that subsequent events and developments may cause a change to the assumptions made by the Company. The Company does not have an intention to update this forward-looking information, except as required by applicable securities laws. This forward-looking information represents the Company's views as of the date of this document and such information should not be relied upon as representing the Company's views as of any date subsequent to the date of this document. The Company has attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. **There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** These factors are not intended to represent a complete list of factors that could affect the Company.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.anterraenergy.com](http://www.anterraenergy.com).

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