Anterra Energy Inc.
Balance Sheets

As at December 31	2008	2007
Assets		
Current		
Cash and cash equivalents	$ -	$ 4,072
Accounts receivable	1,288,584	1,677,668
Deposits and prepaid expenses	273,472	253,523
Income taxes recoverable	-	43,077
	1,562,056	1,978,340
Property and equipment (Note 5)	25,902,617	22,559,643
Intangible assets (Note 6)	10,001	289,077
Goodwill (Note 6)	-	606,017
	$ 27,474,674	$ 25,433,077
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	$ 3,338,729	$ 5,874,251
Bank loan (Note 7)	5,376,763	421,982
	8,715,492	6,296,233
Asset retirement obligation (Note 8)	1,859,564	1,689,965
Future income taxes (Note 11(b))	2,331,802	1,862,942
	12,906,858	9,849,140
Share capital (Note 9)	15,677,369	15,275,854
Contributed surplus (Note 10)	1,008,452	561,357
Deficit	(2,118,005)	(253,274)
	14,567,816	15,583,937
	$ 27,474,674	$ 25,433,077

Commitments and Contingencies (Note 15)
Going Concern (Note 2)

Approved on behalf of the Board:

"Signed" Director
Owen Pinnell

"Signed" Director
Ross O. Drysdale

The accompanying notes are an integral part of these financial statements.

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

For the years ended December 31		2008		2007
Revenues				
Revenue	$	**8,150,534**	$	7,186,677
Royalties		**(580,252)**		(508,886)
		7,570,282		6,677,791
Expenses				
Operating		**3,541,167**		2,784,275
Transportation		**245,051**		236,970
General and administrative		**1,694,419**		1,595,332
Stock compensation (Note 17)		**187,095**		116,490
Interest		**217,759**		333,581
Accretion		**153,338**		133,196
Depletion, depreciation and amortization (Note 5)		**2,524,968**		1,926,803
Goodwill, intangible, and property impairment (Note 6)		**1,413,311**		-
		9,977,108		7,126,647
Loss before income taxes		**(2,406,826)**		(448,856)
Income taxes (Note 11)				
Current		**(39,000)**		-
Future		**(503,095)**		(421,754)
		(542,095)		(421,754)
Net loss and comprehensive loss for the year		**(1,864,731)**		(27,102)
Deficit, beginning of year		**(253,274)**		(226,172)
Deficit, end of year	$	**(2,118,005)**	$	(253,274)
Basic loss per share (Note 14)	$	**(0.046)**	$	(0.001)
Diluted loss per share (Note 14)	$	**(0.046)**	$	(0.001)

The accompanying notes are an integral part of these financial statements.

Anterra Energy Inc.
Statement of Cash Flows

For the years ended December 31	2008	2007
Cash flows from operating activities		
Loss for the year	$ **(1,864,731)**	$ (27,102)
Items not involving cash		
Stock compensation	**187,095**	116,490
Depletion, depreciation and amortization	**2,524,968**	1,926,803
Accretion	**153,338**	133,196
Goodwill, intangibles and property impairment	**1,413,311**	-
Future income taxes	**(503,095)**	(421,754)
	1,910,886	1,727,633
Change in non-cash working capital balances		
Accounts receivable	**617,505**	(536,370)
Deposits and prepaid expenses	**(19,949)**	(23,396)
Accounts payable	**(45,497)**	189,673
Income taxes recoverable	**43,077**	(10,583)
	2,506,022	1,346,957
Financing activities		
Issue of common shares and warrants	**1,749,707**	6,975,914
Share issue costs	**(116,237)**	(979,504)
Bank loan	**4,954,781**	(3,828,018)
	6,588,251	2,168,392
Investing activities		
Cash acquired on acquisition (Note 4)	**-**	4,309,792
Additions to property and equipment	**(6,879,899)**	(11,347,063)
Disposal proceeds, property and equipment	**500,000**	-
Change in non-cash working capital	**(2,718,446)**	3,404,260
	(9,098,345)	(3,633,011)
Decrease in cash and cash equivalents	**(4,072)**	(117,662)
Cash and cash equivalents, beginning of year	**4,072**	121,734
Cash and cash equivalents, end of year	$ **-**	$ 4,072

The accompanying notes are an integral part of these financial statements.

1. Nature of Operations

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

On January 1, 2007, Anterra Corporation and its wholly owned subsidiaries Anterra Resources Inc. and Anterra Midstream Inc. were amalgamated under the name of Anterra Corporation.

On May 1, 2007, Anterra Corporation completed an amalgamation with Resolve Energy Inc. under the name of Anterra Energy Inc. (Note 4). Pursuant to the amalgamation each issued and outstanding share of Anterra Corporation was converted into (a) 0.5714285 Class A shares of Anterra Energy Inc. and (b) 0.0132 Class B shares of Anterra Energy Inc. Comparative share numbers have been restated to reflect the Class A share conversion factor.

The principal activities of the Company are the exploration, development and production of oil and gas properties and the development of associated fee based projects in the processing operations.

In 2008 the global credit market crisis, volatility in the price of oil and natural gas, the recession in Canada and the slowdown of economic growth in the rest of the world has created a substantially more volatile business environment. These conditions will limit certain of the Company's previously planned business development activities and it will continue to provide risk for the Company in the future. Refer to the Company's going concern assessment at Note 2.

2. Going Concern

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

The Company reported a net loss of $1,864,731 and generated cash flow from operating activities before changes in non cash working capital balances of $1,910,886 for the year ended December 31, 2008. The Company had a net working capital deficit of $7,153,436 with $624,000 available under its revolving demand loan credit facility of $6,000,000 and $1,000,000 available under an additional $1,000,000 non-revolving acquisition and development demand loan facility in place at December 31, 2008.

The Company's ability to continue as a going concern is dependent upon the ability to raise capital, the generation of positive cash flow, the success of the development and exploration program and the continued support of its lender (Note 7). Under the current economic conditions, oil and gas prices declined significantly in the fourth quarter of 2008 and early 2009 and the resulting reduction in the Company's revenue was reflected in negative cash flow from operating activities before changes in non cash working capital balances in the month of December. In addition, the Company's ability to raise additional capital through equity financing or through the disposition of assets has been limited by the recent market conditions. As a result the Company's working capital deficiencies have been increasing in recent months. As at December 31, 2008, the Company was not in compliance with its working capital ratio (see note 12 "Capital Disclosures") and has requested a waiver from its lender. In this current environment, the company has taken steps to reduce

2. Going Concern - continued

operating and administrative costs, suspend all capital expenditures, and shut-in uneconomic production. The Company has also undertaken initiatives to attempt to raise additional capital in order to clear its working capital obligations. Without positive cash flows and the support of its lenders, the Company may not be able to continue as a going concern.

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

3. Significant Accounting Policies

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

(a) Basis of consolidation
The financial statements include those of the Company and its wholly owned subsidiary Anterra Resources Inc. from its date of acquisition October 31, 2002 and Anterra Midstream Inc. from its date of incorporation May 1, 2003. Panterra Energy Corp. was purchased on March 15, 2006 and was immediately amalgamated with Anterra Resources Inc. All material inter-company transactions have been eliminated. On January 1, 2007 Anterra Corporation and its wholly owned subsidiaries Anterra Resources Inc. and Anterra Midstream Inc. were amalgamated under the name of Anterra Corporation. On May 1, 2007 an amalgamation was completed between Anterra Corporation and Resolve Energy Inc., under the name of Anterra Energy Inc.

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

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

3. Significant Accounting Policies - continued

(d) Cash and cash equivalents
Cash and cash equivalents consists of cash on hand, bank balances (including temporary bank overdrafts), term deposits and investments with maturities of three months or less.

(e) Property and equipment
Petroleum and Natural Gas Properties and Equipment

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

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

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

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

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

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

Processing Facilities and Furniture and Fixtures

Processing facilities and furniture and fixtures are carried at cost and depreciated net of estimated salvage values on a straight line basis over the estimated service lives of the assets, from 5 to 20 years. These assets are assessed periodically to ascertain whether impairment has occurred. The Company has determined that the processing assets are integral to the Company's petroleum and natural gas operations and the assessment of impairment is performed based on this assertion.

3. Significant Accounting Policies - continued

(f) Impairment of long-lived assets
On a periodic basis management assesses the carrying value of long-lived assets for indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in technology, processes or the expected economic environment. When an indication of impairment is present, the Company will test for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value. The Company uses undiscounted future cash flows to determine the net recoverable amount and measures the amount of impairment using discounted cash flows, expected salvage values and other relevant data in the market.

(g) Intangible assets
Intangible assets consist of certain permits, licenses, trademarks and agreements. Amortization provided for, where applicable, on a straight-line basis over the useful life of the assets, up to twenty years. The Company assesses impairment of the carrying value of intangible assets at least annually. The expected future economic benefit from the underlying assets is compared to the net book values and impairment, if any, is recorded as additional amortization.

(h) Asset retirement obligation ("ARO")
Retirement costs equal to the retirement obligation are capitalized as part of the cost of property and equipment and amortized to expense through depletion and depreciation over the life of the asset. The change in the liability due to the passage of time is measured by applying an interest method of allocation to the opening liability and is recognized as an increase in the carrying value of the liability and an expense. The expense is recorded as asset retirement accretion expense in the statement of operations, not as a component of interest expense. A change in the liability resulting from revisions to either the timing or the amount of the original estimate of undiscounted cash flows is recognized as an increase or decrease in the carrying amount of the liability, with an offsetting increase or decrease in the carrying amount of the associated asset. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized in earnings in the period in which the settlement occurs.

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

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

The capital expenditures classification made with respect to the renouncement of flow-through shares is based on estimates from geological and geophysical information obtained and the classification of the expenditures may be challenged by the taxation authorities and in this

3. Significant Accounting Policies - continued

(i) Measurement uncertainty - continued

regard the assessments may be different from that of management. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes of estimates in future periods could be significant.

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

(j) Future income taxes

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

(k) Per share information

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

(l) Flow-through shares

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

(m) Joint venture operations

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

(n) Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets received, is not amortized, but is assessed at least annually for impairment. To assess impairment, the fair value of the reporting unit is determined and compared to the book value of the reporting unit. If the fair value is less than the book value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the reporting unit's assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impaired amount.

3. Significant Accounting Policies - continued

(o) Commodity Contracts
Commodity contracts that do not meet the criteria for the use of hedge accounting are recorded on the balance sheet at fair value and changes in fair value are recognized in income in the period in which the change occurs. The Company had no such contracts in 2008 or 2007.

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

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

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

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

(r) Changes in Accounting Policies
On January 1, 2008 the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1400 “General Standards of Financial Statement Presentation”, Section 1535 “Capital Disclosures”, Section 3031 “Inventories”, Section 3064 “Goodwill and Intangible assets”, Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”, retrospectively with no restatement of prior periods.

The Company has evaluated the impact of these new standards and determined that the adoption of these standards has had no material impact on the Company’s net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

Section 1400, "General Standards of Financial Statement Presentation", was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The Company has adopted the amendments to Section 1400 on January 1, 2008 and has included information in Note 3 “Going Concern” as required.

3. Significant Accounting Policies - continued

(r) Changes in Accounting Policies

Section 1535, "Capital Disclosures", establishes standards for disclosure about the Company's objectives, policies and processes for managing capital. These disclosures include a description of what the Company manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Company's management of capital, whether the requirements have been complied with, or consequence of non-compliance and an explanation of how the Company is meeting it's objectives for managing capital. In addition, quantitative disclosures regarding capital are required. Refer to Note 12, "Capital Disclosures".

Section 3031, "Inventories" requires inventory to be measured at the lower of cost and net realizable value, and that when inventories are sold, the carrying amount of those inventories be recognized as an expense in the period in which the related sales are recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The adoption of this revised standard had no impact on the Company's financial results as presented in these financial statements.

Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit oriented enterprises. The adoption of this revised standard had no impact on the Company's financial results as presented in these financial statements.

Section 3862, "Financial Instruments – Disclosure" and Handbook Section 3863, "Financial Instruments – Presentation". Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The required disclosure and presentation of information pursuant to these standards has been provided in these annual financial statements for the year ended December 31, 2008 and the notes thereto (See Note 18).

(s) Recent accounting pronouncements

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 official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS.

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests" which replace CICA Handbook Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for

3. Significant Accounting Policies - continued

(s) Recent accounting pronouncements

business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 carries forward the requirement of Section 1600, "Consolidated Financial Statements," other than those relating to non-controlling interests which would be covered in Section 1602. Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholders' equity and net income will be calculated without deducting non-controlling interest and instead net income is allocated between the controlling and non-controlling interests. Section 1601 and 1602 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011.

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.

4. Business Acquisition

a) On May 1, 2007, the Company was formed following the amalgamation of Anterra Corporation with Resolve Energy Inc. ("Resolve"). The combination has been accounted for as an acquisition of Resolve assets by Anterra Corporation as the majority of the Class A shares of the Company were to be held by former shareholders of Anterra Corporation; and Resolve had no significant operations to the date of amalgamation. The acquisition of Resolve can be summarized as follows:

Net Assets Acquired

Cash	$	4,309,792
Working capital		(7,801)
Property and equipment		354,160
Future income taxes		(1,017,859)
Fair Value of Net assets acquired	$	$ 3,638,292

Purchase Consideration

Class A shares and Class B shares issued as consideration	$	3,638,292

5. Property and Equipment

	2008			2007		
	Cost	**Accumulated depletion, depreciation and amortization**	**Net Book Value**	Cost	Accumulated depletion, depreciation and amortization	Net Book Value
Petroleum and natural gas properties and equipment	**$ 30,981,604**	**$ 6,830,423**	**$ 24,151,181**	$ 24,689,296	$ 4,515,355	$ 20,173,941
Processing facilities and furniture and fixtures	**3,093,078**	**1,341,642**	**1,751,436**	2,989,226	603,524	2,385,702
	$ 34,074,682	**$ 8,172,065**	**$ 25,902,617**	$ 27,678,522	$ 5,118,879	$ 22,559,643

Costs aggregating various amounts up to $Nil (2007 - $1,605,000) relating to seismic work on unproved properties, and a salvage value amounting to $690,000 (2007 - $690,000) on property and equipment were excluded from the depletion and depreciation calculations during 2008 and 2007.

An impairment test calculation was performed on the Company’s petroleum and natural gas properties at December 31, 2008 in which the estimated undiscounted future net cash flows associated with the proved reserves exceeded the carrying amount of the Company’s petroleum and natural gas properties.

The following table outlines benchmark prices used in the impairment test at December 31, 2008:

Year	WTI Crude Oil US$/bbl	Exchange Rate US$/CDN$	Edm Light Crude Cdn$/bbl	AECO Natural Gas Net of Transportation CDN$/Mcf
2009	55.00	.82	65.40	7.00
2010	76.50	.86	87.20	8.05
2011	88.45	.90	96.50	8.20
2012	100.80	.95	104.30	9.00
2013	108.25	.95	112.05	9.75
2014	110.40	.95	114.25	9.95
2015	112.60	.95	116.55	10.15
2016	114.85	.95	118.90	10.35
2017	117.15	.95	121.25	10.55
2018	119.50	.95	123.70	10.75
2019	121.90	.95	126.15	10.95
Thereafter	2%/Year		2%/Year	2%/Year

An impairment test was also performed on certain processing facilities. A write-down of $543,677 was recorded in 2008 (2007 - $nil).

6. Intangible Assets and Goodwill

	2008			2007		
	Cost	**Accumulated depreciation**	**Net Book Value**	Cost	Accumulated depreciation	Net Book Value
Licenses and permits	**$ 319,177**	**$ 309,176**	**$ 10,001**	$ 319,177	$ 30,100	$ 289,077
Goodwill	**$ -**	**$ -**	**$ -**	$ 606,017	$ -	$ 606,017

Intangible assets, consisting of licenses and permits, were added as part of an acquisition in 2004. As a result of the significant adverse changes in the current business environment, the Company has completed an impairment calculation on the intangible assets and, as a result, has reflected an impairment loss of $263,617 in these financial statements.

Goodwill amounting to $606,017 relates to an acquisition that was completed in 2004. As a result of the significant adverse changes in the current business environment, the Company has completed the goodwill impairment calculation and, as a result, has reflected an impairment loss of $606,017 in these financial statements.

7. Bank Loans

At December 31, 2008, the Company had available a $6,000,000 (December 31, 2007 - $7,000,000) revolving demand loan facility and an additional $1,000,000 (December 31, 2007 - $1,500,000) non-revolving acquisition and development demand loan facility with a Canadian chartered bank. The revolving loan bears interest at prime plus 3/4% and the non-revolving loan at prime plus 1%, an effective rate at year end of 3.75% and 4.00% respectively in 2008 (2007 – 6.75%), and 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. The availability under the facility is subject to periodic review with the annual review scheduled by May 1, 2009. As at December 31, 2008, including bank indebtedness, the Company had drawn $5,376,763 (December 31, 2007 - $421,982). The loans are shown as a current liability due to their demand nature despite the lender having not demanded repayment of the loan. At December 31, 2008, the Company was not in compliance with its debt covenants (see Capital Disclosures Note 12).

8. Asset Retirement Obligation

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

	2008	2007
Asset retirement obligation, beginning of year	**$ 1,689,965**	$ 1,371,697
Change in future cash flows	**(26,806)**	-
Liabilities incurred	**43,067**	185,072
Accretion expense	**153,338**	133,196
Asset retirement obligation, end of year	**$ 1,859,564**	$ 1,689,965

8. Asset Retirement Obligation - continued

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $4,541,000 (2007 - $4,478,000). The obligation was calculated using a credit-adjusted risk free discount rate of 9 percent and an inflation rate of 2 percent. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2011 and 2023.

9. Share Capital

(a) Authorized

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

The Class B shares are convertible, at the option of the Corporation, at any time after October 1, 2009 and before the close of business on September 30, 2011, into Class A shares upon five days prior notice to the holders of Class B shares. The number of Class A shares obtained upon conversion of each Class B share shall be equal to $10.00 divided by the greater of $1.00 and the then current market price of the Class A shares. If the Corporation fails to exercise the conversion option by the close of business on September 30, 2011, then the Class B shares shall be convertible at the option of the shareholder at any time after October 1, 2011 and before November 1, 2011 into Class A shares pursuant to the conversion formula described above. Any Class B shares not converted by the close of business on November 1, 2011 shall be automatically converted into Class A shares pursuant to the conversion formula described above.

(b) Issued

	Year Ended December 31, 2008			
	Class A Shares	**Class B Shares**	**Warrants**	**Amount**
Balance, beginning of year	**32,169,040**	**753,014**	**2,500,000**	**$ 15,275,854**
Tax benefits renounced on flow-through shares	**-**	**-**	**-**	**(1,006,245)**
Private Placement of Flow Through Class A shares for cash	**5,832,358**	**-**	**-**	**1,749,707**
Share issue costs, net of tax of $34,290				**(81,947)**
Expired warrants			**(2,500,000)**	**(260,000)**
Balance, end of year	**38,001,398**	**753,014**	**-**	**$ 15,677,369**

9. Share Capital - continued

(b) Issued - continued

	Year Ended December 31, 2007			
	Class A Shares	Class B Shares	Warrants	Amount
May 1, 2007, (date of business combination)	16,124,474	372,476	1,052,000	$ 5,500,126
Issued to acquire Resolve (Note 4)	6,710,000	380,538	871,790	3,638,292
Private placement of Flow Through Class A shares for cash	3,518,332			2,110,999
Private placement of Class A shares units for Cash	4,000,000			3,140,000
Class A share warrants issued as part of units above	-		2,000,000	260,000
Private placement of Flow Through Class A shares for cash	1,444,444			1,300,000
Warrants exercised	371,790		(371,790)	96,665
Share issue costs, net of tax of $313,424				(666,080)
Expired warrants			(1,052,000)	(104,148)
Balance, December 31, 2007	32,169,040	753,014	2,500,000	$ 15,275,854

Between October 7, 2008 and November 4, 2008, the Company issued 5,832,358 Class A shares, in four tranches, under a private placement flow-through financing at a price of $0.30 per share for aggregate gross proceeds of $1,749,707.

On December 24, 2007, the Company issued 1,444,444 Class A shares under a private placement flow-through financing at a price of $0.90 per share for aggregate gross proceeds of $1,300,000.

On November 9, 2007, the Company completed a financing for $3,400,000 issuing 4,000,000 units at a price of $0.85 per unit. Each unit consisted of one Class A common share and one-half of a Class A common share purchase warrant. Each whole warrant was exercisable into one Class A common share at an exercise price of $1.10 until November 9, 2008, on which date they all expired. A value of $260,000 was attributed to the 2,000,000 warrants.

On July 23, 2007, the Company issued 3,444,999 Class A shares; and on August 7, 2007, pursuant to an over-allotment option, issued a further 73,333 Class A shares under a bought deal private placement “flow-through” financing at a price of $0.60 per share for aggregate gross proceeds of $2,110,999.

On May 1, 2007, as a result of the amalgamation of Anterra Corporation with Resolve Energy Inc., 28,217,833 common shares of Anterra Corporation were exchanged for 16,124,475 Class A shares and 372,476 Class B shares in the Company. On the same date, Resolve Energy Inc. shareholders exchanged their shares for 6,710,000 Class A shares and 380,538 Class B shares in the Company; and 871,890 warrants were assumed by the Company.

9. Share Capital - continued

(b) Issued - continued

Pursuant to the rules of the TSX Venture Exchange, 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, 2008, 1,667,700 Class A Shares remained in escrow pursuant to these conditions.

(c) Stock options

The Company has a stock option plan under which employees, directors and consultants are eligible to receive grants. At December 31, 2008 3,113,333 Class A shares (December 31, 2007 – 2,060,000) Class A shares) were reserved for issuance under the plan. Options granted under the plan have varying vesting periods and are determined by the Board at the grant date.

A summary of the status of the Company's stock option plan as at December 31, 2008 and December 31, 2007 and changes during the period ending on those dates is presented below.

	Year Ended December 31, 2008		Year Ended December 31, 2007	
Stock Options	**Number of options**	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding beginning of year	**2,060,000**	**$0.57**	1,825,000	$0.38
Exercised prior to amalgamation	**-**	**-**	(375,000)	$0.18
Cancelled on amalgamation	**-**	**-**	(1,450,000)	$0.43
Granted after amalgamation	**1,355,000**	**$0.43**	2,060,000	$0.57
Forfeited	**(301,667)**	**$0.58**	-	-
Outstanding end of period	**3,113,333**	**$0.51**	2,060,000	$0.57
Exercisable, end of period	**2,147,499**	**$0.53**	1,286,667	$0.57

9. Share Capital - continued

(c) Stock options - continued

Date of Grant	Number Outstanding	Weighted Average Exercise Price	Date of Expiry	Number Exercisable December 31, 2008
May 29, 2007	1,780,000 [(1)]	$0.56	May 29, 2012	1,453,333
October 31, 2007	20,000 [(2)]	$0.87	October 31, 2012	13,333
February 11, 2008	390,000 [(3)]	$0.52	February 11, 2013	263,333
February 11, 2008	250,000 [(4)]	$0.52	January 31, 2010	187,500
July 2, 2008	500,000 [(5)]	$0.37	July 2, 2013	166,667
September 19, 2008	173,333 [(6)]	$0.30	September 19, 2013	63,333
	3,113,333			2,147,499

(1) *1,126,667 of the options vested immediately with 653,333 vesting equally on the first and second anniversary of the grant date.*

(2) *6,667 of the options vested immediately with 13,333 vesting equally on the first and second anniversary of the grant date.*

(3) *263,333 of the options vested immediately with 126,667 vesting equally on the first and second anniversary of the grant date.*

(4) *Options were granted to a consultant providing investor relations activities, with 25% vesting on each of the three month, six month, nine month and twelve month anniversaries of the grant date.*

(5) *166,667 of the options vested immediately, with 333,333 vesting equally on the first and second anniversary of the grant date.*

(6) *63,333 of the options vested immediately with 110,000 vesting equally on the first and second anniversary of the grant date.*

d) Warrants

On November 9, 2007, the Company issued 2,000,000 warrants as part of a financing for 4,000,000 units at a price of $0.85 per unit. Each unit consisted of one Class A common share and one-half of a Class A common share purchase warrant. Each whole warrant was exercisable into one Class A common share at an exercise price of $1.10 until November 9, 2008, on which date they all expired. The fair value of warrants granted November 9, 2007 had a weighted average fair value of $0.13 which was estimated using the Black-Scholes option pricing model with a current share price of $0.77; a strike price of $1.10; risk free rate of return of 3.99%; expected volatility of 70%; and a one year weighted average life.

On May 1, 2007, the Company assumed 871,790 warrants on the amalgamation with Resolve Energy Inc. Each warrant entitled the warrant holder to acquire one Class A share of the Company at the exercise price of $0.26. 371,790 warrants were exercised prior to their expiry date of December 29, 2007. The remaining 500,000 warrants had an expiry date of December 29, 2008, on which date they all expired.

9. Share Capital - continued

d) Warrants - continued
The following is a continuity of the warrants outstanding:

	Year Ended December 31, 2008		Year Ended December 31,2007	
	Number of warrants	**Weighted average Class A exercise price**	Number of warrants	Weighted average exercise price
Beginning of year	**2,500,000**	**$0.93**	1,290,670	$0.72
Warrants assumed on amalgamation with Resolve	**-**	**-**	871,790	$0.26
Issued	**-**	**-**	2,000,000	$1.10
Exercised	**-**	**-**	(371,790)	$0.26
Expired	**(2,500,000)**	**$0.93**	(1,290,670)	$0.75
End of year	**-**	**$ -**	2,500,000	$0.93
Exercisable, end of period	**-**	**$ -**	2,500,000	$0.93

10. Contributed Surplus

	2008	2007
Contributed surplus, beginning of year	**$ 561,357**	$ 330,320
Exercised stock options	**-**	(12,990)
Expired warrants	**260,000**	127,537
Stock compensation expense	**187,095**	116,490
Contributed surplus, end of year	**$ 1,008,452**	$ 561,357

11. Income Taxes

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

	2008	2007
Loss before taxes	**$ (2,406,826)**	$ (448,856)
Corporate income tax rate	**29.50%**	32.12%
Expected tax recovery	**$ (710,014)**	$ (144,172)
Increase (decrease) in future income taxes resulting from:		
Future tax rate reductions	**(122,969)**	(111,722)
Goodwill impairment	**178,775**	-
Stock compensation expense	**55,193**	37,417
Non-deductible expenses	**1,071**	1,605
Change in previously estimated tax pools	**113,451**	-
Change in valuation allowance	**-**	(220,650)
Other	**(57,602)**	15,768
Income tax recovery	**$ (542,095)**	$ (421,754)

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

Nature of temporary differences	**2008**	2007
Property, plant and equipment	**$ (3,764,242)**	$ (2,982,794)
Asset retirement obligations	**492,784**	498,540
Non-capital losses	**626,427**	192,171
Share issue costs and finance fees	**313,229**	429,141
Future income tax liability	**$ (2,331,802)**	$ (1,862,942)

(c) The Company has non-capital losses available for income tax purposes of approximately $2,365,000 (December 31, 2007 - $651,248) which are available to reduce taxable income in future years. The losses expire after 2013.

12. Capital Disclosures

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The Company's objectives in managing the capital structure are to maintain a flexible financial structure to preserve the Company's access to capital markets, and to finance the Company's growth and continue to meet its financial obligations. The capital structure of the Company consists of bank credit facilities (Note 7), working capital and Shareholder's equity comprised of issued share capital, contributed surplus and deficit. The Company's ability to meet these objectives for managing the Company's capital has been severely challenged by the current economic conditions, and in particular by the pace at which oil and gas prices have declined and the availability of new sources of capital has diminished.
The capital structure is as follows:

	2008	2007
Current assets	**$ 1,562,056**	$ 1,978,340
Accounts payable	**(3,338,729)**	(5,874,251)
Current portion of bank loans	**(5,376,763)**	(421,982)
Net debt and working capital deficiency	**$ (7,153,436)**	$ (4,317,893)
Shareholder's equity	**$ 15,187,177**	$ 15,583,937
Bank Facilities		
Revolving demand loan facility	**$6,000,000**	$7,000,000
Non-revolving acquisition and demand loan facility	**$1,000,000**	$1,500,000

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

However, in the current economic environment, the Company is working on alternative strategies to deal with the working capital deficit, including the disposition of non-core assets and reviewing alternative financing opportunities.

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 not in compliance with this covenant at December 31, 2008. The Company has informed the Bank of its current working capital shortfall and requested a waiver from the bank with respect to the ratio at December 31, 2008.

13. Supplementary Information – Statement of Cash Flows

During the year ended December 31, 2008, the Company paid $217,759 in interest, (2007 - $333,581, including $114,480 Part XII.6 on “look-back” flow-through expenditures) and $Nil in income taxes (2007 - $Nil). Cash and cash equivalents at December 31, 2008 and at December 31, 2007 include only nominal cash equivalents.

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

	2008	2007
Accounts receivable	**389,084**	(756,932)
Accounts payable and accrued liabilities	**(2,535,522)**	3,814,495
Net change in accounts receivable and accounts payable	**(2,146,438)**	3,057,563
Net change in operating activities	**572,008**	(346,697)
Net change in investing activities	**(2,718,446)**	3,404,260
	(2,146,438)	3,057,563

14. Loss per share

	2008	2007
Net loss available to common share shareholders	**(1,864,731)**	(27,102)
Weighted-average number of Class A shares outstanding	**33,399,428**	22,743,624
Class B shares [(1)]	**7,530,140**	7,799,123
Weighted-average number of common shares outstanding – basic and diluted	**40,929,568**	30,542,747
Net loss per share ($/share) - Basic and diluted	**$(0.046)**	$(0.001)

[(1)] Excluded from the above dilutive stock options and warrants are 2,940,000 options and nil warrants respectively at December 31, 2008 (December 31, 2007 – 2,060,000 options and 2,000,000 warrants). All options and warrants are not dilutive as the Company suffered a loss.

15. Commitments and Contingencies

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

15. Commitments and Contingencies - continued

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. As disclosed in note 8, the Company has recognized a liability at December 31, 2008 of $1,859,564 (2007 - $1,689,965) related to the retirement of its long-lived petroleum assets based on current legislation and estimated costs. Any changes in these estimates will affect future earnings. Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded mainly from the Company's cash provided by operating activities.

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

The Company entered into a lease arrangement for office space and related services for five years commencing January 1, 2008. The future minimum lease payments is $931,166 (2007- $111,900). This commitment will be expended equally over the next 5 years.

Pursuant to a flow-through financing completed by the Company during 2008, at December 31, 2008 the Company had an outstanding commitment of approximately $1,350,000 to spend on qualified exploration expenditures by December 31, 2009.

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 payment ranging from 3 months to 18 months of compensation for termination without cause or in the event of a change of control.

16. Related Party Transactions

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

(a) The Company completed a private placement of 5,832,358 flow-through Class A common 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 common shares.

(b) The Company completed a private placement of 3,518,332 flow-through Class A common shares in July 2007, at a price of $0.60 per share. Directors and officers of the Company subscribed for an aggregate of 364,999 Class A common 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 $62,702 (2007 - $239,081) for legal fees and services. A legal firm of which another director is Counsel, charged the Company $Nil (2007 - $34,610). As of January 1, 2008, the Company assumed direct responsibility for the office lease and related services and $nil was paid for these services to a company owned by a director during the year ended December 31, 2008 (2007 - $127,840).

16. Related Party Transactions - continued

(d) An officer of the Company has an agreement with the Company whereby a company controlled by the officer has a 2% gross overriding royalty on all revenues from the earning well drilled on a lease of the Company and also with respect to future revenues arising from the area of mutual interest for the Judy Creek area. During 2008, the officer received $3,129 (2007 - $nil) from this royalty.

(e) Under an agreement dated October 11, 2007, a company owned by a director participated in a farm-in on a property owned by the Company paying 30% of the costs of a test well for a 30% interest before payout and a 15% interest after payout in the scheduled farmout lands. There are no amounts owing and no revenue was received during 2008 or 2007.

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.

17. Stock Compensation

The fair value of share options granted in 2008 had a weighted average fair value of $0.17 (2007 - $0.26) which was estimated using the Black-Scholes option pricing model with the following assumptions:

	2008	2007
Dividend yield	**Nil**	Nil
Expected volatility	**70%**	70%
Risk free rate of return	**3.2%**	4.3%
Weighted average life	**2 years**	2 years

18. Financial Instruments

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

(a) Fair value of financial assets and liabilities
The carrying value of cash, accounts receivable, and accounts payable and accrued liabilities approximates their fair value due to the relatively short period to maturity. The carrying value of the bank debt approximates fair value as the amount bears interest at a rate that is based on current bank prime rates and short-term maturity.

18. Financial Instruments - continued

(b) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. The Company is subject to commodity price risk for the delivery of natural gas and crude oil, the price of which is subject to world economic events that dictate the levels of supply and demand. The Company had no financial derivative contracts in place as at or during the year ended December 31, 2008.

(c) Foreign currency risk

Foreign currency exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no financial instruments denominated in foreign currencies and no forward exchange contracts in place at or during the year ended December 31, 2008.

(d) Credit risk - continued

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

During the year ended December 31, 2008, there were no receivables written off and the carrying amount of accounts receivable represents the maximum exposure. The aging of accounts receivable, including cash call receivables is as follows:

Aging	December 31, 2008 $,000
Current (0-30 days)	$ 411
31 – 60 days	237
61 – 90 days	253
More than 90 days	388
Total	$1,289

When determining whether amounts that are past due are collectable, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company considers all amounts greater than 90 days to be past due. As at December 31, 2008 $388,000 of accounts receivable are past due, excluding amounts described above, all of which are considered to be collectible.

18. Financial Instruments - continued

(e) Interest rate risk management
Interest rate risk is the risk that fair values or future cash flows will fluctuate as a result of changes in market interest rates. The Company's borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at December 31, 2008, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $53,800 (2007 - $4,200). The related disclosures regarding the debt instruments are included in Note 7 of these financial statements. The Company had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2008.

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

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

In the current economic conditions, the pace at which oil and gas prices have declined has increased the liquidity risk. As discussed in Note 2, "Going Concern", and Note 12, "Capital Disclosures", without additional sources of capital from equity financing or dispositions of assets, the Company will not be able to pay its outstanding accounts payable in a timely manner until oil and gas prices increase significantly.

19. Subsequent Events

On March 6, 2009, the Board of Directors approved the cancellation of all of the Company's stock options subject to receiving the consent of all option holders.

20. Segmented Information

The Company has two reportable segments. 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.

For the year ended December 31, 2008	Oil and Gas Production	Midstream Processing	Other Corporate	Eliminations	Total
Revenue	$ 6,711,528	$ 1,601,311	$ -	$ (162,305)	$ 8,150,534
Other revenue	-	-	-	-	-
Total Revenue	6,711,528	1,601,311	-	(162,305)	8,150,534
Royalties	(580,252)	-	-		(580,252)
Net Revenue	6,131,276	1,601,311	-	(162,305)	7,570,282
Operating & transportation	2,942,376	1,006,147	-	(162,305)	3,786,218
Depletion, depreciation	2,295,752	229,216	-	-	2,524,968
Asset retirement accretion	136,875	16,463	-	-	153,338
Income before corporate items	756,273	349,485	-	-	1,105,758
General and administrative	1,287,746	307,245	99,428	-	1,694,419
Stock compensation	-	-	187,095	-	187,095
Goodwill/intangible/property impairment	-	-	1,413,311	-	1,413,311
Interest	175,812	41,947	-	-	217,759
Income taxes	(298,942)	111	(243,264)	-	(542,095)
Net income (loss) for the year	$ (408,343)	$ 182	$(1,456,570)	$ -	$ (1,864,731)
Capital expenditures, net	$ 6,292,308	$ 103,852	$ -	$ -	$ 6,396,160
Total Assets	$25,467,554	$ 1,950,810	$ 56,310	$ -	$ 27,474,674

20. Segmented Information - continued

For the year ended December 31, 2007	Oil and Gas Production	Midstream Processing	Other Corporate	Eliminations	Total
Revenue	$ 6,120,981	$ 1,253,197	$ -	$ (188,234)	$ 7,185,944
Other revenue	733	-	-	-	733
Total Revenue	6,121,714	1,253,197	-	(188,234)	7,186,677
Royalties	(508,886)	-	-		(508,886)
Net Revenue	5,612,828	1,253,197	-	(188,234)	6,677,791
Operating & transportation	2,393,354	816,125	-	(188,234)	3,021,245
Depletion, depreciation	1,776,158	150,645	-	-	1,926,803
Asset retirement accretion	118,093	15,103	-	-	133,196
Income before corporate items	1,325,223	271,324	-	-	1,596,547
General and administrative	1,226,894	251,192	117,246	-	1,595,332
Stock compensation	-	-	116,490	-	116,490
Interest	296,346	37,235	-	-	333,581
Income taxes	(178,514)	(22,590)	(220,650)	-	(421,754)
Net income (loss) for the year	$ (19,503)	$ 5,487	$ (13,086)	$ -	$ (27,102)
Capital expenditures, net	$ 11,843,681	$ 34,811	$ -	$ -	$ 11,878,492
Total Assets	$ 21,722,965	$ 3,672,820	$ 37,292	$ -	$ 25,433,077

CORPORATE INFORMATION

Directors

James H. Coleman
Ross O. Drysdale
Jacob T. Halldorson
William E.Johnson
John McGilvary
Owen C. Pinnell
J. Ronald Woods

Officers

Owen Pinnell	– Executive Chairman and CEO
William Johnson	-- President and COO
Giles Parker	– Vice President, Finance and CFO
Bob McCuaig	– Executive Vice President and General Manager
Doug Wine	– Vice President, Exploration
Gordon Marsden	– Vice President, Production and Engineering
Alastair Robertson	– Treasurer and Corporate Secretary
Marlene Stewart	– Assistant Corporate Secretary

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Stock Exchange

TSXV Venture Exchange
Trading Symbols: A Shares: AE.A
B Shares: AE.B

Auditors
Deloitte & Touche LLP

Bankers
National Bank of Canada

Legal Counsel
Macleod Dixon LLP

Abbreviations
ARTC Alberta Royalty Tax Credit
bbls/d barrels per day
boe barrels of oil equivalent
mbbl thousand barrels
mmboe million barrels of oil equivalent
mcf/d thousand cubic feet per day
WTI West Texas Intermediate
bbl barrel
bcf billion cubic feet
boe/d barrels of oil equivalent per day
mboe thousand barrels of oil equivalent
mcf thousand cubic feet
NGLs natural gas liquids
TSX TSX Venture Exchange

Conversion of Units
1.0 bbl = 0.159 cubic meters
1.0 mcf = 28.2 cubic meters
Natural gas is equated to oil on the basis of 6mcf = 1 boe
6.29 bbls = 1.0 cubic meter
0.035 mcf = 1.0 cubic meter