

# 3 THIRD QUARTER REPORT

For the three months ended  
September 30, 2010



Sure Energy Inc. ("Sure Energy" or the "Company") is pleased to announce results for the third quarter 2010, ending September 30, 2010.

The Company's MD&A and Financial Statements and Notes and AIF can be viewed or downloaded at [www.sureenergyinc.com](http://www.sureenergyinc.com) or [www.sedar.com](http://www.sedar.com).

During the third quarter of 2010, Sure Energy accomplished the following:

- Announced the discovery of three horizontal oil wells at Redwater and Queensdale that will add over 500 barrels of oil per day of net oil production to the Company
- Increased 2010 Capital Budget to \$15 MM and announced the promotion of Chris Baker to President & COO
- Signed a \$20 million Secured Note Facility with Deans Knight Capital Management and increased our bank credit facility to \$20 million
- Funds Flow from operations for the third quarter was \$558,000 (\$0.01/share)
- Production averaged 762 BOE/d for the third quarter 2010 (13% oil) but current production is over 1,250 BOE/d (46% oil)

HIGHLIGHTS	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<i>(\$000 except share and per share amounts)</i>				
<b>Financial</b>				
Petroleum and Natural Gas Revenues	2,012	1,439	7,250	4,572
Funds Flow from Operations <sup>(1)</sup>	558	408	2,705	1,094
Per Share, Basic and Diluted	0.01	0.01	0.06	0.03
Loss	(1,277)	(1,284)	(2,947)	(2,932)
Per Share, Basic and Diluted	(0.03)	(0.03)	(0.06)	(0.07)
Capital Expenditures	4,026	8,600	8,461	9,767
Total Assets			41,036	36,959
Net Debt <sup>(1)</sup>			(10,228)	(3,664)
Shareholders' Equity			27,503	30,824
Common Shares Outstanding				
Basic			46,849,464	46,873,962
Diluted			51,154,464	50,020,963
Fully Diluted with Performance Rights			54,659,464	53,525,962
Weighted Average Common Shares Outstanding				
Basic and Diluted	46,849,464	42,166,425	46,848,678	39,178,123
Share Trading				
High	1.32	0.47	1.37	0.47
Low	0.67	0.30	0.57	0.21
Close	1.34	0.46	1.34	0.46
Trading Volume	5,527,047	1,841,585	12,268,409	4,618,930

## HIGHLIGHTS

Three Months Ended September 30, Nine Months Ended September 30,  
2010 2009 2010 2009

**Operations**

## Production

Natural Gas (Mcf/d)	3,972	3,453	4,307	3,505
Oil (bbls/d)	64	53	68	34
NGLs (bbls/d)	36	28	40	28
BOE/d	762	657	825	646

## Average Selling Price

Natural Gas (\$/Mcf)	3.73	3.07	4.40	3.86
Oil (\$/bbl)	80.05	70.11	77.45	60.74
NGLs (\$/bbl)	53.33	47.34	59.57	41.61
BOE (\$/BOE)	28.68	23.83	32.17	25.93

Operating Netback (\$/BOE) <sup>(1)</sup>

13.05	11.29	16.76	11.52
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Funds Flow Netback (\$/BOE) <sup>(1)</sup>

7.93	6.73	12.00	6.20
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(1) Please refer to Management's Discussion and Analysis for definition of Non-GAAP measures.

## OPERATIONAL REVIEW

Cash expenditures for the period were as follows:

Three Months Ended September 30, Nine Months Ended September 30,  
2010 2009 2010 2009

**Capital Program Summary**

(\$000s)

	2010	2009	2010	2009
Land	27	292	729	437
Geological and geophysical	200	502	503	869
Drilling	2,508	90	4,212	138
Completions	273	(9)	856	41
Recompletions and workovers	22	342	816	613
Production equipment and facilities	853	86	1,304	189
Capitalized exploration G&A	92	145	275	328
Drilling credits	(1)	-	(451)	-
	3,974	1,448	8,244	2,615
Corporate acquisition	-	7,152	-	7,152
Asset acquisition	14	-	155	-
Asset retirement obligation	38	-	62	-
	4,026	8,600	8,461	9,767

Drilling activity for the three and nine months is summarized as follows:

**Three Months Ended September 30, 2010**

	Gas		Oil		Dry and Abandoned		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration	-	-	-	-	-	-	-	-
Development	-	-	2	2.0	-	-	2	2.0
Total	-	-	2	2.0	-	-	2	2.0

**Nine Months Ended September 30, 2010**

	Gas		Oil		Dry and Abandoned		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration	1	1.0	-	-	2	2.0	3	3.0
Development	1	1.0	4	2.8	-	-	5	3.8
Total	2	2.0	4	2.8	2	2.0	8	6.8

## Areas of Activity

### Plains (Redwater)

The Company owns 7,495 net acres of land on the Lower Viking light oil trend at Redwater, just north of Edmonton. The Lower Viking in the area is a shaley sand sequence over 26 miles long and 8 miles wide at 750 metre depth. The sequence is easily mappable and hydrocarbon bearing throughout, with a large gas cap to the northeast. Originally the trend was drilled vertically. These wells had low production rates but long producing lives indicating that they were accessing large reserves. Recent exploitation of the reservoir by horizontal wells has increased initial production rates to 80 – 275 barrels of oil per day, causing a flurry of activity in the area.

On the north end of the trend Sure Energy owns 5,280 acres of 100 percent working interest prospective land (8.25 sections). In August the Company drilled its first successful well on these lands, a well that flowed at 315 barrels of oil per day over the last 24 hours of a three day test (press release – August 18, 2010). The well was a dual lateral open hole horizontal well. The Company identified 20 additional horizontal dual lateral wells on the contiguous land block and has subsequently drilled a follow-up location which tested at over 200 barrels of oil per day (press release October 27, 2010). Both these wells came on production in early November after the construction of wellsite facilities and pipelines to tie in the associated solution gas were completed. The Company plans to drill an additional five horizontal wells in the northern area in the fourth quarter of 2010 and the first quarter of 2011, four of which will delineate the contiguous productive land block and one of which will evaluate a three section land block further to the northeast. Should this land block prove to be productive the Company would add an additional 23 wells to its development portfolio on these lands. Sure Energy also owns an additional 2 ½ sections of prospective lands in the northern area.

On the southern part of the trend the Company owns 2,215 acres of land. In the first quarter of 2010 it drilled two 40 percent working interest wells on this land. One well came on stream at approximately 70 barrels of oil per day and the other came on stream late in October after facilities to tie in associated solution gas were constructed. These wells are single leg cased horizontals which were completed using Packers Plus multi-fracturing technology. The Company has identified 23 gross (12 net) additional single leg low risk development horizontal wells on its southern acreage, as well as up to 21 additional locations on less proven land blocks. The Company has budgeted to drill four wells in the southern area in 2011.

### SE Saskatchewan

The Company owns 1,725 acres of land at Queensdale in SE Saskatchewan. Queensdale is an area of prolific light oil production from the Alida formation, a subcropping carbonate reservoir of Mississippian age. In the third quarter of 2010 a single leg horizontal well drilled into the Alida formation by Sure Energy (100 percent working interest) flowed at 500 barrels of oil per day during a 42.5 hour production test. The well came on production on October 2, 2010 at a restricted rate of approximately 150 barrels of oil per day. Typically Alida wells produce at high fluid rates with rapidly increasing watercuts. The prospect was identified on a proprietary 3D seismic program 100 percent owned by Sure Energy and the Company has identified three additional development locations, one of which it intends to drill in the first quarter of 2011. The Company also intends to shoot additional 3D seismic in the area with the aim of identifying similar potential in the Alida formation, and evaluating a secondary play-type.

### Peace River Arch

The Company produced 241 BOE/d on the Peace River Arch in the period. Production was low to budget because of high line pressures and plant modifications which restricted gas production at the Gordondale well. Because of depressed gas prices Sure Energy has elected not to add field compression to circumvent this problem at this time.

The Company has an inventory of five additional locations on the Peace River Arch, two of which are targeting new pools. These prospects are currently on hold pending gas price recovery.

### Southern Plains (Chinook)

The Company produced 216 BOE/d of gas in the Chinook area in the quarter. The Chinook assets are three high working interest, operated high netback wells which were drilled by Sure Energy.

Using the knowledge gained from the success at Chinook the Company mapped the producing reservoir regionally and has identified a heavy oil prospect. This prospect will target a resource of cold flow heavy oil.

### Tweedie

Sure Energy produced 144 BOE/d of shallow, sweet Cretaceous gas at its Tweedie property in the third quarter of 2010. The production is from 36 wells and declines at low rates. The Company has an inventory of 18 locations at Tweedie, all defined by geology and 2D seismic but has no plans to drill in the area at current gas prices.

**West Central**

Sure Energy produced 87 BOE/d from its West Central properties in the third quarter of 2010. The West Central assets are non-operated, liquids rich gas assets.

**Production**

Production for the period by major property is as follows:

<b>Three Months Ended September 30, 2010</b>				
	<b>Gas Mcf/d</b>	<b>Oil Bbls/d</b>	<b>NGLs Bbls/d</b>	<b>Total BOE/d</b>
Peace River	1,293	13	13	241
Plains	95	42	-	57
Southern Plans	1,257	-	7	216
Tweedie	862	-	-	144
West Central	465	9	16	104
<b>Total</b>	<b>3,972</b>	<b>64</b>	<b>36</b>	<b>762</b>

<b>Nine Months Ended September 30, 2010</b>				
	<b>Gas Mcf/d</b>	<b>Oil Bbls/d</b>	<b>NGLs Bbls/d</b>	<b>Total BOE/d</b>
Peace River	1,542	15	16	288
Plains	75	45	-	58
Southern Plans	1,333	-	9	231
Tweedie	865	-	-	144
West Central	492	8	15	104
<b>Total</b>	<b>4,307</b>	<b>68</b>	<b>40</b>	<b>825</b>

**New Production timing and netback guidance**

In the third quarter of 2010 Sure Energy's production was 87 percent weighted to natural gas and resultant netbacks were \$13.05/BOE. The Company drilled and announced the test results of two light oil wells in the third quarter of 2010 and has added another early in the fourth quarter. The Queensdale light oil well came on production on October 2, 2010, the first Redwater well on November 1, 2010 and the follow-up well on November 3, 2010. In addition the tie-in of another oil well in south Redwater was also completed early in the fourth quarter and the well came on production on October 24, 2010.

The production from these wells will significantly improve the Company's production mix and resultant netbacks. The Company's oil netback in the Redwater area in the third quarter was \$56.00 per barrel from an average WTI price of \$76.20. The two wells in northern Redwater will yield higher netbacks initially as they tested flowing oil with no water, which will lead to lower operating costs per BOE. They are also eligible for the horizontal oil new well royalty rate (5 percent on the first 24 months of production to a maximum of 60,000 barrels equivalent).

**OUTLOOK**

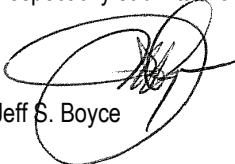
Things have never looked better for Sure Energy and its shareholders. The Company is ramping up production from the third quarter 2010 of 762 BOE/d (13% oil & liquids) to current production of over 1,250 BOE/d (46% oil & liquids). With that increased oil production from its recently announced oil wells in Redwater and Queensdale, Sure Energy's operating netbacks will be ramping up from \$13.07 per BOE in the third quarter to more than \$35.00 per BOE in 2011. The Company has an extensive inventory of over 45 locations of low risk light oil prospects at Redwater and Queensdale. Sure Energy's 2010 Capital Budget is increasing to \$17.5 million and its 2011 Capital Budget is set at \$15 million with substantial room for additional growth.

With the recently announced \$20 million Deans Knight Note Facility and the increased bank facility of \$20 million, the Company now has the capital resources to aggressively develop its inventory.

All these positive corporate events have seen our shareholders being rewarded with a significantly higher share price that is starting to reflect a higher growth profile and orientation to a larger light oil producer.

I would personally like to thank all of our employees, directors and patient shareholders for their continued support.

Respectfully submitted on behalf of the Board of Directors



Jeff S. Boyce

## MANAGEMENT'S DISCUSSION AND ANALYSIS

November 9, 2010

This management's discussion and analysis ("MD&A") for Sure Energy Inc. ("Sure Energy" or the "Company") should be read in conjunction with the audited financial statements of the Company as at December 31, 2009 and 2008 together with the accompanying notes. Additional information relating to the Company can be viewed or downloaded at [www.sureenergyinc.com](http://www.sureenergyinc.com) or [www.sedar.com](http://www.sedar.com). Readers should also read the "Forward Looking Information" legal advisory contained at the end of this MD&A.

The financial information presented has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Readers can find the definitions of non-GAAP measures located at the end of this MD&A.

Throughout the report BOE, or barrel of oil equivalent, is defined as 6 Mcf to 1 bbl. BOEs 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.

## BUSINESS AND FINANCIAL STRATEGY

Sure Energy is a junior oil and gas company engaged in the exploration for, and the acquisition, development and production of oil and natural gas reserves primarily in Alberta and Saskatchewan. Sure Energy's main objective is value creation by providing a shareholder exposure to emerging development plays with large volumes of oil and gas in place, such as the conventional Viking light oil development at Redwater, and exposure to higher impact natural gas targets. Sure Energy achieves its objective through a combination of exploration activities, drilling and assessing strategic acquisitions. On August 14, 2009, Sure Energy closed the acquisition of Conifer Exploration Ltd. ("Conifer"), which provided the company increased exposure to the Viking development at Redwater.

The global recession created uncertainty resulting in a period of low commodity prices, volatile financial markets and restricted access to capital markets. The economic recovery is gaining traction and oil and gas industry conditions are improving. Nevertheless, Sure Energy's financial strategy has been to maintain a strong balance sheet and a conservative capital structure. As at September 30, 2010, the Company had net debt of \$10.2 million and an unused credit facility of \$4.8 million. Cash flow from recent discoveries, and new credit facilities will allow the Company to operate in the foreseeable future.

## OVERVIEW

### Selected Annual and Quarterly Information

	Q3 10	Q2 10	Q1 10	2009	Q4 09	Q3 09	Q2 09	Q1 09	2008	Q4 08
<b>Production</b>										
Natural gas (Mcf/d)	3,972	3,982	4,978	<b>3,532</b>	3,614	3,453	3,626	3,435	<b>2,044</b>	2,568
Oil (bbls/d)	64	68	72	<b>42</b>	66	53	21	29	<b>13</b>	15
NGLs (bbls/d)	36	39	44	<b>31</b>	39	28	27	27	<b>19</b>	21
BOE/d	762	771	945	<b>662</b>	708	657	653	628	<b>373</b>	463
<b>Average Selling Price</b>										
Natural gas (\$/Mcf)	3.73	4.11	5.17	<b>4.07</b>	4.69	3.07	3.56	4.99	<b>8.09</b>	6.85
Oil (\$/bbl)	80.05	74.47	77.92	<b>65.87</b>	73.73	70.11	67.40	38.04	<b>100.11</b>	61.52
NGLs (\$/bbl)	53.33	60.67	63.89	<b>44.66</b>	50.98	47.34	38.56	38.64	<b>53.03</b>	41.72
\$/BOE	28.68	30.88	36.11	<b>28.02</b>	33.66	23.83	23.54	30.68	<b>50.57</b>	41.78
<b>Netback (\$/BOE)</b>										
Operating	13.05	18.17	18.65	<b>12.89</b>	16.61	11.29	11.03	12.27	<b>29.28</b>	23.04
Funds Flow	7.93	13.24	14.33	<b>7.31</b>	10.33	6.73	6.25	5.58	<b>20.06</b>	15.57

**Financial**  
**(\$000s except share and per share amounts)**

Revenue	2,012	2,165	3,073	<b>6,765</b>	2,193	1,439	1,398	1,735	<b>6,909</b>	1,781
Funds Flow	558	929	1,218	<b>1,766</b>	672	408	372	314	<b>2,740</b>	662
Per share, basic	0.01	0.02	0.03	<b>0.04</b>	0.01	0.01	0.01	0.01	<b>0.08</b>	0.02
Loss	(1,277)	(951)	(719)	<b>(3,760)</b>	(828)	(1,284)	(1,140)	(508)	<b>(1,234)</b>	(561)
Per share, basic	(0.03)	(0.02)	(0.02)	<b>(0.09)</b>	(0.02)	(0.03)	(0.03)	(0.01)	<b>(0.04)</b>	(0.01)
Capital Expenditures	4,026	2,132	2,303	<b>11,398</b>	1,631	8,600	307	860	<b>13,654</b>	3,486
Total Assets	41,036	38,513	38,620		37,908	36,959	32,154	34,352		37,068
Net Debt	(10,228)	6,797	5,594		(4,537)	(3,664)	1,678	1,671		2,239
Shareholder's Equity	27,503	28,615	29,394		30,054	30,824	29,254	31,048		31,287
Common Shares (000's)	46,849	46,849	46,849		46,874	46,874	37,659	37,659		37,659

**Q3 2010**

Revenue decreased slightly during the quarter as a result of a decrease in commodity prices and production declines. Capital expenditures included successful oil wells drilled in Redwater and Saskatchewan. These wells will commence production in the fourth quarter of 2010.

**Q2 2010**

Revenue decreased during the quarter as a result of a decrease in commodity prices and reduced gas production. Production from the Peace River Arch and in Chinook was temporarily restricted due to voluntary gas plant turnarounds by the operator. The Company received a gas cost allowance credit of \$183,000 during the quarter which reduced royalty expense.

**Q1 2010**

Revenue increased during the quarter from increases in oil and gas prices and increased gas production from the Peace River Arch well that commenced production in January 2010. Capital expenditures include 4 gross (2.8 net) wells that were drilled in the quarter.

**Q4 2009**

Revenue increased during the quarter mainly due to a recovery in the price of natural gas. Capital expenditures included a well that was drilled, completed and tied-in on the Peace River Arch. The well commenced production on January 1, 2010.

**Q3 2009**

On August 14, 2009 Sure Energy closed a purchase and sale agreement to acquire all issued and outstanding shares of Conifer for a total consideration of \$8.9 million.

Production remained consistent from quarter to quarter. Production increases from the acquisition of Conifer were offset by a voluntary shut in at Chinook. Royalty expense decreased due to low gas prices and the receipt of gas cost allowance credits in the period. Operating expenses increased due to gas processing equalizations.

**Q2 2009**

Production increased during the quarter from 628 BOE/d to 653 BOE/d due to a full quarter of production on new wells that commenced production in 2009. However, revenue decreased because commodity prices decreased significantly. The Company received a gas cost allowance credit of \$230,000 during the quarter which reduced royalty expense. The credit was received on the basis of capital spent by Argent Energy Inc. and Sure Energy in prior periods.

**Q1 2009**

Revenue decreased during the quarter compared to the fourth quarter of 2008 as an increase in production was offset by weak commodity prices. Production increased by 36 percent over the fourth quarter of 2008 to 628 BOE/d. New wells that commenced production had high royalty rates under the Alberta New Royalty Framework.

**Q4 2008**

Revenue decreased during the quarter due to significant decreases in commodity prices offset by a 21 percent increase in production from the new wells at Boundary and Chinook.

**RESULTS OF OPERATIONS**

<b>Revenues</b> <b>Petroleum and Natural Gas Revenue (\$000s)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Natural gas	1,362	976	5,169	3,693
Oil	471	341	1,434	567
NGLs	179	122	647	312
	2,012	1,439	7,250	4,572

<b>Production</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Natural gas (Mcf/d)	3,972	3,453	4,307	3,505
Oil (bbls/d)	64	53	68	34
NGLs (bbls/d)	36	28	40	28
BOE/d	762	657	825	646

<b>Average Selling Price</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Natural gas (\$/Mcf)	3.73	3.07	4.40	3.86
Oil (\$/bbl)	80.05	70.11	77.45	60.74
NGLs (\$/bbl)	53.33	47.34	59.57	41.61
\$/BOE	28.68	23.83	32.17	25.93

<b>Average Benchmark Prices</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
AECO (daily) natural gas (\$/Mcf)	3.36	2.78	3.91	3.57
WTI Crude oil (US\$/bbl)	76.20	68.30	77.65	57.00
Edmonton par price (Cdn \$/bbl)	74.46	71.92	76.60	62.51
Exchange rate (US\$/Cdn\$)	1.0391	1.0974	1.0359	1.1700

Revenue for the quarter was \$2.0 million versus \$1.4 million for the comparative quarter. Production for the quarter averaged 762 BOE/d, representing an increase of 16 percent over the comparative quarter. Revenue for the nine months ended September 30, 2010 was \$7.3 million versus \$4.6 million for the comparative period. Production for the nine months averaged 825 BOE/d representing an increase of 28 percent. Production increased as a result of a new Peach River Arch gas well and from the acquisition of Conifer which closed on August 14, 2009. The Company's realized price for its natural gas was \$3.73/Mcf for the quarter, 21 percent more than the \$3.07/Mcf received in the prior quarter. The Company's realized price for its natural gas for the nine months ended September 30, 2010 was \$4.40/Mcf, 14 percent more than the \$3.86 Mcf received in the comparative period.

The Company has not hedged or entered into any fixed price arrangements during 2010 or for any subsequent period.

**Royalties**

<b>(\$000s)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Royalties	175	46	758	628
Average royalty as a percent of revenue	8.7	3.2	10.5	13.7

Royalties as a percentage of revenue increased to 8.7 percent for the third quarter versus 3.2 percent for the comparative quarter. For the nine months ended September 30, 2010, royalties as a percent of revenue were 10.5 percent versus 13.7 percent for the prior period. The

Company received gas cost allowance credits based on capital spent by Sure Energy in prior periods. Overall, gas royalty rates are lower due to low gas prices and incentives received by Sure Energy on new production.

### Operating expenses

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Operating expenses	807	618	2,330	1,665

Operating costs were \$807,000 or \$11.51 per BOE for the third quarter versus \$618,000 or \$10.24 per BOE for the comparative period. Second quarter operating costs per BOE increased compared to the comparative quarter due to the higher operating costs on the oil wells acquired from Conifer.

Operating costs for the nine months ended September 30, 2010 were \$2.3 million or \$10.34 per BOE for the current year versus \$1.7 million or \$9.44 per BOE for the comparative period.

### Transportation

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Transportation	114	92	385	249

Transportation costs were \$1.62 per BOE in the third quarter and \$1.51 for the comparative period. Transportation costs were \$1.71 per BOE for the nine months ended September 30, 2010 (2009 - \$1.41 per BOE). Transportation costs are fairly consistent on a BOE basis and relate to the costs of transporting Sure Energy's natural gas production on major pipelines and trucking Sure Energy's oil to the point of transfer.

### General and Administrative

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Gross general and administrative	384	411	1,199	1,270
Capitalized overhead	(92)	(145)	(275)	(328)
	292	266	924	942

General and administrative ("G&A") costs were \$4.18 per BOE for the third quarter and \$4.40 per BOE for the comparative period. G&A costs will decrease on a per BOE basis as the Company grows its production. G&A costs were \$4.10 per BOE for the nine months ended September 30, 2010 and \$5.34 per BOE for the comparative period. As activity increases, the Company will apply overhead charges, which are charged to specific well operations, and reduce G&A as is customary in the industry.

### Interest

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest income	-	-	-	15
Interest expense	66	9	148	9

The interest rate on the debt facility was 4.00 percent.

On July 30, 2010, the Company received \$2.8 million from a draw on their acquisition/development demand loan. The proceeds were used to drill the development wells in Redwater and Queensdale.

### Stock Compensation (non-cash)

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Stock compensation	166	89	393	455

Stock compensation (non-cash) expense was \$166,000 in the third quarter and \$89,000 for the comparative period. Stock compensation expense was \$393,000 for the nine months ended September 30, 2010 (2009 - \$455,000). Stock compensation expense increased in the third quarter due to a grant of options to directors and employees in the second quarter of 2010.

### Depletion, Depreciation and Accretion

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Depletion and depreciation	1,647	1,582	5,196	4,266
Accretion	22	21	63	55
	1,669	1,603	5,259	4,321

The Company's depletion, depreciation and accretion ("DD&A") provision for the third quarter was \$1.7 million, or \$23.79 per BOE and \$1.6 million or \$26.54 per BOE for the comparative period. The Company's depletion, depreciation and accretion ("DD&A") provision for the current year to date was \$5.3 million, or \$23.33 per BOE and \$4.3 million or \$24.51 per BOE for the comparative period.

Accretion of the asset retirement obligations is calculated at the Company's credit-adjusted, risk-free rate of 8 percent. The Company has estimated the net present value of the asset retirement obligations to be \$1.2 million.

### Income and future taxes

The Company does not expect to pay current income tax in 2010 or 2011. Estimated income tax pools at September 30, 2010 are as follows:

(\$000s)	
Canadian oil and gas property expenses	10,540
Canadian development expenses	6,023
Canadian exploration expenses	4,572
Undepreciated capital costs	5,722
Non-capital losses	24,830
Financing costs	76
Successored pools (restricted)	17,682
	69,445

### Netbacks

Components of the Company's operating, funds flow and loss netbacks are as follows:

(\$/BOE)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Price	28.68	23.83	32.17	25.93
Royalties	(2.50)	(0.79)	(3.36)	(3.56)
Operating costs	(11.51)	(10.24)	(10.34)	(9.44)
Transportation	(1.62)	(1.51)	(1.71)	(1.41)
Operating Netback	13.05	11.29	16.76	11.52
General and administrative	(4.18)	(4.40)	(4.10)	(5.34)
Interest income (expense)	(0.94)	(0.16)	(0.66)	0.02
Funds Flow Netback	7.93	6.73	12.00	6.20
Stock compensation	(2.36)	(1.48)	(1.74)	(2.58)
Depletion, depreciation and accretion	(23.79)	(26.54)	(23.33)	(24.51)
Future income taxes	-	-	-	4.26
Loss Netback	(18.22)	(21.29)	(13.07)	(16.63)

**CAPITAL EXPENDITURES**

Cash expenditures for the period were as follows:

<b>Capital Program Summary</b> (\$000s)	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Land	27	292	729	437
Geological and geophysical	200	502	503	869
Drilling	2,508	90	4,212	138
Completions	273	(9)	856	41
Recompletions and workovers	22	342	816	613
Production equipment and facilities	853	86	1,304	189
Capitalized exploration G&A	92	145	275	328
Drilling credits	(1)	-	(451)	-
	3,974	1,448	8,244	2,615
Corporate acquisition	-	7,152	-	7,152
Asset acquisition	14	-	155	-
Asset retirement obligation	38	-	62	-
	4,026	8,600	8,461	9,767

Drilling activity for the nine months is summarized as follows:

**Three Months Ended September 30, 2010:**

	<b>Gas</b>		<b>Oil</b>		<b>Dry and Abandoned</b>		<b>Total</b>	
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
Exploration	-	-	-	-	-	-	-	-
Development	-	-	2	2.0	-	-	2	2.0
Total	-	-	2	2.0	-	-	2	2.0

**Nine Months Ended September 30, 2010:**

	<b>Gas</b>		<b>Oil</b>		<b>Dry and Abandoned</b>		<b>Total</b>	
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
Exploration	1	1.0	-	-	2	2.0	3	3.0
Development	1	1.0	4	2.8	-	-	5	3.8
Total	2	2.0	4	2.8	2	2.0	8	6.8

**SHARE CAPITAL**

The following common shares, options and PIR's were outstanding:

<b>Outstanding at:</b>	<b>September 30, 2010</b>	<b>December 31, 2009</b>	<b>November 9, 2010</b>
Common shares	46,849,464	46,873,962	46,896,964
Options	4,305,000	3,239,000	4,305,000
PIR's	3,505,000	3,505,000	3,505,000
	54,659,464	53,617,962	54,706,964

On August 14, 2009, the Company acquired the outstanding common shares of Conifer Exploration Ltd. ("Conifer"), a private oil and gas company. The total consideration of \$8.9 million included 9,214,754 common shares of the Company and \$6.0 million cash issued in exchange for all of the outstanding Conifer common shares.

On January 15, 2010, 31,498 shares were cancelled pursuant to the acquisition of Argent Energy Inc. as the shares of Argent were not presented for exchange into Sure Energy shares. Contributed surplus was credited to reflect the cancellation.

On May 14, 2010, the Company granted options to employees and directors to acquire 1,158,000 shares at a price of \$0.98 per share. The options have a term of five years and vest over three years on the basis of one-third per year.

### CAPITALIZATION, FINANCIAL RESOURCES AND LIQUIDITY

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, creditor and market confidence, and to sustain future investing in oil and gas activities which may or may not be successful. The objective is to balance the proportion of debt and equity in its capital structure. The Company defines its capital structure to include shareholders' equity, bank debt and working capital. The key measures that the Company utilizes in evaluating its capital structure are net debt to funds flow from operations (trailing 12 months), net debt as a percent of total capitalization and the current credit available from its creditors in relation to the Company's budgeted capital program. Funds flow from operations is a non-GAAP measure and it is used by the Company to analyze operating performance, leverage and liquidity. The Company's capitalization and calculation of funds flow from operations is as follows:

	September 30, 2010	December 31, 2009
Net debt		
Working capital		
Accounts receivable	(1,564)	(1,829)
Prepaid expenses	(585)	(457)
Accounts payable and accrued liabilities	3,896	3,777
	1,747	1,491
Cash and cash equivalents		-
Bank debt	8,481	3,046
Total net debt	10,228	4,537
Market capitalization		
Common shares outstanding	46,849,464	46,873,962
Closing price, TSX	1.34	0.61
Total market capitalization	62,778	28,593
Total net debt and market capitalization	73,006	33,130
Net debt as a percent of total capitalization	14%	14%
	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
Funds flow from operations		
Loss	(2,947)	(3,760)
Add items not affecting cash:		
Depletion, depreciation and accretion	5,259	5,763
Stock compensation	393	513
Future income tax recovery	-	(750)
Total funds flow from operations	2,705	1,766
Trailing 12 months funds flow from operations	3,377	1,766
Net debt to trailing 12 months funds flow from operations ratio	3.03	2.57

The Company also assesses its capital structure by forecasting cash flows and estimated debt levels. There are several strategies to maintain or adjust capital structure including increasing bank credit as a result of reserve growth, decreasing capital spending and new equity issues.

The Company is subject to a covenant on its credit facility to maintain its ratio of current assets (including the undrawn portion of the demand credit facility) to current liabilities (not including current bank debt) at a 1.0:1.0 level. As at September 30, 2010, the current ratio was 1.66 (December 31, 2009 - 2.45).

## SUBSEQUENT EVENTS

On October 25, 2010, Sure Energy signed a Note Purchase Agreement for a \$20 million secured subordinated term loan facility (the "Secured Note Facility") from Deans Knight Capital Management Ltd. ("Deans Knight") on behalf of certain investors (the "Note Holders"). Deans Knight currently has control over 6,057,273 common shares or 12.93 percent of the outstanding shares of the Company. The drawn portion of the Secured Note Facility bears interest at 6.25 percent per annum, payable quarterly. The undrawn portion bears a standby fee of 0.25 percent. Warrants to purchase 2.5 million common shares at a price of \$1.80 per share will be issued as additional consideration to the Note Holders. The Company has the ability to force the Note Holders to exercise the warrants if the weighted average price per share of Sure Energy equals or exceeds \$2.80 per share for 20 consecutive trading days. The notes mature and the warrants expire 36 months from the date of closing. The Company is required to draw down a minimum of \$10 million upon closing. Additional draws on the Secured Note Facility may be made at the Company's discretion in minimum tranches of \$2.5 million. Implementation of the Secured Note Facility is subject to the finalization and execution of formal agreements and regulatory and shareholder approval.

Since Deans Knight is a related party to the Company, the Secured Note Facility and the issuance of the warrants requires approval of a majority of the minority shareholders. A Management Information Circular is expected to be mailed in November, 2010 in respect of a special meeting of shareholders to be held in the later part of December, 2010 to approve the transaction.

The Company received an increase to its existing bank credit facility from \$15 million to \$20 million. The increase in the credit facility is as a result of the increase in lending value from recent discoveries. The facility consists of a \$15 million revolving operating demand loan and a \$5 million non-revolving acquisition/development demand loan. Upon approval by the shareholders, the Secured Note Facility will replace the existing \$5 million non-revolving acquisition/development demand loan.

On October 27, 2010, the remaining 1,752,500 PIR's vested as a result of the preceding 20 day weighted average trading price exceeding the second vesting hurdle of \$1.50.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to reporting for the first quarter of 2011, for which the current and comparative information will be prepared under IFRS.

Management has commenced the process to transition from Canadian GAAP to IFRS. The Chief Financial Officer has attended several external IFRS oil and gas training workshops and reports the transition progress to the Audit Committee on a regular basis.

The process consists of the following phases:

- Scoping – Management has completed a comprehensive analysis of its financial statements to identify areas that may be impacted by transitioning to IFRS.
- Impact Analysis – Management is in the process of developing IFRS policies and assessing the impact of these policies on Sure Energy. The Audit Committee will review and approve all IFRS policies proposed by management.
- Implementation - Once the IFRS Policies are finalized, the policies will be implemented and changes made to the financial statements, the accounting process and any other business processes that may be affected.

At this time, management has identified key differences that will impact the financial statements, but is unable to quantify the impact of adopting IFRS as management has not finalized its policy choices. The key differences are as follows:

- Exploration and Evaluation ("E&E") Expenditures – Under IFRS, E&E expenditures, such as the cost of undeveloped land, will be segregated from and accounted for separate from property plant and equipment.
- Depletion of Property Plant and Equipment – Under IFRS, depletion may be calculated using a reserve base of proved or proved plus probable reserves. Canadian GAAP only allows use of proved reserves as your reserve base.
- Impairment of PP&E – Under IFRS, Impairment calculations are performed at Cash Generating Unit level using proved or proved plus probable reserves which is at a more granular level than Canadian GAAP.
- First Time Adoption of IFRS – IFRS allows optional exemptions for full retrospective application of IFRS over certain areas. IFRS provides the option for Sure Energy to value its opening property, plant and equipment at Canadian GAAP net book value.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). ICFR is a process designed by or under the supervision of the Chief Executive Officer and Chief Financial Officer, and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management has completed an assessment of the design of ICFR. The Company used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework and guidance for smaller public companies for the design of the Company's ICFR. All internal control systems have inherent limitations and therefore our ICFR can only provide reasonable assurance and may not prevent or detect misstatements due to error or fraud.

The Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and ICFR as of the date of this MD&A, that disclosure controls and ICFR are not effective due to the material weakness in ICFR as described below. The material weakness identified did not result in any adjustments to the Company's financial statements for the three months and year ended September 30, 2010 or any prior period.

During the process of management's assessment, it was determined that a deficiency existed in the ICFR. Segregation of duties was identified as an area where a deficiency exists. Specifically, certain duties within the accounting department were not segregated due to the limited number of individuals employed in this area. The risk of a material misstatement is mitigated by direct involvement of senior management in the day to day operations of the Company and review of the financial statements and disclosures by senior management and the Board of Directors. However, these mitigating procedures are not considered sufficient to reduce the likelihood that a material misstatement would be prevented or detected. This weakness and its related risks is not uncommon in an entity of the size of the Company. As the Company grows, it plans to expand the number of individuals involved in the accounting function.

There have been no significant changes in the Company's ICFR that occurred during the year ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

## OUTLOOK

The Company is ramping up production from the third quarter 2010 of 762 BOE/d (13% oil & liquids) to current production of over 1,250 BOE/d (46% oil & liquids). With that increased oil production from its recently announced oil wells in Redwater and Queensdale, Sure Energy's operating netbacks will be ramping up from \$13.07 per BOE in the third quarter to more than \$35.00 per BOE in 2011. The Company has an extensive inventory of over 45 locations of low risk light oil prospects at Redwater and Queensdale. Sure Energy's 2010 Capital Budget is increasing to \$17.5 million and its 2011 Capital Budget is set at \$15 million with substantial room for additional growth.

With the recently announced \$20 million Deans Knight Note Facility and the increased bank facility of \$20 million, the Company now has the capital resources to aggressively develop its inventory.

## Non-GAAP Measures

Sure Energy management uses and reports certain non-GAAP measures in the evaluation of operating and financial performance. These measures do not have any standardized meanings prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other companies. Funds flow from operations, operating and cash flow netbacks, net debt and working capital are metrics used to compare Sure Energy with its peers.

Funds flow from operations is used by the Company to analyze operating performance, leverage and liquidity. Readers should refer to the "CAPITALIZATION, FINANCIAL RESOURCES AND LIQUIDITY" section of the MD&A for a reconciliation of funds flow from operations.

We use the terms Operating Netbacks and Cash Flow Netbacks to evaluate operational performance of the Company. Operating netback, which is calculated as average unit sales price less royalties, transportation costs and operating expenses and cash flow netback, which further deducts administrative and interest expense and current income tax represents the cash margin for every barrel of oil equivalent sold. Readers should refer to the "Netbacks" section of the MD&A for the calculations of operating and cash flow netbacks.

Net debt and working capital, which is current assets less debt and current liabilities, is used to assess efficiency and financial strength. Readers should refer to the "LIQUIDITY AND CAPITAL RESOURCES" section of the MD&A for a reconciliation of net debt and working capital.

### Forward-looking Information

Certain statements contained in this management's discussion and analysis constitute forward-looking information. These statements relate to future events or Sure Energy's future performance. The use of any of the words "could", "expect", "believe", "will", "projected", "estimated" and similar expressions and statements relating to matters that are not historical facts are intended to identify forward-looking information and are based on Sure Energy's current belief or assumptions as to the outcome and timing of such future events. Actual future results may differ materially. In particular, the statements related to business and financial strategy, expectations with respect to general and administrative costs, the timing for the payment of current income tax, the Company's policy to maintain a strong capital base, and in the section "Outlook" are forward looking information. Sure Energy's Annual Information Form and other documents filed with securities regulatory authorities (accessible through the SEDAR website [www.sedar.com](http://www.sedar.com)) describe the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference. Sure disclaims any intention or obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as may be expressly required by applicable securities laws.

### GLOSSARY OF ABBREVIATIONS

\$000s	Thousands of dollars	Mbbls	Thousands of barrels
AECO	Alberta Energy Co.	MBOE	Thousand barrels of oil equivalent
AEUB	Alberta Energy Utilities Board	Mcf	Thousand cubic feet
bbls	Barrels	Mcf/d	Thousand cubic feet per day
bbls/d	Barrels per day	MMcf	Million cubic feet
Bcf	Billion cubic feet	MMcf/d	Million cubic feet per day
BOE	Barrel of oil equivalent (6 Mcf = 1 bbl)	MMbtu	Millions of British thermal units
BOE/d	Barrels of oil equivalent per day	NGLs	Natural gas liquids
GJ	Gigajoules	NPV	Net present value
G&A	General and administrative	TSX	Toronto Stock Exchange

**SURE ENERGY INC.  
BALANCE SHEETS**

As at (\$000's)	September 30, 2010	December 31, 2009
(unaudited)		
<b>Assets</b>		
Current assets		
Accounts receivable	1,564	1,829
Prepaid expenses	585	457
	2,149	2,286
Property, plant and equipment (note 2)	38,887	35,622
	41,036	37,908
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	3,896	3,777
Bank debt (note 3)	8,481	3,046
	12,377	6,823
Asset retirement obligations	1,156	1,031
	13,533	7,854
Shareholders' equity		
Share capital (note 4)	35,706	35,732
Contributed surplus	3,574	3,152
Deficit	(11,777)	(8,830)
	27,503	30,054
	41,036	37,908

See accompanying notes.

**SURE ENERGY INC.**  
**STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT**

(\$000's, except per share amounts) (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenue</b>				
Petroleum and natural gas revenues	2,012	1,439	7,250	4,572
Royalties	(175)	(46)	(758)	(628)
Interest income	-	-	-	15
	<u>1,837</u>	<u>1,393</u>	<u>6,492</u>	<u>3,959</u>
<b>Expenses</b>				
Operating	807	618	2,330	1,665
Transportation	114	92	385	249
General and administration	292	266	924	942
Interest on bank debt	66	9	148	9
Stock compensation	166	89	393	455
Depletion, depreciation and accretion	1,669	1,603	5,259	4,321
	<u>3,114</u>	<u>2,677</u>	<u>9,439</u>	<u>7,641</u>
Loss before future income tax recovery	(1,277)	(1,284)	(2,947)	(3,682)
Future income tax recovery	-	-	-	750
Loss and comprehensive loss	(1,277)	(1,284)	(2,947)	(2,932)
Deficit, beginning of period	(10,500)	(6,718)	(8,830)	(5,070)
Deficit, end of period	<u>(11,777)</u>	<u>(8,002)</u>	<u>(11,777)</u>	<u>(8,002)</u>
Loss per common share (note 5)				
Basic and diluted	(0.03)	(0.03)	(0.06)	(0.07)

See accompanying notes.

**SURE ENERGY INC.  
STATEMENTS OF CASH FLOWS**

(\$000's)	Three Months Ended September 30,		Nine Months Ended September 30,	
(unaudited)	2010	2009	2010	2009
Cash provided by (used in):				
<b>Operating</b>				
Loss	(1,277)	(1,284)	(2,947)	(2,932)
Items not affecting cash:				
Depletion, depreciation and accretion	1,669	1,603	5,259	4,321
Stock compensation	166	89	393	455
Future income tax recovery	-	-	-	(750)
Abandonment expenditures	-	(10)	-	(90)
Changes in non-cash working capital (note 6)	54	(435)	(619)	145
	612	(37)	2,086	1,149
<b>Investing</b>				
Drilling and development of petroleum and natural gas properties	(3,988)	(1,448)	(8,257)	(2,615)
Acquisition of petroleum and natural gas properties	-	(4,492)	(142)	(4,492)
Changes in non-cash working capital (note 6)	1,143	1,019	874	(1,944)
	(2,845)	(4,921)	(7,525)	(9,051)
<b>Financing</b>				
Increase in bank debt	2,233	1,859	5,436	1,859
Issue of common shares for cash, net of share issue costs	-	-	3	-
	2,233	1,859	5,439	1,859
Net change in cash and cash equivalents	-	(3,099)	-	(6,043)
Cash and cash equivalents, beginning of period	-	3,099	-	6,043
Cash and cash equivalents, end of period	-	-	-	-

See accompanying notes.

Supplementary Cash Flow information (note 6)

## SURE ENERGY INC.

## Notes to the Financial Statements

As at and for the three and nine months ended September 30, 2010

(unaudited)

Unless otherwise stated, amounts presented in these notes are in Canadian dollars and tabular amounts are in thousands of Canadian dollars, except number of shares and per share amounts.

**1. Summary of Significant Accounting Policies****Business and Basis of Presentation**

Sure Energy Inc. ("Sure Energy" or the "Company") is a Calgary based oil and natural gas exploration and production company whose business activities are focused primarily in Alberta. Sure Energy is a public company and trades on the Toronto Stock Exchange.

**2. Property Plant and Equipment**

	September 30, 2010	December 31, 2009
Petroleum & natural gas properties	56,321	47,860
Furniture, fixtures and leaseholds	28	28
	56,349	47,888
Accumulated depletion and depreciation	(17,462)	(12,266)
Net book value	38,887	35,622

As of September 30, 2010, unproved oil and gas properties of \$4.1 million (December 31, 2009 - \$5.0 million) have been excluded from costs subject to depletion and depreciation. These costs relate to the Company's undeveloped land base. Estimated future development costs of \$10.7 million have been included in costs subject to depletion and depreciation as at September 30, 2010 (December 31, 2009 - \$11.3 million).

During the nine months ended September 30, 2010, the Company capitalized \$275,000 (2009 - \$328,000) of general and administrative expenses directly related to exploration and development activities.

**3. Bank Indebtedness**

Sure Energy has a credit facility of \$15.0 million consisting of a \$10.0 million revolving operating demand loan and a \$5.0 million non-revolving acquisition/development demand loan. The facility is provided by a Canadian chartered bank, is subject to periodic review by the bank and is secured by a \$50.0 million first floating charge debenture over all of the Company's assets. The facility bears interest at a rate of bank prime plus 1.25 percent on the revolving operating demand loan and bank prime plus 1.50 of a percent on the non-revolving acquisition/development demand loan.

**4. Share Capital**

<i>Issued and Outstanding Common Shares</i>	Number of Shares	Amount
Balance December 31, 2008	37,659,208	33,718
Issued pursuant to the acquisition of Conifer	9,214,754	2,764
Tax effect of flow-through shares	-	(750)
Balance December 31, 2009	46,873,962	35,732
Issued pursuant to options exercised	7,000	3
Cancelled	(31,498)	(29)
Balance September 30, 2010	46,849,464	35,706

On August 14, 2009, the Company acquired the outstanding common shares of Conifer Exploration Ltd. ("Conifer"), a private oil and gas company. The total consideration of \$8.9 million included 9,214,754 common shares of the Company and \$6.0 million cash issued in exchange for all of the outstanding Conifer common shares.

On January 15, 2010, 31,498 shares were cancelled pursuant to the acquisition of Argent Energy Inc. as the related Argent shares were not presented for exchange into Sure Energy shares. Contributed surplus was credited to reflect the cancellation.

On May 14, 2010, the Company granted options to employees and directors to acquire 1,158,000 shares at a price of \$0.98 per share. The options have a term of five years and vest over three years on the basis of one-third per year.

## 5. Per Share Amounts

The calculation of basic and diluted net loss per share is based on the following weighted average number of common shares outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Loss	(1,277)	(1,284)	(2,947)	(2,932)
Loss per share basic and diluted	(0.03)	(0.03)	(0.06)	(0.07)
Weighted average shares outstanding basic and diluted <sup>(1) (2)</sup>	46,849,464	42,166,425	46,848,678	39,178,123

(1) The diluted shares outstanding exclude 1,752,500 unvested performance rights, which are not exercisable and are treated as contingently issuable shares as all of the conditions for issue have not been satisfied as at September 30, 2010.

(2) 4,305,000 options and 1,752,500 vested performance rights have been excluded from the weighted average diluted shares outstanding as at September 30, 2010 as they are anti-dilutive.

## 6. Supplemental Cash Flow Information

Changes in non-cash working capital items increased (decreased) cash and cash equivalents as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Accounts receivable	31	662	265	1,131
Prepaid expenses	(175)	72	(128)	55
Accounts payable and accrued liabilities	1,341	(150)	118	(2,985)
	1,197	584	255	(1,799)
Operating activities	54	(435)	(619)	145
Investing activities	1,143	1,019	874	(1,944)
	1,197	584	255	(1,799)

### Other Cash Flow Information:

Cash taxes paid	-	-	-	-
Cash interest received	-	-	-	21
Cash interest paid	66	9	148	9

## 7. Capital Management

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, creditor and market confidence, and to sustain future investing in oil and gas activities which may or may not be successful. The objective is to balance the proportion of debt and equity in its capital structure. The Company defines its capital structure to include shareholders' equity, bank debt and working capital. The key measures that the Company utilizes in evaluating its capital structure are net debt to funds flow from operations (trailing 12 months), net debt as a percent of total capitalization and the current credit available from its creditors in relation to the Company's budgeted capital program. Funds flow from operations is a non-GAAP measure and it is used by the Company to analyze operating performance, leverage and liquidity. The Company's capitalization and calculation of funds flow from operations is as follows:

	September 30, 2010	December 31, 2009
Net debt		
Working capital		
Accounts receivable	(1,564)	(1,829)
Prepaid expenses	(585)	(457)
Accounts payable and accrued liabilities	3,896	3,777
	1,747	1,491
Cash and cash equivalents		-
Bank debt	8,481	3,046
Total net debt	10,228	4,537
Market capitalization		
Common shares outstanding	46,849,464	46,873,962
Closing price, TSX	1.34	0.61
Total market capitalization	62,778	28,593
Total net debt and market capitalization	73,006	33,130
Net debt as a percent of total capitalization	14%	14%

	Nine months Ended September 30, 2010	Year Ended December 31, 2009
Funds flow from operations		
Loss	(2,947)	(3,760)
Add items not affecting cash:		
Depletion, depreciation and accretion	5,259	5,763
Stock compensation	393	513
Future income tax recovery	-	(750)
Total funds flow from operations	2,705	1,766
Trailing 12 months funds flow from operations	3,377	1,766
Net debt to trailing 12 months funds flow from operations ratio	3.03	2.57

The Company also assesses its capital structure by forecasting cash flows and estimated debt levels. There are several strategies to maintain or adjust capital structure including increasing bank credit as a result of reserve growth, decreasing capital spending and new equity issues.

The Company is subject to a covenant on its credit facility to maintain its ratio of current assets (including the undrawn portion of the demand credit facility) to current liabilities (not including current bank debt) at a 1.0:1.0 level. As at September 30, 2010, the current ratio was 1.66 (December 31, 2009 - 2.45).

## 8. Subsequent Events

On October 25, 2010, Sure Energy signed a Note Purchase Agreement for a \$20 million secured subordinated term loan facility (the "Secured Note Facility") from Deans Knight Capital Management Ltd. ("Deans Knight") on behalf of certain investors (the "Note Holders"). Deans Knight currently has control over 6,057,273 common shares or 12.93 percent of the outstanding shares of the Company. The drawn portion of the Secured Note Facility bears interest at 6.25 percent per annum, payable quarterly. The undrawn portion bears a standby fee of 0.25 percent. Warrants to purchase 2.5 million common shares at a price of \$1.80 per share will be issued as additional consideration to the Note Holders. The Company has the ability to force the Note Holders to exercise the warrants if the weighted average price per share of Sure Energy equals or exceeds \$2.80 per share for 20 consecutive trading days. The notes mature and the warrants expire 36 months from the date of closing. The Company is required to draw down a minimum of \$10 million upon closing. Additional draws on the Secured Note Facility may be made at the Company's discretion in minimum tranches of \$2.5 million. Implementation of the Secured Note Facility is subject to the finalization and execution of formal agreements and regulatory and shareholder approval.

Since Deans Knight is a related party to the Company, the Secured Note Facility and the issuance of the warrants requires approval of a majority of the minority shareholders. A Management Information Circular is expected to be mailed in November, 2010 in respect of a special meeting of shareholders to be held in the later part of December, 2010 to approve the transaction.

The Company received an increase to its existing bank credit facility from \$15 million to \$20 million. The increase in the credit facility is as a result of the increase in lending value from recent discoveries. The facility consists of a \$15 million revolving operating demand loan and a \$5 million non-revolving acquisition/development demand loan. Upon approval by the shareholders, the Secured Note Facility will replace the existing \$5 million non-revolving acquisition/development demand loan.

On October 27, 2010, the remaining 1,752,500 PIR's vested as a result of the preceding 20 day weighted average trading price exceeding the second vesting hurdle of \$1.50.

**Directors**

Jeffrey S. Boyce  
Calgary, Alberta

W. Peter Comber<sup>1,3,4</sup>  
Managing Director, Barrantagh Investment  
Management Inc.  
Toronto, Ontario

Larry J. Macdonald<sup>1,2,3,4</sup>  
Chairman & CEO, Point Energy Ltd.  
Calgary, Alberta

Thomas P. Stan<sup>1,2,4</sup>  
Managing Director, Desjardins Securities,  
Calgary, Alberta

<sup>1</sup> Audit Committee

<sup>2</sup> Governance & Human Resources Committee

<sup>3</sup> Environment, Health & Safety Committee

<sup>4</sup> Independent Reserves Committee

**Officers**

Jeffrey S. Boyce  
Chairman and Chief Executive Officer

Chris Baker  
President, Chief Operating Officer and VP,  
Exploration

Lance Wirth  
Vice President Finance and Chief Financial  
Officer

C. Tom Banks  
Vice President, Engineering & Operations

Daniel G. Kolibar  
Corporate Secretary

Rob Sheedy  
Vice President Land

**Advisors****Auditors**

Deloitte & Touche LLP  
Calgary, Alberta

**Banker**

The National Bank  
Calgary, Alberta

**Evaluation Engineers**

Sproule Associates Limited  
Calgary, Alberta

**Legal Counsel**

Borden Ladner Gervais LLP  
Calgary, Alberta

**Transfer Agent**

Valiant Trust Company  
Calgary, Alberta

**Stock Exchange Listing**

The Toronto Stock Exchange  
Symbol: SHR

**Sure Energy Inc. is a publicly traded oil and gas exploration and development company listed on the Toronto Stock Exchange under the symbol "SHR".**

For further information, please visit our website at [www.sureenergyinc.com](http://www.sureenergyinc.com) or contact:

Mr. Jeff Boyce,  
Chairman and CEO

Mr. Chris Baker,  
President, COO & VP Exploration

Mr. Lance Wirth,  
VP Finance and CFO

**Forward-looking Information**

Certain statements contained in this third quarter report constitute forward-looking information. These statements relate to future events or Sure Energy's future performance. The use of any of the words "could", "expect", "believe", "will", "projected", "estimated" and similar expressions and statements relating to matters that are not historical facts are intended to identify forward-looking information and are based on Sure Energy's current belief or assumptions as to the outcome and timing of such future events. Actual future results may differ materially. In particular, Sure Energy's stated intentions and expectations for drilling, development and production on its Redwater and Queensdale properties, statements in the management's discussion and analysis related to business and financial strategy, expectations with respect to general and administrative costs, the timing for the payment of current income tax, the Company's policy to maintain a strong capital base, and in the section "Outlook", are forward looking information. Sure Energy's Annual Information Form and other documents filed with securities regulatory authorities (accessible through the SEDAR website [www.sedar.com](http://www.sedar.com)) describe the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference. Sure disclaims any intention or obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as may be expressly required by applicable securities laws.

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