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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, 2008 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, 2008. The Management Discussion and Analysis ("MD&A") was prepared as of March 27, 2009.

### **Overall Performance Summary**

Throughout 2008, the Company's focus was on maintaining financial performance from its legacy assets while advancing plans for its resource play opportunities. The first three quarters of 2008 provided positive financial results, which was mainly attributable to higher oil and gas prices and a strong contribution from the Midstream operations. However, during this period, production declines were experienced while delays were encountered bringing on new production and a higher level of maintenance was required on the legacy wells. In the final quarter of 2008 and continuing into the first quarter of 2009, the significant and rapid decline in oil and gas prices reduced net revenues from over \$2.0 million in the third quarter of 2008 to \$1.25 million in the fourth quarter and an expected \$0.95 million in the first quarter of 2009. In response the Company has reduced operating and administrative costs, shut-in uneconomic production and suspended Company funded capital expenditures. With current prices of \$US45.00 to \$US50.00/Bbl. for oil and CA\$4.00/mcf for gas, funds flow from operations is barely at break even with no surplus to reduce the \$2 million (before bank debt) working capital deficit. In the current market conditions, the Company's ability to raise capital through equity financings or dispositions of assets has been limited. Accordingly, as the Company expects oil and gas prices to remain at current levels for much of 2009, it is exploring a plan to raise equity and settle the outstanding trade payables. A proposal has been submitted to creditors which is dependent on their agreement and a successful financing. Upon completion of this arrangement, the working capital deficit would be significantly reduced. The Company expects the arrangement to be completed by the end of the second quarter. When oil and gas prices increase, the Company may then again be able to achieve a meaningful level of funds flow from operations.

### **Operating Summary**

The Company's primary focus through 2008 was on maintaining maximum production and income from its legacy assets while expanding its activities to include the development of non-conventional oil and gas resource play opportunities in Alberta and Saskatchewan. The Company has been increasing its land position in the lower Shaunavon prospect in southwest Saskatchewan, and has drilled the first horizontal oil well into this formation. The Company now holds over 33,000 gross acres of land and 18,000 net acres of land in Alberta and Saskatchewan. Due to this change in focus, the Company has farmed out its conventional exploration opportunities. Anterra also offers fee based third party midstream processing services at Breton and Suffield. The following table outlines the operations for the oil and gas and processing segments for the three months and year ended December 31, 2008, compared to the same periods in 2007 along with the other costs of the Company for the periods.

	Three Months December 31, 2008	Three Months December 31, 2007	Twelve Months December 31, 2008	Twelve Months December 31, 2007
<b>Oil and Gas Production</b>				
Revenue	962,410	1,838,801	6,703,888	6,114,831
Royalties	(89,526)	(160,339)	(580,252)	(508,886)
Gross overriding royalties	395	552	7,640	6,883
Net revenue	873,279	1,679,014	6,131,276	5,612,828
Operating costs	646,423	722,991	2,942,376	2,393,354
<b>Oil and gas operating margin</b>	<b>226,856</b>	<b>956,023</b>	<b>3,188,900</b>	<b>3,219,474</b>
<b>Midstream Processing</b>				
Revenue	407,917	386,701	1,601,311	1,253,197
Operating costs	272,580	251,733	1,006,147	816,125
<b>Midstream operating margin</b>	<b>135,337</b>	<b>134,968</b>	<b>595,164</b>	<b>437,072</b>
Intersegment revenue and cost	(31,798)	(49,137)	(162,305)	(188,234)
<b>Total Net Revenue</b>	<b>1,249,398</b>	<b>2,016,578</b>	<b>7,570,282</b>	<b>6,677,791</b>
<b>Total Operating Costs</b>	<b>887,205</b>	<b>925,586</b>	<b>3,786,218</b>	<b>3,021,245</b>
<b>Total Operating Margin</b>	<b>362,193</b>	<b>1,090,992</b>	<b>3,784,064</b>	<b>3,656,546</b>
<b>Expenses</b>				
General and administration	403,755	467,941	1,694,419	1,595,332
Stock compensation	26,913	19,082	187,095	116,490
Interest	32,448	151,104	217,759	333,581
Depletion, depreciation, accretion	743,129	623,434	2,678,306	2,059,999
Goodwill/intangibles/property impairment	1,413,311	-	1,413,311	-
<b>Total Expenses</b>	<b>2,619,556</b>	<b>1,261,561</b>	<b>6,190,890</b>	<b>4,105,402</b>
<b>Net Loss Before Tax</b>	<b>(2,257,363)</b>	<b>(170,569)</b>	<b>(2,406,826)</b>	<b>(448,856)</b>
Provision For Taxes	(495,426)	(327,982)	(542,095)	(421,754)
<b>Net Income / (Loss)</b>	<b>(1,761,937)</b>	<b>157,413</b>	<b>(1,864,731)</b>	<b>(27,102)</b>
<b>Earnings (loss) per Class A share</b>				
Basic	(0.048)	0.005	(0.056)	(0.001)
Fully Diluted	(0.048)	0.004	(0.056)	(0.001)
Weighted Average Number of Class A Shares In Thousands	37,050	28,856	33,399	22,744
<b>Funds Flow From Operations</b>	<b>(35,010)</b>	<b>471,947</b>	<b>1,910,886</b>	<b>1,727,633</b>
Funds Flow Per Class A Share	(0.001)	0.016	0.057	0.076
Cash Flow from operating activities	95,001	1,421,428	2,506,022	1,346,957

## 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		
	2008	2007	2006
<b>Revenues</b>	\$ 8,150,534	\$ 7,186,677	\$ 5,386,297
<b>Net Loss</b>	(1,864,731)	(27,102)	(571,352)
<b>Per Class A Share- Basic</b>	(0.056)	(0.001)	(0.037)
<b>Per Class A Share- Fully Diluted</b>	(0.056)	(0.001)	(0.037)
<b>Total Assets</b>	27,474,674	25,433,077	14,808,138

## Quarterly Financial Information

	4th Quarter 2008	3rd Quarter 2008	2nd Quarter 2008	1st Quarter 2008
<b>Net Revenue</b>	<b>\$ 1,249,398</b>	<b>\$ 2,059,826</b>	<b>\$ 2,204,524</b>	<b>\$ 2,056,534</b>
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
	4th Quarter 2007	3rd Quarter 2007	2nd Quarter 2007	1st Quarter 2007
<b>Net Revenue</b>	<b>\$ 2,016,578</b>	<b>\$ 1,823,236</b>	<b>\$ 1,532,276</b>	<b>\$ 1,305,701</b>
Oil and gas operating margin	956,023	844,839	835,832	582,780
Processing operating margin	134,968	129,374	54,748	117,982
<b>Net Income (Loss)</b>	<b>157,413</b>	<b>(48,014)</b>	<b>(88,127)</b>	<b>(48,374)</b>
<b>Income (Loss) per share</b>				
Basic	0.005	(0.002)	(0.004)	(0.003)
Fully Diluted	0.004	(0.001)	(0.004)	(0.003)
Weighted Average Number of Shares In Thousands	28,856	25,483	20,553	15,910
<b>Funds Flow From Operations</b>	<b>471,947</b>	<b>502,189</b>	<b>453,767</b>	<b>299,730</b>
Funds Flow Per Share	0.016	0.020	0.022	0.019
Cash flow from operating activities	1,421,428	(923,165)	724,070	124,624

## Oil & Gas Production

Production during the fourth quarter of 2008 declined to 202 boe/d from 214 boe/d in the third quarter and was 28% lower than the fourth quarter of 2007. The Company's primary focus is now on progressing the development of non-conventional oil and gas opportunities, while maintaining production from conventional legacy assets. During the year, production levels at Breton in central Alberta have declined from approximately 225 boepd to roughly 160 boe/d, comprised of 115 bbls/d of oil and 275 mscf/d of natural gas. The decline over the year is primarily a result of production decline in newer wells, downtime and maintenance issues on a number of wells and the shut in of marginal wells late in the year. In southwest Saskatchewan the Company added production in December 2008 of roughly 20 bopd (net) from the horizontal well at Frontier. At the same time the Company's net production at Frontier was reduced by approximately 12 bopd upon Anterra's joint venture partner earning 50% interest in the existing production as of November 1, 2008. The Company also added approximately 200 mcf/d of gas production from the new Judy Creek gas 14-20 gas well. In the current economic conditions there is no new development drilling underway for the first quarter of 2009. Further drilling of horizontal wells on the Company's Frontier Saskatchewan property will be subject to improved commodity prices and capital availability.

## Oil & Gas Production

	Three Months December 31, 2008	Three Months December 31, 2007	Twelve Months December 31, 2008	Twelve Months December 31, 2007
Oil (bbl/d)	125	222	155	194
Natural Gas (mcf/d)	425	317	373	377
NGLs (bbl/d)	5	4	5	4
Total (boe/d)	202	279	222	261

## Oil & Gas Revenue and Realized Prices

Oil and gas prices showed increasing strength through the first half of 2008, but prices peaked in July and there was a rapid decline in the fourth quarter of 2008 and early 2009. Continuing recession and volatility in commodity prices is making price forecasting very difficult. At current commodity price levels of approximately CA\$55.00 for oil and under CA\$4.00 for gas, revenues are expected to be considerably lower in 2009 compared to 2008. With prices continuing at these levels, the Company expects to generate breakeven funds flow from operations, assuming no unforeseen increase to operating expenses or reduction in production.

	Three Months December 31, 2008	Three Months December 31, 2007	Twelve Months December 31, 2008	Twelve Months December 31, 2007
<b>Oil</b>				
Revenues	\$680,772	\$1,627,769	\$5,462,004	\$5,095,331
Prices \$/bbl	\$59.00	\$79.77	\$96.27	\$72.09
<b>Natural Gas</b>				
Revenues	\$255,287	\$183,991	\$1,103,256	\$901,174
Prices \$/mcf	\$6.53	\$6.31	\$8.10	\$6.55
<b>NGL's</b>				
Revenues	\$26,351	\$27,041	\$138,628	\$118,326
Prices \$/bbl	\$60.69	\$71.73	\$81.32	\$73.09
<b>Total</b>				
Revenues	\$962,410	\$1,838,801	\$6,703,888	\$6,114,831
Price \$/bbl	\$52.05	\$71.70	\$82.63	\$64.21

## 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 \$7,640 for the twelve months ended December 31, 2008, (2007 – \$6,883).

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## Oil & Gas Royalties Expense

Total royalties including crown royalties were \$89,526 for the fourth quarter of 2008 as compared to \$179,778 for the third quarter and \$160,339 for the three months ended December 31, 2007. This represented \$4.84 per boe for the fourth quarter of 2008 as compared to \$9.12 per boe for the third quarter and \$6.25 per boe for the three months ended December 31, 2007. For the twelve months ended December 31, 2008 total royalties amounted to \$580,252 compared to \$508,886 in the previous year, resulting in a rate of \$7.15 per boe in 2008 compared to \$5.34 per boe in 2007. The increase in royalty rates compared to the previous year reflects the general increase in commodity prices but also the relative proportionate increase in gas revenues, which attract a higher royalty rate than oil. Adjustments to Alberta royalty rates as of January 1, 2009 will result in higher royalties, but declining production will reduce the impact. Subsequent announcements from the Alberta Government will provide credits for drilling, but this will not provide a benefit in the current economic conditions as the Company is not currently incurring capital expenditures in Alberta.

## Oil & Gas Operating Costs

Total oil and gas 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 well repairs and maintenance. In comparison, operating costs were \$679,948 for the third quarter of 2008 or \$34.51 per boe, including \$23,719 for inter-divisional processing charges and \$84,877 for repairs and maintenance. Operating costs for the fourth quarter of 2007 were \$722,991 or \$28.20 per boe, including \$38,817 for inter-divisional processing charges and \$75,976 for repairs and maintenance. During the first half of 2008 operating costs increased significantly compared to 2007 due to higher maintenance and well workover costs, primarily at Breton but also with high first quarter costs at Sakwatamau and Frontier. During the second half of the year, maintenance costs reduced to more normal levels resulting in an overall reduction in operating costs. However, the Company continued to incur high fuel costs at Sakwatamau where gas is purchased for fuel. Operating costs for the 2008 year were \$2,942,376, or \$36.27 per boe, including \$100,209 for inter-divisional processing charges and \$544,340 for repairs and maintenance. Operating costs for 2007 were \$2,393,354 or \$25.13 per boe, including \$149,849 for inter-divisional processing charges and \$257,457 for repairs and maintenance. Costs per boe have increased significantly in 2008 compared to 2007 with the overall decline in production, the high unit costs at Sakwatamau and the increase in overall maintenance work. In December the Company took action to reduce its operating costs in response to low commodity prices. The full impact of these actions were not realized until after year end 2008 but material reduction in operating cost of roughly \$500,000, specifically relating to reduced fluid hauling and operation of marginal wells is expected in 2009. The Company's unit oil and gas operating costs are high due to low production rates per operating well at the Company's producing properties. Inter-divisional charges were eliminated in 2008 for consolidation purposes.

## Oil & Gas Operating Net Back

The operating net back for the fourth quarter of 2008 was \$12.25 per boe compared to \$48.92 per boe for the three months ended September 30, 2008 reflecting the decline in oil and gas prices in the fourth quarter as well as a 6% reduction in production. For the fourth quarter of 2007 the net back was \$37.25 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, 2008	Three Months December 31, 2007	Twelve Months December 31, 2008	Twelve Months December 31, 2007
Average realized price ( \$/boe)	\$52.05	\$71.70	\$82.63	\$ 64.21
Royalties, net of ARTC ( \$/boe)	4.84	6.25	7.15	5.34
Operating expenses ( \$/boe)	34.96	28.20	36.27	25.13
Operating net back ( \$/boe)	\$12.25	\$37.25	\$39.21	\$33.74

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## **Processing**

Processing revenue for the fourth quarter of 2008 was \$407,917 and \$1,601,311 for the twelve months ended December 31, 2008 compared to \$386,701 for the fourth quarter of 2007 and \$1,253,197 for the year ended December 31, 2007. The Company continued to experience stronger third party volumes during the fourth quarter of 2008 although some what lower than the third quarter when midstream processing revenue was \$449,238. Throughout 2008, the Company achieved volume increases at Breton and more stable business conditions at Suffield.

## **Processing Operating Costs**

Processing operating costs for the fourth quarter of 2008 were \$272,580 (including \$14,645 of inter-divisional charges) and \$1,006,147 (including \$62,124 of inter-divisional charges) for the year ended December 31, 2008 compared to \$251,733 (including \$10,321 of inter-divisional charges) for the three months ended December 31, 2007 and \$816,125 (including \$38,386 of inter-divisional charges) for the year ended December 31, 2007. Although higher maintenance costs were incurred in the fourth quarter, generally lower unit operating costs have continued throughout 2008 as a result of implementing preventative maintenance programs at both locations. Inter-divisional charges were eliminated for consolidation purposes. Net operating margin for midstream operations for the fourth quarter of 2008 was \$135,337 and \$595,164 for the twelve months ended December 31, 2008, compared to \$134,968 for the fourth quarter of 2007 and \$437,072 for the year ended December 31, 2007. The improvement in net operating margin during the year reflected higher volumes and resulting revenues but were offset by higher solid waste disposal costs to match the activity and also higher maintenance costs including plant turnaround costs at Breton in the second quarter.

## **General and Administrative Expenses**

General and administrative expenses for the fourth quarter of 2008 totaled \$403,755 and \$1,694,419 for the twelve months ended December 31, 2008, compared to \$467,941 for the three months ended December 31, 2007 and \$1,595,332 for the twelve months ended December 31, 2007. The increase in general and administrative expenses during the year reflect increased expenses related to consulting and professional fees, payroll, office rent, which increased significantly with the new lease on January 1, 2008, and increased business development costs. The cost increases have been partially offset by an increase in overhead income from joint venture projects, which totaled \$138,213 in 2008 (2007 - \$77,156). In early 2009, and in response to the current economic conditions, the Company has introduced measures which are expected to reduce administrative expenditures by approximately \$400,000 in 2009, particularly in the areas of payroll and consulting costs. Although these areas of reduction are relatively certain there is a risk of other unforeseen costs offsetting the potential savings.

## **Interest Expense**

Interest expense for the fourth quarter of 2008 was \$32,448 compared to \$71,280 in the third quarter of 2008 and \$151,104 for the fourth quarter of 2007. Interest expense for the 2008 year was \$217,759 compared to \$333,581 in 2007. Although capital spending during the third and fourth quarters of 2007 and again in the first quarter of 2008, was significant, the amount drawn under the bank loan was reduced following private placements of equity during 2007, which raised a total of \$5,831,000 (net of costs), resulting in lower than expected interest costs through the end of the first quarter. Interest costs in the second and third quarters increased as the bank loans, including the development loan, were drawn down to pay for the ongoing capital program. Fourth quarter interest costs were reduced by a further private placement early in the quarter and reducing interest rates as the quarter progressed. The interest expense in the fourth quarter of 2007 was particularly high as it included \$114,000, which was incurred under the Part XII.6 tax calculation for 2007 spending of flow-through commitments renounced in 2006.

## **Depletion, Depreciation and Accretion**

Depletion, depreciation and accretion expense was \$743,129 in the fourth quarter of 2008 compared to \$676,515 in the third quarter and \$623,434 for the fourth quarter of 2007. The expense for the year ended December 31, 2008 was \$2,678,306 compared to \$2,059,999 during the 2007 year. The increase in depletion, depreciation and accretion reflects the increases in capital spending during 2008 and the impact

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of a reduction in 2008 year end reserves on the fourth quarter calculation.

### **Net Income and Loss**

The net loss in the fourth quarter of 2008 was \$1,761,937. It reflected a tax recovery of \$495,426, and a loss before tax of \$2,257,363. This compared to a net loss of \$69,023, and loss before tax of \$99,409, in the third quarter of 2008; and net income of \$157,413, and loss before tax of \$170,569, in the fourth quarter of 2007. The operating margin for the fourth quarter of 2008 was \$362,193 compared to \$1,190,668 in the third quarter of 2008 and \$1,090,992 in the fourth quarter of 2007. For the full year, the net loss for 2008 was \$1,864,731, after a tax recovery for the year of \$542,095, compared to a net loss of \$27,102 in 2007.

The net loss in the fourth quarter reflects the significant fall in oil and gas prices since the third quarter and the resulting negative impacts on revenues and funds generated from operations. It also includes an impairment on goodwill, intangibles and property amounting to \$1,413,311. The impairment related to an asset which has seen a significant adverse change in the current business climate.

Compared to 2007, improvements in net operating margin continued through the first nine months of 2008, but they were offset by higher administrative expenses and higher depletion, depreciation and accretion costs as the Company expanded its business operations. During the fourth quarter of 2008, the Company continued to experience the stronger contribution from the midstream processing operation, which was evident in the first nine months of the year. However, oil and gas prices, which had been the essential driver for the strong margins during the first nine months, declined significantly while operating and administrative costs were consistent with previous levels. Expected production increases in the second half of 2008 were slow to materialize due to delays tying-in gas from Judy Creek and drilling a new horizontal well at Frontier. By the time the horizontal well was completed winter weather and equipment problems reduced production hours. Accordingly, the overall financial results in the fourth quarter were disappointing.

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

The Company spent \$6,879,899 on capital expenditures during the year, including \$62,000 on midstream processing equipment and \$41,000 on office assets. The balance was spent on oil and gas exploration and development expenditures which included a combination of lower risk development wells and completion of high impact exploration wells early in the year. The Company drilled three vertical wells at Frontier (net 30%), of which two are oil producers and the third is cased pending testing for oil production. The Company drilled two vertical exploration wells, one at Shadow (net 40%) and one at Sakwatamau (net 60%). The Shadow well is standing cased pending evaluation of secondary gas potential. The Sakwatamau well is a potential oil well. At Frontier, the company drilled its first horizontal oil well (net 30%), which came on production in December 2008. The focus for 2009 will be on continuing development of the Company's resource plays specifically at Frontier, once economic conditions improve. However, there may be a delay throughout 2009 as forecasts for improving oil and gas prices are not encouraging. The Company will continue to pursue drilling opportunities at Judy Creek, Sakwatamau and Matziwin through joint ventures to fund exploration and development.

During the year there was little development at Breton, where the majority of the Company's undeveloped reserves are located and instead the focus during the year was on the high impact exploration and resource projects and at Frontier. However, technical work is ongoing at Breton, and the Company does not expect that any delay will have a material effect on ultimate cash flows from the project.

Anterra now believes it has an inventory of over fifty development drilling locations in Alberta and Saskatchewan. The focus for the second half of 2008 was on development of the Company's resource play properties, while pursuing joint ventures to fund conventional exploration. During the fourth quarter, the Company commenced production from the gas well at Judy Creek and work to optimize production has been continuing. The Company had previously farmed out its Judy Creek and Shadow conventional exploration projects, and commitments to two exploration wells on each of these projects was at the partner's cost. Drilling results and delays with the partner's financial arrangements resulted in agreement with the joint venture partner in early 2009 to terminate the original arrangement and replace it with an alternative project. Accordingly, further drilling at Shadow and Judy Creek is not planned at this time.

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Pursuant to a flow-through financing completed by the Company in October and November 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. In light of the Company's current working capital deficit, the Company is looking at alternatives to fund these expenditures.

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.

### **Liquidity , Capital Resources and Subsequent Events**

After three quarters of positive funds flow from operations, funds flow from operations for the fourth quarter of 2008 was a negative \$35,010 compared to \$637,295 for the third quarter and \$471,947 for the fourth quarter of 2007. For the year ended December 31, 2008 funds flow from operations totaled \$1,910,886 compared to \$1,727,633 for the same period in 2007.

As noted below the Company has available a revolving demand loan facility of \$6.0 million and at December 31, 2008 the outstanding amount was \$5,376,763. Since year end the outstanding amount has increased to approximately \$5.5 million and the net working capital deficit is approximately \$7.4 million. Under the prevailing economic conditions, funds flow from operations was negative in December and January. The Company has taken steps to reduce operating and administrative costs, suspend all Company funded capital expenditures until economic conditions improve, and shut-in uneconomic production. Following these initiatives and, assuming oil prices continue at US\$45.00/bbl and gas prices at CA\$4.00/mcf, the Company estimates that funds flow from operations will approximate a break even situation. Accordingly, the Company has also undertaken alternative initiatives to raise capital, including potential sales of non-core assets and approaching different sources of potential financing, in order to meet its working capital obligations and to re-commence limited capital spending on core assets. However, the Company's ability to raise additional capital through equity financing or through the disposition of assets has been limited by recent financial market conditions including the low commodity prices and the cost of capital. As a result, the Company has been unable to materially reduce the amount of the working capital deficit in recent months and is currently unable to pay all its creditors on a timely basis. Assuming that oil and gas prices remain at current levels during 2009 and without additional sources of capital, the Company will be unlikely to generate sufficient cash flow to meaningfully reduce the working capital deficit. See Note 2 "Going Concern" in the Financial Statements.

As lower prices have continued through the first quarter with no tangible results from its initiatives, the Company determined to adopt a plan to secure funds to be applied to the working capital deficit. In an informal approach to its unsecured trade creditors the Company proposed to settle all debts with an element of cash, a two year debenture and an equity component, treating all creditors equally. The cash component is to be raised through a private placement of equity with directors and key shareholders of the Company, but both the equity and the payment to creditors are interdependent based on agreement to the arrangement from the creditors. The Company plans to complete the proposed debt re-structuring by the end of the second quarter.

Anterra completed one equity financing during 2008. 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.

### **Bank Debt**

The Company has a \$6,000,000 revolving demand loan facility and an additional \$1,000,000 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 2008 of 3.75% and 4.0% respectively, 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. At the request of the Bank, the Company is currently providing 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

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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. At December 31, 2008 the Company is not in compliance with its working capital covenant and, accordingly, it has requested a waiver with the Bank (See Note 12 "Capital Disclosures" to Financial Statements). 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, 2008, there were 38,001,398 Class A Shares and 753,014 Class B Shares outstanding. At December 31, 2008 there were 3,113,333 stock options outstanding at a weighted average exercise price of \$0.51. At December 31, 2008, there were no warrants outstanding. The number of shares have not changed since year end and no additional warrants have been issued. On March 6, 2009, the Board approved the cancellation of all the Company's stock options subject to receiving the consent of all option holders. All consents have been received and the options deemed cancelled as of April 16, 2009.

2,000,000 warrants which were issued as part of the private placement of units on November 9, 2007 with an exercise price of \$1.10 expired on November 9, 2008. 500,000 warrants which were assumed under the amalgamation with Resolve, entitling the warrant holder to acquire one class A share at an exercise price of \$0.26, expired on December 31, 2008.

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, 2008, 1,667,700 Class A shares remained in escrow pursuant to these conditions.

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

On February 11, 2008, the Company granted 415,000 stock options to directors, officers and employees to purchase Class A shares at an exercise price of \$0.52. Of the total options issued, 288,333 vested immediately, with the balance vesting equally on the first and second anniversary of the grant date, while 25,000 of the vested options have since been cancelled. Also, on February 11, 2008, the Company granted 250,000 options to a consultant providing investor relations activities to purchase Class A shares at an exercise price of \$0.52. The warrants vest as to 25% on each of the three month, six month, nine month and twelve month anniversaries of the grant date, and expire on January 31, 2010.

On July 2, 2008, the Company granted 500,000 stock options to an officer and director to purchase Class A shares at an exercise price of \$0.37. Of the options issued, 166,667 vested immediately, with the balance vesting equally on the first and second anniversary of the grant date.

On September 19, 2008, the Company granted 190,000 stock options to an officer and director, a consultant and employees to purchase Class A shares at an exercise price of \$0.30. Of the options issued, 63,333 vested immediately, with the balance vesting equally on the first and second anniversary of the grant date while 16,667 of the non-vested options have since been cancelled.

### **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 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.
- (b) The Company completed a private placement of 3,518,332 flow-through Class A 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 Shares.

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

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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).
- (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 farmin 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.

### **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 these amendments and has included information in Note 3 "Going Concern" in the notes to the financial statements.

Section 1535, "Capital Disclosures", establishes standards for disclosure of qualitative and quantitative information about the Company's objectives, policies and processes for managing capital. Refer to Note 12, "Capital Disclosures" in the notes to the financial statements.

Section 3031, "Inventories" requires inventory to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write down to net realizable value, and on the cost formulas that are used to assign costs to inventories. 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". These standards pertain to the disclosure and presentation of financial instruments and additional qualitative and quantitative information regarding the nature and extent of risks arising from financial instruments to which the Company is exposed. Refer to Note 18, "Financial Instruments" in the

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notes to the financial statements.

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 restrictions 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 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 2009.

### **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 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

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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, general and administrative expenses, funds flow from operations, financing plans 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", "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.

It is anticipated that subsequent events and developments may cause a change to the assumptions made

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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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