

# 1 FIRST QUARTER REPORT

For the three months ended  
March 31, 2010



Sure Energy Inc. ("Sure Energy" or the "Company") is pleased to announce results for the first quarter 2010, ending March 31, 2010.

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 first quarter of 2010, Sure Energy accomplished the following:

- Production for the first quarter of 2010 increased to 945 BOE/d up from 708 BOE/d in the fourth quarter of 2009
- Funds flow doubled from fourth quarter 2009 \$672,000 (\$0.01 per share) to \$1,218,000 (\$0.03 per share) in the first quarter of 2010
- Drilled four gross wells in the first quarter of 2010 resulting in one gas well and two potential oil wells
- Increased credit facility to \$15 million as a result of increased production and reserves bookings

## HIGHLIGHTS

Three Months Ended March 31,  
2010 2009

(\$000 except share and per share amounts)

### Financial

Petroleum and Natural Gas Revenues	3,073	1,735
Funds Flow from Operations <sup>(1)</sup>	1,218	314
Per Share, Basic and Diluted	0.03	0.01
Loss	(719)	(508)
Per Share, Basic and Diluted	(0.02)	(0.01)
Capital Expenditures	2,303	860
Total Assets	38,620	34,352
Net Debt <sup>(1)</sup>	5,594	(1,671)
Shareholders' Equity	29,394	31,048
Common Shares Outstanding		
Basic	46,849,464	37,659,208
Diluted	49,996,464	40,898,208
Fully Diluted with Performance Rights	53,501,464	44,403,208
Weighted Average Common Shares Outstanding		
Basic and Diluted	46,852,127	37,659,208
Share Trading		
High	0.99	0.35
Low	0.57	0.21
Close	0.93	0.31
Trading Volume	2,816,123	1,348,128

**HIGHLIGHTS**

**Three Months Ended March 31,**  
**2010**                      **2009**

**Operations**

## Production

Natural Gas (Mcf/d)	4,978	3,435
Oil (bbls/d)	72	29
NGLs (bbls/d)	44	27
BOE/d	945	628

## Average Selling Price

Natural Gas (\$/Mcf)	5.17	4.99
Oil (\$/bbl)	77.92	38.04
NGLs (\$/bbl)	63.89	38.64
BOE (\$/BOE)	36.11	30.68

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

18.65                      12.27

Funds Flow Netback (\$/BOE) <sup>(1)</sup>

14.33                      5.58

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

**OPERATIONAL REVIEW**

Cash expenditures for the period were as follows:

**Three Months Ended March 31,**  
**2010**                      **2009**

**Capital Program Summary**

(\$000s)

Land	569	52
Geological and geophysical	152	227
Drilling	1,186	63
Completions	278	51
Recompletions and workovers	168	233
Production equipment and facilities	110	143
Capitalized exploration G&A	95	91
Drilling credits	(450)	-
	2,108	860
Asset acquisition	171	-
Asset retirement obligation	24	-
	2,303	860

Drilling activity for the quarter is summarized as follows:

	Gas		Oil		Total	
	Gross	Net	Gross	Net	Gross	Net
Exploration	1	1.0	-	-	1	1.0
Development	-	-	2	0.8	2	0.8
Dry and Abandoned	-	-	1	1.0	1	1.0
Total	1	1.0	3	1.8	4	2.8

**Areas of Activity****Peace River Arch**

The Company's production increased from 107 BOE/d to 379 BOE/d on the Peace River Arch from Q4, 2009 to Q1, 2010 based on production from a new gas discovery. This well was drilled on proprietary 3D seismic data and was successful in the primary targeted zone. The Company is monitoring the well's production performance before determining if follow-up locations exist.

Sure Energy has an inventory of five additional locations on the Peace River Arch, two of which are targeting new pools. One of these is a gas prospect and is programmed to be drilled in late 2010.

### **Plains (Redwater)**

The Company owns 7,495 net acres of land on an emerging light oil resource play in the Viking formation. At Redwater the lower Viking sand is easily mappable in a regionally extensive northwest to southeast fairway, and is hydrocarbon bearing throughout. The sandstone is actually a finely laminated sand/shale sequence with relatively good horizontal permeability in the sands but with limited vertical permeability. Vertical wells typically produce at less than 7 BOE/d when stabilized, but exhibit low declines, indicating that they are accessing large reserves. Recent horizontal activity by other oil and gas companies in the area has significantly improved production rates, with some wells coming on at 100 to 275 BOE/d. The higher producing wells are exhibiting post flush rates of 50 to 70 BOE/d.

In the southern part of the trend Sure Energy currently owns 2,215 acres of land, most of which was acquired through the purchase of a small private company in the summer of 2009. The Company added 520 acres in the first quarter of 2010 at a crown landsale and through a small property acquisition which also included four producing vertical Viking oil wells and an oil battery.

In February Sure Energy drilled two horizontal wells (40% working interest each). These wells will be completed after break-up using the Packers Plus multi-fracture system. The Company has an additional inventory of 22 proven, five probable and 16 unbooked locations (43 gross – 27 net locations) in the southern area alone, based on drilling three wells per quarter section in the northern area.

In the northern extension of the trend the Company has 5,280 acres of Lower Viking rights in the prospective oil fairway (8.25 sections). The northern end of the trend is less drilled and therefore less proven, but older vertical wells drilled in the immediate area to Sure Energy's land produce similar to those to the south. Recent horizontal wells drilled by other oil and gas companies in the area appear to be exhibiting similar initial production rates to wells to the south, most being in the 60 to 275 BOE/d range. Sure Energy's land is all 100% owned and the Company plans to drill at least one horizontal on the northern block in 2010 to investigate the area's production potential. Sure Energy has identified in excess of 80 potential drilling locations based on three wells per quarter section in the northern area.

Currently companies are using a variety of horizontal well technologies including multi-leg laterals, "packers-plus", multi-frac "monobores", and dual laterals. Sure Energy is monitoring the activity and results in the area to determine the best method to develop its resource.

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

The Company has had success exploring for gas in the Southern Plains of Alberta in the Lloydminster sand. In the Chinook area the Company produced 261 BOE/d of sweet gas in the current quarter from two gas wells. The Company plans to drill an additional seismically defined prospect on the same trend in the second quarter, immediately after break-up.

Using the knowledge gained at Chinook the Company mapped the producing reservoir regionally and identified two similar prospects, one containing gas and one containing heavy oil. The 100% working interest gas prospect was drilled in January and was successful. This well has been tied in and is currently on production at about 40 BOE/d. A follow-up 2D seismic program is planned to optimize the development of the project. The heavy oil prospect is planned to be drilled in the fourth quarter. This well will target a resource of cold flow heavy oil which could impact Sure Energy's reserves and production profile.

### **Tweedie**

The Company currently produces 144 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 109 BOE/d of low decline, liquids rich gas in West Central Alberta. The Company owns 12,160 net acres of undeveloped land in the area and has an inventory of three drillable prospects.

### **SE Saskatchewan**

The Company owns 1,725 acres of land on a prospective light oil fairway at Queensdale in southeast Saskatchewan. After shooting 13 square kilometres of proprietary 3D seismic the Company identified an extension of an adjacent pool on to its acreage. This pool extension will be evaluated in June with a horizontal well and could lead to three follow-up wells. This light oil project could add to Sure Energy's production. A separate structure identified on the 3D seismic was drilled and abandoned this January (100% working interest).

## Production

Production for the period by major property is as follows:

	Three Months Ended March 31, 2010			
	Gas Mcf/d	Oil Bbls/d	NGLs Bbls/d	Total BOE/d
Peace River	2,074	17	17	379
Plains	27	47	-	52
Southern Plains	1,496	-	12	261
Tweedie	861	-	-	144
West Central	520	8	15	109
Total	4,978	72	44	945

## OUTLOOK

Sure Energy had a reasonably active first quarter drilling four gross wells of which one is now a producing natural gas well at Sedalia, and two others are potential Viking oil wells at Redwater that are awaiting completion after breakup.

The Company's base capital budget for 2010 remains at \$10 million and with its increased credit facility of \$15 million provides good financial flexibility for the remainder of the year.

Upcoming in the second quarter of 2010 Sure Energy has plans to complete the two potential oil wells at Redwater along with drilling two high impact 100% working interest natural gas prospects at Chinook and Sedalia. Into the early summer Sure Energy will be drilling two 100% horizontal oil prospects at Redwater and Queensdale that will lead to extensive followup drilling. The Company also continues to build on its undeveloped land base and prospect inventory which is in excess of 160 locations for future growth.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

May 11, 2010

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

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

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

## BUSINESS AND FINANCIAL STRATEGY

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

The global recession created uncertainty resulting in a period of low commodity prices, volatile financial markets and restricted access to capital markets. The economic recovery is gaining traction and oil and gas industry conditions are improving. Nevertheless, Sure Energy's financial strategy has been to maintain a strong balance sheet and a conservative capital structure. As at March 31, 2010, the Company had net debt of \$5.6 million and an unused credit facility of \$9.3 million. The Company has planned a conservative capital expenditure program for 2010. Production increases during 2010 will provide sufficient cash flow for the Company to operate in 2010.

## OVERVIEW

## Selected Annual and Quarterly Information

	Q1 10	2009	Q4 09	Q3 09	Q2 09	Q1 09	2008	Q4 08	Q3 08	Q2 08
<b>Production</b>										
Natural gas (Mcf/d)	4,978	<b>3,532</b>	3,614	3,453	3,626	3,435	<b>2,044</b>	2,568	2,088	1,744
Oil (bbls/d)	72	<b>42</b>	66	53	21	29	<b>13</b>	15	12	14
NGLs (bbls/d)	44	<b>31</b>	39	28	27	27	<b>19</b>	21	22	15
BOE/d	945	<b>662</b>	708	657	653	628	<b>373</b>	463	382	319
Average Selling Price										
Natural gas (\$/Mcf)	5.17	<b>4.07</b>	4.69	3.07	3.56	4.99	<b>8.09</b>	6.85	8.08	10.29
Oil (\$/bbl)	77.92	<b>65.87</b>	73.73	70.11	67.40	38.04	<b>100.11</b>	61.52	126.01	128.42
NGLs (\$/bbl)	63.89	<b>44.66</b>	50.98	47.34	38.56	38.64	<b>53.03</b>	41.72	61.68	63.39
\$/BOE	36.11	<b>28.02</b>	33.66	23.83	23.54	30.68	<b>50.57</b>	41.78	51.58	64.77
Netback (\$/BOE)										
Operating	18.65	<b>12.89</b>	16.61	11.29	11.03	12.27	<b>29.28</b>	23.04	29.46	39.10
Funds Flow	14.33	<b>7.31</b>	10.33	6.73	6.25	5.58	<b>20.06</b>	15.57	23.84	26.78
<b>Financial</b>										
<b>(\$000s except share and per share amounts)</b>										
Revenue	3,073	<b>6,765</b>	2,193	1,439	1,398	1,735	<b>6,909</b>	1,781	1,813	1,883
Funds Flow	1,218	<b>1,766</b>	672	408	372	314	<b>2,740</b>	662	839	779
Per share, basic	0.03	<b>0.04</b>	0.01	0.01	0.01	0.01	<b>0.08</b>	0.02	0.02	0.03
Loss	(719)	<b>(3,760)</b>	(828)	(1,284)	(1,140)	(508)	<b>(1,234)</b>	(561)	(176)	(98)
Per share, basic	(0.02)	<b>(0.09)</b>	(0.02)	(0.03)	(0.03)	(0.01)	<b>(0.04)</b>	(0.01)	(0.00)	(0.00)
Capital Expenditures	2,303	<b>11,398</b>	1,631	8,600	307	860	<b>13,654</b>	3,486	3,125	1,433
Total Assets	38,620		37,908	36,959	32,154	34,352		37,068	35,761	27,174
Net Debt	5,594		(4,537)	(3,664)	1,678	1,671		2,239	4,963	(592)
Shareholder's Equity	29,394		30,054	30,824	29,254	31,048		31,287	31,692	23,880
Common Shares (000's)	46,849		46,874	46,874	37,659	37,659		37,659	37,659	30,767

## Q1 2010

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

## Q4 2009

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

## Q3 2009

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

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

**Q2 2009**

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

**Q1 2009**

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

**Q4 2008**

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

**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.

**RESULTS OF OPERATIONS**

<b>Revenues</b> <b>Petroleum and Natural Gas Revenue (\$000s)</b>	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Natural gas	2,317	1,543
Oil	505	98
NGLs	251	94
	3,073	1,735

<b>Production</b>	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Natural gas (Mcf/d)	4,978	3,435
Oil (bbls/d)	72	29
NGLs (bbls/d)	44	27
BOE/d	945	628

<b>Average Selling Price</b>	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Natural gas (\$/Mcf)	5.17	4.99
Oil (\$/bbl)	77.92	38.04
NGLs (\$/bbl)	63.89	38.64
\$/BOE	36.11	30.68

<b>Average Benchmark Prices</b>	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
AECO (daily) natural gas (\$/Mcf)	4.69	4.66
WTI Crude oil (US\$/bbl)	78.72	43.08
Edmonton par price (Cdn \$/bbl)	80.11	49.66
Exchange rate (US\$/Cdn\$)	1.0409	1.2453

Revenue for the quarter was \$3.1 million versus \$1.7 million for the comparative quarter. Production for the quarter averaged 945 BOE/d, representing an increase of 50 percent over the comparative quarter. Production increased as a result of a new Peach River Arch gas well and from the acquisition of Conifer which closed on August 14, 2009. The Company's realized price for its natural gas was \$5.17/Mcf for the quarter, 4 percent more than the \$4.99/Mcf received in the prior quarter.

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

### Royalties

(\$000s)	Three Months Ended March 31,	
	2010	2009
Royalties	497	455
Average royalty as a percent of revenue	16.2	26.2

Royalties as a percentage of revenue decreased to 16.2 percent for the current quarter versus 26.2 percent for the comparative quarter. The Company received gas cost allowance credits based on capital spent by Argent and Sure Energy in prior periods. Overall, gas royalty rates are lower due to low gas prices and incentives received by Sure Energy on new production.

### Operating expenses

(\$000s)	Three Months Ended March 31,	
	2010	2009
Operating expenses	850	509

Operating costs were \$850,000 or \$9.99 per BOE for the current quarter versus \$509,000 or \$9.00 per BOE for the comparative period. Current quarter operating costs per BOE increased compared to the comparative quarter due to the higher operating costs on the oil wells acquired from Conifer.

### Transportation

(\$000s)	Three Months Ended March 31,	
	2010	2009
Transportation	139	77

Transportation costs were \$1.63 per BOE in the current quarter and \$1.36 for the comparative period. Transportation costs are fairly consistent on a BOE basis and relate to the costs of transporting Sure Energy's natural gas production on major pipelines and trucking Sure Energy's oil to the point of transfer.

### General and Administrative

(\$000s)	Three Months Ended March 31,	
	2010	2009
Gross general and administrative	428	481
Capitalized overhead	(95)	(91)
	333	390

General and administrative ("G&A") costs were \$3.91 per BOE for the current quarter and \$6.89 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

(\$000s)	Three Months Ended March 31,	
	2010	2009
Interest income	-	10
Interest expense	36	-

The interest rate on the debt facility was 3.5 percent.

**Stock Compensation (non-cash)**

(\$000s)	Three Months Ended March 31,	
	2010	2009
Stock compensation	55	269

Stock compensation (non-cash) expense was \$55,000 in the current quarter and \$269,000 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 March 31,	
	2010	2009
Depletion and depreciation	1,862	1,286
Accretion	20	17
	1,882	1,303

The Company's depletion, depreciation and accretion ("DD&A") provision for the current quarter was \$1.9 million, or \$22.13 per BOE and \$1.3 million or \$23.05 per BOE for the comparative period.

Accretion of the asset retirement obligations is calculated at the Company's credit-adjusted, risk-free rate of 8 percent. The Company has estimated the net present value of the asset retirement obligations to be \$1.1 million.

**Income and future taxes**

The Company does not expect to pay current income tax in 2010 or 2011. Estimated income tax pools at March 31, 2010 are as follows:

(\$000s)	
Canadian oil and gas property expenses	10,945
Canadian development expenses	3,512
Canadian exploration expenses	4,221
Undepreciated capital costs	5,346
Non-capital losses	22,243
Financing costs	94
Successored pools (restricted)	18,466
	64,827

**Netbacks**

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

(\$/BOE)	Three Months Ended March 31,	
	2010	2009
Price	36.11	30.68
Royalties	(5.84)	(8.05)
Operating costs	(9.99)	(9.00)
Transportation	(1.63)	(1.36)
Operating Netback	18.65	12.27
General and administrative	(3.91)	(6.89)
Interest income (expense)	(0.41)	0.20
Funds Flow Netback	14.33	5.58
Stock compensation	(0.65)	(4.76)
Depletion, depreciation and accretion	(22.13)	(23.05)
Future income taxes	-	13.27
Loss Netback	(8.45)	(8.96)

**CAPITAL EXPENDITURES**

Cash expenditures for the period were as follows:

<b>Capital Program Summary</b> (\$000s)	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Land	569	52
Geological and geophysical	152	227
Drilling	1,186	63
Completions	278	51
Recompletions and workovers	168	233
Production equipment and facilities	110	143
Capitalized exploration G&A	95	91
Drilling credits	(450)	-
	<b>2,108</b>	<b>860</b>
Asset acquisition	171	-
Asset retirement obligation	24	-
	<b>2,303</b>	<b>860</b>

Drilling activity for the quarter is summarized as follows:

	<b>Gas</b>		<b>Oil</b>		<b>Total</b>	
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
Exploration	1	1.0	-	-	1	1.0
Development	-	-	2	0.8	2	0.8
Dry and Abandoned	-	-	1	1.0	1	1.0
<b>Total</b>	<b>1</b>	<b>1.0</b>	<b>3</b>	<b>1.8</b>	<b>4</b>	<b>2.8</b>

**SHARE CAPITAL**

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

<b>Outstanding at:</b>	<b>March 31, 2010</b>	<b>December 31, 2009</b>	<b>May 11, 2010</b>
Common shares	46,849,464	46,873,962	46,849,464
Options	3,147,000	3,239,000	3,147,000
PIR's	3,505,000	3,505,000	3,505,000
	<b>53,501,464</b>	<b>53,617,962</b>	<b>53,501,464</b>

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

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

**CAPITALIZATION, FINANCIAL RESOURCES AND LIQUIDITY**

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

	March 31, 2010	December 31, 2009
Net debt		
Working capital		
Accounts receivable	(2,086)	(1,829)
Prepaid expenses	(471)	(457)
Accounts payable and accrued liabilities	3,223	3,777
	666	1,491
Cash and cash equivalents	-	-
Bank debt	4,928	3,046
Total net debt	5,594	4,537
Market capitalization		
Common shares outstanding	46,849,464	46,873,962
Closing price, TSX	0.93	0.61
Total market capitalization	43,570	28,593
Total net debt and market capitalization	49,164	33,130
Net debt as a percent of total capitalization	11%	14%

	March 31, 2010	December 31, 2009
Funds flow from operations		
Loss	(719)	(3,760)
Add items not affecting cash:		
Depletion, depreciation and accretion	1,882	5,763
Stock compensation	55	513
Future income tax recovery	-	(750)
Total funds flow from operations	1,218	1,766
Trailing 12 months funds flow from operations	2,670	1,766
Net debt to trailing 12 months funds flow from operations ratio	2.10	2.57

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

The Company is subject to a covenant on its credit facility to maintain its ratio of current assets (including the undrawn portion of the demand credit facility) to current liabilities (not including current bank debt) at a 1.0:1.0 level. As at March 31, 2010 the current ratio was 2.37 (December 31, 2009 - 2.45).

#### 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.

#### INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to reporting for the first quarter of 2010, for which the current and comparative information will be prepared under IFRS.

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

The process consists of the following phases:

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

The transition from Canadian GAAP to IFRS is expected to have a significant impact on Sure Energy. At this time, management has identified key differences that will impact the financial statements, but is unable to quantify the impact of adopting IFRS as management has not finalized its policy choices. The key differences are as follows:

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

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

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

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

The Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company’s disclosure controls and ICFR as of the date of this MD&A, that disclosure controls and ICFR are not effective due to the material weakness in ICFR as described below. The material weakness identified did not result in any adjustments to the Company’s financial statements for the three months and year ended March 31, 2010 or any prior period.

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

There have been no significant changes in the Company’s ICFR that occurred during the year ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company’s ICFR.

## OUTLOOK

Sure Energy had a reasonably active first quarter drilling four gross wells of which one is now a producing natural gas well at Sedalia, and two others are potential Viking oil wells at Redwater that are awaiting completion after breakup.

The Company's base capital budget for 2010 remains at \$10 million and with its increased credit facility of \$15 million provides good financial flexibility for the remainder of the year.

Upcoming in the second quarter of 2010 Sure Energy has plans to complete the two potential oil wells at Redwater along with drilling two high impact 100% working interest natural gas prospects at Chinook and Sedalia. Into the early summer Sure Energy will be drilling two 100% horizontal oil prospects at Redwater and Queensdale that will lead to extensive followup drilling.

The Company also continues to build on its undeveloped land base and prospect inventory which is in excess of 160 locations for future growth.

### Non-GAAP Measures

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

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

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

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

### Forward-looking Information

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

### GLOSSARY OF ABBREVIATIONS

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

**SURE ENERGY INC.  
BALANCE SHEETS**

As at (\$000's)	March 31, 2010	December 31, 2009
(unaudited)		
<b>Assets</b>		
Current assets		
Accounts receivable	\$ 2,086	\$ 1,829
Prepaid expenses	471	457
	2,557	2,286
Property, plant and equipment (note 2)	36,063	35,622
	38,620	37,908
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	3,223	3,777
Bank debt (note 3)	4,928	3,046
	8,151	6,823
Asset retirement obligations (note 4)	1,075	1,031
	9,226	7,854
Shareholders' equity		
Share capital (note 5)	35,706	35,732
Contributed surplus	3,237	3,152
Deficit	(9,549)	(8,830)
	29,394	30,054
	\$ 38,620	\$ 37,908

See accompanying notes.

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

(\$000's, except per share amounts) (unaudited)	Three Months Ended March 31,	
	2010	2009
<b>Revenue</b>		
Petroleum and natural gas revenues	\$ 3,073	\$ 1,735
Royalties	(497)	(455)
Interest income	-	10
	<u>2,576</u>	<u>1,290</u>
<b>Expenses</b>		
Operating	850	509
Transportation	139	77
General and administration	333	390
Interest on bank debt	36	-
Stock compensation	55	269
Depletion, depreciation and accretion	1,882	1,303
	<u>3,295</u>	<u>2,548</u>
Loss before future income tax recovery	(719)	(1,258)
Future income tax recovery	-	750
Loss and comprehensive loss	(719)	(508)
Deficit, beginning of period	(8,830)	(5,070)
Deficit, end of period	<u>(9,549)</u>	<u>(5,578)</u>
Loss per common share (note 6)		
Basic and diluted	\$ (0.02)	\$ (0.01)

See accompanying notes.

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

(\$000's)	Three Months Ended March 31,	
(unaudited)	2010	2009
Cash provided by (used in):		
<b>Operating</b>		
Loss	\$ (719)	\$ (508)
Items not affecting cash:		
Depletion, depreciation and accretion	1,882	1,303
Stock compensation	55	269
Future income tax recovery	-	(750)
Abandonment expenditures	-	(22)
Changes in non-cash working capital (note 7)	500	495
	1,718	787
<b>Investing</b>		
Drilling and development of petroleum and natural gas properties	(2,108)	(860)
Acquisition of petroleum and natural gas properties	(171)	-
Changes in non-cash working capital (note 7)	(1,325)	(2,602)
	(3,604)	(3,462)
<b>Financing</b>		
Increase in bank debt	1,883	-
Issue of common shares for cash, net of share issue costs	3	-
	1,886	-
Net change in cash and cash equivalents	-	(2,675)
Cash and cash equivalents, beginning of period	-	6,043
Cash and cash equivalents, end of period	\$ -	\$ 3,368

See accompanying notes.

Supplementary Cash Flow information (note 7)

**SURE ENERGY INC.****Notes to the Financial Statements****As at and for the three months ended March 31, 2010**

(unaudited)

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

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

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

**2. Property Plant and Equipment**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Petroleum & natural gas properties	50,163	47,860
Furniture, fixtures and leaseholds	28	28
	50,191	47,888
Accumulated depletion and depreciation	(14,128)	(12,266)
Net book value	36,063	35,622

As of March 31, 2010, unproved oil and gas properties of \$5.2 million (December 31, 2009 - \$5.0 million) have been excluded from costs subject to depletion and depreciation. These costs relate to the Company's undeveloped land base. Estimated future development costs of \$11.1 million have been included in costs subject to depletion and depreciation as at March 31, 2010 (December 31, 2009 - \$11.3 million).

During the three months ended March 31, 2010, the Company capitalized \$95,000 (2009 - \$426,000) of general and administrative expenses directly related to exploration and development activities.

**3. Bank Indebtedness**

On April 8, 2010, Sure Energy increased its credit facilities to \$15.0 million consisting of a \$10.0 million revolving operating demand loan and a \$5.0 million non-revolving acquisition/development demand loan. The facility is provided by a Canadian chartered bank, is subject to periodic review by the bank and is secured by a \$50.0 million first floating charge debenture over all of the Company's assets. The facility bears interest at a rate of bank prime plus 1.25 percent on the revolving operating demand loan and bank prime plus 1.50 of a percent on the non-revolving acquisition/development demand loan.

**4. Asset Retirement Obligations**

The following table reconciles the Company's total asset retirement obligation as at:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Carrying amount, beginning of period	1,031	866
Acquisition of liabilities	-	95
Abandonment costs incurred	-	(132)
Additions	24	16
Revision of liabilities	-	113
Accretion expense	20	73
Carrying amount, end of period	1,075	1,031

## 5. Share Capital

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

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

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

## 6. Per Share Amounts

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Loss	(719)	(508)
Loss per share		
Basic and diluted	(0.02)	(0.01)
Weighted average shares outstanding		
Basic and Diluted <sup>(1) (2)</sup>	46,852,127	37,659,208

(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 March 31, 2010.

(2) 3,147,000 options and 1,752,500 vested performance rights have been excluded from the weighted average diluted shares outstanding as at March 31, 2010 as they are anti-dilutive.

## 7. Supplemental Cash Flow Information

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Accounts receivable	(257)	337
Prepaid expenses	(14)	28
Accounts payable and accrued liabilities	(554)	(2,472)
	(825)	(2,107)
Operating activities	500	495
Investing activities	(1,325)	(2,602)
	(825)	(2,107)
Other Cash Flow Information:		
Cash taxes paid	-	-
Cash interest received	-	16
Cash interest paid	36	-

## 8. Related Party Transactions

During the three months ended March 31, 2010, legal fees of \$16,000 (2009 - \$31,000) were paid to a law firm of which the Corporate Secretary is a partner. These transactions were measured at the exchange amount.

## 9. Capital Management

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

	March 31, 2010	December 31, 2009
Net debt		
Working capital		
Accounts receivable	(2,086)	(1,829)
Prepaid expenses	(471)	(457)
Accounts payable and accrued liabilities	3,223	3,777
	666	1,491
Cash and cash equivalents	-	-
Bank debt	4,928	3,046
Total net debt	5,594	4,537
Market capitalization		
Common shares outstanding	46,849,464	46,873,962
Closing price, TSX	0.93	0.61
Total market capitalization	43,570	28,593
Total net debt and market capitalization	49,164	33,130
Net debt as a percent of total capitalization	11%	14%
Funds flow from operations		
Loss	(719)	(3,760)
Add items not affecting cash:		
Depletion, depreciation and accretion	1,882	5,763
Stock compensation	55	513
Future income tax recovery	-	(750)
Total funds flow from operations	1,218	1,766
Trailing 12 months funds flow from operations	2,670	1,766
Net debt to trailing 12 months funds flow from operations ratio	2.10	2.57

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

The Company is subject to a covenant on its credit facility to maintain its ratio of current assets (including the undrawn portion of the demand credit facility) to current liabilities (not including current bank debt) at a 1.0:1.0 level. As at March 31, 2010 the current ratio was 2.37 (December 31, 2009 - 2.45).

**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, Desjardins Securities.,  
Calgary, Alberta

<sup>1</sup> Audit Committee

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

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

<sup>4</sup> Independent Reserves Committee

**Officers**

Jeffrey S. Boyce  
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:

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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 stated intentions and expectations for drilling and production levels 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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