

# 3 THIRD QUARTER REPORT

For the three months ended  
September 30, 2009



Sure Energy Inc. ("Sure Energy" or the "Company") is pleased to announce results for the third quarter, ending September 30, 2009.

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

During the third quarter of 2009, Sure Energy accomplished the following:

- Closed the acquisition of Conifer Exploration Ltd. on August 14, 2009
- Third quarter cash flow increased from the second quarter 2009 to \$408,000 (\$0.01/share) despite extremely low natural gas prices
- Shot a 13 square kilometer 3D seismic program on our 100% WI acreage in SE Saskatchewan that will lead to the drilling of an oil prospect in the fourth quarter of 2009
- Purchased a 2,560 acre block of 100% WI lands in the Southern Plains area of Alberta that has a high impact drillable natural gas prospect

HIGHLIGHTS	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<i>(\$000 except share and per share amounts)</i>				
<b>Financial</b>				
Petroleum and Natural Gas Revenues	1,439	1,813	4,572	5,128
Funds Flow from Operations <sup>(1)</sup>	408	839	1,094	2,078
Per Share, Basic and Diluted	0.01	0.02	0.03	0.06
Loss	(1,284)	(176)	(2,932)	(673)
Per Share, Basic and Diluted	(0.03)	(0.00)	(0.07)	(0.02)
Capital Expenditures	8,600	3,125	9,767	10,168
Total Assets			36,959	35,761
Net Debt <sup>(1)</sup>			(3,664)	4,963
Shareholders' Equity			30,824	31,692
Common Shares Outstanding				
Basic			46,873,962	37,659,208
Diluted			50,020,963	40,374,208
Fully Diluted with Performance Rights			53,525,962	44,154,208
Weighted Average Common Shares Outstanding				
Basic and Diluted	42,166,425	36,086,035	39,178,123	33,726,832
Share Trading				
High	0.47	1.20	0.47	1.35
Low	0.30	0.63	0.21	0.63
Close	0.46	0.66	0.46	0.66
Trading Volume	1,841,585	1,005,041	4,618,930	7,002,082



### **Areas of Activity**

#### **Southern Plains (Chinook)**

The Company has had great success exploring for gas in the Southern Plains of Alberta, specifically at Chinook. In the current quarter Sure Energy produced 272 BOE/d from four shallow sweet natural gas wells in the Chinook area, and has one additional location to drill. Using the knowledge gained at Chinook the Company has mapped the producing reservoir regionally and has identified two prospects that it is currently developing, one for sweet gas and one for heavy oil. One of the prospects is planned to be drilled in Q4 of this year, the other in Q1 of 2010.

#### **Peace River Arch**

The Company currently produces 109 BOE/d from the Peace River Arch area in Northern Alberta. 45 BOE/d, net to Sure Energy is currently being produced from a Halfway gas pool at Boundary Lake, which is producing from a proved plus probable reserve base of 4 BCF. The Company owns a 25 percent working interest in the pool, gas plant and pipeline infrastructure related to this new pool discovery. At Valhalla the Company produces 64 BOE/d from three Charlie Lake gassy oil wells and one Charlie Lake gas well.

Sure Energy has an inventory of six drillable locations on the Peace River Arch, three of which are new pool prospects. One of these wells was drilled in November and has been cased for potential in multiple zones..

#### **Plains**

Although the Company has some minor shallow gas production in the Redwater area, its focus in the area is on an emerging horizontal light oil conventional resource play. Following the acquisition of Conifer, the Company owns 8,300 acres of undeveloped land on a regionally extensive sand fairway in the lower Viking formation. The sand exhibits low permeability but is distributed over several townships and is hydrocarbon bearing across the whole area. Vertical wells in this sand typically produce at 8 – 20 BOE/d, but exhibit very low declines, once stabilized, indicating that they are accessing large reserves. Recent horizontal activity by third parties in the area has proven highly successful at improving production rates; new wells stabilizing between 40 and 80 BOE/d. The Company currently produces 90 BOE/d from 4 gross wells (2.4 net wells) in the area and has an inventory of 9 primary development horizontal locations and a further 34 contingent on their success. The Company anticipates drilling 5 - 6 wells on this play in 2010 and will focus on its lower working interest lands, while learning the most efficient and economic methods of exploiting the reservoir.

#### **SE Saskatchewan**

The Company owns 1,725 acres of land on a prospective light oil fairway at Queensdale in SE Saskatchewan. After shooting 13 square kilometres of proprietary 3D seismic the Company has identified two light oil prospects. One of these prospects will be evaluated with a vertical well prior to year end. Should the vertical well be successful the prospect will be exploited using horizontal wells. The Company plans to drill a development horizontal well into the other prospect in 2010. Success with both prospects could lead to up to seven development horizontals.

#### **Tweedie**

The Company currently produces 1.0 MMcf/d (169 BOE/d) of sweet gas from shallow Cretaceous reservoirs in the Tweedie area, just northeast of Edmonton. The production is from approximately 35 wells and declines at low rates. Sure Energy has an inventory of 17 locations at Tweedie, all defined by both geology and 2D seismic, but only intends to drill a maximum of 2 to 3 wells in the area per year, to maintain production levels.

#### **West Central**

Sure Energy produces 80 BOE/d of low decline, liquids rich gas production in West Central Alberta. The Company owns 12,160 net acres of undeveloped land in the area and has inventory of three drillable prospects.

**Production**

Production for the quarter by major property is as follows:

	<b>Three Months Ended September 30, 2009</b>			
	<b>Gas Mcf/d</b>	<b>Oil Bbls/d</b>	<b>NGLs Bbls/d</b>	<b>Total BOE/d</b>
Peace River	520	9	13	109
Plains	38	37	-	44
Southern Plains	1,596	-	6	272
Tweedie	1,014	-	-	169
West Central	285	7	9	63
<b>Total</b>	<b>3,453</b>	<b>53</b>	<b>28</b>	<b>657</b>

**OUTLOOK**

Sure Energy plans on ramping up its capital activities in the fourth quarter of 2009 and 2010. In the fourth quarter 2009 the Company plans on drilling three high impact 100% working interest locations in Gordondale, Southern Plains and SE Saskatchewan.

For 2010 the Company has established a base capital budget of \$10 million. The 2010 capital activities include the drilling of at least six horizontal wells on its emerging Viking oil play at Redwater.

Sure continues to evaluate numerous acquisition opportunities that can complement our assets and ongoing opportunities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*November 10, 2009*

This management's discussion and analysis ("MD&A") for Sure Energy Inc. ("Sure Energy" or the "Company") should be read in conjunction with the audited financial statements of the Company as at December 31, 2008 and 2007 together with the accompanying notes. Additional information relating to the Company can be viewed or downloaded at [www.sureenergyinc.com](http://www.sureenergyinc.com) or [www.sedar.com](http://www.sedar.com). Readers should also read the "Forward Looking Information" legal advisory contained at the end of this document.

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

Throughout the report BOE, or barrel of oil equivalent, is defined as 6 Mcf to 1 bbl. BOEs may be misleading particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

**BUSINESS AND FINANCIAL STRATEGY**

Sure Energy is a junior oil and gas company engaged in the exploration for, and the acquisition, development and production of oil and natural gas reserves primarily in Alberta and Saskatchewan. The global recession has created uncertainty resulting in a period of low commodity prices, volatile financial markets and restricted access to capital markets. Sure Energy's financial strategy has been to maintain a strong balance sheet and a conservative capital structure. As at September 30, 2009, the Company had net debt of \$3.7 million and an unused credit facility of \$7.8 million. In addition, the Company has planned a conservative capital expenditure program for the remainder of 2009. Production increases during 2008 and 2009 will provide sufficient cash flow for the Company to operate in 2009.

## OVERVIEW

## Selected Annual and Quarterly Information

	Q3 09	Q2 09	Q1 09	2008	Q4	Q3	Q2	Q1	2007	Q4	Q3
<b>Production</b>											
Natural gas (Mcf/d)	3,453	3,626	3,435	<b>2,044</b>	2,568	2,088	1,744	1,771	<b>1,666</b>	1,610	1,687
Oil (bbls/d)	53	21	29	<b>13</b>	15	12	14	12	<b>3</b>	2	2
NGLs (bbls/d)	28	27	27	<b>19</b>	21	22	15	20	-	-	-
BOE/d	657	653	628	<b>373</b>	463	382	319	327	<b>281</b>	270	283
Average Selling Price											
Natural gas (\$/Mcf)	3.07	3.56	4.99	<b>8.09</b>	6.85	8.08	10.29	7.74	<b>6.36</b>	5.89	5.05
Oil (\$/bbl)	70.11	67.40	38.04	<b>100.11</b>	61.52	126.01	128.42	89.22	<b>79.35</b>	80.48	76.25
NGLs (\$/bbl)	47.34	38.56	38.64	<b>53.03</b>	41.72	61.68	63.39	47.44	-	-	-
\$/BOE	23.83	23.54	30.68	<b>50.57</b>	41.78	51.58	64.77	48.09	<b>38.63</b>	35.66	30.93
Netback (\$/BOE)											
Operating	11.29	11.03	12.27	<b>29.28</b>	23.04	29.46	39.10	28.41	<b>20.98</b>	21.57	15.26
Funds Flow	6.73	6.25	5.58	<b>20.06</b>	15.57	23.84	26.78	15.46	<b>11.26</b>	7.97	9.01
<b>Financial</b>											
<b>(\$000s except share and per share amounts)</b>											
Revenue	1,439	1,398	1,735	<b>6,909</b>	1,781	1,813	1,883	1,432	<b>3,958</b>	886	805
Funds Flow	408	372	314	<b>2,740</b>	662	839	779	460	<b>1,153</b>	199	232
Per share, basic	0.01	0.01	0.01	<b>0.08</b>	0.02	0.02	0.03	0.02	<b>0.04</b>	0.01	0.01
Loss	(1,284)	(1,140)	(508)	<b>(1,234)</b>	(561)	(176)	(98)	(399)	<b>(2,981)</b>	(515)	(1,481)
Per share, basic	(0.03)	(0.03)	(0.01)	<b>(0.04)</b>	(0.01)	(0.00)	(0.00)	(0.01)	<b>(0.10)</b>	(0.02)	(0.05)
Capital Expenditures	8,600	307	860	<b>13,654</b>	3,486	3,125	1,433	5,610	<b>6,043</b>	1,220	1,360
Total Assets	36,959	32,154	33,602		37,068	35,761	27,174	26,247		23,784	24,213
Net Debt	(3,664)	1,678	1,671		2,239	4,963	(592)	47		3,149	4,240
Shareholder's Equity	30,824	29,254	30,298		31,287	31,692	23,880	23,817		21,993	22,353
Common Shares (000's)	46,874	37,659	37,659		37,659	37,659	30,767	30,767		28,545	28,545

## Q3 2009

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 \$8.8 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. Concurrent with the closing, Sure Energy's credit facility was increased to \$11.5 million consisting of a \$10 million revolving operating demand loan and a \$1.5 million non-revolving acquisition/development demand loan.

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

## Q2 2009

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

**Q1 2009**

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

**Q4 2008**

Revenue decreased during the quarter due to significant decreases in commodity prices offset by a 21 percent increase in production.

**Q3 2008**

Revenue decreased marginally in the quarter due to a decrease in commodity prices, partially offset by an increase in production from two new wells at Boundary and Chinook. During the quarter, Sure Energy completed a private placement of common and flow-through shares.

**Q2 2008**

Revenue increased during the quarter due to increases in oil and gas prices. Operating costs increased during the current quarter mainly due to a 13 month processing fee adjustment in the Tweedie area.

**Q1 2008**

On January 15, 2008, the Company acquired all of the outstanding common shares of Argent Energy Inc. ("Argent"), a private oil and gas company. The total consideration included the issuance of 1,861,847 common shares of the Company issued in exchange for all of the outstanding Argent common shares and the assumption of debt of \$2.0 million and a working capital deficiency of \$1.1 million. The exchange ratio was 0.1075 Sure Energy share for every outstanding common share of Argent. The business combination has been accounted for as a purchase. Argent was amalgamated with Sure 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. Concurrent with the closing, Sure Energy increased its credit facilities to \$8.5 million consisting of a \$7.0 million revolving operating demand loan and a \$1.5 million non-revolving acquisition/development demand loan.

Production increased in the current quarter due to the acquisition of Argent which more than offset the reduction in volumes due to natural decline. Revenue also increased during the quarter due to increases in benchmark oil and gas prices. Working capital decreased during the quarter as cash was used to finance the Argent acquisition.

**Q4 2007**

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

**Q3 2007**

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

**RESULTS OF OPERATIONS**

<b>Revenues</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Petroleum and Natural Gas Revenue (\$000s)</b>				
Natural gas	976	1,551	3,693	4,432
Oil	341	134	567	398
NGLs	122	128	312	298
	1,439	1,813	4,572	5,128

<b>Production</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Natural gas (Mcf/d)	3,453	2,088	3,505	1,869
Oil (bbls/d)	53	12	34	13
NGLs (bbls/d)	28	22	28	19
BOE/d	657	382	646	343

Average Selling Price	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Natural gas (\$/Mcf)	3.07	8.08	3.86	8.66
Oil (\$/bbl)	70.11	126.01	60.74	115.00
NGLs (\$/bbl)	47.34	61.68	41.61	57.18
\$/BOE	23.83	51.58	25.93	54.55

Average Benchmark Prices	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
AECO (daily) natural gas (\$/Mcf)	2.78	7.34	3.57	8.17
WTI Crude oil (US\$/bbl)	68.30	117.97	57.00	113.28
Edmonton par price (Cdn \$/bbl)	71.92	121.74	62.51	115.11
Exchange rate (US\$/Cdn\$)	1.0974	1.0418	1.1700	1.0186

Production for the three months ended September 30, 2009 averaged 657 BOE/d, representing an increase of 72 percent over the comparative period. Production for the current quarter increased from the acquisition of Conifer which closed on August 14, 2009. Gas production was voluntarily shut in at Chinook during September due to low gas prices which reduced gas production for the quarter. For the three months ended September 30, 2009, the Company's realized price for its natural gas was \$3.07/Mcf, 62 percent less than the \$8.08/Mcf received in the comparative period. The Company has not hedged or entered into any fixed price arrangements during 2009 or for any subsequent period.

#### Royalties

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Royalties	46	325	628	940
Average royalty as a percent of revenue	3.2	17.9	13.7	18.3

Royalties as a percentage of revenue decreased to 3.2 percent for the current quarter versus 17.9 percent for the comparative quarter. The Company received gas cost allowance credits during the quarter based on capital spent by Argent and Sure Energy in prior periods. Overall, gas royalty rates are lower due to low gas prices.

#### Alberta Royalty Changes

On December 2, 2008 the Mines and Minerals (New Royalty Framework) Amendment Act 2008, Bill 47, was given Royal Assent by the Lieutenant Governor of Alberta and became law on January 1, 2009. This Act revised the calculation of Alberta provincial royalties effective the production month of January 2009.

On November 19, 2008 the Government of Alberta introduced a program where certain wells drilled after November 19, 2008 are eligible for Transitional royalties, for the period ending January 1, 2014.

These changes to Alberta royalties have been included in the reserves and value assessment by the independent qualified reserves evaluators.

On March 3, 2009 the Alberta government announced short term incentives to stimulate economic activity. The program is designed to be of more benefit to smaller producers such as Sure Energy. The program includes a royalty credit of \$200 per meter for new conventional oil and gas wells drilled between April 1, 2009 and March 31, 2010. Under this incentive, Sure Energy's maximum benefit is 50% of Crown royalties owed in fiscal year 2009-2010. An additional incentive is a maximum five percent royalty on the first year of production for certain new oil and gas wells that begin production between April 1, 2009 and March 31, 2010. On June 25, 2009, the Alberta government extended these incentive programs for an additional year.

The majority of Sure Energy's Alberta drilling prospects are on Crown lands and will be eligible under these incentives.

**Operating expenses**

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Operating expenses	618	401	1,665	1,037

Operating costs were \$10.24 per BOE for the three months ended September 30, 2009 versus \$11.43 per BOE for the comparative period. Current quarter operating costs per BOE decreased compared to the comparative quarter due to lower operating costs on new producing wells. However, gas processing equalization charges received during the quarter increased operating costs per BOE compared to the second quarter of 2009.

**Transportation**

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Transportation	92	50	249	132

Transportation costs were \$1.51 per BOE in the current quarter and \$1.44 for the comparative period. Transportation expense relates to the costs of transporting Sure Energy's natural gas production on major pipelines and trucking Sure Energy's oil to the point of transfer.

**General and Administrative**

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Gross general and administrative	411	330	1,270	1,260
Capitalized overhead	(145)	(91)	(328)	(273)
	266	239	942	987

General and administrative ("G&A") costs were \$4.40 per BOE for the current quarter and \$6.76 per BOE for the comparative period. G&A costs will decrease on a per BOE basis as the Company grows its production. As activity increases, the Company will apply overhead charges, which are charged to specific well operations, and reduce G&A as is customary in the industry.

**Interest Income**

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Interest income	-	41	15	46
Interest expense	9	-	9	-

During the quarter, Sure Energy utilized its debt facility to finance a portion of the acquisition of Conifer. The interest rate on the debt facility was 3.5 percent.

**Stock Compensation (non-cash)**

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Stock compensation	89	161	455	479

Stock compensation (non-cash) expense was \$89,000 in the three months ended September 30, 2009 and \$161,000 for the comparative period. This amount is made up of the amortization of the expense relating to the options granted to employees, officers and directors, and the performance incentive rights ("PIRs") granted to Sure Energy employees, directors and consultants. The remaining 1,752,500 unvested PIRs vest when the 21 day weighted average trading price of Sure Energy common shares exceeds \$1.50.

**Depletion, Depreciation and Accretion**

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Depletion and depreciation	1,582	837	4,266	2,224
Accretion	21	17	55	48
	1,603	854	4,321	2,272

The Company's depletion, depreciation and accretion ("DD&A") provision for the nine months was \$4.3 million, or \$24.51 per BOE and \$2.3 million or \$24.16 per BOE for the comparative period. \$5.7 million in costs related to the Company's undeveloped land base was excluded from the depletion calculation.

Accretion of the asset retirement obligation is calculated at the Company's credit-adjusted, risk-free rate of 8 percent. The Company has estimated the net present value of their asset retirement obligation to be \$925,000.

#### Income and future taxes

The Company does not expect to pay current income tax in 2009 or 2010. Estimated income tax pools at September 30, 2009 are as follows:

(\$000s)	
Canadian oil and gas property expenses	10,896
Canadian development expenses	2,087
Canadian exploration expenses	4,282
Undepreciated capital costs	5,589
Non-capital losses	20,000
Financing costs	113
Successored pools (restricted)	19,871
	62,838

As a result of the Company issuing flow-through shares in 2008, Canadian exploration expenses of \$2.5 million were renounced to investors in February, 2009. Share capital was reduced and a future income tax liability was recorded to recognize the foregone tax benefit of the renouncement. The Company recorded a future income tax recovery in the statement of operations to the extent that there was an unrecognized future income tax asset to offset the future income tax liability as a result of the renouncement.

#### Netbacks

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

(\$/BOE)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Price	23.83	51.58	25.93	54.55
Royalties	(0.79)	(9.25)	(3.56)	(10.00)
Operating costs	(10.24)	(11.43)	(9.44)	(11.03)
Transportation	(1.51)	(1.44)	(1.41)	(1.41)
Operating Netback	11.29	29.46	11.52	32.11
General and administrative	(4.40)	(6.76)	(5.34)	(10.50)
Interest income (expense)	(0.16)	1.14	0.02	0.49
Funds Flow Netback	6.73	23.84	6.20	22.10
Stock compensation	(1.48)	(4.59)	(2.58)	(5.10)
Depletion, depreciation and accretion	(26.54)	(24.27)	(24.51)	(24.16)
Future income taxes	-	-	4.26	-
Loss Netback	(21.29)	(5.02)	(16.63)	(7.16)

**CAPITAL EXPENDITURES**

Cash expenditures for the period were as follows:

<b>Capital Program Summary</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
(\$000s)				
Land	292	173	437	551
Geological and geophysical	502	180	869	635
Drilling	90	858	138	1,163
Completions	(9)	535	41	556
Recompletions and workovers	342	-	613	162
Production equipment and facilities	86	1,271	189	1,955
Capitalized exploration G&A	145	91	328	273
	1,448	3,108	2,615	5,295
Asset disposition	-	-	-	(158)
Corporate acquisitions	7,152	-	7,152	4,993
Asset retirement obligation	-	15	-	30
Other assets	-	2	-	8
	8,600	3,125	9,767	10,168

The acquisition of Conifer Exploration Ltd. was the major event in the three months ending September 30 2009. Other capital expenditures in this quarter include the purchase of undeveloped land, seismic expenses, and two workovers of horizontal wells at Redwater.

**LIQUIDITY AND CAPITAL RESOURCES**

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

<b>Outstanding at:</b>	<b>September 30, 2009</b>	<b>December 31, 2008</b>	<b>November 11, 2009</b>
Common shares	46,873,962	37,659,208	46,873,962
Options	3,147,000	3,239,000	3,147,000
PIR's	3,505,000	3,780,000	3,505,000
	53,525,962	44,678,208	53,525,962

On January 15, 2008, Sure Energy issued 1,861,847 common shares at a price of \$0.93 per share in exchange for all the outstanding Argent common shares. In addition, 360,215 common shares were issued at a price of \$0.93 per share as settlement of severance to former Argent employees.

On July 18, 2008 Sure Energy completed a private placement of approximately 5.0 million common shares at a subscription price of \$1.10 per common share and approximately 1.9 million flow-through common shares at a subscription price of \$1.32 per flow-through common share.

On November 7, 2008, the Company issued 899,000 options at an exercise price of \$0.39. Concurrently, 375,000 options with an exercise price of \$1.28 were cancelled and not reissued.

On August, 14, 2009, Sure Energy issued 9,214,754 common shares at a price of \$0.30 per share and cash of \$6.0 million to acquire all the issued and outstanding common shares of Conifer.

As at September 30, 2009, the Company had net debt of \$3.7 million. Net debt and working capital is calculated as follows:

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
Cash and cash equivalents	-	6,043
Accounts receivable	1,054	870
Prepaid expenses	492	241
Accounts payable and accrued liabilities	(3,352)	(4,915)
Working capital	(1,806)	2,239
Bank debt	(1,858)	-
Net debt	(3,664)	2,239

Concurrent with the closing of the acquisition of Conifer, Sure Energy increased its credit facilities to \$11.5 million consisting of a \$10.0 million revolving operating demand loan and a \$1.5 million non-revolving acquisition/development demand loan.

## FUNDS FLOW FROM OPERATIONS

Funds flow from operations is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Loss	(1,284)	(176)	(2,832)	(673)
Add items not affecting cash:				
Depletion, depreciation and accretion	1,603	854	4,321	2,272
Stock compensation	89	161	455	479
Future income tax recovery	-	-	(750)	-
	408	839	1,094	2,078

## RELATED PARTY TRANSACTIONS

The Corporate Secretary is a partner of a law firm that is paid for legal services. The transactions are arms-length and measured at the exchange amount.

## CONTRACTUAL OBLIGATIONS AND FINANCIAL INSTRUMENTS

Sure Energy has not entered into any financial contracts.

As a result of the Company issuing flow-through shares in 2008, the Company is committed to incurring qualifying expenditures of approximately \$2.5 million before December 31, 2009. Of this amount, approximately \$1.8 million was incurred to September 30, 2009.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

The Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and ICFR as of the date of this MD&A, that disclosure controls and ICFR are not effective due to the material weakness in ICFR as described below. The material weakness identified did not result in any adjustments to the Company's financial statements for the three and nine month periods ended September 30, 2009 or any prior period.

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

There have been no significant changes in the Company's ICFR that occurred during the nine months ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

## OUTLOOK

Sure Energy plans on ramping up its capital activities in the fourth quarter of 2009 and 2010. In the fourth quarter 2009 the Company plans on drilling three high impact 100% working interest locations in Gordondale, Southern Plains and SE Saskatchewan.

For 2010 the Company has established a base capital budget of \$10 million. The 2010 capital activities include the drilling of at least six horizontal wells on its emerging Viking oil play at Redwater.

Sure continues to evaluate numerous acquisition opportunities that can complement our assets and ongoing opportunities.

### Non-GAAP Measures

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

Funds flow from operations is used by the Company to analyze operating performance, leverage and liquidity. Readers should refer to the "FUNDS FLOW FROM OPERATIONS" section of the MD&A for a reconciliation of funds flow from operations.

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

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

### Forward-looking Information

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

### GLOSSARY OF ABBREVIATIONS

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

**SURE ENERGY INC.  
BALANCE SHEETS**

As at (\$000's)	September 30, 2009	December 31, 2008
(unaudited)		
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 8)	-	6,043
Accounts receivable	1,054	870
Prepaid expenses	492	241
	1,546	7,154
Property, plant and equipment (note 3)	35,413	29,914
	36,959	37,068
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	3,352	4,915
Bank debt (note 4)	1,858	-
	5,210	4,915
Asset retirement obligations (note 5)	925	866
	6,135	5,781
Shareholders' equity		
Share capital (note 6)	35,732	33,718
Contributed surplus	3,094	2,639
Deficit	(8,002)	(5,070)
	30,824	31,287
	36,959	37,068

See accompanying notes.

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

(\$000's, except per share amounts) (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Revenue</b>				
Petroleum and natural gas revenue	1,439	1,813	4,572	5,128
Royalties	(46)	(325)	(628)	(940)
Interest income	-	41	15	46
	<u>1,393</u>	<u>1,529</u>	<u>3,959</u>	<u>4,234</u>
<b>Expenses</b>				
Operating	618	401	1,665	1,037
Transportation	92	50	249	132
General and administration	266	239	942	987
Interest on bank debt	9	-	9	-
Stock compensation	89	161	455	479
Depletion, depreciation and accretion	1,603	854	4,321	2,272
	<u>2,677</u>	<u>1,705</u>	<u>7,641</u>	<u>4,907</u>
Loss before future income tax recovery	(1,284)	(176)	(3,682)	(673)
Future income tax recovery	-	-	750	-
Loss and comprehensive loss	(1,284)	(176)	(2,932)	(673)
Deficit, beginning of period	(6,718)	(4,333)	(5,070)	(3,836)
Deficit, end of period	<u>(8,002)</u>	<u>(4,509)</u>	<u>(8,002)</u>	<u>(4,509)</u>
Loss per common share (note 7)				
Basic and diluted	(0.03)	(0.00)	(0.07)	(0.02)

See accompanying notes.

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

(\$000's)	Three Months Ended September 30,		Nine Months Ended September 30,	
(unaudited)	2009	2008	2009	2008
Cash provided by (used in):				
<b>Operating</b>				
Loss	(1,284)	(176)	(2,932)	(673)
Items not affecting cash:				
Depletion, depreciation and accretion	1,603	854	4,321	2,272
Stock compensation	89	161	455	479
Future income tax recovery	-	-	(750)	-
Abandonment expenditures	(10)	(1)	(90)	(100)
Changes in non-cash working capital (note 8)	(435)	(348)	145	(607)
	(37)	490	1,149	1,371
<b>Investing</b>				
Drilling and development of petroleum and natural gas properties	(1,448)	(3,109)	(2,615)	(5,295)
Corporate acquisitions (note 2)	(4,492)	-	(4,492)	(2,055)
Disposition of petroleum and natural gas properties	-	-	-	158
Other asset purchases	-	(2)	-	(8)
Changes in non-cash working capital (note 8)	1,019	936	(1,944)	1,832
	(4,921)	(2,175)	(9,051)	(5,368)
<b>Financing</b>				
Increase in bank debt	1,859	-	1,859	-
Issue of common shares for cash, net	-	7,827	-	7,827
	1,859	7,827	1,859	7,827
<hr/>				
Net change in cash and cash equivalents	(3,099)	6,142	(6,043)	3,830
Cash and cash equivalents, beginning of period	3,099	1,131	6,043	3,443
Cash and cash equivalents, end of period	-	7,273	-	7,273

See accompanying notes.

Supplementary Cash Flow information (note 8)

**SURE ENERGY INC.****Notes to the Financial Statements****As at and for the three and nine months ended September 30, 2009**

(unaudited)

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

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

Sure Energy Inc. ("Sure Energy" or the "Company") is a Calgary based oil and natural gas exploration and production company whose business activities are focused primarily in Alberta. Sure Energy is a public company and commenced trading on the Toronto Stock Exchange on August 15, 2006.

**2. Corporate Acquisition**

On August 14, 2009, the Company closed a purchase and sale agreement to acquire the outstanding common shares of Conifer Exploration Ltd. ("Conifer"), a private oil and gas company. The total consideration of \$8.8 million included 9,214,754 common shares of the Company and \$6.0 million cash issued in exchange for all of the outstanding Conifer common shares. The common shares issued by the Company were valued based on the trading price of the Company's shares for several days before and after the announcement date. The business combination has been accounted for as a purchase. Conifer was amalgamated with Sure Energy on August 14, 2009. The allocation of the consideration paid to the fair value of the identifiable assets and liabilities is as follows:

Allocation of purchase price

Argent net assets acquired and liabilities assumed	
Cash and cash equivalents	1,579
Accounts receivable	1,316
Prepaid expenses	306
Petroleum and natural gas properties	7,152
Accounts payable	(1,422)
Asset retirement obligations	(95)
	<u>8,836</u>

## Consideration comprised of:

Cash	5,990
Issuance of common shares	2,764
Transaction costs	82
	<u>8,836</u>

Concurrent with the closing, Sure Energy increased its credit facilities to \$11.5 million consisting of a \$10.0 million revolving operating demand loan and a \$1.5 million non-revolving acquisition/development demand loan.

**3. Property Plant and Equipment**

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
Petroleum and natural gas properties	46,228	36,462
Furniture, fixtures and leaseholds	28	28
	<u>46,256</u>	<u>36,490</u>
Accumulated depletion and depreciation	(10,843)	(6,576)
Net book value	<u>35,413</u>	<u>29,914</u>

At September 30, 2009, unproved oil and gas properties of \$5.7 million (December 31, 2008 - \$4.3 million) have been excluded from costs subject to depletion and depreciation. These costs relate to the Company's undeveloped land base.

During the nine months ended September 30, 2009, directly related exploration administrative expenses of \$328,000 were capitalized (year ended December 31, 2008 - \$427,000).

**4. Bank Indebtedness**

Sure Energy has a credit facility of \$11.5 million consisting of a \$10.0 million revolving operating demand loan and a \$1.5 million non-revolving acquisition/development demand loan. The facility is provided by a Canadian chartered bank, is subject to periodic review by the bank and is secured by a \$50.0 million first floating charge debenture over all of the Company's assets. The facility bears interest at a rate of bank prime plus 1.25 percent on the revolving operating demand loan and bank prime plus 1.50 percent on the non-revolving acquisition/development demand loan.

**5. Asset Retirement Obligations**

The following table reconciles the Company's total asset retirement obligations:

	September 30, 2009	December 31, 2008
Balance, beginning of period	866	698
Acquisition of liabilities in the period	95	81
Abandonment costs incurred	(90)	(53)
Additions	-	42
Revisions	-	31
Accretion expense	54	67
Balance, end of period	925	866

**6. Share Capital****Issued and Outstanding Common Shares**

	Number of shares	Amount
Balance, January 1, 2008	28,545,148	23,815
Issued pursuant to acquisition of Argent	1,861,847	1,731
Settlement of severance of former Argent employees	360,215	335
Private placement – common shares	4,999,091	5,499
Private placement – flow-through shares	1,892,907	2,499
Share issue costs	-	(161)
Balance December 31, 2008	37,659,208	33,718
Issued pursuant to the acquisition of Conifer (note 2)	9,214,754	2,764
Tax effect of flow-through shares	-	(750)
Balance September 30, 2009	46,873,962	\$ 35,732

**7. Per Share Amounts**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Loss	(1,284)	(176)	(2,932)	(673)
Loss per common share				
Basic and diluted	(0.03)	(0.00)	(0.07)	(0.02)
Weighted average shares outstanding				
Basic and Diluted <sup>(1) (2)</sup>	42,166,425	36,086,035	39,178,123	33,726,832

(1) The diluted shares outstanding exclude 1,752,500 unvested performance rights, which are not exercisable and are treated as contingently issuable shares as all of the conditions for issue have not been satisfied as at September 30, 2009.

(2) 3,147,000 options and 1,752,500 vested performance rights have been excluded from the weighted average diluted shares outstanding for the three and nine months ended September 30, 2009 as they are anti-dilutive.

**8. Supplemental Cash Flow Information**

Cash and cash equivalents include the following:

	September 30, 2009	December 31, 2008
Cash on deposit	-	2,050
Bankers acceptance	-	3,993
	-	6,043

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

Period ended	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Accounts receivable	662	(15)	1,131	135
Prepaid expenses	72	(142)	55	(30)
Accounts payable and accrued liabilities	(150)	745	(2,985)	1,120
	584	588	(1,799)	1,225
Operating activities	(435)	(348)	145	(607)
Investing activities	1,019	936	(1,944)	1,832
	584	588	(1,799)	1,225
Other Cash Flow Information:				
Cash taxes paid	-	-	-	-
Cash interest received	-	41	21	55
Cash interest paid	9	-	9	-

### 9. Related Party Transactions

During the three and nine months ended September 30, 2009, legal fees of \$23,000 and \$83,000 respectively (2008 - \$34,000 and \$55,000 respectively) were paid to a law firm of which the Corporate Secretary is a partner. These transactions were measured at the exchange amount.

### 10. Commitments

As a result of the Company issuing flow-through shares in 2008, the Company is committed to spend approximately \$2.5 million before December 31, 2009 on qualifying expenditures. Of this amount, the total spent to September 30, 2009 was approximately \$1.8 million. Income tax deductions of \$2.5 million were renounced to investors in February 2009.

**Directors**

Jeffrey S. Boyce  
Calgary, Alberta

W. Peter Comber<sup>1, 2, 3, 4</sup>  
Managing Director, Barrantagh Investment  
Management Inc.  
Toronto, Ontario

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

Thomas P. Stan<sup>1</sup>  
Managing Director Investment Banking,  
Blackmont Capital., Calgary, Alberta

<sup>1</sup> Audit Committee

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

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

<sup>4</sup> Independent Reserves Committee

**Officers**

Jeffrey S. Boyce  
President and Chief Executive Officer

Lance Wirth  
Vice President Finance and Chief Financial  
Officer

Chris Baker  
Vice President, Exploration

C. Tom Banks  
Vice President, Engineering & Operations

Daniel G. Kolibar  
Corporate Secretary

Rob Sheedy  
Vice President Land

**Advisors****Auditors**

Deloitte & Touche LLP  
Calgary, Alberta

**Banker**

The National Bank  
Calgary, Alberta

**Evaluation Engineers**

Sproule Associates Limited  
Calgary, Alberta

**Legal Counsel**

Borden Ladner Gervais LLP  
Calgary, Alberta

**Transfer Agent**

Valiant Trust Company  
Calgary, Alberta

**Stock Exchange Listing**

The Toronto Stock Exchange  
Symbol: SHR

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

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

Mr. Jeff Boyce, President and CEO  
Phone: (403) 410-3100  
Email: [info@sureenergyinc.com](mailto:info@sureenergyinc.com)

Mr. Lance Wirth, Vice President, Finance and CFO  
Fax: (403) 410-3111

**Forward-looking Information**

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

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