



ANNUAL INFORMATION FORM

2010

March 8, 2011

TABLE OF CONTENTS

GLOSSARY OF ABBREVIATIONS	1
CONVERSION	1
CURRENCY	1
FORWARD-LOOKING INFORMATION	2
CORPORATE STRUCTURE	3
GENERAL DEVELOPMENT OF THE BUSINESS	3
TRENDS	4
NARRATIVE DESCRIPTION OF THE BUSINESS	4
GENERAL	4
STATED BUSINESS OBJECTIVE	4
EMPLOYEES	5
DESCRIPTION OF PRINCIPAL OIL AND NATURAL GAS PROPERTIES	5
PETROLEUM AND NATURAL GAS RESERVES	6
FUTURE DEVELOPMENT COSTS	10
NET ASSET VALUE	11
LANDHOLDINGS	11
OIL AND GAS WELLS	11
DRILLING ACTIVITY	12
CAPITAL EXPENDITURES	12
FINDING AND DEVELOPMENT AND ACQUISITION COSTS ⁽¹⁾	13
UNDEVELOPED RESERVES	13
ADDITIONAL INFORMATION CONCERNING ABANDONMENT AND RECLAMATION COSTS	14
FORWARD CONTRACTS	14
TAX HORIZON	14
PRODUCTION ESTIMATES	14
PRODUCTION HISTORY	15
INDUSTRY CONDITIONS	16
MARKET FOR SECURITIES	21
DIRECTORS AND OFFICERS	21
AUDIT COMMITTEE MATTERS	23
CONFLICTS OF INTEREST	24
DESCRIPTION OF SHARE CAPITAL	24
COMMON SHARES	25
PREFERRED SHARES	25
PERFORMANCE INCENTIVE RIGHTS	25
STOCK OPTIONS	25
DIVIDENDS	26
LEGAL PROCEEDINGS AND REGULATORY ACTIONS	26
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	26
TRANSFER AGENT AND REGISTRAR	26
MATERIAL CONTRACTS	26
INTERESTS OF EXPERTS	26
RISK FACTORS	27
ADDITIONAL INFORMATION	32
APPENDIX A FORM 51-101F2	A 1
APPENDIX B FORM 51-101F3	B 1
APPENDIX C AUDIT COMMITTEE TERMS OF REFERENCE	C 1

GLOSSARY OF ABBREVIATIONS

bbls	Barrels	Mcf/d	Thousand cubic feet per day
Mbbls	Thousands of barrels	MMcf/d	Million cubic feet per day
bbls/d	Barrels per day	BOE/d	Barrels of oil equivalent per day
BOE	Barrel of oil equivalent (6 Mcf = 1 bbl)	MMbtu	Millions of British thermal units
MBOE	Thousand barrels of oil equivalent	NGLs	Natural gas liquids
Mcf	Thousand cubic feet	WTI	West Texas Intermediate
MMcf	Million cubic feet	GJ	Gigajoule

Other

BOE	means barrel of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one bbl of oil. 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.
°API	means the measure of density or gravity of liquid petroleum products derived from a specific gravity.

CONVERSION

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

<u>To Convert From</u>	<u>To</u>	<u>Multiply By</u>
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
bbls	cubic metres	0.159
cubic metres	bbls	6.289
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471
gigajoules	MMbtu	0.950

CURRENCY

In this Annual Information Form, unless otherwise noted, all dollar amounts are expressed in Canadian dollars.

FORWARD-LOOKING INFORMATION

Certain statements contained in this Annual Information Form, and in certain documents incorporated by reference into the Annual Information Form, constitute forward-looking information. These statements relate to future events or the Corporation's future performance. All statements other than statements of historical fact contain forward-looking information. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "should", "believe", and similar expressions are intended to identify forward-looking information. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Corporation believes the expectations reflected in this forward-looking information is reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in, or incorporated by reference into, this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form. The Corporation 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.

In particular, this Annual Information Form contains forward-looking information pertaining to the following:

- the Corporation's stated business objective;
- the performance characteristics of the oil and natural gas assets of the Corporation;
- production estimates;
- the size of the oil and natural gas reserves;
- the Corporation's exploration and development intentions for its principal oil and natural gas properties;
- projections of market prices and costs;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;
- treatment under governmental regulatory regimes;
- capital expenditures programs; and
- the existence, operation and strategy of the Corporation's commodity price risk management program.

Although the Corporation believes that the expectations reflected by the forward-looking information presented in this Annual Information Form are reasonable, this forward-looking information has been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to the Corporation about itself and the businesses in which it operates. Information used in developing forward-looking information has been acquired from various sources including third party consultants, suppliers, regulators and other sources. In some instances, material assumptions are disclosed elsewhere in this Annual Information Form in respect of forward-looking information. The material factors and assumptions used to develop the forward-looking information include but are not limited to:

- no significant adverse changes to energy markets, competitive conditions, the supply and demand for crude oil and natural gas;
- no significant delays of the development, construction or commissioning of the Corporation's projects that may result from the inability of suppliers to meet their commitments, lack of regulatory approvals or other governmental actions, harsh weather or other calamitous event;
- no significant disruption of the Corporation's operations such as may result from harsh weather, natural disaster, accident or other calamitous event;
- no significant unexpected technological or commercial difficulties that adversely affect the Corporation's exploration, development, production, processing or transportation;
- continuing availability of economical capital resources and demand for the Corporation's products;
- no significant adverse legislative and regulatory changes, in particular changes to the legislation and regulation governing fiscal regimes and environmental issues; environmental risks and liability under provincial/state, federal or other jurisdictions; and
- stability of general domestic and global economic, market and business conditions.

Because actual results or outcomes could differ materially from those expressed in any forward-looking information, investors should not place undue reliance on any such forward-looking information. By its nature, forward-looking

information involves numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes will not occur. The risks, uncertainties and other factors, many of which are beyond the Corporation's control, that could influence actual results include, but are not limited to:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- uncertainties associated with its oil and natural gas exploration and development program;
- competition for, among other things, capital, acquisitions or reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- uncertainties associated with changes in legislation; and
- the other factors discussed under "Risk Factors".

The foregoing list of factors is not exhaustive. The forward-looking information contained in this Annual Information Form is expressly qualified by this cautionary statement.

CORPORATE STRUCTURE

Sure Energy Inc. (the "Corporation" or "Sure Energy") was incorporated under the *Business Corporations Act* (Alberta) (the "ABCA") on June 7, 2006. On January 15, 2008 the Corporation amalgamated with Argent Energy Inc. ("Argent") pursuant to the ABCA and continued as Sure Energy Inc. On August 14, 2009 the Corporation amalgamated with Conifer Exploration Ltd. ("Conifer") pursuant to the ABCA and continued as Sure Energy Inc.

The Corporation does not have any subsidiaries.

The head office of Sure Energy is located at Suite 1100, 606 – 4th Street S.W., Calgary, Alberta, T2P 1T1 and the registered office is located at 1900, 520-3rd Avenue S.W., Calgary, Alberta T2P 0R3.

GENERAL DEVELOPMENT OF THE BUSINESS

Sure Energy was created for the purpose of participating in a plan of arrangement involving NAV Energy Trust, Navigo Energy Inc. ("Navigo"), Clear Energy Inc. ("Clear Energy") and the Corporation (the "Plan of Arrangement"). The Plan of Arrangement was effective August 14, 2006 and resulted in the shareholders and option holders of NAV Energy Trust, Navigo and Clear becoming unitholders of Sound Energy Trust ("Sound") and shareholders of Sure Energy.

Following the Plan of Arrangement, Sure Energy had initial production of approximately 268 BOE/d (100% natural gas) and approximately 39,000 net acres of prospective undeveloped land. Sure Energy's asset base consisted of a combination of production, reserves, and defined drilling opportunities acquired from both Navigo and Clear.

On January 15, 2008, the Corporation acquired all of the outstanding common shares of Argent Energy Inc. ("Argent"), a private oil and gas company, pursuant to a plan of arrangement. The total consideration included the issuance of 1,861,847 common shares of the Corporation 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 common share for every outstanding common share of Argent. The business combination has been accounted for as a purchase. Argent was amalgamated with Sure Energy 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.

On August 14, 2009 Sure Energy closed a purchase and sale agreement to acquire all issued and outstanding shares of Conifer Exploration Ltd. ("Conifer") for a total consideration of \$8.9 million. Under the terms of the agreement Sure Energy paid \$6.0 million in cash and issued 9,214,754 common shares for the issued and outstanding common shares of Conifer. The cash portion of the deal was financed from Sure Energy's existing working capital surplus and bank line.

For the year ended December 31, 2009 Sure Energy's total net undeveloped landholdings were 74,765 acres. For the year ended December 31, 2009, Sure Energy participated in one gross well (1.00 net). An exploration well was drilled in the

Peace River Arch. The well commenced production on January 1, 2010. Production for the year ended December 31, 2009 averaged 662 BOE/d, representing an increase of 77 percent over the previous year.

Sure Energy increased its production to average 944 BOE/d for the year ended December 31, 2010. The Corporation drilled 13 gross (11.8 net) wells during the year. The Corporation exited the year at 1,297 BOE/d, comprised 48 percent of oil and liquids. Sure Energy's undeveloped landholdings were 48,980 net acres as at December 31, 2010.

On October 22, 2010, Sure Energy increased its bank credit facility to a \$15.0 million revolving operating and demand loan. On December 20, 2010, the Corporation entered into a \$20 million secured note facility. The Corporation drew \$10 million on the secured note facility.

Trends

There are a number of trends that appear to be developing, which may have both long and short-term effects on the industry. The Western Canadian Sedimentary Basin continues to mature and a large number of major producing regions have been highly developed, thereby reducing the exploration opportunities for smaller companies. The trend for junior producers and start-up companies is to focus on more of an exploration based growth strategy which will increase the risk profile of these entities from an investor's point of view.

There is a continued trend relating to volatility of commodity prices. With the supply and demand balance for natural gas being extremely tight, the market is experiencing a great deal of elasticity in pricing due to a number of factors, including weather, drilling activity, declines, storage levels, fuel switching and demand.

NARRATIVE DESCRIPTION OF THE BUSINESS

General

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 the Provinces of Alberta and Saskatchewan.

The majority of the Corporation's activities are conducted in the Tweedie, Redwater and Peace River Arch area of Alberta and in Central Alberta. By commodity type, the corporation's proved reserves consist of 35% natural gas and 65% crude oil and natural gas liquids.

The Corporation owns approximately 52,269 net acres of undeveloped land in Alberta and Saskatchewan which includes a prospect inventory of approximately 141 locations. Additional seismic and mapping will identify further opportunities.

Stated Business Objective

The business plan of Sure Energy is to create sustainable and profitable per share growth in both cash flow from operations and net asset value. To accomplish this, Sure Energy will pursue an integrated growth strategy of focused exploration plays supplemented with a development drilling program and property acquisitions. Acquisitions of producing properties will be followed by further development and exploratory drilling in those areas. The Corporation's strategy is to balance risk by building a lower risk development drilling inventory. Property acquisitions will be used to create stable cash flow to provide capital and provide balance to the existing prospect inventory, production and reserve base.

In reviewing potential drilling or acquisition opportunities, Sure Energy's philosophy will give consideration to the following criteria:

- target high netback natural gas and light oil;
- create a high impact prospect inventory with multi-zone potential;
- focus on maintaining a consolidated land position; and
- target high working interest, and operatorship.

In general, Sure Energy will pursue a portfolio approach in developing a large number of opportunities with a balance of risk profiles and commodity exposure in an attempt to generate sustainable high levels of growth. Operatorship and high working interests allow the Corporation to control the timing of project development and reduce competition while managing costs.

The board of directors of Sure Energy may, at their discretion, approve asset or corporate acquisitions or investments that do not conform to these guidelines based upon a consideration of the qualitative aspects of available opportunities including risk profile, technical upside, reserve life and asset quality.

Environmental Matters

The oil and gas industry is subject to environmental regulations pursuant to applicable legislation. Such legislation provides for restrictions and prohibitions on release or emission of various substances produced in association with certain oil and gas industry operations, and requires that well and facility sites be abandoned and reclaimed to the satisfaction of environmental authorities. Sure Energy recorded an estimated provision on its balance sheet of \$1.3 million for reserve and abandonment site restoration as at December 31, 2010. The Corporation maintains an insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blowouts, pollution and other operating accidents or disruptions. The Corporation also has operational and emergency response procedures and safety and environmental programs in place to reduce potential loss exposure. See "*Industry Conditions – Environmental Regulation*".

Employees

At December 31, 2010 Sure Energy had 13 full time employees.

Description of Principal Oil and Natural Gas Properties

The following is a description of the oil and natural gas properties, pipelines and installations in which Sure Energy has an interest and that are material to Sure Energy's operations and exploration activities. The production numbers stated refer to Sure Energy's working interest share before deduction of Crown and freehold royalties.

Plains (Redwater)

The Corporation 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 which is from 6 – 10 metres thick, 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 increased 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 early January the Corporation completed a seven well horizontal drilling program designed to evaluate the productive potential of these lands. Six of the wells were dual lateral open-hole horizontal wells and were drilled on a two and ¾ section contiguous land block. Of the six wells, which are all producing oil wells, three wells were producing in the period and helped significantly increase the Corporation's oil production from Redwater from 42 barrels per day to 347 barrels per day. The other three wells came on production in January and February 2011 and will further increase the Corporation's oil production from the area. The seventh well, which was drilled on a more risky three section land block to the north was a single leg horizontal appraisal well which was subsequently lined and is currently being evaluated. To date the first two producers, which came onstream in early November have produced approximately 22,000 and 14,200 barrels of oil, respectively. In the fourth quarter of 2010 the Corporation realized \$60.91 per barrel operating netback on its oil in the area.

Based on the North Redwater drilling program the Corporation's independent reserve engineers have recognized 14 additional dual lateral horizontal drilling locations at current spacing. These 14 locations plus the 7 drilled locations account for proved plus probable reserve additions of 1,278 MBOE, 98 percent of which is oil. In keeping with the practice of adjacent operators, Sure Energy is currently applying for downspacing to 8 wells (legs) per ¼ section, up from 4 wells (legs) per ¼ section. In areas where the rock is finer grained and less permeable the Corporation will consider drilling single leg cased monobore wells which can be fractured multiple times along their length.

In South Redwater the Corporation owns 3,048 net acres of land. In this area the Corporation and its partner drill single leg multi-fractured wells using "Packers Plus" technology. The Corporation has six gross (2.6 net) producing horizontal wells in

the area and three 100 percent vertical wells. The Corporation's reserve engineers recognize 29 gross (18.2 net) proven undeveloped horizontal locations and five gross (4.3 net) probable undeveloped horizontal locations in the South Redwater area based on three single leg wells per ¼ section. The locations along with the producing wells account for proved plus probable reserves potential of 1,375 MBOE.

SE Saskatchewan

Sure Energy owns 1,415 acres of land at Queensdale in southeast Saskatchewan. Queensdale is an area of prolific light oil production from the Alida formation, a subcropping carbonate reservoir of Mississippian age. The Corporation identified an extension of an existing pool on its 100 percent land using proprietary 3D seismic and drilled a successful well in the third quarter of 2010. To date this well, which came on production in early October, has produced 27,000 barrels of oil and is still producing at approximately 100 BOE/d. In the fourth quarter of 2010 Sure Energy realized \$66.87 per barrel operating netback on its oil at Queensdale. Based on its geological and geophysical interpretation of the subcrop edge the Corporation recognises four more development locations, two of which are planned to be drilled in the first quarter of 2011. In Queensdale Sure Energy is securing more land and anticipates shooting additional 3D seismic in 2011 to fine tune drilling locations, which will evaluate new exploration ideas.

Peace River Arch

Sure Energy produced 239 BOE/d from the Peace River Arch in the fourth quarter of 2010. Most of the Corporation's production in the area is natural gas and because of the depressed gas prices experienced in the period the Corporation elected not to spend capital on drilling additional wells or optimizing production. The Corporation has an inventory of drillable gas locations in the area but has no plans to drill for gas in 2011.

Southern Plains (Chinook)

Sure Energy produced 216 BOE/d of gas in Chinook in the fourth quarter of 2010. The Chinook assets are three high working interest, operated high netback wells which were drilled by the Corporation.

Tweedie

Sure Energy produced 140 BOE/d of shallow sweet cretaceous gas from its Tweedie property in the fourth quarter of 2010. As with the Corporation's other gas prone areas it has an inventory of drillable locations but in the present price environment the Corporation is planning to spend its capital program on its oil prospects.

West Central

Sure Energy produced 96 BOE/d from its West Central properties in the period. The West Central assets are non-operated, liquids rich gas assets.

PETROLEUM AND NATURAL GAS RESERVES

Sure conducts an annual independent evaluation of all of the Corporation's reserves. Sure engaged independent petroleum consultants Sproule Associates Limited ("Sproule") to evaluate reserves for all of Sure Energy's properties effective December 31, 2010. The Sproule report, dated February 25, 2011 has been prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in NI 51-101 by Qualified Reserve Evaluators. Sproule has reviewed and consented to the information contained herein.

The following tables, based on the Sproule Report, summarize the crude oil, NGLs and natural gas reserves attributable to Sure Energy's properties and the present value of future net revenue for such reserves using forecast price assumptions and costs.

All evaluations of future net production revenue set forth in the tables below are based on Sproule's pricing assumptions as at January 1, 2011 for the forecast case and are stated for Sure Energy's working interest share of reserves (referred to as "Gross" in NI 51-101) in accordance with the COGE Handbook. Sure Energy's net interest share is after deduction for royalty burdens payable. It should not be assumed that the discounted future net production revenue estimated by the Sproule Report represents the fair market value of the reserves. There is no assurance that the future price and cost assumptions used in the Sproule Report will prove accurate and variances could be material. The recovery and reserve estimates of crude oil, NGLs and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, NGLs and natural gas reserves may be greater than or less than the estimates provided herein.

Reserves and future net revenue have been made assuming that development of each property in respect of which the estimate is made will occur, without regard to the likely availability of Sure Energy of funding required for that development.

The Corporation's Independent Reserves Committee of the Board of Directors reviews the qualifications and appointment of the independent qualified reserves evaluators. The Committee also reviews the procedures for providing information to the evaluators. The Independent Reserves Committee of the Board of Directors has reviewed and approved the Sproule Report.

In accordance with the requirements of NI 51-101, the Report on Reserves Data by Independent Qualified Reserves Evaluator in Form 51-101F2 and the Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3 are attached as Appendices A and B hereto, respectively.

**Summary of Oil and Gas Reserves
(Forecast Prices and Costs)**

Description	Light and Medium Oil Mbbls		Gas MMcf		NGLs Mbbl		Total MBOE	
	Gross⁽³⁾	Net	Gross⁽³⁾	Net	Gross⁽³⁾	Net	Gross⁽³⁾	Net
Proved Developed Producing	438.0	396.6	6,582	5,239	71.1	44.8	1,606.1	1,314.6
Proved Developed Non-producing	49.9	46.5	165	157	8.9	7.4	86.4	80.0
Proved Undeveloped	1,576.4	1,433.0	41	38	-	-	1,583.1	1,439.4
Total Proved	2,064.3	1,876.1	6,788	5,434	80.1	52.2	3,275.6	2,834.0
Probable	848.8	740.7	1,951	1,606	20.4	14.2	1,194.5	1,022.6
Total Proved plus Probable	<u>2,913.1</u>	<u>2,616.8</u>	<u>8,739</u>	<u>7,040</u>	<u>100.5</u>	<u>66.4</u>	<u>4,470.1</u>	<u>3,856.6</u>

**Summary of Net Present Value of Future Net Revenue
(Forecast Prices and Costs)**

Description	Before Income Tax (\$000s)						Unit Value Before Income Tax Discounted⁽⁵⁾ at 10% (\$/BOE)
	Discounted at						
	0%	5%	8%	10%	15%	20%	
Proved Developed Producing	44,857	36,602	33,027	31,119	27,437	24,765	23.67
Proved Developed Non-producing	3,104	2,580	2,349	2,220	1,960	1,764	27.75
Proved Undeveloped	51,728	36,828	30,420	26,895	19,996	15,036	18.68
Total Proved	100,689	76,010	65,797	60,234	49,393	41,566	21.25
Probable	47,405	32,093	26,633	23,856	18,814	15,453	23.33
Total Proved Plus Probable	<u>148,095</u>	<u>108,103</u>	<u>92,430</u>	<u>84,090</u>	<u>68,207</u>	<u>57,019</u>	<u>21.80</u>

Description	After Tax (\$000s)					
	Discounted at					
	0%	5%	8%	10%	15%	20%
Proved Developed Producing	45,857	36,602	33,027	31,119	27,437	24,765
Proved Developed Non-producing	3,104	2,580	2,349	2,220	1,960	1,764
Proved Undeveloped	45,296	32,764	27,271	24,218	18,171	13,754
Total Proved	94,257	71,946	62,647	57,557	47,567	40,284
Probable	35,510	24,179	20,167	18,133	14,458	12,020
Total Proved Plus Probable	129,768	96,125	82,814	75,690	62,025	52,303

**Undiscounted Total Future Net Revenue
(Forecast Prices and Costs)**

(\$000s)			Operating Costs	Development Costs	Abandonment and Reclamation Costs	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
	Revenue	Royalties						
Total Proved	242,805	26,787	74,256	38,515	2,557	100,689	6,432	94,257
Total Proved Plus Probable	343,727	40,141	108,223	44,150	3,119	148,095	18,327	129,768

**Future Net Revenue by Production Group
(Forecast Prices and Costs)**

Reserves Category	Production Group⁽⁴⁾	Future Net Revenue Before Income Taxes (Discounted at 10%/Year) (\$000's)	Unit Value Before Income Tax Discounted at 10% (\$/BOE)⁽⁵⁾
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	46,938	24.38
	Natural Gas (including by-products but excluding solution gas from oil wells)	13,296	14.63
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	68,086	25.26
	Natural Gas (including by-products but excluding solution gas from oil wells)	16,003	13.78

Notes on the reserves information:

(1) Reserve numbers may not add due to rounding.

(2) Reserves categories and terminology are as set out in the COGE Handbook:

Reserves are estimated remaining saleable quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology;
- specified economic conditions, (based on forecast prices and costs) which are generally accepted as being reasonable, and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates.

- (a) Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Each of the reserves categories (proved and probable) is divided into developed and undeveloped categories:

- (a) Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate.

These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production but are shut-in and the date of resumption of production is unknown.

- (b) Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves category (proved and probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities, and completion intervals in the pool and their respective development and production status.

- (3) "Gross" reserves are defined as the total remaining recoverable reserves owned, directly and indirectly, by Sure Energy before deduction of any royalties.

"Net" reserves are defined as those accruing, directly and indirectly, to Sure Energy after Crown and freehold royalties have been deducted.

- (4) Sure Energy does not have any heavy oil or non-conventional (including CBM) reserves.
 (5) Unit values are based on net reserve volumes.

Sproule Forecast Pricing Assumptions

Sproule employed the following pricing, exchange rate and inflation rate assumptions in estimating the Corporation's reserve data using forecast prices and costs as of December 31, 2010.

	Exchange Rate	Natural Gas AECO Spot	WTI Crude Oil at Cushing Oklahoma	Light, Sweet Crude Oil (40° API, 0.3%S) Edm. Par
Year	\$US/\$Cdn	\$Cdn/MMbtu	\$US/bbl	\$Cdn/bbl
2011	0.932	4.04	88.40	93.08
2012	0.932	4.66	89.14	93.85
2013	0.932	4.99	88.77	93.43
2014	0.932	6.58	88.88	93.54
2015	0.932	6.69	90.22	94.95
2016	0.932	6.80	91.57	96.38
2017	0.932	6.91	92.94	97.84
2018	0.932	7.02	94.34	99.32
2019	0.932	7.14	95.75	100.81
2020	0.932	7.26	97.19	102.34
Thereafter	0.932	+ 1.5%/yr	+ 1.5%/yr	+ 1.5%/yr

The weighted average realized sales prices for Sure Energy for the year ended December 31, 2010 were \$4.26/Mcf for natural gas, \$78.11/bbl for light and medium oil, and \$59.01/bbl for natural gas liquids.

During the year 2010, Sure Energy increased proved reserves from 1,886.5 MBOE to 3,275.6 MBOE, an increase of 74%. Sure Energy's proved plus probable reserves increased from 3,245.3 MBOE to 4,470.1 MBOE, an increase of 38%. Below is the reconciliation of reserves by category.

**Reconciliation of Gross Reserves
(Forecast Prices and Costs)**

	Light & Medium Oil (Mbbls)			Natural Gas (MMcf)		
	Gross Proved	Gross Probable	Gross Proved Plus Probable	Gross Proved	Gross Probable	Gross Proved Plus Probable
December 31, 2009	630.6	823.1	1,453.7	6,974	2,991	9,965
Extensions	772.2	36.2	808.4	189	(2)	187
Improved Recovery/Infill Locations	617.2	(160.5)	456.7	-	-	-
Technical Revisions	62.6	82.8	145.4	870	(1,185)	(315)
Discoveries	-	-	-	374	86	460
Acquisitions	53.7	67.4	121.1	48	61	109
Dispositions	-	-	-	-	-	-
Economic Factors	(0.3)	(0.2)	(0.5)	(117)	-	(117)
Production	(71.7)	-	(71.7)	(1,550)	-	(1,550)
December 31, 2010	2,064.3	848.8	2,913.1	6,788	1,951	8,739

	NGLs (Mbbls)			BOE (MBOE)		
	Gross Proved	Gross Probable	Gross Proved Plus Probable	Gross Proved	Gross Probable	Gross Proved Plus Probable
December 31, 2009	93.6	37.1	130.7	1,886.5	1,358.7	3,245.3
Extensions	-	-	-	803.7	35.9	839.6
Improved Recovery/Infill Locations	-	-	-	617.2	(160.5)	456.7
Technical Revisions	1.1	(16.3)	(15.2)	208.7	(131.0)	77.7
Discoveries	-	-	-	62.3	14.3	76.6
Acquisitions	-	-	-	61.7	77.6	139.3
Dispositions	-	-	-	-	-	-
Economic Factors	-	(0.4)	(0.4)	(19.8)	(0.6)	(20.4)
Production	(14.6)	-	(14.6)	(344.6)	-	(344.6)
December 31, 2010	80.1	20.4	100.5	3,275.6	1,194.5	4,470.1

Future Development Costs

The table below sets out the development costs deducted in the estimation of future net revenue attributable to proved reserves and proved plus probable reserves. Future capital development costs have not been reduced for estimated Alberta Royalty drilling credits of \$652,000 on proved and \$1,048,000 on proved plus probable reserves.

	Forecast Prices and Costs	
	Proved Reserves	Proved Plus Probable Reserves
	(\$000s)	(\$000s)
2011	11,063	12,678
2012	11,673	12,586
2013	15,780	15,781
2014	-	3,106
Total	38,515	44,150

Sure Energy estimates that its internally generated cash flow will be sufficient to fund the future development costs disclosed above. Sure Energy typically has available three sources of funding to finance its capital expenditure program: (i) internally generated cash flow from operations; (ii) cash position (debt financing available once cash is fully utilized); and (iii) new equity issues, if available on favourable terms. Debt financing is available to Sure Energy at a rate of bank prime plus 1.0 percent on the revolving operating demand loan and 6.25 percent on the secured subordinated term loan facility.

Net Asset Value

The following table represents the net asset value (“NAV”) of Sure Energy as at December 31, 2010 based on proved plus probable reserves (present value discounted at 8%) as evaluated by Sproule, undeveloped land value as determined by Seaton - Jordan & Associates Ltd., seismic value as determined by internal estimates and internal estimates of value for tax pools.

(\$000s)	Proved Plus Probable
Present value of reserves (discounted at 8% before tax)	92,430
Undeveloped lands	8,851
Seismic	1,129
Proceeds from in-the-money stock options	6,940
Working capital deficit	(14,700)
Tax pools (no value assigned)	-
	94,650
NAV per share	1.72
Number of diluted shares as of December 31, 2010	55,104,464

Landholdings

Properties with no attributable reserves of the Corporation were evaluated by Seaton-Jordan & Associates Ltd. as follows:

Area	Reserves		No Attributable Reserves		Total	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Alberta	63,638	26,670	72,032	48,522	135,670	75,192
Saskatchewan	468	468	3,826	3,746	4,294	4,214
	64,106	27,138	75,858	52,269	139,964	79,406

Notes:

- (1) “Gross” refers to the total acres in which Sure Energy has an interest, directly or indirectly.
- (2) “Net” refers to the total acres in which Sure Energy has an interest, directly or indirectly, multiplied by the percentage working interest owned by Sure Energy therein.

Sure Energy has an interest in 16,827 net acres that have 2011 expiry dates.

The Corporation continually reviews its expiring undeveloped land position in conjunction with its capital program when determining the timing of projects. Sure Energy has no material work commitments that would result in an outstanding contingency or liability.

Oil and Gas Wells

The following table sets forth, as at December 31, 2010, the number and status of wells owned by Sure Energy which are producing or which Sure Energy considers to be capable of production:

Area	Producing Wells				Shut-in Wells ⁽¹⁾	
	Crude Oil		Natural Gas		Gross ⁽²⁾	Net ⁽³⁾
	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾		
Alberta	18	11.9	59	24.3	7	4.5
Saskatchewan	1	1.0	-	-	-	-
	19	12.9	59	24.3	7	4.5

Notes:

- (1) "Shut-in" wells means wells which have encountered and are capable of producing crude oil or natural gas but which are not producing due to lack of available transportation facilities, available markets or other reasons. Shut-in wells in which Sure Energy has an interest are located no further than 10 kilometers from existing pipelines. These wells were shut-in in the period from 1994 to 2010.
- (2) "Gross" wells are the total number of wells in which Sure Energy has an interest.
- (3) "Net" wells are the aggregate of the numbers obtained by multiplying each gross well by Sure Energy's percentage working interest therein.

Drilling Activity

The following table summarizes drilling results of Sure Energy's oil and natural gas properties for the year ended December 31, 2010.

	Exploration		Development		Total	
	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾
Oil	-	-	9	7.8	9	7.8
Gas	1	1.0	1	1.0	2	2.0
Service	-	-	-	-	-	-
Dry and Abandoned ⁽¹⁾	2	2.0	-	-	2	2.0
Total	3	3.0	10	8.8	13	11.8

Notes:

- (1) Wells are classified according to the designation assigned to them for regulatory purposes.
- (2) "Gross" refers to the total number of wells in which Sure Energy has an interest.
- (3) "Net" refers to the total number of wells in which Sure Energy has an interest, multiplied by the percentage working interest owned by Sure Energy therein.

For the year ended December 31, 2010, Sure Energy participated in 13 gross wells (11.8 net).

Capital Expenditures

The following table summarizes capital expenditures (including capitalized general and administrative expenses) related to the Corporation's activities for the year ended December 31, 2010:

	(\$000s)
Property acquisition costs	
Undeveloped properties (land)	837
Property acquisitions	155
Exploration costs	2,046
Development costs	14,623
Other	166
	17,827

Finding and Development and Acquisition Costs⁽¹⁾

	2010		2009		2008-2010	
	Total Proved	Total Proved + Probable	Total Proved	Total Proved + Probable	Total Proved	Total Proved + Probable
Capital (\$000's)						
Exploration and Development Expenditures	17,673	17,673	4,374	4,374	30,707	30,707
Change in E&D Future Development Costs ⁽²⁾	26,311	21,246	(12)	5,739	25,323	25,923
Acquisitions	155	155	7,024	7,024	12,172	12,172
Acquisition Future Development Costs ⁽²⁾	914	1,827	10,300	13,617	11,229	15,459
Reserves (MBOE)⁽³⁾						
Exploration and Development Additions	61.7	139.3	916.3	1,344.5	1,138	1,703
Acquisition Additions						
FD&A Costs – Proved (\$/BOE)⁽⁴⁾						
Finding and Development	29.65	28.34	44.06	14.31	31.32	22.75
Acquisitions	17.33	14.23	18.91	15.35	20.56	16.22
Total	29.16	27.05	21.36	14.99	27.13	20.10

Notes:

- (1) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.
- (2) Future development costs are net of Alberta Drilling Credits to be earned on future drilling totaling \$0 (nil) on proved plus probable reserves report as of December 31, 2010 and forecast as \$652,000 on proved and \$1,048,000 on proved plus probable reserves report as of December 31, 2009.
- (3) Technical and economic revisions are not included.
- (4) Acquisitions are a significant portion of the activity of Sure Energy and the aggregate finding development and acquisition (FD&A) cost of reserves presents a meaningful representation of Sure Energy's cost of reserves.

Undeveloped Reserves

The following table discloses the Proved and Probable Undeveloped Reserves first attributed to a given year.

	Light and Medium Oil		Natural Gas	
	First Attributed Gross Mbbl	Booked Gross Mbbl	First Attributed Gross MMcf	Booked Gross MMcf
Proved Undeveloped				
Prior to December 31, 2008	-	-	-	-
December 31, 2008	-	-	34	34
December 31, 2009	531.0	531.0	-	34
December 31, 2010	1,066.8	1,576.4	41	41
Probable Undeveloped				
Prior to December 31, 2008	-	-	-	-
December 31, 2008	-	-	13	13
December 31, 2009	783.3	783.3	-	13
December 31, 2010	316.9	677.7	58	58

⁽¹⁾ Values in some cases do not agree with those previously reported due to a change in interpretation of probable undeveloped assignments.

Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (i.e. compared to the cost of drilling a well) is required to render them capable of production. Timing for development of undeveloped reserves effective December 31, 2010, is during 2011 to 2014.

Undeveloped reserves as of December 31, 2010 include additional reserves recognized for undeveloped proved locations of 44 gross (32.4 net) locations which were assigned proved reserves. All of these locations, except one were in Redwater. Undeveloped proved plus probable reserves as of December 31, 2010 included probable additional reserves for undeveloped proved locations and 6 (4.8 net) locations which were assigned probable reserves only. These probable only locations were all in Redwater, except one.

Additional Information Concerning Abandonment and Reclamation Costs

Sure Energy prepares a detailed estimate of abandonment and site reclamation costs for all wells, pipelines, facilities and surface leases. The Corporation expects to incur such costs for 116.8 net wells to date. The Sproule Report includes well abandonment costs of \$3.1 million undiscounted (\$795,000 discounted at 10%) for the total proved plus probable reserves category. Such costs are included in the Sproule Report as deductions in arriving at future net revenue. This estimate does not include expected abandonment and reclamation costs of \$1.83 million undiscounted (\$0.8 million discounted at 10%) for reclamation of surface leases, abandonment costs of shut-in wells, facilities, and pipelines as estimated by management of Sure Energy. The Corporation expects to pay \$0.3 million of the undiscounted costs over the next 3 years.

Forward Contracts

Although Sure Energy has no set policy, management of Sure Energy will use financial instruments to reduce corporate risk in certain situations. Risk management policies will be developed over time as Sure Energy builds a production base to support sustainable growth. Management will further develop a strategy over time to hedge existing liquids and natural gas production to help protect a base development capital program, guarantee a return or to facilitate financings when concluding a business transaction. Currently, Sure Energy has no hedging commitments due to the nature of its current asset portfolio. In addition, Sure Energy is not a party to or bound by any transportation agreements.

Tax Horizon

The Corporation does not expect to pay current income tax for the 2011 fiscal year. Depending on production, commodity prices and capital spending levels, the Corporation may begin paying current income taxes in 2012.

Production Estimates

The following table discloses, by product type, the total volume of production estimated by Sproule for 2011 in the estimates of future net revenue from Proved and from Probable reserves disclosed under "Petroleum and Natural Gas Reserves".

	Light and Medium Oil (Mbbbls)	Natural Gas (MMcf)	NGLs (Mbbbls)	BOE (MBOE)
Proved				
Tweedie	-	267.9	-	44.7
Chinook	-	353.7	1.8	60.8
Peace River	4.1	379.4	4.7	72.0
Redwater	164.8	58.7	-	174.6
Others	46.6	157.3	4.8	77.6
Estimated Total Production	<u>215.5</u>	<u>1,217.0</u>	<u>11.3</u>	<u>429.6</u>
	Light and Medium Oil (Mbbbls)	Natural Gas (MMcf)	NGLs (Mbbbls)	BOE (MBOE)
Probable				
Tweedie	-	3.7	-	0.6
Chinook	-	25.4	0.1	4.4
Peace River	0.2	13.6	0.1	2.6
Redwater	27.0	22.7	0	30.8
Others	16.2	1.4	0.1	16.5
Estimated Total Production	<u>43.4</u>	<u>66.8</u>	<u>0.3</u>	<u>54.8</u>

Production History

The following table discloses, on a quarterly basis for the year ended December 31, 2010, the prices received, royalties paid and production costs incurred for Sure Energy's share of average daily gross production volume on a per unit of volume basis for each product type.

	Quarter Ended 2010			
	Dec. 31	Sept. 30	June 30	Mar. 31
Average Gross Daily Production				
Light and Medium Crude Oil (bbls/d)	578	64	68	72
Gas (Mcf/d)	4,071	3,972	3,982	4,978
NGLs (bbls/d)	41	36	39	44
Combined (BOE/d)	1,297	762	771	945
Average Price Received				
Light and Medium Crude Oil (\$/bbl)	78.34	80.05	74.47	77.92
Gas (\$/Mcf)	3.82	3.73	4.11	5.17
NGLs (bbls/d)	57.38	53.33	60.67	63.89
Combined (\$/BOE)	48.70	28.68	30.88	36.11
Royalties Paid				
Light and Medium Crude Oil (\$/bbl)	4.71	8.00	12.39	12.58
Gas (\$/Mcf)	(0.04)	0.17	(0.23)	0.76
NGLs (bbls/d)	30.13	19.52	25.55	18.95
Combined (\$/BOE)	2.93	2.50	1.22	5.84
Operating Expenses & Transportation				
Light and Medium Crude Oil (\$/bbl)	12.71	13.24	14.42	11.97
Gas (\$/Mcf)	1.72	2.18	1.86	1.92
NGLs (bbls/d)	11.26	13.92	12.02	12.39
Combined (\$/BOE)	11.41	13.13	11.49	11.62
Netback Received				
Light and Medium Crude Oil (\$/bbl)	60.92	58.81	47.66	53.37
Gas (\$/Mcf)	2.14	1.38	2.48	2.49
NGLs (bbls/d)	15.99	19.83	23.10	32.55
Combined (\$/BOE)	34.36	7.93	18.17	18.65

	Production Volume by Field			
	Year Ended December 31, 2010			
	Gas	Light & Medium Oil	NGLs	Total
	Mcf/d	Bbls/d	Bbls/d	BOE/d
Peace River	1,470	15	16	276
Plains	125	121	-	142
Saskatchewan	-	54	-	54
Southern Plains	1,312	-	8	227
Tweedie	858	-	-	143
West Central	483	6	16	102
Total	4,248	196	40	944

Sure Energy's average production for the year ended December 31, 2010 was 25% light quality crude oil and natural gas liquids and 75% natural gas.

For the year ended December 31, 2010, approximately 57% of Sure Energy's gross revenue was derived from oil and natural gas liquids production and 43% was derived from natural gas production.

INDUSTRY CONDITIONS

Canadian Government Regulation

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. Outlined below are some of the more significant aspects of the relevant legislation and regulations. It is not expected that any of such controls and regulations will affect the operations of the Corporation in a manner materially different than they will affect other oil and gas companies of similar size.

Pricing and Marketing – Oil

Producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Such price depends on oil quality, price of competing oils, distance to market and the value of refined products. Oil exporters are also entitled to enter into export contracts and export oil provided that, for contracts which do not exceed one year in the case of light crude oil and two years in the case of heavy crude oil, an export order is obtained from the National Energy Board (“NEB”) prior to the export. Any export pursuant to a contract of longer duration must be made pursuant to an NEB export license and Governor in Council approval.

Pricing and Marketing – Natural Gas

The price of natural gas sold in intra-provincial and inter-provincial trade is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the government of Canada. The price received by the Corporation depends, in part, on the prices of competing natural gas and other substitute fuels, access to downstream transportation, distance to markets, length of the contract term, weather conditions, the supply and demand balance and other contractual terms. Exporters are free to negotiate prices with purchasers, provided that the export contracts must continue to meet certain criteria prescribed by the NEB and the government of Canada. As is the case with oil, natural gas exports for a term of less than two years must be made pursuant to an NEB order and in the case of exports for a longer duration, pursuant to an NEB license and Governor in Council approval.

The government of Alberta also regulates the volume of natural gas which may be removed from the province for consumption elsewhere.

The lack of firm pipeline capacity continues to limit the ability to produce and market natural gas production although pipeline expansions are ongoing. In addition, the pro-rationing of capacity on the interprovincial pipeline systems continues to limit oil exports.

The North American Free Trade Agreement

On January 1, 1994 the North American Free Trade Agreement (“NAFTA”) among the governments of Canada, the United States and Mexico became effective. NAFTA carries forward most of the material energy terms contained in the Canada-U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports to the U.S or Mexico will be allowed provided that the restrictions are otherwise justified under certain provisions of the General Agreement on Tariffs and Trade and then only if any export restrictions do not: (i) reduce the proportion of the energy resource exported relative to the total supply of energy resource (based upon the proportion prevailing in the most recent 36 months); (ii) impose an export price higher than the domestic price; or (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The agreement also contemplates clearer disciplines on regulators to avoid discriminatory actions and to minimize disruption of contractual arrangements.

Provincial Royalties and Incentives

General

In addition to federal regulation, each province has legislation and regulations that govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of oil, natural gas, natural gas liquids and sulphur production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee. These royalties are not eligible for incentive programs sponsored by various governments as discussed below. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production, and the rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, discovery date, method of recovery and the type or quality of the petroleum product produced. In most cases, deductions from Crown royalties are allowed; these amounts relate to the cost of delivering production to market. Other royalties and royalty-like interests are from time to time carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interest or net carried interests.

From time to time the governments of Canada and the western Canadian provinces have established incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced recovery projects, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry. Royalty holidays and reductions would reduce the amount of Crown royalties paid by oil and natural gas producers to the provincial governments and would increase the net income and funds from operations of such producers.

Alberta

In Alberta, companies are granted the right to explore, produce and develop petroleum and natural gas resources in exchange for royalties, bonus bid payments and rents. Currently, the amount of oil royalties that are payable is influenced by the oil production, density of the oil and the vintage of the oil. Originally, the vintage classified oil in "new oil" and "old oil" depending on when the oil pools were discovered. If discovered prior to March 31, 1974 it is considered "old oil", if discovered after March 31, 1974 and before September 1, 1992, it is considered "new oil". The Alberta government introduced in 1992 a Third Tier Royalty with a base rate of 10% and a rate cap of 25% for oil pools discovered after September 1, 1992. The new oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 30%. The old oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 35%.

The royalty reserved to the Crown in respect of natural gas production, subject to various incentives, is between 15% and 30%, in the case of new natural gas, and between 15% and 35% in the case of old natural gas, depending upon a prescribed or corporate average reference price. Natural gas produced from qualifying intervals in eligible gas wells spudded or deepened to a depth below 2,500 metres is also subject to a royalty exemption, the amount of which depends on the depth of the well.

Regulations made pursuant to the Mines and Minerals Act (Alberta) provided various incentives for exploring and developing oil reserves in Alberta. However, the Alberta Government announced in August of 2006 that four royalty programs were to be amended, a new program was to be introduced and the Alberta Royalty Tax Credit Program (ARTC) was to be eliminated, effective January 1, 2007. The programs affected by this announcement are: (i) Deep Gas Royalty Holiday; (ii) Low Productivity Well Royalty Reduction; (iii) Reactivated Well Royalty Exemption; and (iv) Horizontal Re-Entry Royalty Reduction.

Alberta Royalty Changes

On March 11, 2010, the Government of Alberta announced that the following will become permanent features of the royalty structure, effective with the January 2011 production month:

- Permanent 5% front-end royalty
 - The current incentive program rate of 5% on new natural gas and conventional oil wells will become a permanent feature of the royalty system, with the current time and volume limits.

- Lower Maximum Rates
 - The maximum royalty rate for conventional oil will be reduced at higher price levels from 50% to 40% to provide better risk-reward balance to investors.
 - Recognizing the fundamental changes to the North American supply/demand balance and increased competition from other jurisdictions, the maximum royalty rate for conventional and unconventional natural gas will be reduced at higher price levels from 50% to 36%.
- Implementation/Transition
 - All royalty curves will be finalized and announced by May 31, 2010 and be effective for all production January 1, 2011.
 - The transitional royalty framework for oil and gas introduced in November 2008 will continue until its original announced expiration on December 31, 2013. Effective January 1, 2011, no new wells will be allowed to select the transitional royalty rates. Wells that have already selected the transitional royalty rates will have the option to stay with those rates or switch to the new rates effective January 1, 2011.
 - The drilling royalty credit will continue until expiry on March 31, 2011 and all other programs will continue as designed.

On May 27, 2010, the Government of Alberta announced the royalty curve revisions including initiatives to stimulate new energy investments and new technology. As part of this initiative, a front end royalty of 5% for each of new shale gas, coalbed methane, horizontal gas and horizontal oil well was put in place and is subject to certain time and volume limits for each type of well. The shale gas and coalbed methane royalty rates apply to well events that start producing gas exclusively from shale or coal zones, as applicable, on or after May 2010. The horizontal gas and horizontal oil well royalty rates apply to wells drilled or spud on or after May 2010.

The new well royalty rate (applicable to wells classified as an “oil”, “gas”, or “crude bitumen” well when it commences or recommences production on or after April 2009) became a permanent feature of the royalty system effective May 2010. The maximum and minimum royalty rates in Alberta for conventional oil are 40% and 0% respectively. The conventional oil quantity component was kept the same as the existing royalty framework and the price component for natural gas was changed moderate the increase in the rate at prices higher than \$535/m3. The maximum and minimum royalty rates in Alberta for natural gas are 36% and 5% respectively with the royalty rate being the sum of a price component and the quantity component. The natural gas quantity component was kept the same as the existing royalty framework and the price component for natural gas was changed moderate the increase in the rate at prices higher than \$5.25 per GJ.

According to details released to date, all of Sure Energy’s Alberta drilling will be eligible under these incentives.

Saskatchewan Royalty Changes

Effective October 1, 2002, the government of Saskatchewan revised its fiscal regime for the oil and gas industry by introducing a number of major changes affecting the Crown royalty and freehold production tax structures and the Corporation Capital Tax Surcharge rate applicable to production from new oil and gas exploration and development activity. The changes were implemented to stimulate increased exploration and development activity in the province.

In Saskatchewan, the amount payable as a royalty in respect of oil depends on the vintage of the oil, the type of oil, the quantity of oil produced in a month, and the value of the oil. For Crown royalty and freehold production tax purposes, crude oil is considered “heavy oil”, “southwest designated oil”, or “non heavy oil other than southwest designated oil”. The conventional royalty and production tax classifications (“fourth tier oil” introduced October 1, 2002, “third tier oil”, “new oil” and “old oil”) of oil production are applicable to each of the three crude oil types. The Crown royalty and freehold production tax structure for crude oil is price sensitive and varies between the base royalty rates of 5% for all “fourth tier oil” to 20% for “old oil”. Marginal royalty rates are 30% for all “fourth tier oil” to 45% for “old oil”.

The amount payable as a royalty in respect of natural gas is determined by a sliding scale based on a reference price (which is the greater of the amount obtained by the producer and a prescribed minimum price), the quantity produced in a given month,

the type of natural gas, and the vintage of the natural gas. As an incentive for the production and marketing of natural gas which may have been flared, the royalty rate on natural gas produced in association with oil is less than on non associated natural gas. The royalty and production tax classifications of gas production are “fourth tier gas” introduced October 1, 2002, “third tier gas”, “new gas”, and “old gas”. The Crown royalty and freehold production tax for gas is price sensitive and varies between the base royalty rate of 5% for “fourth tier gas” and 20% for “old gas”. The marginal royalty rates are between 30% for “fourth tier gas” and 45% for “old gas”.

On October 1, 2002, the following changes were made to the royalty and tax regime in Saskatchewan:

A new Crown royalty and freehold production tax regime applicable to associated natural gas (gas produced from oil wells) that is gathered for use or sale and is produced from: (a) oil wells with a finished drilling date on or after October 1, 2002, and (b) oil wells with a finished drilling date prior to October 1, 2002, where the individual oil well has a gas oil production ratio in any month of more than 3,500 cubic metres of gas for every cubic metre of oil. The royalty/tax will be payable on associated natural gas produced from an oil well that exceeds approximately 65,000 cubic metres in a month. The associated natural gas royalty/tax regime will apply to gas produced from oil wells affected by concurrent production approvals after October 1, 2002 if the oil wells meet (a) or (b) above.

A modified system of incentive volumes and maximum royalty/tax rates applicable to the initial production from oil wells and gas wells with a finished drilling date on or after October 1, 2002, was introduced. The incentive volumes are applicable to various well types and are subject to a maximum royalty rate of 2.5% and a freehold production tax rate of zero per cent.

The elimination of the re entry and short section horizontal oil well royalty/tax categories. All horizontal oil wells with a finished drilling date on or after October 1, 2002, will receive the “fourth tier” royalty/ tax rates and new incentive volumes.

A horizontal oil well, with a finished drilling date on or after October 1, 2002, that is a non deep oil well qualifies for a 6,000 cubic metre incentive volume.

A horizontal oil well, with a finished drilling date on or after October 1, 2002, that is a deep oil well qualifies for a 16,000 cubic metre incentive volume.

In 1975, the Government of Saskatchewan introduced a Royalty Tax Rebate (“RTR”) as a response to the Government of Canada disallowing Crown royalties and similar taxes as a deductible business expense for income tax purposes. As of January 1, 2007, the remaining balance of any unused RTR will be limited in its carry forward to seven years since the Government of Canada’s initiative to reintroduce the full deduction of provincial resource royalties from federal and provincial taxable income. Saskatchewan’s RTR will be wound down as a result of the Government of Canada’s plan to reintroduce full deductibility of provincial resource royalties for corporate income tax purposes.

On June 19, 2007, the Government of Saskatchewan introduced the Orphan Well and Facility Liability Management Program pursuant to the amendment of the Oil and Gas Conservation Act and the Oil and Gas Conservation Regulations, 1985. The program includes a security deposit, which has two purposes: (i) preventing any person with insufficient financial capability from acquiring oil and gas wells or facilities; and (ii) in the case of a bankrupt company, the funds cover the decommissioning and reclaiming of orphan properties. An additional change introduced is the mandatory licensing of all upstream oil and gas facilities in Saskatchewan.

Environmental Protection Requirements

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to evolving international conventions and national, provincial, and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases, discharges, or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Certain environmental protection legislation may subject the Corporation to statutory strict liability in the event of an accidental spill or discharge from a licensed facility, meaning that fault need not be established by claimants affected by such a spill or discharge.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability, and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas, or other pollutants into the air, soil or water may give rise to liabilities to third parties and may require the Corporation to incur costs to remedy such discharge in the event that they are not covered by the Corporation's insurance. Although the Corporation maintains insurance to industry standards, which in part covers liabilities associated with discharges, it is by no means assured that such insurance will cover all possible events, foreseeable or otherwise, or whether changing regulatory requirements or emerging jurisprudence may render such insurance invalid. Furthermore, the Corporation expects incremental future costs associated with compliance with increasingly complex environmental protection requirements, some of which may require the installation of emissions monitoring and measuring devices, and the verification and reporting of emissions data.

The oil and gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of material fines and penalties.

Environmental legislation in the Province of Alberta has been consolidated into the *Environmental Protection and Enhancement Act* (the "EPEA") and the *Oil and Gas Conservation Act* ("OGCA"). The EPEA and the OGCA impose strict environmental standards with respect to releases of effluents and emissions, require stringent compliance, reporting and monitoring obligations, and impose significant penalties for non-compliance. The Corporation believes it is in material compliance with environmental legislation in the jurisdictions in which it operates at this time. The Corporation's practice is to do all that it reasonably can to ensure that it remains in material compliance with environmental protection legislation. The Corporation also believes that it is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue. The Corporation is committed to meeting its responsibilities to protect the environment wherever it operates and operates as required to ensure compliance with environmental legislation. The Corporation anticipates increased capital and operating expenditures as a result of increasingly stringent laws relating to the protection of the environment. No assurance can be given however that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities, or otherwise adversely affect the Corporation's financial condition, capital expenditures, results of operations, competitive position or prospects.

Kyoto Protocol and Domestic GHG Regulations

The Corporation's exploration and production facilities and other operations and activities will emit a small amount greenhouse gasses ("GHG") which may subject the Corporation to existing and proposed legislation regulating emissions of GHGs. Canada is a signatory to the United Nations Framework Convention on Climate Change and in 2002 ratified the Kyoto Protocol thereunder. The Kyoto Protocol requires Canada to reduce total GHG emissions nationally by 6% below Canada's 1990 levels of GHG emissions. This is an absolute GHG emissions reduction target. Although the policy announcements of the Government of Canada have brought into question domestic compliance with and enforcement of the Kyoto Protocol requirements, Bill C-288, the *Kyoto Implementation Act*, was passed by the House of Commons on February 14, 2007 intending that Canada meet its Kyoto Protocol GHG reduction requirements, and remains in force today.

In April of 2007 the Government of Canada released a national GHG (and other air emissions) reduction plan titled *Turning the Corner* accompanied by a proposed regulatory framework (the "Regulatory Framework") containing, among other things, near-term intensity based targets and long-term absolute targets for industrial GHG emissions reductions. On March 10, 2008 the targets in the Regulatory Framework were confirmed and additional details of pending federal GHG regulations, including the details of the tradable compliance mechanisms and the establishment of a domestic carbon trading market, were announced. The Regulatory Framework indicates that the federal GHG regime will apply to upstream and oil and gas emitters likely including the Corporation. The Regulatory Framework requires an 18% intensity based reduction (from 2006 levels) by the end of 2010 for existing facilities, and annual 2% intensity based reductions thereafter. For newer facilities built between 2004 and 2011, the Regulatory Framework mandates clean fuel adjustments to a newer facility's baseline GHG emissions from which the annual 2% improvements (starting in its fourth year of operations) must be made. Facilities commencing operations in 2012 or later will be subject to unique standards by 2018 based in part on the integration of CCS or other green technology at such new facilities.

In addition to the intensity based reduction targets, the Regulatory Framework also proposes a national long-term objective of absolute GHG reductions (from 2006 levels) of 20% by 2020, and by 60-70% by 2050, but does not contain details on how the absolute reductions will be achieved.

On July 1, 2007 the Specified Gas Emitters Regulation came into force under Alberta's Climate Change and Emissions Management Amendment Act requiring Alberta facilities which emit more than 100,000 tonnes of GHGs annually to reduce their GHG emissions intensity by 12% (from average 2003-2005 levels).

The Alberta Government also published a new climate change action plan in January of 2008 wherein it set an objective to deliver a 50% reduction in GHG emissions by 2050 compared to business as usual, by employing: (i) mandatory carbon capture and storage ("CCS") for certain facilities and development across all industrial sectors; (ii) energy efficiency and conservation; and (iii) research and investment in clean or green energy technologies, including carbon separation technologies to assist CCS.

Climate change is an issue that is increasingly subject to government regulation. Although Canada has ratified the Kyoto Protocol and despite legislation to this end introduced by opposition parties in Parliament, it remains uncertain whether the targets in the Kyoto Protocol will be enforced in Canada. Alberta, British Columbia and the federal Government have all introduced climate change action plans that include various means of achieving emissions or emissions intensity reductions, which may include direct reductions, emissions trading, carbon capture and storage, technology fund contributions, taxes on greenhouse gas emissions and credit for early action. Coordination between these plans has not yet been developed and remains a source of uncertainty. Given the evolving regulatory schemes related to climate change and the control of greenhouse gases and resulting requirements, it is not currently possible to predict the final form these requirements will take or the impact on Sure Energy and its operations and financial condition at this time.

MARKET FOR SECURITIES

Sure Energy's common shares were listed for trading on the Toronto Stock Exchange ("TSX") on August 15, 2006 and trade under the symbol "SHR". The following table sets forth the high and low closing trading prices and the aggregate volume of trading of the common shares as reported by the TSX for the periods indicated.

	High (\$)	Low (\$)	Volume
2010			
January	0.74	0.57	693,503
February	0.72	0.61	531,816
March	0.99	0.73	1,590,804
April	1.20	0.87	1,770,730
May	1.08	0.86	1,976,676
June	0.93	0.80	177,833
July	0.80	0.66	838,112
August	1.06	0.75	2,833,017
September	1.37	1.00	1,855,918
October	1.99	1.32	1,409,468
November	2.00	1.66	1,349,215
December	1.95	1.50	4,676,594
2011			
January	1.78	1.60	676,990
February	1.88	1.61	2,745,255
March (1 – 7)	1.78	1.67	468,518

DIRECTORS AND OFFICERS

The following table sets forth the name, province of residence and principal occupation for at least the last five years of each of the directors of Sure Energy. The term of office of each director will expire at the end of the next annual meeting of shareholders of Sure Energy.

Name and Residence	Principal Occupation During the Past Five Years
Jeffrey S. Boyce Alberta, Canada	Chief Executive Officer and Chairman of Sure Energy Inc. since September 28, 2010. Prior thereto President and Chief Executive Officer and Chairman of Sure Energy Inc. since August 14, 2006. Prior thereto, President and Chief Executive Officer of Clear Energy Inc. since December 9, 2002.
Larry J. Macdonald ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾ Alberta, Canada	Chief Executive Officer of Point Energy Ltd., an oil and gas Corporation, from September 2003 to present. Prior thereto Chairman and Chief Executive Officer, Pointwest Energy Inc., an oil and gas Corporation, from 2000 to 2003.
W. Peter Comber ⁽¹⁾⁽³⁾⁽⁴⁾ Ontario, Canada	Since 1999, Managing Director, Barrantagh Investment Management Inc., an investment management Corporation.
Thomas P. Stan ⁽¹⁾⁽²⁾⁽⁴⁾ Alberta, Canada	Managing Director, Desjardins Securities, from January, 2010 to present. Prior thereto Managing Director with Blackmont Capital from June, 2009 to December, 2009. President and Chief Executive Officer of Canadian Phoenix Resources Corp. from July, 2008 to May, 2009. President & Chief Executive Officer of Sound Energy Trust from August, 2006 to September, 2007. Mr. Stan was the President, Chief Executive Officer and Director of NAV Energy Trust from December, 2003 to August, 2006.

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Governance and Human Resources Committee.
- (3) Member of the Environment, Health and Safety Committee.
- (4) Member of the Reserves Committee.

The following table sets forth all of the current officers of Sure Energy, their current positions with Sure Energy, and their principal occupation for the last five years.

Name and Residence	Position	Principal Occupation During the Past Five Years
Jeffrey S. Boyce Alberta, Canada	Chief Executive Officer, Chairman and Director	See above.
Lance L. Wirth Alberta, Canada	Vice President, Finance and Chief Financial Officer	Vice President, Finance, and Chief Financial Officer of Sure Energy since December 1, 2006. Prior thereto Manager, Financial Reporting for Canetic Resources Trust from April 2003 to November 30, 2006.
Christopher M. Baker Alberta, Canada	President, Chief Operating Officer and Vice-President, Exploration	President, Chief Operating Office and Vice President, Exploration since September 28, 2010. Prior thereto Vice President, Exploration of Sure Energy since August 14, 2006. Prior thereto Vice President, Exploration of Clear Energy from December 9, 2002 to August 13, 2006.
C. Tom Banks Alberta, Canada	Vice-President, Engineering	Vice President, Engineering of Sure Energy since August 14, 2006. Prior thereto Vice President, Engineering and Operations of Clear Energy from December 9, 2002 to August 13, 2006.

Name and Residence	Position	Principal Occupation During the Past Five Years
Robert J. Sheedy Alberta, Canada	Vice-President, Land	Vice President, Land of Sure Energy since August 14, 2006. Prior thereto Vice President, Land of Clear Energy Inc. from January 24, 2005 to August 13, 2006.
Don Almond Alberta, Canada	Vice-President, Production	Vice President, Production since December 1, 2010. Prior thereto Vice President, Production of Severo Energy Corp. since December 1, 2006. Prior thereto President, Escalade Energy Inc. from June 2004 to November 2006.
Daniel G. Kolibar Alberta, Canada	Corporate Secretary	Partner with Borden Ladner Gervais LLP, Barristers and Solicitors.

As of March 8, 2011, the directors and officers of the Corporation, as a group, owned directly or indirectly 10,988,387 common shares of the Corporation or approximately 22.7% of the issued and outstanding common shares. The information as to the common shares not being within the knowledge of the Corporation, has been furnished by the respective directors and officers of the Corporation individually.

AUDIT COMMITTEE MATTERS

Audit Committee Charter

Sure Energy has established an audit committee (the "Audit Committee") to assist the Board of Directors in carrying out its oversight responsibilities with respect to financial reporting, internal controls and the external audit process of the Corporation. The Audit Committee Terms of Reference are set out in Appendix C to this Annual Information Form.

Composition of the Audit Committee

The following table sets forth the name of each current member of the Audit Committee, whether such member is independent, whether such member is financially literate and the relevant education and experience of such member.

Name	Independent	Financially Literate	Relevant Education and Experience
W. Peter Comber (Chair)	Yes	Yes	Mr. Comber holds a Bachelor of Economics from the University of Toronto, an MBA from York University and is a Chartered Accountant. As a Chartered Accountant, Mr. Comber attained experience in preparing, auditing, analyzing and evaluating financial statements. Mr. Comber has an understanding of the accounting principles used by Sure Energy as well as the implications of those accounting principles on Sure Energy's financial results. Mr. Comber has also obtained significant financial experience and exposure to accounting and financial issues as the Managing Director of Barrantagh Investment Management Inc., an investment counseling Corporation, as the President of WP Comber Associates, a financial advisory firm, and as a director and audit committee member of other public oil and gas companies.

Name	Independent	Financially Literate	Relevant Education and Experience
Larry J. Macdonald	Yes	Yes	Mr. Macdonald holds a Bachelor of Science in Geology from the University of Alberta. Mr. Macdonald has obtained financial experience and exposure to accounting and financial issues in his previous roles as Chairman and CEO of Pointwest Energy Inc., a private oil and gas development Corporation, President of Anderson Exploration Ltd., and as a director of Creststreet Financial Management Ltd.
Thomas P. Stan	Yes	Yes	Mr. Stan was the President and Chief Executive Officer of Sound Energy Trust, a TSX-listed oil and natural gas investment trust until September 2007 when the trust was acquired by Advantage Energy Income Fund. He was formerly the Vice President and Chief Financial Officer of Navigo Energy Inc., a public oil and gas corporation. He holds a Bachelor of Commerce degree from the University of Saskatchewan.

External Audit Service Fees

For the year ended December 31, 2010 Deloitte & Touche LLP received the following fees from the Corporation:

Item	2010	2009
Audit fees ⁽¹⁾	\$ 60,420	\$ 62,365
Audit related fees ⁽²⁾	\$ 43,249	\$ 59,954

Notes:

- (1) Audit fees consisted of professional services rendered by Deloitte & Touche LLP for the audit of the Corporation's financial statements.
- (2) Audit related fees are for assurance and related services reasonably related to the performance of the audit or review of the annual financial statements and are not reported under the heading "Audit Fees".

CONFLICTS OF INTEREST

There are potential conflicts of interest to which the directors and officers of Sure Energy will be subject in connection with the operations of Sure Energy. In particular, certain of the directors and officers of Sure Energy are involved in managerial or director positions with other oil and gas companies whose operations may, from time to time, be in direct competition with those of Sure Energy or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of Sure Energy. See "*Directors and Officers*". Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

DESCRIPTION OF SHARE CAPITAL

The authorized capital of Sure Energy consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series, of which, as at December 31, 2010 48,431,130 common shares were issued and outstanding. Sure Energy has also reserved a total of 10% of the common shares outstanding for issuance upon the exercise of outstanding stock options granted pursuant to its Stock Option Plan, 2,880,000 common shares for issuance upon the exercise of performance incentive rights and 2,500,000 common shares for issuance upon the exercise of warrants. The following is a summary of the rights, privileges, restrictions and conditions attaching to the common shares, the preferred shares, the performance incentive rights and the stock options.

Common Shares

Sure Energy is authorized to issue an unlimited number of common shares. The common shares rank junior to the preferred shares. Holders of common shares are entitled to one vote per share at meetings of shareholders of Sure Energy, to receive dividends if, as and when declared by the board of directors of Sure Energy and to receive pro rata the remaining property and assets of Sure Energy upon its dissolution or winding-up, subject to the rights of shares having priority over the common shares.

As of March 8, 2011, 48,528,630 common shares were outstanding.

Preferred Shares

The preferred shares are issuable in series and will have such rights, restrictions, conditions and limitations as the board of directors of Sure Energy may from time to time determine. The preferred shares shall rank senior to the common shares with respect to the payment of dividends or distribution of assets or return of capital of Sure Energy in the event of a dissolution, liquidation or winding up of Sure Energy. No preferred shares are presently issued and outstanding.

Performance Incentive Rights

On August 14, 2006, the Corporation completed a private placement of 5,000,000 units of Sure Energy at a price of \$1.00 per unit. Each unit consisted of one common share and one performance incentive right ("PIR"). The PIRs have a seven year term and will be exercisable by the holder only during the period that the holder is a director, officer, employee or service provider of Sure Energy. The PIRs did not vest for a period of one year following the date of grant and thereafter vest as follows: (i) 50% vesting was to occur once the 21 day weighted average trading price of the Sure Energy common shares on the Toronto Stock Exchange or such other stock exchange on which the Sure Energy common shares are listed is \$1.25; and (ii) the balance will vest once the 21 day weighted average trading price of the Sure Energy common shares is \$1.50. On August 14, 2007, half the PIRs vested as the 21 day weighted average trading price exceeded \$1.25. On October 27, 2010, the remaining PIR's vested as a result of the preceding 21 day weighted average trading price exceeding \$1.50. As of March 8, 2011, 2,850,000 PIRs were outstanding.

Stock Options

The Corporation created a Stock Option Plan on August 10, 2006 (the "Plan") authorizing the grant of options to designated participants (being directors, officers, employees or service providers of the Corporation). The maximum number of common shares issuable on exercise of options outstanding at any time shall be limited to 10% of the issued and outstanding common shares from time to time.

Options granted pursuant to the Plan have a term not to exceed ten years and vest in such manner as determined by the board of directors of Sure Energy. The exercise price of options granted pursuant to the Plan is determined by the board of directors of Sure Energy at the time of the grant and may not be granted having an exercise price less than the closing price of the common shares on the TSX (or other stock exchange on which the common shares may be listed) on the trading day immediately preceding the date of grant. Options granted under the Plan are generally not assignable except to certain permitted assigns listed in the Plan. The number of common shares issuable pursuant to options granted under the Plan or any other stock compensation arrangements of Sure Energy: (i) which may be issued to insiders may not exceed 10% of the outstanding common shares; and (ii) which may be issued to insiders within a one year period may not exceed 10% of the outstanding common shares. The Plan also provides that no options shall be granted to any director of Sure Energy who is not also an officer of Sure Energy if such grant could result, at any time, in the total number of common shares issuable to all directors of Sure Energy who are not also officers of Sure Energy pursuant to Options exceeding 1% of the issued and outstanding common shares.

The purpose of the Plan is to provide an incentive to the officers, employees, directors and certain consultants of the Corporation or any of its subsidiaries to achieve the longer term objectives of the Corporation, to give suitable recognition of the ability and industry of such persons who contribute materially to the success of the Corporation and to attract and retain persons of experience and ability, by providing them with the opportunity to acquire an increased proprietary interest in the Corporation.

As of March 8, 2011, 3,730,834 options were outstanding.

Warrants

On December 20, 2010 warrants to purchase 2.5 million common shares at a price of \$1.80 per share were issued to the note holders of the \$20 million secured subordinated term loan facility. The warrants expire in 37 months.

DIVIDENDS

Sure Energy has not declared or paid any dividends since its incorporation and does not foresee the declaration or payment of dividends in the near future. Any decision to pay dividends on its shares will be made by the board of directors on the basis of Sure Energy's earnings, financial requirements and other conditions existing at such future time.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no outstanding legal proceedings involving claims for damages, exclusive of interest and costs, in excess of ten percent (10%) of the current assets of the Corporation, to which the Corporation is a party or of which any of its properties is subject, nor are there any such proceedings known to be contemplated.

To the knowledge of the Corporation, there were no (i) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during the Corporation's last financial year, (ii) penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision, or (iii) settlement agreements the Corporation entered into before a court relating to securities legislation or with a securities regulatory authority during the last financial year.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of the Corporation's directors, executive officers or persons or companies that beneficially own or control or direct, directly or indirectly, more than 10% of the voting securities of the Corporation, or their associates or affiliates had any material interest, direct or indirect, in any transaction since the Corporation was incorporated which has materially affected or would materially affect the Corporation.

TRANSFER AGENT AND REGISTRAR

Valiant Trust Corporation, at its principal office in Calgary, Alberta and through its co-agent, Equity Transfer Services Inc., at its principal office in Toronto, Ontario is the transfer agent and registrar for the Corporation's common shares.

MATERIAL CONTRACTS

Except for contracts entered into by the Corporation in the ordinary course of business, the Corporation has not entered into any contracts within the most recently completed financial year or before the most recently completed financial year, but still in effect, which can reasonably be regarded as presently material.

INTERESTS OF EXPERTS

Sproule Associates Limited has certified certain of the contents herein or certain of the contents in other filings made by the Corporation pursuant to NI 51-102 and are therefore considered to be experts under securities legislation. No person or Corporation whose profession or business give authority to a statement made by such person or Corporation and who is named in this Annual Information Form or in a document that is specifically incorporated by reference into this Annual Information Form as having prepared or certified a part of this Annual Information Form or a report or valuation described in this Annual Information Form or in a document specifically incorporated by reference into this Annual Information Form, has received or shall receive a direct or indirect interest in the property of the Corporation or of any associate or affiliate of the Corporation. As at the date hereof, the aforementioned persons and companies beneficially own, directly or indirectly, less than 1% of the securities of the Corporation and its associates and affiliates. In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associates or affiliates of the Corporation.

Deloitte & Touche LLP, Chartered Accountants, are the auditors of Sure Energy and such firm has prepared an opinion with respect to the consolidated financial statements as at and for the fiscal year ended December 31, 2010. Deloitte & Touche LLP is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta.

RISK FACTORS

An investor should consider carefully the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision.

Business Risks

The business of exploring for, developing and producing oil and natural gas reserves is inherently risky. There is substantial risk that the manpower and capital employed will not result in the finding of new reserves in economic quantities. There is also a risk that the sale of Sure Energy's reserves may be delayed indefinitely due to processing constraints, lack of pipeline capacity or lack of markets. The price Sure Energy receives for its oil and gas production fluctuates continuously and, for the most part, is beyond its control. The Corporation is also subject to the risks associated with owning oil and gas properties, including environmental risks such as the pollution of air, land and water. In all areas of the business, Sure Energy competes against entities that may have greater technical and financial resources. Sure Energy's growth is dependent upon external sources of financing which may not be available on acceptable terms.

Sure Energy mitigates these risks by hiring highly qualified personnel, either directly as employees or indirectly when contracting for services. The Corporation's philosophy of focusing on a limited number of geographical areas allows it to develop a high level of technical and managerial expertise in each area. To control the cost and pace of development, Sure Energy will acquire high working interests in each prospect and become the operator wherever possible. Sure Energy may enter into commodity price and interest rate hedging strategies to add a degree of certainty to cash flow. See "Petroleum and Natural Gas Reserves – Forward Contracts". In the field, the Corporation adheres to sound operational standards, which meet or exceed recognized levels. All levels of Sure Energy's operations are adequately insured in accordance with industry practice. From a financial perspective, the Corporation will prudently manage debt levels and will fund high risk opportunities with cash flow and equity. Leverage will be used upon development of a stable cash flow base and managed through debt to cash flow principles.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Corporation will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Corporation.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions.

While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

The Corporation's involvement in the exploration, development and production of oil and natural gas may result in the Corporation becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although prior to drilling the Corporation will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Corporation will make acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of an acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters.

Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of so that the Corporation can focus its efforts and resources more efficiently. If disposed of non-core assets could be expected to realize less than their carrying value on the financial statements of the Corporation.

Competition

Oil and gas exploration is intensely competitive in all its phases and involves a high degree of risk. The Corporation competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. The Corporation's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery. Competition may also be presented by alternate fuel sources.

Dependence on Third-Party Pipelines

In fiscal 2010, substantially all of Sure Energy's sales of natural gas production were through deliveries to local third-party gathering systems to processing plants. In addition, the Corporation relies on access to interprovincial pipelines for the sale and distribution of substantially all of its gas. As a result, a curtailment of the Corporation's sale of natural gas by pipelines or by third-party gathering systems, an impairment of the Corporation's ability to transport natural gas on interprovincial pipelines or a material increase in the rates charged to the Corporation for the transportation of natural gas by reason of a change in federal or provincial regulations or for any other reason, could have a material adverse effect upon Sure Energy. In such event, the Corporation would have to obtain other transportation arrangements. There can be no assurance that the Corporation would have economical transportation alternatives or that it would be feasible for it to construct pipelines. In the event such circumstances were to occur, the Corporation's netbacks from the affected wells would be suspended until, and if, such circumstances could be resolved.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. See "Industry Conditions". The Corporation's operations may require licenses from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out

exploration and development at its projects and the obtaining of such licenses and permits may delay operations of the Corporation.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other GHG. See “Industry Conditions – Environmental Protection Requirements”. The direct or indirect costs of these regulations may adversely affect the business of the Corporation.

Environmental

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation’s financial condition, results of operations or prospects. See “Industry Conditions – Environmental Protection Requirements”.

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Sure Energy to incur costs to remedy such discharge. Implementation of strategies with respect to climate change and reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or as otherwise determined by federal or provincial governments could have a material impact on the nature of oil and natural gas operations, including those of Sure Energy. See “Industry Conditions – Environmental Regulation”. Although the Corporation believes that it is in material compliance with current environmental laws, no assurance can be given that the application of environmental laws to the business and operations of Sure Energy will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Sure Energy’s financial condition, results of operations or prospects.

Royalty Regime

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of oil and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production, and the rate of royalties payable generally depends in part on well productivity, geographical location, field discovery data and the type or quality of the petroleum product produced.

The royalty regime in Alberta, Saskatchewan and any other jurisdictions in which the Corporation’s oil and natural gas assets are located may be subject to further review and changes which could adversely impact Sure Energy’s financial condition and operations.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Corporation will be affected by numerous factors beyond its control. The Corporation's ability to market its natural gas may depend upon its ability to acquire

space on pipelines that deliver natural gas to commercial markets. The Corporation may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Corporation's revenues, profitability and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas. The Corporation's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Corporation. These factors include economic conditions, in the United States and Canada, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on the Corporation's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. The exchange rate between the Canadian and U.S. dollar also affects the profitability of the Corporation and the Canadian dollar has strengthened against the U.S. dollar. Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects. In addition, bank borrowings available to the Corporation are in part determined by the Corporation's borrowing base. A sustained material decline in prices from historical average prices could reduce the Corporation's borrowing base, therefore reducing the bank credit available to the Corporation which could require that a portion, or all, of the Corporation's bank debt be repaid.

Substantial Capital Requirements

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Corporation's revenues or reserves decline, it may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects.

Additional Funding Requirements

The Corporation's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Corporation may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Corporation's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to the Corporation.

Issuance of Debt

From time to time the Corporation may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Corporation's debt levels above industry standards. Depending on future exploration and development plans, the Corporation may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time, could impair the Corporation's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Hedging

From time to time the Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases and the Corporation may nevertheless be obligated to pay royalties on such higher prices, even though not received by it, after giving effect to such agreements. Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Corporation will not benefit from the fluctuating exchange rate.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. To the extent the Corporation is not the operator of its oil and gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Title to Assets

Title to oil and natural gas interests is often not capable of conclusive determination without incurring substantial expense. It is the practice of the Corporation in acquiring significant oil and gas leases or interest in oil and gas leases to fully examine the title to the interest under the lease. In the case of minor acquisitions the Corporation may rely upon the judgment of oil and gas lease brokers or landmen who perform the field work in examining records in the appropriate governmental office before attempting to place under lease a specific interest. The Corporation believes that this practice is widely followed in the oil and gas industry. Nevertheless, there may be title defects which affect lands comprising a portion of the Corporation's properties. To the extent title defects do exist, it is possible that the Corporation may lose all or a portion of its right, title, estate and interest in and to the properties to which the title relates.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and cash flows to be derived therefrom, including many factors beyond the Corporation's control. The reserve and associated cash flow information set forth herein represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material. Further, the evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluation.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, Sproule, the independent reserves evaluator, has used forecast price and cost estimates in calculating reserve quantities included herein. Actual future net revenue will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs. Actual production and revenues derived therefrom will vary from the estimates contained in the Sproule Report, and such variations could be material. The Sproule Report is based in part on the assumed success of activities the Corporation intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the Sproule Report will be reduced to the extent that such activities do not achieve the level of success assumed in the Sproule Report. The Sproule Report is effective as of a specific effective date and has not been updated and thus does not reflect changes in the Corporation's resources since that date.

Management of Growth

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expend, train and manage its employee base. The inability of the Corporation to deal with this growth could have a material adverse impact on its business, operations and prospects.

Expiration of Licenses and Leases

The Corporation's properties are held in the form of licenses and leases and working interests in licenses and leases. If the Corporation or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of the Corporation's licenses or leases or the working interests relating to a license or lease may have a material adverse effect on the Corporation's results of operations and business.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. The Corporation is not aware that any claims have been made in respect of its property and assets; however, if a claim arose and was successful this could have an adverse effect on the Corporation and its operations.

Seasonality

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Corporation.

Reliance on Key Personnel

The Corporation's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on the Corporation. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

ADDITIONAL INFORMATION

Additional information relating to Sure Energy may be found on SEDAR at www.sedar.com. Additional information related to the remuneration and indebtedness of the directors and officers of Sure Energy, and the principal holders of Sure Energy's common shares and options to purchase Sure Energy's common shares and securities authorized for issuance under Sure Energy's option plan, where applicable, will be contained in the information circular of Sure Energy in respect of its most

recent annual meeting of its shareholders. Additional financial information is provided in Sure Energy's audited financial statements and management's discussion and analysis for the period ended December 31, 2010.

Additional copies of this Annual Information Form may be obtained from Sure Energy, by contacting:

Mr. Lance Wirth ,

Vice President Finance and CFO

Sure Energy Inc

1100, 606 4th Street S.W, Calgary, Alberta T2P 1T1

lwirth@sureenergyinc.com

(403) 410-3103 www.sureenergyinc.com

**APPENDIX A
FORM 51-101F2**

**REPORT ON RESERVES DATA
BY INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR**

To the Board of Directors of Sure Energy Inc. (the "Corporation"):

1. We have evaluated the Corporation's reserves data as at December 31, 2010. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010 estimated using forecast prices and costs.
2. The Reserves Data are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Reserves Data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions in the COGE Handbook.
4. The following table sets forth the estimated future net revenue attributed to proved plus probable reserves, estimated using forecast prices and costs (before deduction of income taxes) and calculated using a discount rate of 10 percent, included in the reserves data of the Corporation evaluated by us as of December 31, 2010, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Corporation's management and Board of Directors.

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation Report	Location of Reserves (Country)	Net Present Value of Future Net Revenue (before income taxes, 10% Discount Rate)			
			Audited (M\$)	Evaluated (M\$)	Reviewed (M\$)	Total (M\$)
Sproule	Evaluation of the P&NG Reserves of Sure Energy Inc., as of December 31, 2010 prepared December 2010 to February 2011	Canada				
Total			Nil	84,090	Nil	84,090

5. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are presented in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update the report referred to in paragraph 4 for events and circumstances occurring after its preparation date.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

SPROULE ASSOCIATES LIMITED
Calgary, Alberta
February 25, 2011

Per: "Robert R. Warholm"
Robert R. Warholm, P.Eng.
Manager, Engineering, and Associate

Per: "Maren L. Blair"
Maren L. Blair, P.Geol.
Petroleum Geologist

Per: "Robert N. Johnson"
Robert N. Johnson, P.Eng.
Vice-President, Engineering and Director

**APPENDIX B
FORM 51-101F3**

**REPORT OF MANAGEMENT AND DIRECTORS
ON RESERVES DATA AND OTHER INFORMATION**

Management of Sure Energy Inc. (the "Corporation") are responsible for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31st, 2010, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated the Corporation's reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The Reserves Committee of the board of directors of the Corporation has

- (a) reviewed the Corporation's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affecting the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed the Corporation's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee, approved

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

"Jeffrey S. Boyce"

Jeffrey S. Boyce
Chief Executive Officer

"Larry Macdonald"

Larry Macdonald, Director

"Tom Banks"

C. Tom Banks
Vice President, Engineering and Operations

"W. Peter Comber"

W. Peter Comber, Director

March 8, 2011

APPENDIX C
AUDIT COMMITTEE TERMS OF REFERENCE

I. PURPOSE

The primary function of the Audit Committee (the “Committee”) is to assist the board of directors of Sure Energy Inc. (the “Board”) in fulfilling its oversight responsibilities by reviewing:

- A.** the financial information that will be provided to the shareholders and others;
- B.** the systems of internal controls, management and the Board have established; and
- C.** all audit processes.

Primary responsibility for the financial reporting, information systems, risk management and internal controls of Sure Energy Inc. (“Sure”) is vested in management and is overseen by the Board.

II. COMPOSITION AND OPERATIONS

- A.** The Committee shall be composed of not fewer than three directors all of whom must be independent as defined in Section 1.4 of Multilateral Instrument 52-110 Audit Committees (“MI 52-110”) as may be amended from time to time.
- B.** All Committee members shall be “financially literate”¹ as defined in MI 52-110.
- C.** Sure Energy Inc.’s auditors shall be advised of the names of the Committee members and will receive notice of and be invited to attend meetings of the Audit Committee, and to be heard at those meetings on matters relating to the Auditor’s duties.
- D.** The Committee shall meet with the external auditors as it deems appropriate to consider any matter that the Committee or auditors determine should be brought to the attention of the board or shareholders.
- E.** The Committee shall meet at least once (by person or by teleconference) in each fiscal quarter to review Sure Energy Inc.’s quarterly financial statements and MD&A and related news releases for the immediately preceding fiscal quarter and to review and recommend approval by the full board of such interim financial statements for the immediately preceding fiscal year.
- F.** The Committee shall meet at least once (by person or by teleconference) in each fiscal year to review Sure Energy Inc.’s audited financial statements and MD&A and related news releases for the immediately preceding fiscal year and to review and recommend approval by the full board of such audited financial statements for the immediately preceding fiscal year.

¹ MI 52-110 defines “financially literate” as the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer’s financial statements.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

A. Financial Statements and Other Financial Information

The Committee will review and recommend for approval to the Board financial information that will be made publicly available. This includes:

- i) review and recommend approval of Sure Energy's annual financial statements and MD&A and related news release and recommend approval to the Board before the statements are provided to the Board;
- ii) review and approve for release Sure Energy's quarterly financial statements, MD&A and related press release and recommend approval to the Board before the statements are provided to the Board ; and
- iii) review the Annual Information Form and any Prospectus/Private Placement Memorandums and recommend approval of related financial information to the Board.

Review and discuss:

- iv) the appropriateness of accounting policies and financial reporting practices used by Sure;
- v) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by Sure; and
- vi) any new or pending developments in accounting and reporting standards that may affect Sure.

B. Risk Management, Internal Control and Information Systems

The Audit Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

- i) review the Corporation's risk management controls and policies;
- ii) obtain reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management, and as applicable, the external auditor; and
- iii) review management steps to implement and maintain appropriate internal control procedures including a review of policies.

C. External Audit

The Committee will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

- i) review and recommend to the Board, for shareholder approval, engagement of the external auditor;
- ii) review the annual external audit plan, including but not limited to the following:
 - a) engagement letter

- b) objectives and scope of the external audit work;
 - c) procedures for quarterly review of financial statements;
 - d) materiality limit;
 - e) areas of audit risk;
 - f) staffing;
 - g) timetable; and
 - h) proposed fees.
- iii) meet with the external auditor to discuss the Corporation's quarterly and annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates and resolve any disagreements between management and the external auditors regarding financial reporting;
- iv) review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:
- a) any difficulties encountered, or restriction imposed by management, during the annual audit;
 - b) any significant accounting or financial reporting issue;
 - c) the auditors' evaluation of Sure Energy's system of internal controls, procedures and documentation;
 - d) the post audit or management letter containing any findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weaknesses;
 - e) any other matters the external auditor brings to the Committee's attention; and
 - f) assess the performance and consider the annual appointment of external auditors for recommendation to the Board.
- v) review the auditor's report on all material entities that the Corporation consolidates, proportionately consolidates or equity accounts;
- vi) review and receive assurances on the independence of the external auditor;
- vii) review and pre-approve all non-audit services to be provided by the external auditor's firm or its affiliates (including estimated fees), and consider the impact on the independence of the external audit; and
- viii) meet periodically, and at least annually, with the external auditor without management present.

D. Other

The Committee will also

- i) review insurance coverage of significant business risks;
- ii) review material litigation and its impact on financial reporting;
- iii) review policies and procedures for the review and approval of officers' expenses and perquisites; and
- iv) review the terms of reference for the Committee annually and make recommendations to the Board as required.

IV. ACCOUNTABILITY

- A.** The Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial matters relative to the Corporation.
- B.** The Committee shall report its discussions to the Board by maintaining minutes of its meetings and providing an oral report at the next Board meeting.