SECURE ENERGY SERVICES INC.

Condensed Consolidated Interim Financial Statements (unaudited)

For the three months ended March 31, 2011 and 2010

(Expressed in Canadian Dollars)

SECURE ENERGY SERVICES INC.

Condensed Consolidated Interim Statement of Financial Position

(Expressed in Canadian Dollars)

($000's) (unaudited)	Notes	March 31, 2011	December 31, 2010	January 1, 2010
Assets			**(see Note 19)**	**(see Note 19)**
Current assets				
Cash and short term deposits		**10,217**	22,518	235
Accounts receivable and accrued receivables	**6**	**30,991**	25,394	5,694
Other receivables		**-**	-	38
Prepaid expenses and deposits		**403**	600	320
Inventories		**1,317**	3,184	682
Notes receivable	**16**	**488**	-	-
		43,416	51,696	6,969
Notes receivable	**16**	**-**	482	459
Deferred income tax asset		**-**	-	982
Assets under construction	**7**	**22,044**	30,818	7,345
Property, plant and equipment	**8**	**134,137**	112,237	82,810
Intangible assets	**9**	**3,133**	3,231	272
Total Assets		**202,730**	198,464	98,837
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**10**	**26,753**	29,802	3,326
Finance lease liabilities	**17**	**1,318**	1,304	561
		28,071	31,106	3,887
Long term borrowings	**11**	**-**	-	4,788
Asset retirement obligations	**12**	**10,374**	9,570	4,239
Finance lease liabilities	**17**	**1,567**	1,670	556
Deferred income tax liability		**2,372**	770	-
Total Liabilities		**42,384**	43,116	13,470
Shareholders' Equity				
Issued capital	**13**	**153,305**	152,983	89,992
Reserves	**14**	**3,445**	2,999	1,376
Retained earnings (deficit)		**3,596**	(634)	(6,001)
Total Shareholders' Equity		**160,346**	155,348	85,367
Total Liabilities and Shareholders' Equity		**202,730**	198,464	98,837

The accompanying notes are an integral part of these condensed consolidated interim financial statements

SECURE ENERGY SERVICES INC.

Condensed Consolidated Interim Statement of Comprehensive Income

(Expressed in Canadian Dollars)

		For the three Months Ended March 31,	
($000's except per share data) (unaudited)	**Notes**	**2011**	**2010**
			(see Note 19)
Revenue		**67,998**	12,208
Operating expenses		**59,128**	7,958
General and administrative		**2,701**	1,279
Business development		**187**	114
Interest, accretion and finance costs		**150**	191
Total Expenses		**62,166**	**9,542**
Profit for the period before before income taxes		**5,832**	2,666
Deferred income tax expense		**1,602**	1,129
Total Profit and Comprehensive income for the period, net of income tax		**4,230**	**1,537**
Earnings per share			
Basic, profit for the period per common share	**15**	**0.07**	**0.04**
Diluted, profit for the period per common share	**15**	**0.06**	**0.03**

The accompanying notes are an integral part of these condensed consolidated interim financial statements

SECURE ENERGY SERVICES INC.
Condensed Consolidated Interim Statement of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

($000's) (unaudited)	Notes	Issued capital	Reserves	Retained earnings (deficit)	Total Shareholders' Equity (see Note 19)
Balance at January 1, 2010		**89,992**	**1,376**	**(6,001)**	**85,367**
Profit for the year		-	-	5,367	**5,367**
Issue of share capital	**13**	66,169	-	-	**66,169**
Exercise of options	**13**	170	(17)	-	**153**
Share issue costs	**13**	(3,348)	-	-	**(3,348)**
Share-based payments	**14**	-	1,640	-	**1,640**
Balance at December 31, 2010		**152,983**	**2,999**	**(634)**	**155,348**
Profit for the period		-	-	4,230	**4,230**
Issue of share capital	**13**	-	-	-	**-**
Exercise of options and warrants	**13**	322	(56)	-	**266**
Share issue costs	**13**	-	-	-	**-**
Share-based payments	**14**	-	502	-	**502**
Balance at March 31, 2011		**153,305**	**3,445**	**3,596**	**160,346**

The accompanying notes are an integral part of these condensed consolidated interim financial statements

SECURE ENERGY SERVICES INC.

Condensed Consolidated Interim Statement of Cash Flows

(Expressed in Canadian Dollars)

($000's) (unaudited)	Notes	For the three Months Ended March 31, 2011	2010
Cash flows from operating activities			
Profit after income tax for the period		**4,230**	1,537
Adjustments for non-cash items:			
Depreciation, depletion and amortization		**4,251**	3,440
Accretion		**71**	41
Deferred income tax expense		**1,602**	1,129
Share-based payments	**14**	**502**	187
Loss on sale of property, plant and equipment		**-**	43
		10,656	6,377
Change in accounts receivable and accrued receivables, other receivables, and prepaids and deposits		**(5,400)**	(3,383)
Change in inventories		**1,867**	224
Change in accounts payable and accrued liabilities related to operating activities		**(1,602)**	2,429
Net cash flows from operating activities		**5,521**	5,646
Cash flows from investing activities			
Purchase of property, plant and equipment		**(16,635)**	(5,143)
Proceeds from the sale of property, plant and equipment		**-**	2
Change in non-cash working capital		**(1,447)**	440
Net cash flows used in investing activities		**(18,082)**	(4,701)
Cash flows from financing activities			
Net issue of shares		**266**	53,634
Borrowings (repayments) of long term borrowings	**11**	**-**	(4,900)
Change in non-cash financing activities		**(6)**	(5)
Net cash flows from financing activities		**260**	48,729
Increase/(decrease) in cash and short term deposits		**(12,301)**	49,673
Cash and short term deposits, beginning of period		**22,518**	235
Cash and short term deposits, end of period		**10,217**	49,908

The accompanying notes are an integral part of these condensed consolidated interim financial statements

1. CORPORATE INFORMATION

Secure Energy Services Inc. (the "Corporation") is incorporated under the Business Corporations Act of Alberta and primarily engaged in clean oil terminalling, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal and oil purchase/resale service. The Corporation provides a range of these services in each of its operating facilities throughout Alberta and British Columbia. The address of the Corporation's registered office is Suite 4500, 855-2nd Avenue S.W. Calgary, Alberta, T2P 4K7.

These condensed consolidated interim financial statements of the Corporation for the period ended March 31, 2011 were authorized for issue by the Board of Directors on May 12, 2011.

In March 2010, the Corporation filed a long form prospectus (the "Prospectus") which constituted the Corporation's initial public offering ("IPO") of common shares. On March 23, 2010, the Corporation received approval to list its common shares on the Toronto Stock Exchange ("TSX") and commenced trading under the symbol "SES" on March 30, 2010.

Seasonality of Operations

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. As warm weather returns in the spring, the winter's frost comes out of the ground (commonly referred to as "spring break-up"), rendering many secondary roads incapable of supporting heavy loads and as a result road bans are implemented prohibiting heavy loads from being transported in certain areas. As a result, the movement of the heavy equipment required for drilling and well servicing activities may be restricted, and the level of activity of the Corporation's customers may be consequently reduced and as such the level of oilfield waste processing and landfill disposal is therefore reduced accordingly. In addition, the transportation of heavy waste loads is restricted resulting in smaller loads and a general reduction in the volume of waste delivered to the Corporation's facilities. Accordingly, while the Corporation's facilities are open and accessible year-round, spring break-up reduces the Corporation's activity levels. In the areas in which the Corporation operates, the second quarter has generally been the slowest quarter as a result of spring break-up. Historically, the Corporation's first, third and fourth quarters represent higher activity levels and operations.

2. BASIS OF PRESENTATION

Conversion to International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") confirmed on February 13, 2008 that International Financial Reporting Standards ("IFRS") has replaced Canadian generally accepted accounting principles ("GAAP") for publically accountable enterprises for financial periods beginning on or after January 1, 2011.

These condensed consolidated interim financial statements have been prepared in accordance with *IAS 34, Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and in effect at the closing date of March 31, 2011.

These are the Corporation's first IFRS consolidated interim financial statements for part of the period covered by the first IFRS consolidated annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2011. Previously, the Corporation prepared its consolidated financial statements under GAAP. A reconciliation from GAAP to IFRS is provided in Note 19.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value.

The condensed consolidated interim financial statements comprise the financial statements of the Corporation and include the Corporation's proportionate share of the assets, liabilities, revenues, expenses and cash flows of its joint venture as at March 31, 2011. See Note 16.

The preparation of interim financial statements in conformity with IAS 34 requires management to make, estimates judgments and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Management reviews these judgments, estimates and assumptions on an ongoing basis, including those related to depreciation, depletion and amortization, asset retirement obligations, fair values of crude oil derivative contracts, recoverability of assets, and share-based payments. Actual results may differ from these estimates. See Note 4 for a description of significant estimates and judgments. These condensed consolidated interim financial statements do not include all of the information required for full annual consolidated financial statements.

These condensed consolidated interim financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation and that are effective or available for early adoption on December 31, 2011, the Corporation's first annual reporting date under IFRS.

The standards that will be effective or available for voluntary early adoption in the annual consolidated financial statements for the year ending December 31, 2011 are subject to change and may be affected by additional interpretation(s). Accordingly, the accounting policies for the annual period that are relevant to these condensed consolidated interim financial statements will be determined only when the first annual IFRS consolidated financial statements are prepared for the year ending December 31, 2011.

The preparation of these condensed consolidated interim financial statements resulted in changes to the accounting policies as compared with the most recent annual consolidated financial statements prepared under GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, as required by *IFRS 1, First Time Adoption of International Financial Reporting Standards* (IFRS 1). The impact of the transition from GAAP to IFRS is explained in Note 19**.**

The condensed consolidated interim financial statements of the Corporation are stated in and recorded in Canadian dollars ($). The financial statements of the Corporation and its joint venture are prepared as of the closing date of the Corporation's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the condensed consolidated interim statement of financial position, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of changes in shareholders' equity, and the condensed consolidated interim statement of cash flows, certain items are combined for the sake of clarity. These are explained in the notes. Assets and liabilities are classified by maturity. They are regarded as current if they mature within one year or within the normal business cycle of the Corporation. Cash and short term deposits, accounts receivable and accrued receivables, accounts payable and accrued liabilities, prepaid expenses and deposits, current tax assets and liabilities and inventories are always presented as current items; deferred tax assets and liabilities, assets under construction, property, plant and equipment, and intangible assets are presented as non-current items. Asset retirement obligations, borrowings, notes receivable, and finance lease obligations may be shown as both current and non-current, in connection with their respective maturities.

a) Revenue Recognition

Revenue is recognized in the period services are provided or performed and when collectability is reasonably assured, economic benefits will flow to the Corporation, and revenue can be reliably measured. Processing and disposal revenues are recorded at the time of delivery. Revenue from the sale of crude oil and natural gas liquids is recorded when title passes to the customer and collection is reasonably assured. The following specific recognition criteria must also be met before revenue is recognized:

- The Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the oil sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Corporation; and,
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

b) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Canadian taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in Canada where the Corporation operates and generates taxable income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated interim statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate in accordance with *IAS 37 Provisions, Contingent Liabilities, and Contingent Assets*.

Deferred income tax
The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is expected to be realized or the liability is expected to be settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax items relating to items recognized outside of profit or loss are recognized in correlation to the underlying transaction either in other comprehensive income or directly in shareholders' equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred tax relates to the same taxable entity and the same taxation authority. The Corporation only operates within the tax jurisdictions of Canada.

Goods and Services tax ("GST")
Revenues, expenses, liabilities and assets are recognized net of the amount of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated interim statement of financial position.

c) Share-based payments

The Corporation has a share-based payment plan. The Corporation follows the fair-value method to record share-based payment expense with respect to stock options and warrants granted. The fair value of each option or warrant granted is estimated on the date of grant and that value is recorded as share-based payment expense over the vesting period of those grants, with a corresponding increase to reserves less an estimated forfeiture rate. The consideration received by the Corporation on the exercise of share options and warrants is recorded as an increase to issued capital together with corresponding amounts previously recognized in reserves. Forfeitures are estimated for each reporting period, and adjusted as required to reflect actual forfeitures that have occurred in the period.

In order to record share-based payment expense, the Corporation estimates the fair value of share options and warrants granted using assumptions related to interest rates, expected lives of the options, volatility of the underlying security, and expected dividend yields.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement
Financial assets within the scope of *IAS 39 Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss (”FVTPL”), loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value. Investments not recognized at FVTPL are recognized at fair value plus directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Corporation commits to purchase or sell the asset.

The Corporation's financial assets include cash and short term deposits, crude oil derivative contracts, accounts receivable and accrued receivables, other receivables and notes receivable.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss ("FVTPL")
FVTPL include financial assets held for trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Corporation that are not designated as hedging instruments in hedge relationships as defined by IAS 39, and cash and short term deposits. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. FVTPL are carried in the consolidated interim statement of financial position at fair value, with changes in fair value recognized in finance income or finance cost in the consolidated interim statement of comprehensive income. The Corporation does not designate any derivative financial instruments as hedging instruments.

Cash and short-term deposits in the consolidated interim statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated interim statement of comprehensive income. Any losses arising from impairment are recognized in the consolidated interim statement of comprehensive income in interest, accretion and finance costs. The Corporation has classified accounts receivable and accrued receivables, other receivables and notes receivable as loans and receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when:

- The rights to receive cash flows from the asset have expired; or,
- The Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Corporation has transferred substantially all the risks and rewards of the asset, or (b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

ii) Impairment of financial assets

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default, or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with financial defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Corporation first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future expected credit that has not yet been incurred. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated interim statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated interim statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Corporation. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to interest, accretion and finance costs in the consolidated interim statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of *IAS 39, Financial Instruments: Recognition and Measurement* are classified as financial liabilities at FVTPL, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value. Other financial liabilities are recognized at fair value plus directly attributable transaction costs.

The Corporation's financial liabilities include crude oil derivative contracts, accounts payable and accrued liabilities, and long term borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category could include derivative financial instruments entered into by the Corporation that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives could also be classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated interim statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other financial liabilities
After initial recognition, interest-bearing other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated interim statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs on the consolidated interim statement of comprehensive income.

The Corporation has designated accounts payable and accrued liabilities and long term borrowings as other financial liabilities.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated interim statement of comprehensive income.

iv) Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The Corporation's crude oil contracts included in accounts receivable and accrued receivables and accounts payable and accrued liabilities are shown on a net basis where there is a legally enforceable right to offset.

v) Shareholders' equity
Common shares are presented in issued capital within shareholders' equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from issued capital, net of any tax effects.

vi) Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. The Corporation does not hold any such instruments as at March 31, 2011 (December 31, 2010 – Nil).

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; or other valuation models. The Corporation's crude oil derivative contracts are valued by one or more of these valuation techniques.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation has classified its financial instrument fair values based on the required three-level hierarchy:

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities;
- Level 2: Valuations based on observable inputs other than quoted active market prices; and,
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flows methods.

Cash and short term deposits are recorded at fair value under level 1. Included in accounts receivable and accounts payable are crude oil derivative contracts related to trading activities. The Corporation uses net buy or net sell crude oil derivative contracts for the marketing and trading of crude oil or natural gas liquids. The contracts are settled with physical delivery of crude oil on a monthly basis and are recorded at fair value at the consolidated statement of financial position date under level 2.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

vii) Transaction costs

Transaction costs for financial instruments other than held for trading are capitalized in the period they are incurred. Transaction costs for loan facilities that have a duration longer than one year are capitalized and amortized using the EIR method over the period that corresponds with the term of the loan facilities.

e) Property, plant, and equipment

Land is measured at cost. Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such costs include geological and geophysical, drilling of wells, labour and materials, site investigation, production equipment and facilities, contracted services, and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced, the Corporation recognizes such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognized in the consolidated interim statement of comprehensive income as incurred. The present value of the expected cost for the asset retirement obligation of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to Note 12 for further information about the recognition and measurement of the asset retirement obligation.

Depreciation, except for units of capacity, is based on a straight line basis and is calculated over the estimated useful life of the asset as follows:

Buildings	10 to 15 years
Landfill cells	Units of total capacity utilized in the period
Mobile equipment	5 years
Plant infrastructure and equipment	2 to 15 years
Disposal wells	15 years
Furniture and fixtures	7.5 years
Leasehold improvements	10 years
Computer equipment and software	3 to 10 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated interim statement of comprehensive income when the asset is derecognized.

The assets' residual values, useful lives, and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

f) Leases

Finance leases, which transfer to the Corporation substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated interim statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the consolidated interim statement of comprehensive income.

g) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction, or production of an asset are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Corporation incurs in connection with the borrowing of funds.

h) Intangible assets

Intangible assets acquired outside business combinations are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are not capitalized and the expenditure is reflected in the consolidated interim statement of comprehensive income in the period in which the expenditure is incurred. Intangible assets resulting from an acquisition are recorded at fair value. Fair value is estimated by management based on the expected discounted future cash flows associated with the intangible asset. Intangible assets with a finite life are amortized over the estimated useful life and intangible assets with an indefinite life are not subject to amortization and are tested for impairment annually. Any impairment is identified by comparing the fair value of the indefinite life intangible asset to its carrying value. Any excess of the carrying value of the intangible asset over the implied fair value is the impairment amount and will be charged to profit in the period of the impairment. Amortization of intangibles is calculated on a straight-line basis over the estimated life of the intangible asset. Licences, non-competition agreements and customer relationships are amortized over 5-10 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Inventories

Inventories are comprised of crude oil, natural gas liquids and spare parts and are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. The reversal of previous net realizable value write-downs to inventories is permitted when there is a subsequent increase to the value of inventories. The volume of oil held in inventory and the value of the oil in inventory will fluctuate based on the normal capacity of the facility, the amount of line fill required to be held, if required, and the market price of crude oil in any given month.

j) Impairment of non-financial assets

The Corporation assesses at each reporting date whether there is an indication that an asset or cost generating unit (”CGU”) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

The Corporation has twelve CGU’s which impairment is tested against. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. All of the Corporation’s individual CGU’s comprise of one operating segment. The non-financial assets of the Corporation are comprised of assets under construction, property, plant and equipment and intangible assets as at March 31, 2011 and December 31, 2010. Impairment losses of continuing operations are recognized in the consolidated interim statement of comprehensive income in those expense categories consistent with the function and nature of the impaired asset.

Goodwill is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. Goodwill impairment is tested at the CGU level and is determined based upon the amount of future discounted cash flows generated by each CGU compared to the CGU’s respective carrying amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. Value in use is generally determined using the discounted cash flow method. If the impairment loss exceeds the carrying amount of goodwill, the goodwill is written off completely. Any impairment loss left over is allocated to the remaining assets of the CGU.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the non-financial asset’s or cash-generating unit’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the non-financial asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the non-financial asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the non-financial asset in prior years. Such reversal is recognized in the consolidated interim statement of comprehensive income. Any previously recognized impairment losses on goodwill are not reversed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Provisions

Provisions are recognized when the Corporation has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated interim statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a risk free rate. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

l) Earnings per share

The Corporation uses the treasury method for outstanding options and warrants which assumes that the use of proceeds that could be obtained upon exercise of options and warrants in computing diluted earnings per share are used to purchase the Corporation's common shares at the average market price during the period. The calculation of basic earnings per share has been calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that would occur if stock options and warrants were exercised. Using the treasury method, the calculation of diluted earnings per share has been calculated by dividing net earnings available to common shareholders by the total of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding arising from the exercise of potentially dilutive stock options and warrants.

m) Jointly controlled operations

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. A portion of the Corporation's operating activities are conducted jointly with others and therefore are consolidated into the operations of the Corporation. The consolidated interim financial statements reflect only the Corporation's proportionate interest in assets, liabilities, revenues, expenses, and cash flows.

n) Asset retirement obligations

Asset retirement obligations associated with well sites and facilities are measured at the present value of the expenditures expected to be incurred. The Corporation uses a risk-free rate in the measurement of the present value of its asset retirement obligations. The associated asset retirement cost is capitalized as part of the related asset. Changes in the estimated obligation resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the asset retirement obligation and the related asset retirement cost. Accretion is expensed as incurred and recognized in the consolidated interim statement of comprehensive income as interest, accretion and finance costs. The estimated future costs of the Corporation's asset retirement obligations are reviewed at each reporting period and adjusted as appropriate.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Corporation's consolidated interim financial statements requires management to make, at the end of the reporting period, judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key estimates and judgements concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below. Readers are cautioned that the following list is not exhaustive and other items may also be affected by estimates and judgements.

Amounts recorded for depreciation and amortization are based on estimates including economic life of the asset and residual values of the asset at the end of its economic life. Amounts recorded for depletion on the landfill cells are based on estimates of the total capacity utilized in the period.

The Corporation assesses impairment on its non-financial assets when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows do not include restructuring activities, if any, that the Corporation is not yet committed to or significant future investments that will enhance the non-financial asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The amounts recorded for asset retirement obligations and the related accretion expenses are based on estimates of the costs to abandon and reclaim the wells and facilities and the estimated time period in which these costs are expected to be incurred in the future. In determining the fair value of the asset retirement obligation, assumptions and estimates are made in relation to discount rates, the expected cost for the reclamation, the expected cost to recover the asset, and the expected timing of those costs. The Corporation's operations are affected by federal, provincial, and local laws and regulations concerning environmental protection. The Corporation's provisions for future site restoration and reclamation are based on known requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

The Corporation uses estimates and judgements for the determining the fair value of its financial instruments. Where the fair value of financial assets and financial liabilities recorded in the consolidated interim statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk, and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Amounts recorded for share-based payments are subject to the inputs used in the Black-Scholes option pricing model, including assumptions such as volatility, dividend yield, and expected option life.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorization of these consolidated interim financial statements, certain new standards, amendments, and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Corporation. Management anticipates that all of the pronouncements will be adopted in the Corporation's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments, and interpretations that are expected to be relevant to the Corporation's consolidated interim financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's consolidated interim financial statements.

In 2010, the IASB issued a collection of amendments as part of its annual project "Improvements to IFRSs." The amendments address details of the recognition, measurement, and disclosure of business transactions and serve to standardize terminology. They consist mainly of editorial changes to existing standards. Except as otherwise specified, the amendments, which have not yet been endorsed, are to be applied for annual periods beginning on or after January 1, 2012. They are not expected to have a material impact on the presentation of the Corporation's financial position or results of operations.

In 2010, the IASB issued IFRS 9 *Financial Instruments*, which addresses the classification and measurement of financial assets. The new standard defines two instead of four measurement categories for financial assets, with classification to be based partly on the Corporation's business model and partly on the characteristics of the contractual cash flows from the respective financial asset. An embedded derivative in a structured product will no longer have to be assessed for possible separate accounting treatment unless the host is a non-financial contract. A hybrid contract that includes a financial host must be classified and measured in its entirety. Application of IFRS 9 is mandatory for financial periods beginning on or after January 1, 2013. The new standard is not expected to have a material impact on the presentation of the Corporation's financial position and results of operations.

6. ACCOUNTS RECEIVABLE AND ACCRUED RECEIVABLES

($000's)	Mar 31, 2011	Dec 31, 2010	Jan 1, 2010
Trade accounts receivable and accruals	**19,338**	14,974	5,736
Crude oil derivative contracts	**11,726**	10,493	-
	31,064	25,467	5,736
Allowance for doubtful accounts	**(73)**	(73)	(42)
	30,991	**25,394**	**5,694**

Trade accounts receivables are non-interest bearing and are generally on 30-90 day terms.

Included in accounts receivable and accrued receivables are crude oil derivative contracts related to trading activities. The Corporation uses net buy and net sell crude oil derivative contracts (the "contracts") for marketing and trading of crude oil which commenced in December of 2010 as part of the Corporation becoming a single shipper of crude oil on Pembina Pipeline Corporation's ("Pembina") pipeline. Typically, these contracts are entered into in the forecast month which is the month prior to the production or delivery month. The oil and gas producer forecasts or nominates crude oil volumes expected to be delivered to the Corporation's facilities in advance of the production month as part of normal oil and gas operations. There is no initial cash outlay in the month prior to the production month, as both the commodity price the producer will receive and the actual crude oil volume to be delivered are determined in the production month. The contract obligation is settled upon delivery. Therefore, as a result of no initial cash outlay in the forecast month, and given both the commodity price and physical delivery are settled at a future date (the production month) these contracts are defined as derivative instruments within financial instruments. The contracts are carried at fair value on the Corporation's consolidated interim statement of financial position in the forecast month, and are included within accounts receivable and accrued receivables or accounts payable and accrued liabilities upon settlement. The contracts settled in the production month are included in accounts receivable and accrued receivables and accounts payable and accrued liabilities and are recorded on a net basis where the Corporation has a legally enforceable right and intention to offset.

As at March 31, 2011, $0.1 million (December 31, 2010 - $0.1 million; January 1, 2010 - $0.1 million) of trade receivables were considered impaired.

7. ASSETS UNDER CONSTRUCTION

Assets under construction or refurbishment are not depreciated until they are complete and available for use. When this occurs, the asset is transferred to property, plant and equipment and classified by the nature of the asset.

($000's)	Projects under construction	Equipment (under refurbishment)	Total
At March 31, 2011	**21,365**	**679**	**22,044**
At December 31, 2010	29,655	1,163	**30,818**
At January 1, 2010	6,070	1,275	**7,345**

The amounts included in the categories above consist of assets associated with a variety of ongoing projects.

8. PROPERTY, PLANT AND EQUIPMENT

($000's)	Land	Buildings	Plant, Infrastructure, Equipment, and Landfill Cells	Mobile Equipment	Disposal Wells	Furniture and Fixtures	Computer Equipment and Software	Total
Cost:								
At January 1, 2010	21	6,083	60,053	1,066	25,528	419	1,134	**94,304**
Additions	655	2,361	33,152	2,063	3,652	343	431	**42,657**
Revaluations	-	-	156	-	265	-	-	**421**
Disposals	-	-	(110)	(75)	-	-	-	**(185)**
At December 31, 2010	676	8,444	93,252	3,054	29,445	762	1,565	**137,198**
Additions	-	3,057	19,408	-	3,694	47	104	**26,310**
Revaluations	-	-	(112)	-	(116)	-	-	**(228)**
Disposals	-	-	(48)	-	-	-	-	**(48)**
Transfers	-	(80)	138	-	-	(58)	-	**-**
At March 31, 2011	**676**	**11,421**	**112,638**	**3,054**	**33,023**	**751**	**1,669**	**163,232**
Accumulated depreciation and depletion:								
At January 1, 2010	-	(373)	(8,810)	(218)	(1,673)	(71)	(349)	**(11,494)**
Depreciation and depletion	-	(465)	(10,557)	(421)	(1,709)	(61)	(320)	**(13,533)**
Disposals	-	-	30	36	-	-	-	**66**
At December 31, 2010	-	(838)	(19,337)	(603)	(3,382)	(132)	(669)	**(24,961)**
Depreciation and depletion	-	(165)	(3,198)	(149)	(519)	(23)	(95)	**(4,149)**
Disposals	-	-	15	-	-	-	-	**15**
Transfers	-	6	(21)	-	-	15	-	**-**
At March 31, 2011	**-**	**(997)**	**(22,541)**	**(752)**	**(3,901)**	**(140)**	**(764)**	**(29,095)**
Net book value:								
At March 31, 2011	**676**	**10,424**	**90,097**	**2,302**	**29,122**	**611**	**905**	**134,137**
At December 31, 2010	676	7,606	73,915	2,451	26,063	630	896	**112,237**
At January 1, 2010	21	5,710	51,243	848	23,855	348	785	**82,810**

8. PROPERTY, PLANT AND EQUIPMENT (continued)

The amount of borrowing costs capitalized during the three month period ended March 31, 2011 was Nil (March 31, 2010 - Nil). During the three months ended March 31, 2011, $24.9 million was transferred from assets under construction to property, plant and equipment for completed projects (March 31, 2010 - $0.6 million).

Included in property, plant, and equipment is equipment under finance lease arrangements with a net book value of $3.7 million (December, 31 2010 - $3.7 million, January 1, 2010 - $1.4 million). The finance lease commitments over the next five years are disclosed in Note 17.

9. INTANGIBLE ASSETS

Non-competition agreements and customer relationships are amortized on a straight-line basis over their estimated useful lives of 5 years. Licenses are amortized on a straight-line basis over the estimated useful life of 10 years. Amortization expenses are including in operating expenses on the consolidated interim statement of comprehensive income.

($000's)	Non-competition agreements	Customer relationships	Licenses	Total
Cost:				
At January 1, 2010	93	254	-	**347**
Additions from business combinations	-	-	3,245	**3,245**
Disposals	-	-	-	**-**
At December 31, 2010	93	254	3,245	**3,593**
Additions	-	-	-	**-**
Disposals	-	-	-	**-**
At March 31, 2011	**93**	**254**	**3,245**	**3,593**
Accumulated amortization:				
At January 1, 2010	(20)	(55)	-	**(75)**
Amortization	(19)	(51)	(216)	**(286)**
Disposals	-	-	-	**-**
At December 31, 2010	(39)	(106)	(216)	**(361)**
Amortization	(5)	(13)	(81)	**(99)**
Disposals	-	-	-	**-**
At March 31, 2011	**(44)**	**(119)**	**(297)**	**(460)**
Net book value:				
At March 31, 2011	**49**	**135**	**2,948**	**3,133**
At December 31, 2010	54	148	3,029	**3,231**
At January 1, 2010	73	199	-	**272**

10. ACCOUNTS PAYABLE AND ACCRUED LIABLITIES

($000's)	Mar 31, 2011	Dec 31, 2010	Jan 1, 2010
Accounts payable and accruals	**14,965**	19,250	3,326
Related party payable (Note 16)	**62**	59	-
Crude oil derivative contracts	**11,726**	10,493	-
	26,753	**29,802**	**3,326**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-90 day terms.
- For terms and conditions relating to related parties, refer to Note 16.

Included in accounts payable and accrued liabilities are crude oil derivative contracts related to trading activities. The Corporation uses net buy or net sell crude oil derivative contracts for the marketing and trading of crude oil (See Note 6).

11. LONG TERM BORROWINGS

The Corporation has a secured credit facility ("credit facility") consisting of a $35.0 million committed revolving term facility, renewable on May 31, 2011, bearing interest at 1.5% to 2.5 % above the Bank Prime rate, depending on certain minimum financial ratios to be maintained by the Corporation. The credit facility is a multi-use facility to provide capital project financing, working capital requirements and letters of guarantee in support of financial security requirements. In December 2009, as part of the issuance of the various credit facilities, the Corporation incurred transaction costs in the amount of $0.1 million, of which the entire amount was deferred and amortized using the EIR method until the outstanding balance on the credit facility was repaid in March 2010. At March 31, 2011, no amounts were drawn on the credit facility (December 31, 2010 - Nil; January 1, 2010 - $4.9 million)

As security for the credit facility, the Corporation granted lenders a security interest over all of its present and after acquired property. A $200.0 million debenture provides a first fixed charge over the Corporation's real properties and a floating charge over all present and after acquired property not subject to the fixed charge.

The credit facility has an extendible revolving period, followed by a one year non-revolving term period. The initial revolving period is renewable on May 31, 2011. If the credit facility is not renewed prior to May 31, 2011, then a non-revolving term period shall commence immediately thereafter and shall end one year later on May 31, 2012, at which point the Corporation is required to repay in full all amounts owing under the credit facility. Subsequent to March 31, 2011, the Corporation has a commitment to renew its existing credit facility and increase the amount available under the credit facility (See Note 18).

11. LONG TERM BORROWINGS (continued)

($000's)	Mar 31, 2011	Dec 31, 2010	Jan 1, 2010
Committed secured credit facility	**35,000**	35,000	35,000
Letters of guarantee issued	**(8,494)**	(8,494)	(8,380)
Available amount	**26,506**	**26,506**	**26,620**

The available credit facility is reduced by any outstanding letters of guarantee. As at March 31, 2011, the Corporation has approximately $8.5 million in letters of guarantee issued by the Corporation's banker (December 31, 2010 - $8.5 million; January 1, 2010 - $8.4 million). The current fee for the issued guarantees is 1.5%. All guarantees reduce the Corporation's available secured credit facility. The guarantees are issued to various government authorities for potential reclamation obligations in accordance with applicable regulations (Note 12).

12. ASSET RETIREMENT OBLIGATIONS

($000's)	
At January 1, 2010	4,239
Arising during the year through development activities	2,233
Revisions during the year	(147)
Arising during the year through acquisitions	2,609
Discount rate adjustment and accretion	636
At December 31, 2010	9,570
Arising during the year through development activities	393
Revisions during the period	565
Discount rate adjustment and accretion	(154)
At March 31, 2011	**10,374**

The Corporation's asset retirement obligations were estimated by management based on the Corporation's estimated costs to remediate, reclaim, and abandon the Corporation's facilities and estimated timing of the costs to be incurred in future periods. The Corporation has estimated the net present value of its asset retirement obligations at March 31, 2011 to be $10.4 million (December 2010 - $9.6 million; January 1, 2010 - $4.2 million) based on a total future liability of $15.9 million as at March 31, 2011 (December 31, 2010 - $14.3 million; January 1, 2010 - $ 7.3 million). These costs are expected to be incurred over the next one to 24 years. The Corporation used its risk-free interest rates of 1.82% to 3.75% and an inflation rate of 3.00% to calculate the net present value of its asset retirement obligations.

13. SHAREHOLDERS' EQUITY

Authorized
Unlimited number of common voting shares of no par value
Unlimited number of preferred shares of no par value

	Number of Shares	Amount ($000's)
Balance, January 1, 2010	41,631,991	89,992
Initial public offering	19,166,667	57,500
Agent's exercise of over-allotment	2,875,000	8,625
Employee share ownership plan	15,990	44
Options exercised	64,700	153
Transfer from reserves in equity	-	17
Share issue costs	-	(4,649)
Future tax effect of share issue costs	-	1,301
Balance, December 31, 2010	63,754,348	152,983
Options exercised	90,033	238
Warrants exercised	18,000	27
Transfer from reserves in equity	-	57
Balance, March 31, 2011	**63,862,381**	**153,305**

On March 23, 2010, the Corporation completed an IPO of its common shares. A total of 19,166,667 common shares were issued through a prospectus at a price of $3.00 per common share, resulting in gross proceeds of $57.5 million. On April 16, 2010, the Agents exercised the over-allotment option to purchase an additional 2,875,000 common shares at a price of $3.00 per common share for gross proceeds of approximately $8.6 million. In connection with these offerings, the Corporation incurred approximately $4.6 million in transaction costs which included $3.7 million in agent fees. These costs, net of tax, were applied against the proceeds in share capital during the year ended December 31, 2010.

Subsequent to March 31, 2011, the Corporation entered into an agreement to purchase all of the issued and outstanding shares of Marquis Alliance Energy Group Inc (See Note 18).

14. SHARE-BASED PAYMENT PLAN

The Corporation has a share-based payment plan (the "Plan") under which the Corporation may grant share options to its employees, directors, and consultants for up to 10% of the issued and outstanding common shares of the Corporation calculated on a non-diluted basis at the time of grant. The exercise price of options granted under the Plan is calculated as the five-day weighted average trading price of the common shares for the five trading days immediately preceding the date the options are granted. Options issued under the Plan have a term of five years to expiry and vest over a three year period starting one year from the date of the grant. A summary of the status of the Corporation's share-based payment plan is as follows:

(Unaudited – Expressed in Canadian Dollars)

14. SHARE-BASED PAYMENT PLAN (continued)

	Mar 31, 2011		Dec 31, 2010	
	Outstanding options	Weighted average exercise price ($)	Outstanding options	Weighted average exercise price ($)
Balance - beginning of period	5,627,450	2.50	3,447,900	1.98
Granted	121,715	6.10	2,317,800	3.28
Exercised	(90,033)	2.64	(64,700)	2.37
Forfeited	(21,000)	4.57	(73,550)	2.98
Balance - end of period	**5,638,132**	**2.56**	**5,627,450**	**2.50**
Exercisable - end of period	**2,871,314**	**1.94**	**2,325,466**	**1.71**

	Options outstanding			Options exercisable	
Exercise price ($)	Outstanding options	Weighted average exercise price ($)	Weighted average remaining term (years)	Outstanding options	Weighted average exercise price ($)
1.00 - 2.00	1,591,000	1.28	1.37	1,591,000	1.28
2.01 - 3.00	3,393,892	2.78	3.41	1,278,314	2.76
3.01 - 4.00	336,700	3.73	4.17	2,000	3.40
4.01 - 5.00	77,550	4.57	4.63	-	-
5.01 - 6.00	119,300	5.33	4.69	-	-
6.01 - 6.10	119,690	6.10	4.94	-	-
	5,638,132	**2.56**	**2.96**	**2,871,314**	**1.94**

The fair value of options granted to employees, directors and consultants was estimated at the date of grant using the Black-Scholes Option Pricing Model, including the following assumptions:

	Mar 31, 2011	Dec 31, 2010
Volatility factor of expected market price (%)	**47.00**	51.53
Weighted average risk-free interest rate (%)	**2.46**	2.25
Weighted average expected life in years	**4.0**	5.0
Weighted average expected annual dividends per share	**Nil**	Nil
Weighted average fair value per option ($)	**2.38**	1.53

The Corporation's stock has limited trading history, therefore the Corporation has used a weighted average volatility consisting of its own limited historical volatility and the historical volatilities of certain members of its peer group for input into the Black-Scholes Option Pricing Model.

14. SHARE-BASED PAYMENT PLAN (continued)

Performance warrants

The Corporation has a performance warrant plan, under which the Corporation may grant performance warrants to its employees, officers, directors and consultants to a maximum amount of 1,075,994. The number of warrants issued is approved by the Board of Directors at the time of grant. There are currently no remaining performance warrants to be granted. Performance warrants issued under the plan have a term of five years to expiry from the date of the grant and vest 1/3, 1/3, 1/3 based on predetermined threshold amounts of $3.00, $3.50 and $4.25, respectively. The threshold amounts are determined using the weighted average trading price of the common shares of the Corporation for a period of 45 consecutive days. As at March 31, 2011, all warrants have vested.

	Mar 31, 2011		Dec 31, 2010	
	Outstanding warrants	Weighted average exercise price ($)	Outstanding warrants	Weighted average exercise price ($)
Balance - beginning of period	1,068,494	1.50	1,075,994	1.50
Granted	-	-	-	-
Exercised	(18,000)	1.50	-	-
Forfeited	-	-	(7,500)	1.50
Balance - end of period	**1,050,494**	**1.50**	**1,068,494**	**1.50**
Exercisable - end of period	**1,050,494**	**1.50**	**1,068,494**	**1.50**

The following table summarizes information about performance warrants outstanding as at March 31, 2011:

Warrants outstanding				Warrants exercisable	
Exercise price ($)	Warrants outstanding	Weighted average exercise price ($)	Weighted average remaining contractual life (years)	Exercisable Warrants	Weighted average exercise price ($)
1.50	1,050,494	1.50	1.22	1,050,494	1.50

For the three month period ended March 31, 2011, share-based payment expense of $0.5 million (March 31, 2010 - $0.2 million) has been recognized for stock options and warrants granted. These costs are recorded as share-based payment expense with the offsetting amount being credited to reserves as shown in the following:

Reserves

($000's)	Mar 31, 2011	Dec 31, 2010
Balance - beginning of period	**2,999**	1,376
Share-based payments	**502**	1,640
Transfer to issued capital	**(56)**	(17)
Balance - end of period	**3,445**	2,999

14. SHARE-BASED PAYMENT PLAN (continued)

Employee Share Ownership Plan

The Employee Share Ownership Plan ("ESOP") allows employees to purchase common shares of the Corporation. Employees may contribute up to 5% of their base salaries in the ESOP. For the three months ended March 31, 2011, employees contributed $0.1 million into the plan. The Corporation will match contributions up to 5% based on the employee's years of service with the Corporation. The Corporation's matching expense for the three months ended March 31, 2011 was $0.03 million (March 31, 2010 - $0.01 million). The program was implemented in 2009.

15. EARNINGS PER COMMON SHARE

As at March 31, 2011, the weighted average number of common shares outstanding was 63,829,714 (December 31, 2010 - 58,560,338; January 1, 2010 - 40,857,737). The diluted weighted average number of common shares outstanding at March 31, 2011 was 67,855,436 (December 31, 2010 - 59,163,845, January 1, 2010 - 41,788,605).

Basic earnings per common share amounts are calculated by dividing net profit for the period attributable to common shareholders of the Corporation by the weighted average number of shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing net profit for the period attributable to common shareholders of the Corporation by the weighted average number of shares outstanding during the period plus the weighted average number of shares, if any, that would be issued on conversion of all the potential dilutive instruments.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

($000's)	Mar 31, 2011	Mar 31, 2010
Net profit attributable to common shareholders for basic and diluted earnings	**4,230**	1,537

	Mar 31, 2011	Mar 31, 2010
Weighted average number of shares for basic earnings per share	**63,829,714**	43,341,202
Effect of dilution:		
Options and warrants	**4,025,722**	901,382
Weighted average number of shares for diluted earnings per share	**67,855,436**	**44,242,584**

16. RELATED PARTY DISCLOSURES

The consolidated interim financial statements include the financial statements of the Corporation and the joint venture arrangement listed in the following table:

	% Interest	
Name	**2011**	**2010**
Pembina Pipeline Corporation (LaGlace joint venture)	50%	50%

Significant agreements
The following table provides the total amount of transactions that have been entered into with related parties:

($000's)		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Related parties	**March 31, 2011**	14	259	14	62
	December 31, 2010	3	606	-	59
Director's fees	**March 31, 2011**	-	11	-	-
	December 31, 2010	-	51	-	-

Terms and conditions of transactions with related parties
The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions, unless otherwise disclosed. The nature of the expenses relate to service work on the Corporation's disposal wells and for promotional items. Amounts are unsecured, interest free, and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the period ended March 31, 2011, the Corporation has not recorded any impairment of receivables relating to amounts owed by related parties (December 31, 2010 - Nil; January 1, 2010 - Nil). This assessment is undertaken each financial reporting period through examining the financial position of the related party and the market in which the related party operates.

Entity with significant influence over the Corporation
The shares of the Corporation are widely held. No entity has significant influence over the Corporation.

16. RELATED PARTY DISCLOSURES (continued)

($000's)		Interest received	Amounts owed by related parties	Amounts owed to related parties
Notes receivable	**March 31, 2011**	-	488	-
	December 31, 2010	-	482	-
	January 1, 2010	-	459	-

In March 2007, the Corporation entered into an interest bearing promissory note and pledge agreement with three of its shareholders, who are also officers or employees of the Corporation. The principle amount is $0.4 million and the notes bear interest at a rate of 5% per annum. The proceeds of the loan were used to purchase shares in the Corporation. As security for the loan, the shareholders have pledged their shares of the Corporation. Total interest accrued to date is $0.08 million (December 31, 2010 - $0.05 million) for a total amount outstanding as at March 31, 2011 of $0.5 million (December 31, 2010 - $0.5 million; January 1, 2010 - $0.5 million). The notes are repayable on demand and are due on March 23, 2012, and are shown under current assets on the consolidated interim statement of financial position.

17. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Operating lease commitments

The Corporation has entered into operating land lease agreements at the Corporation's facilities. In addition, the Corporation has entered into an operating lease for office space at the Corporation's head office. The leases require future minimum lease payments as follows:

($000's)	Mar 31, 2011	Dec 31, 2010
Within one year	**1,097**	566
After one year but not more than five years	**4,537**	2,340
More than five years	**543**	703
	6,177	**3,609**

Finance lease commitments

The Corporation has entered into finance lease agreements for computer equipment, vehicles, and mobile equipment. The leases require future minimum lease payments as follows:

($000's)	Mar 31, 2011	Dec 31, 2010	Jan 1, 2010
Within one year	**1,318**	1,304	561
After one year but not more than five years	**1,567**	1,670	556
More than five years	**-**	-	-
	2,885	**2,974**	**1,117**

17. COMMITMENTS, CONTINGENCIES AND GUARANTEES (continued)

Capital Commitments
As at March 31, 2011, the Corporation had commitments of $6.8 million (December 31, 2010 – Nil, January 1, 2010 - Nil) relating to purchases for use in the Corporation's current and future capital projects.

Litigation
In December 2007, the Corporation was named as a co-defendant in a lawsuit on behalf of CCS Inc., seeking to recover damages in the aggregate of $110 million allegedly sustained by them pertaining to actions by former employees who are now employees of the Corporation. During 2008, the Defendants filed their Statements of Defence and counter claim. The matters raised in the lawsuit are considered by the Corporation to be unfounded and unproven allegations that will be vigorously defended, although no assurances can be given with respect to the outcome of such proceedings. The Corporation believes it has valid defences to this claim and accordingly has not recorded any related liability.

Guarantees
The Corporation indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Corporation, and maintains liability insurance for its directors and officers.

As at March 31, 2011, the Corporation has approximately $8.5 million in letters of guarantee issued by the Corporation's banker (December 31, 2010 - $8.5 million; January 1, 2010 - $8.4 million). The current fee for the issued guarantees is 1.5%. All guarantees are not cash secured and have been deducted from the Corporation's available secured credit facility (Note 11). The guarantees relate to security for the Corporation's facilities and are held with Alberta regulatory bodies (Note 12).

18. SUBSEQUENT EVENTS

Subsequent to March 31, 2011, the Corporation has a commitment to renew its existing credit facility for a period of one year to May 31, 2012 and to increase the available amount under the credit facility from $35.0 million to $55.0 million. The terms of the credit facility will remain the same and are described in Note 11.

On April 27, 2011, the Corporation announced that it has entered into a share purchase agreement to acquire all of the issued and outstanding shares of Marquis Alliance Energy Group Inc. for total consideration of $131.0 million. The purchase price consists of $65.5 million in cash consideration and $65.5 million consideration by way of issuance of 10,015,291 common shares of the Corporation at an ascribed price of $6.54. The shares issued as part of the consideration are discounted for accounting purposes to reflect the calculated fair value of the shares considering such factors as the escrow period (ranging between two to five years) and liquidity of the Corporation's shares in the market place. This will result in a difference between the $65.5 million ascribed purchase consideration and the fair value consideration used in the purchase price equation. The final consideration for accounting purposes will be determined on the acquisition date which is expected to be on May 31, 2011. As a result, the consideration paid will change for accounting purposes to reflect any differences in the share price between the time of announcement and the acquisition date, and the corresponding differences in the fair value consideration.

18. SUBSEQUENT EVENTS (continued)

In order to fund the cash portion of the purchase price, the Corporation has entered into an agreement on a bought deal basis (the "Offering") with a syndicate of underwriters, pursuant to which the underwriters have agreed to purchase for resale to the public 11,278,200 subscription receipts of the Corporation at a price of $6.65 per subscription receipt for gross proceeds of approximately $75 million. In addition, the underwriters have been granted an over-allotment option, exercisable for a period of 30 days following closing of the Offering, to purchase an additional 1,691,730 subscription receipts of the Corporation, at a price of $6.65 per share for additional gross proceeds of approximately $11.25 million. Closing of the Offering is expected to occur on or about May 19, 2011 and is subject to customary conditions and regulatory approvals, including the approval of the Toronto Stock Exchange.

19. RECONCILIATION OF GAAP TO IFRS

For all periods up to and including the year ended December 31, 2010, the Corporation prepared its consolidated financial statements in accordance with GAAP. As stated in Note 2, these are the Corporation's first set of condensed consolidated interim financial statements.

Accordingly, the Corporation has prepared consolidated interim financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2011 as described in the accounting policies. In preparing these condensed consolidated interim financial statements, the Corporation's opening consolidated statement of financial position was prepared as at January 1, 2010, the Corporation's date of transition to IFRS. This note explains the principle adjustments made by the Corporation in restating its GAAP consolidated statement of financial position as at January 1, 2010, March 31, 2010, and December 31, 2010, and its GAAP consolidated statement of comprehensive income for the periods ending March 31, 2010 and December 31, 2010.

Exemptions applied
The guidance for the first time adoption of IFRS is set out in *IFRS, 1 First-Time Adoption of International Financial Reporting Standards*. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. In preparing these consolidated interim financial statements, the Company has elected to apply the following exemption:

- **Business combinations -** the Corporation elected not to re-value business combinations performed prior to January 1, 2010.

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT JANUARY 1, 2010 (date of transition to IFRS)

	Notes	GAAP	Remeasurements	IFRS
Assets		($000's)	($000's)	($000's)
Current assets				
Cash and short term deposits		235	-	**235**
Accounts receivable and accrued receivables		5,694	-	**5,694**
Other receivables		38	-	**38**
Prepaid expenses and deposits		320	-	**320**
Inventories		682	-	**682**
		6,969	-	**6,969**
Notes receivable		459	-	**459**
Deferred income tax asset	**19C**	1,645	(663)	**982**
Assets under construction		7,345	-	**7,345**
Property, plant and equipment	**19A**	78,383	4,427	**82,810**
Intangible assets		272	-	**272**
Goodwill	**19B**	1,906	(1,906)	**-**
Total Assets		96,979	1,858	**98,837**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		3,326	-	**3,326**
Finance lease liabilities	**19E**	347	214	**561**
		3,673	214	**3,887**
Long term borrowings		4,788	-	**4,788**
Asset retirement obligations	**19D**	3,145	1,094	**4,239**
Finance lease liabilities	**19E**	217	339	**556**
Total Liabilities		11,823	1,647	**13,470**
Shareholders' Equity				
Issued capital		89,992	-	**89,992**
Reserves	**19F**	694	682	**1,376**
Deficit		(5,530)	(471)	**(6,001)**
Total Shareholders' Equity		85,156	211	**85,367**
Total Liabilities and Shareholders' Equity		96,979	1,858	**98,837**

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2010

	Notes	GAAP	Remeasurements	IFRS
Assets		**($000's)**	**($000's)**	**($000's)**
Current assets				
Cash and short term deposits		49,908	-	**49,908**
Accounts receivable and accrued receivables		9,119	-	**9,119**
Prepaid expenses and deposits		368	-	**368**
Inventories		458	-	**458**
		59,853	-	**59,853**
Notes receivable		464	-	**464**
Deferred income tax asset	**19C**	1,724	(776)	**948**
Assets under construction		11,674	-	**11,674**
Property, plant and equipment	**19A**	75,468	4,734	**80,202**
Intangible assets		255	-	**255**
Goodwill	**19B**	1,906	(1,906)	**-**
Total Assets		151,344	2,052	**153,396**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		6,195	-	**6,195**
Finance lease liabilities	**19E**	339	234	**573**
		6,534	234	**6,768**
Asset retirement obligations	**19D**	3,199	1,077	**4,276**
Finance lease liabilities	**19E**	183	350	**533**
Total Liabilities		9,916	1,661	**11,577**
Shareholders' Equity				
Issued capital		144,721	-	**144,721**
Reserves	**19F**	798	764	**1,562**
Deficit		(4,091)	(373)	**(4,464)**
Total Shareholders' Equity		141,428	392	**141,820**
Total Liabilities and Shareholders' Equity		151,344	2,052	**153,396**

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010

	Notes	GAAP	Remeasurements	IFRS
Assets		**($000's)**	**($000's)**	**($000's)**
Current assets				
Cash and short term deposits		22,518	-	**22,518**
Accounts receivable and accrued receivables		25,394	-	**25,394**
Prepaid expenses and deposits		600	-	**600**
Inventories		3,184	-	**3,184**
		51,696	-	**51,696**
Notes receivable		482	-	**482**
Deferred income tax asset	**19C**	404	(404)	**-**
Assets under construction		30,818	-	**30,818**
Property, plant and equipment	**19A**	104,439	7,798	**112,237**
Intangible assets		3,231	-	**3,231**
Goodwill	**19B**	1,906	(1,906)	**-**
Total Assets		192,976	5,488	**198,464**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		29,802	-	**29,802**
Finance lease liabilities	**19E**	807	497	**1,304**
		30,609	497	**31,106**
Asset retirement obligations	**19D**	7,560	2,010	**9,570**
Finance lease liabilities	**19E**	1,035	635	**1,670**
Deferred income tax liability	**19C**	-	770	**770**
Total Liabilities		39,204	3,912	**43,116**
Shareholders' Equity				
Issued capital		152,983	-	**152,983**
Reserves	**19F**	1,846	1,153	**2,999**
Deficit		(1,057)	423	**(634)**
Total Shareholders' Equity		153,772	1,576	**155,348**
Total Liabilities and Shareholders' Equity		192,976	5,488	**198,464**

RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2010

	Notes	GAAP ($000's)	Remeasurements ($000's)	IFRS ($000's)
Revenue		12,208	-	**12,208**
Operating expenses	**19A,19E**	8,239	(281)	**7,958**
General and administrative	**19F**	1,196	83	**1,279**
Business development		114	-	**114**
Interest, accretion and finance costs	**19D**	204	(13)	**191**
Total Expenses		9,753	(211)	**9,542**
Profit for the period before income taxes		2,455	211	**2,666**
Deferred income tax expense	**19C**	1,016	113	**1,129**
Profit for the period		1,439	98	**1,537**
Other comprehensive income		-	-	**-**
Total profit and comprehensive income for the period, net of income tax		1,439	98	**1,537**

RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

	Notes	GAAP ($000's)	Remeasurements ($000's)	IFRS ($000's)
Revenue		72,993	-	**72,993**
Operating expenses	**19A,19E**	55,867	(1,773)	**54,094**
General and administrative	**19F**	7,003	470	**7,473**
Business development		2,297	-	**2,297**
Interest, accretion and finance costs	**19D**	808	(102)	**706**
Total Expenses		65,975	(1,405)	**64,570**
Profit for the period before income taxes		7,018	1,405	**8,423**
Deferred income tax expense	**19C**	2,544	511	**3,055**
Profit for the period		4,474	894	**5,368**
Other comprehensive income		-	-	**-**
Total profit and comprehensive income for the period, net of income tax		4,474	894	**5,368**

RESTATEMENT OF CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS AND COMSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FROM GAAP TO IFRS

Notes to the reconciliations

A. Property, plant and equipment

Under GAAP, the Corporation depreciated its property, plant and equipment using the declining balance method. IFRS requires the depreciation method to reflect the consumption pattern of the assets being depreciated. As a result, the Corporation has retroactively changed depreciation methods from the declining balance method to the straight-line method to reflect the consumption pattern of its property, plant and equipment. The net result is an increase to property, plant and equipment and a decrease to deficit.

IFRS requires a substance-over-form approach for determining whether a particular lease arrangement should be considered a finance lease. Under GAAP, the Corporation did not treat certain leases as finance leases as they did not meet the GAAP requirements to do so. As a result, upon transitioning to IFRS, the Corporation included certain leases as finance leases. The net result is an increase to property, plant and equipment and a decrease to deficit.

The Corporation is required under IFRS to revalue its asset retirement obligations at each reporting period. The IFRS 1 exemption to revalue asset retirement obligations only at the date of transition was not taken. As a result, the Corporation has revalued all of its asset retirement obligations since inception. The net result is adjustments to property, plant and equipment, asset retirement obligations and a corresponding adjustment to deficit.

B. Goodwill

Under GAAP, the Corporation tested its goodwill annually for impairment, at the entity level. IFRS requires that goodwill and other non-current assets be tested for impairment at each reporting date, at the CGU level. The Corporation tested its goodwill balance for impairment at January 1, 2010 using the estimated discounted future cash flows of the CGU. As a result, the Corporation has determined the entire goodwill amount is impaired at January 1, 2010. The net result is a decrease to goodwill of $1.9 million and a corresponding increase to deficit.

C. Deferred tax asset and liability

The various transitional adjustments lead to temporary differences. A reduction in deferred tax assets has been provided based on the Corporation changing depreciation methods from the declining balance methods to the straight line method. The net result is a decrease to deferred tax assets and an increase to deficit.

D. Asset retirement obligations

The Corporation is required under IFRS to revalue its asset retirement obligations at each reporting period. The IFRS 1 exemption to revalue its asset retirement obligations only at the date of transition was not taken. As a result, the Corporation has revalued all of its asset retirement obligations since inception. The net result is adjustments to property, plant and equipment, asset retirement obligations and a corresponding adjustment to deficit.

RESTATEMENT OF CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FROM GAAP TO IFRS (continued)

E. Finance lease liabilities

IFRS requires a substance-over-form approach for determining whether a particular lease arrangement should be considered a finance lease. Under GAAP, the Corporation did not treat certain leases as finance leases as they did not meet the GAAP requirements to do so. As a result, upon transitioning to IFRS, the Corporation included certain leases as finance leases. The net result is an increase to finance lease liabilities (current and non-current) and a decrease to deficit.

F. Share-based payments

Under GAAP, the Corporation recognized share-based payment expenses on a straight-line basis over the vesting period of the options and warrants. In addition, the Corporation used an assumption of nil volatility in the Black-Scholes option valuation model for options granted before the Corporation was publicly traded. Under IFRS, share-based payment expense is calculated using graded vesting, and must include a volatility assumption in the option valuation model. The net result is an increase to reserves and an increase to deficit.

G. Consolidated statement of cash flows

The transition from GAAP to IFRS has not had a material impact on the Corporation's consolidated statement of cash flows.

Corporate Information

DIRECTORS

Rene Amirault
Murray Cobbe [(1) (2)]
David Johnson [(2) (3)]
Kevin Nugent [(1) (3)]
Brad Munro [(1) (2) (3)]

OFFICERS

Rene Amirault
President and Chief Executive Officer

Nick Wieler
Chief Financial Officer

Allen Gransch
Vice President, Finance

Gary Perras
Vice President, Operations

Daniel Steinke
Vice President Business Development

Karen Myrheim
Vice President, Sales and Marketing

STOCK EXCHANGE

Toronto Stock Exchange
Symbol: SES

AUDITORS

Meyers Norris Penny LLP
Calgary, Alberta

LEGAL COUNSEL

Bennett Jones LLP
Calgary, Alberta

BANKERS

Alberta Treasury Branches

TRANSFER AGENT AND REGISTRAR

Olympia Trust Company
Calgary, Alberta

[1] Audit Committee
[2] Compensation Committee
[3] Corporate Governance Committee