



MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 11, 2008

The following management's discussion and analysis ("MD&A") includes operating and financial results for Sure Energy Inc. ("Sure Energy" or the "Company"). Sure Energy was incorporated on June 7, 2006 and commenced commercial operations on August 14, 2006 following completion of a plan of arrangement dated July 11, 2006 between Clear Energy Inc. ("Clear Energy"), NAV Energy Trust ("NAV") and the Company. In exchange for certain producing properties, undeveloped land, and seismic assets conveyed by each of Clear Energy and NAV to Sure Energy, Clear Energy shareholders received 0.1667 Common Shares and 0.0425 Arrangement Warrants of Sure Energy and NAV unitholders received 0.333 Common Shares and 0.085 Arrangement Warrants of Sure Energy. Production from the acquired properties was 268 BOE/d at the commencement of operations. Sure Energy commenced trading on the Toronto Stock Exchange on August 15, 2006 under the symbol "SHR".

This MD&A should be read in conjunction with the audited financial statements of the Company as at December 31, 2007 and for the period from commencement of operations on August 14, 2006 to December 31, 2006 together with the accompanying notes. Additional information relating to the Company can be viewed or downloaded at www.sureenergyinc.com or www.sedar.com.

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.

The financial information presented has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

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 is used by the Company to analyze operating performance, leverage and liquidity. Readers should refer to the "FUNDS FLOW FROM OPERATIONS" 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 statements

This management's discussion and analysis contains forward-looking financial and operational information including earnings, funds flow, production and capital expenditures projections. The projections are based on the Company's expectations and are subject to a number of risks and uncertainties that could materially affect the results. Actual results achieved during the forecast period may differ materially from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; industry capacity; competitive action by other companies; fluctuations in oil and gas prices; the ability to produce and transport crude oil and natural gas to markets; the result of exploration and development drilling and related activities; fluctuation in foreign currency exchange rates; the imprecision of reserve estimates; the ability of suppliers to meet commitments; actions by governmental authorities including increases in taxes; decisions or approvals of administrative tribunals; change in environmental and other regulations; risks associated with oil and gas operations; the weather in areas of operation; and other factors, many of which are beyond the control of Sure Energy. Sure Energy disclaims any intention or obligation to publicly update or revise any forward-looking statements or information whether as a result of new information, future events or otherwise, except as may be expressly required by applicable securities laws.

OVERVIEW

Selected Quarterly Information	2007				2006	
	Q4	Q3	Q2	Q1	Q4	Q3 ⁽¹⁾
Production						
Natural gas (Mcf/d)	1,610	1,687	1,810	1,555	1,548	1,692
Oil (bbls/d)	2	2	3	6	4	-
BOE/d	270	283	305	265	262	282
Average Selling Price						
Natural gas (\$/Mcf)	5.89	5.05	7.17	7.36	6.70	5.38
Oil (\$/bbl)	80.48	76.25	72.80	67.83	62.99	-
\$/BOE	35.66	30.93	43.33	44.69	40.53	32.25
Operating Netback (\$/BOE)	21.57	15.26	23.83	23.31	17.30	16.30
Funds Flow Netback (\$/BOE)	7.97	9.01	14.59	13.29	10.22	7.52
Financial						
(\$000s except share and per share amounts)						
Petroleum and natural gas revenue	886	805	1,202	1,065	976	428
Funds Flow from Operations	199	232	404	318	247	100
Per share, basic and diluted	0.01	0.01	0.01	0.01	0.01	0.01
Loss	(515)	(1,481)	(517)	(468)	(485)	(370)
Per share, basic and diluted	(0.02)	(0.05)	(0.02)	(0.02)	(0.02)	(0.04)
Capital Expenditures	1,220	1,361	980	2,483	1,290	15,503
Total assets	23,784	24,213	25,002	25,981	24,890	24,606
Working Capital and Net Debt	3,149	4,240	5,322	5,897	8,001	9,032
Shareholder's Equity	21,993	22,353	22,720	23,001	23,272	23,520
Common Shares Outstanding	28,545,148	28,545,148	28,509,148	28,509,148	28,509,148	28,509,148

(1) Represents the 37 day period from commencement of operations on August 14, 2006 to September 30, 2006.

Q4 2007

Funds flow was down 14 percent from the previous quarter mainly due to an increase in general and administration costs ("G&A"). Fourth quarter G&A costs included moving costs, refinancing and year end reporting charges.

Q3 2007

Revenue decreased in the quarter as a result of a decline in the average selling price of natural gas offset partially by a decrease in royalties. The loss for the quarter includes an increase in non-cash stock compensation expense as half of the performance rights vested.

Q2 2007

The quarter's revenue was favourably impacted by a production increase from 265 BOE/d in the first quarter of 2007 to 305 BOE/d in the current quarter. Royalty expense for the quarter was favourably impacted by a Gas Cost Allowance credit received from Alberta Energy. G&A costs per BOE decreased reflecting the production increase in the quarter.

Q1 2007

Revenue increased in the current quarter due to increased average selling prices. In the first quarter of 2007, operating costs decreased to expected levels.

Q4 2006

Revenue increased the previous quarter due mainly to an increase in gas sales prices offset partially by a decrease in production due to natural declines. Operating expenses per BOE increased from the previous quarter due to initial costs of a Redwater oil

well that commenced production in the fourth quarter of 2006. Results for the third quarter of 2006 were for 47 days whereas results for the current quarter were for 92 days.

RESULTS OF OPERATIONS

Revenues

Petroleum and Natural Gas Revenue (\$000s)	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Natural gas	872	953	3,868	1,381
Oil	14	23	90	23
	886	976	3,958	1,404

Production	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Natural gas (Mcf/d)	1,610	1,548	1,666	1,596
Oil (bbl/d)	2	4	3	3
	270	262	281	269

Average Selling Price	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Natural gas (\$/Mcf)	5.89	6.70	6.36	6.22
Oil (\$/bbl)	80.48	62.99	79.35	62.99
	35.66	40.53	38.63	37.59

Average Benchmark Prices	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
AECO (daily) natural gas (\$/Mcf)	5.82	6.55	6.11	5.99
WTI Crude oil (US\$/bbl)	90.68	60.22	72.30	62.38
Edmonton par price (Cdn \$/bbl)	86.42	64.50	76.35	67.66
Exchange rate (US\$/Cdn\$)	0.9818	1.1393	1.0741	1.1312

Production for the year ended December 31, 2007 averaged 281 BOE/d, representing an increase of 4 percent over the previous period. Production for the current quarter was 270 BOE/d, a decrease of 3 percent over the prior period. Substantially all of the Company's production is natural gas. For the year ended December 31, 2007, the Company's realized price for its natural gas was \$6.36/Mcf, marginally more than the \$6.22/Mcf received in the prior period. For the current quarter, the realized price of \$5.89/Mcf was 12 percent less than the realized price in the previous period. Sure Energy's only oil well came on stream in November 2006. The Company has not hedged or entered into any fixed price arrangements during 2007 or for any subsequent period.

Royalties

(\$000s)	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Royalties	106	240	690	325
Average royalty as a percent of revenue	12.0	24.6	17.4	23.1

Royalties as a percentage of revenue decreased to 12.0 percent for the current quarter versus 24.6 percent for the prior period. The decrease was due to a decrease in gas benchmark prices and gas cost allowance credits received in 2007. The royalty rate for the year ended December 31, 2007 was 17.4 percent, a decrease of 25 percent over the prior period. Royalty rates are expected to average approximately 20 to 22 percent in 2008.

Alberta Royalty Changes

On October 25, 2007 the Government of Alberta introduced the framework for a new Alberta royalty structure based on recommendations made by the Alberta Royalty Review Panel. The proposed implementation date for most of the framework is January 1, 2009.

All of Sure's production is in Alberta and the majority is subject to Alberta crown royalties.

A sensitivity of Sure Energy's reserves and value to the proposed royalties was calculated and summarized below:

Sensitivity of Reserves and Value Forecast Prices and Costs Proposed Alberta Royalty Framework

	Reserves Gross Company Interest				Value at 8%/year Discounting (\$000's)
	Oil (Mbbbl)	Gas (MMcf)	NGL's (Mbbbl)	BOE (MBOE)	
Total Proved + Probable	0.2	6,209	30.0	1,065.1	14,200
Sensitivity	0.0%	0.0%	0.0%	0.0%	(0.9)%

Operating expenses

(\$000s)	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Operating expenses	213	289	993	400

Operating expenses were \$8.57 per BOE in the current quarter versus \$12.00 per BOE in the comparative quarter. Operating expenses were \$9.69 per BOE for the year ended December 31, 2007 versus \$10.71 per BOE for the prior period. The cost of field supplies and services has stabilized in the current year.

Transportation

(\$000s)	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Transportation	30	30	125	46

Transportation costs were \$1.23 per BOE in the current quarter and \$1.25 for the comparative quarter. For the year ended December 31, 2007, transportation costs were \$1.22 per BOE. Transportation expense relates 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)	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Gross general and administrative	511	421	1,625	589
Capitalized overhead	(135)	(172)	(397)	(211)
	376	249	1,228	378

General and administrative ("G&A") costs were \$15.15 per BOE for the current quarter and \$10.35 per BOE for the comparative quarter. G&A costs in the current quarter included one time moving costs, financing costs, and year-end reporting charges. G&A costs were \$11.99 per BOE for the year ended December 31, 2007 versus \$10.13 per BOE for the prior period. G&A costs will decrease on a per BOE basis as the Company grows its production. 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 Income

(\$000s)	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Interest income	38	79	231	92

Sure Energy did not utilize its available \$5.0 million debt facility during the year ended December 31, 2007 or during 2006 and as a result incurred no interest expense. During the current quarter, interest income was \$38,000 or \$1.55 per BOE versus \$3.27 per BOE for the comparative quarter. Excess cash was invested in bankers acceptances to earn interest income.

Stock Compensation (non-cash)

(\$000s)	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Stock compensation	155	204	1,666	303

Stock compensation (non-cash) expense was \$155,000 in the current quarter and \$204,000 for comparative quarter. Stock compensation (non-cash) expense was \$1,666,000 for the year ended December 31, 2007. On August 14, 2007, 2,488,500 Performance Incentive Rights ("PIR's") vested as the 21 day weighted average trading price of Sure Energy exceeded \$1.25. Once a tranche vests, the remaining unamortized amount of stock compensation related to that tranche is expensed, which can result in a significant non-cash expense at that time. During 2007, 448,000 of the vested PIR's issued to Sound were cancelled. GAAP does not permit a reversal of compensation expense for vested PIR's that are cancelled. The remaining PIR's vest when the 21 day weighted average trading price of Sure Energy exceeds \$1.50.

Depletion, Depreciation and Accretion

(\$000s)	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Depletion and depreciation	548	515	2,415	879
Accretion	11	13	53	20
	559	528	2,468	899

The Company's depletion, depreciation and accretion ("DD&A") provision for the current quarter was \$559,000, or \$22.53 per BOE and \$528,000 or \$21.91 per BOE for the comparative quarter. The assets acquired pursuant to the Plan of Arrangement were acquired at fair value and established the starting point for the depletable base. \$4.1 million in costs related to the Company's undeveloped land base was excluded from the depletion calculation.

Accretion of the asset retirement obligation is calculated at the Company's credit-adjusted, risk-free rate of 8 percent. The Company has estimated the net present value of their asset retirement obligation to be \$698,000.

Income and future taxes

The Company does not expect to pay current income tax in 2008 or 2009. Estimated income tax pools at December 31, 2007 are as follows:

(\$000s)	
Canadian oil and gas property expenses	12,225
Canadian development expenses	544
Canadian exploration expenses	3,374
Undepreciated capital costs	2,806
Non-capital losses	2,277
Financing costs	9
	21,235

Netbacks

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

(\$/BOE)	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Price	35.66	40.53	38.63	37.59
Royalties	(4.29)	(9.98)	(6.74)	(8.70)
Operating costs	(8.57)	(12.00)	(9.69)	(10.71)
Transportation	(1.23)	(1.25)	(1.22)	(1.23)
Operating Netback	21.57	17.30	20.98	16.95
General & administrative	(15.15)	(10.35)	(11.99)	(10.13)
Interest income	1.55	3.27	2.27	2.45
Funds Flow Netback	7.97	10.22	11.26	9.27

Stock compensation	(6.21)	(8.49)	(16.26)	(8.12)
Depletion, depreciation & accretion	(22.53)	(21.91)	(24.10)	(24.06)
Loss Netback	(20.77)	(20.18)	(29.10)	(22.91)

CAPITAL EXPENDITURES

Capital Program Summary (\$000s)	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Land	165	76	968	82
Geological and geophysical	267	236	1,019	307
Drilling	10	341	1,642	341
Completions	(15)	85	316	85
Production equipment and facilities	143	368	1,114	368
Capitalized exploration G&A	135	172	397	211
	705	1,278	5,456	1,394
Asset acquisition	583	-	583	25
Initial land, property and seismic acquisition for share consideration	-	-	-	15,341
Asset retirement obligation	(70)	12	2	12
Other assets	2	-	2	21
	1,220	1,290	6,043	16,793

For the year ended December 31, 2007, Sure Energy participated in eight gross wells (3.45 net). Three of these wells were successful shallow gas development wells at Tweedie (0.61 net). Three wells were drilled and abandoned (1.75 net). Of the two successful exploration wells, one well (0.60 net) is on production and the other (0.49 net) is awaiting facilities.

LIQUIDITY AND CAPITAL RESOURCES

In exchange for certain producing properties, undeveloped land, and seismic assets conveyed by each of Clear Energy and NAV to Sure Energy, Clear Energy shareholders received 0.1667 Common Shares and 0.0425 Arrangement Warrants of Sure Energy and NAV unitholders received 0.333 Common Shares and 0.085 Arrangement Warrants of Sure Energy. On August 14, 2006, the Company issued 19,402,007 Common Shares and 4,947,512 Arrangement Warrants in exchange for assets pursuant to the Plan of Arrangement. 4,107,141 of the 4,947,512 Arrangement Warrants were exercised.

On August 14, 2006, the Company completed a private placement of common shares to issue 5,000,000 common shares and 5,000,000 Performance Incentive Rights at a price of \$1.00 per share for total proceeds of \$5,000,000.

On October 18, 2007, Sure Energy increased its credit facilities to \$6.5 million consisting of a \$5.0 million revolving operating demand loan and a \$1.5 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. These credit facilities replace Sure Energy's \$3.5 million of credit facilities which Sure had received from another Canadian chartered bank. During the period ended December 31, 2006 and the year ended December 31, 2007, Sure Energy did not draw on the credit facility.

As at December 31, 2007, the Company had net debt and working capital of \$3.1 million. Net debt and working capital is calculated as follows:

	December 31, 2007	December 31, 2006
Cash and cash equivalents	3,443	8,237
Accounts receivable	569	658
Prepaid expenses	230	81
Accounts payable and accrued liabilities	(1,093)	(975)
Working capital	3,149	8,001
Bank debt	-	-
Net debt	3,149	8,001

FUNDS FLOW FROM OPERATIONS

Funds flow from operations is calculated as follows:

	Quarter Ended December 31,		Period Ended December 31,	
	2007	2006	2007	2006
Loss	(515)	(485)	(2,981)	(855)
Add items not affecting cash:				
Depletion, depreciation and accretion	559	528	2,468	899
Stock compensation	155	204	1,666	303
	199	247	1,153	347

CONTRACTUAL OBLIGATIONS AND FINANCIAL INSTRUMENTS

Sure Energy has not entered into any financial contracts.

On October 3, 2007, the Company signed an agreement to lease office premises. Minimum lease payments under the lease are as follows:

2008	347
2009	356
2010	366
2011	375
2012	312

The Company plans to sublease approximately one quarter of the new office premises.

OUTSTANDING SHARES, OPTIONS AND PERFORMANCE INCENTIVE RIGHTS

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

Outstanding at:	December 31, 2007	December 31, 2006	March 11, 2008
Common shares	28,545,148	28,509,148	30,767,210
Options	2,715,000	2,065,000	2,715,000
PIR's	4,009,000	4,998,000	4,009,000
	35,269,148	35,572,148	37,491,210

On August 14, 2007, half the performance rights vested as the 21 day weighted average trading price of Sure Energy shares exceeded \$1.25.

On September 5, 2007, Sound Energy Trust was acquired by Advantage Energy Trust. 887,000 performance rights, including 415,000 vested performance rights, were cancelled on October 5, 2007 for the Sound employees that were terminated.

On October 10, 2007, the Company issued 602,500 options at an exercise price of \$0.95 per share. On December 19, 2007 the Company issued 47,500 options at an exercise price of \$0.92 per share. The options awarded have a maximum term of five years and vest over three years on the basis of one-third per year.

SUBSEQUENT EVENT

On January 15, 2008, the Corporation closed a purchase and sale agreement to buy all the outstanding common shares of Argent Energy Inc., a private oil and gas Corporation. The total consideration included the issuance of 1,861,814 common shares of the Corporation issued in exchange for all of the outstanding Argent common shares and the assumption of debt and a working capital deficiency of \$2.8 million. The exchange ratio was 0.1075 Sure Energy share for every outstanding common share of Argent. The business combination has been accounted for as a purchase. Argent was amalgamated with Sure on January 15, 2008.

A total of 360,215 shares of Sure Energy were also issued in connection with the closing as settlement of severance to former Argent employees. Concurrent with the closing, Sure Energy increased its credit facilities to \$8.5 million consisting of a \$7.0 million revolving operating demand loan and a \$1.5 million non-revolving acquisition/development demand loan.

CRITICAL ACCOUNTING ESTIMATES

As an oil and gas producer, a number of critical estimates are applied in the preparation of the financial statements within the accounting policies defined in Note 1 of the financial statements. These critical estimates are defined below.

Oil and Gas Accounting

Sure Energy follows the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future development costs less estimated salvage values is amortized using the unit-of-production method based on estimated proved oil and gas reserves.

Proved Reserves

Full cost accounting relies on the estimated proved reserves believed to be recoverable from our oil and gas properties. Determination of reserves is a complex process involving judgments, estimates and decisions based on available geological, engineering/production and any other relevant economic data. These estimates are subject to material change as economic conditions change and ongoing production and development activities provide new information. The Company's reserves were evaluated by an independent firm, Sproule Associates Limited. Reserve estimates are critical to the following accounting estimates:

- Calculation of unit of production depletion. Proved reserve estimates were used to determine the DD&A rate applied to each unit of production.
- Ceiling test calculation, measurement of impairment of oil and gas assets. Estimated future undiscounted cash flows are determined using the estimate of proved reserves.

An increase in estimated proved oil and gas reserves would result in a corresponding reduction in depletion expense. A decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

The calculation of proved reserves are affected by the following events:

- Changes to commodity prices
- Production performance of wells
- Changes to reservoir performance/pressures
- New geological and geophysical data
- Competitor production practices
- Changes to government regulations
- As circumstances change and additional data becomes available, revisions are made to these estimates.

Unproved properties

Certain costs related to unproved properties may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly and any impairment is transferred to the costs being depleted. The costs related to unproved properties are also excluded from the book value subject to the ceiling test measurement.

Full Cost Accounting Ceiling Test

The Company is required to review the carrying value of all property, plant and equipment, including the carrying value of oil and gas assets, for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost centre is not recoverable by the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings.

The ceiling test is based on estimates of reserves, production rate, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Asset Retirement Obligations

The Company is required to provide for future removal and site restoration costs. The Company must estimate these costs in accordance with existing laws, contracts or other policies. These estimated costs are charged to property, plant & equipment and the appropriate liability account over the expected service life of the asset. The estimate of future removal and site restoration costs involves a number of estimates related to timing of abandonment, determination of economic life of the asset, costs associated with abandonment and site restoration, review of potential abandonment methods and salvage/usage of tangible equipment.

Income Tax Accounting

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Stock-Based Compensation Plan

The Company has a stock-based compensation plan that is described in note 6 to the financial statements as at and for the year ended December 31, 2007. The Company accounts for stock options and Performance Incentive Rights issued to consultants, employees and directors of Sure Energy and Sound based on the fair value method. The compensation expense related to the stock options granted is recognized over the vesting period of the awards. The compensation expense related to the Performance Incentive Rights is recognized over the life of the awards due to the contingent nature of their vesting. When the Performance Incentive Rights vest, additional compensation expense is recognized to the extent of the fair value of the vested portion of the Performance Incentive Rights. The fair value of the stock options and Performance Incentive Rights was determined at the respective grant dates using the Black-Scholes model. The fair value of the Performance Incentive Rights issued to consultants and Sound employees and directors will be re-calculated at each period end.

Other Estimates

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenues, royalties and production costs as at a specific reporting date but for which actual revenues and costs have not yet been received; and estimates on capital projects which are in progress or recently completed where actual costs have not been received at a specific reporting date. The Company ensures that the individuals with the most knowledge of the activity are responsible for the estimate. These estimates are then reviewed for reasonableness and past estimates are compared to actual results in order to make informed decisions on future estimates.

DISCLOSURE CONTROLS AND PROCEDURES

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, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2007. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), are effective to ensure that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

Management completed an assessment of the design of internal controls over financial reporting. During the process of management's assessment, it was determined that certain weaknesses existed in internal controls over financial reporting. As is indicative of many small companies, segregation of duties and the existence of full competencies in the complex areas of financial accounting and taxation were identified as areas where material weaknesses existed. The existence of these material weaknesses will be addressed by the continuation of senior management monitoring and in the case of complex transactions, consulting with external experts to assist management in their analysis. The Company is taking steps to augment and improve the design of procedure and controls impacting these areas of material weakness over internal control over financial reporting.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, Sure Energy adopted the requirements of the Canadian Institute of Chartered Accountants ("CICA") related to the new financial instruments accounting framework, which encompasses the following new CICA Handbook sections: 3855 Financial Instruments – Recognition and Measurement, 1530 Comprehensive Income, and 3861 Financial Instruments – Disclosure and Presentation. There was no impact on the financial statements of adopting the new requirements. For a description of the new accounting rules, see note 2 to the audited financial statements for the year ended December 31, 2007.

FUTURE CHANGES IN ACCOUNTING POLICIES

As of January 1, 2008, the Company will be required to adopt CICA Handbook Sections 3862, Financial Instruments – Disclosures; 3863, Financial Instruments – Presentation; 1535, Capital Disclosures and 1400, General Standards of Financial Statement Presentation. The Company is assessing the impact of these new standards on its financial statements and anticipates the main impact will be in terms of additional disclosures required.

As of January 1, 2009, the Company will be required to adopt CICA Handbook Section 3064 Goodwill and Intangible Assets which replaces CICA Handbook Sections 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The Company is assessing the impact of this new standard on its financial statements; however, the adoption is not expected to have a material impact on its financial statements.

BUSINESS RISKS

As an exploration and production company in the oil and gas industry, Sure Energy is exposed to a number of business risks, which are beyond the control of management.

Operational

Operational risks include exploring for and developing natural gas and oil reserves on an economic basis, drilling risks, reservoir performance, access to contract services, availability of skilled labour and weather conditions affecting the timing of capital program completion. Sure Energy maintains an insurance policy consistent with industry standards to protect against well blowouts and other drilling problems, destruction and damage to tangible assets, pollution and third-party liability coverage. In addition, the Company employs highly qualified staff and experienced contract services and provides a compensation environment that rewards above average performance, develops long-term relationships and provides measurement objectives consistent with shareholder value enhancement.

Financial

Financial risks include fluctuations in commodity price, interest rates and the Canadian/US dollar exchange rate. The Company is currently unhedged due to the fact that it commenced operations during a period of low gas prices, when gas is its main commodity. Available commodity, interest rate and exchange rate hedges will be continually assessed by management as part of ongoing operations. The Company also manages these risks by maintaining a healthy balance sheet and will only take on prudent levels of debt measured by debt to cash flow and debt coverage ratios. This allows for strong financial capacity to maintain exploration and development activities in any downturn in commodity prices. An additional financial risk is credit risk for failure of performance by counter-parties. This risk is controlled by an evaluation of the credit risk before contract initiation and ensuring product sales and delivery contracts are made with well-known and financially strong crude oil and natural gas marketers.

Regulatory

The oil and gas industry is a heavily regulated industry with respect to environmental and safety practices. However, production and drilling practices of competitors may challenge the regulations creating production disruptions for the Company, such as the current EUB production restrictions. With respect to environmental and safety issues, Sure Energy maintains an environmental and safety policy with a well-defined reporting process to the Board of Directors. Other regulatory risks include changes to royalty and tax legislation over which the Company has no control.

OUTLOOK

Sure Energy is in a very strong position to take advantage of improving market conditions. The Company remains in an attractive financial position with no debt and an increased \$8.5 million undrawn credit facility. It has completed the acquisition of Argent Energy Inc. at attractive metrics for \$4.9 million on January 15, 2008 that enhances our project inventory.

The Company's production and reserves are weighted 98% towards natural gas which should see significant benefits from increasing natural gas production and prices over the coming year. Production is in excess of 375 BOE/d with another 146 BOE/d (net) to be tied-in, including 100 BOE/d from its Boundary Lake gas property. The Company has plans to spend \$8.9 million for the 2008 capital budget and will be financed through its cash flow, balance sheet and equity previously issued from the Argent Energy takeover.

The Company has an extensive drilling inventory of 41 prospects on over 58,000 net undeveloped acres of land and 390,000 net acres of Option Lands thorough the Advantage Trust Farm-in agreement.

Corporate netbacks should also improve through 2008 with increased growth in production and commodity prices. Sure will continue to review accretive acquisitions that expand its property base and provide further synergies to its existing business.

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
bbbls	Barrels	Mcf/d	Thousand cubic feet per day
bbbls/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
		WTI	West Texas Intermediate