

**GUIDE EXPLORATION LTD.**

**(formerly Galleon Energy Inc.)**

**Management's Discussion and Analysis**

**September 30, 2011**

## Management's Discussion and Analysis

This Management's Discussion & Analysis ("MD&A") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of Guide Exploration Ltd. ("Guide" or the "Corporation"), formerly Galleon Energy Inc., for the three and nine month periods ended September 30, 2011, with comparisons to the three and nine months ended September 30, 2010 and as at December 31, 2010. The MD&A has been prepared by management and should be read in conjunction with the interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2011 and 2010, and the audited consolidated financial statements for the year ended December 31, 2010 and the related management's discussion and analysis, as disclosure which is unchanged from such management's discussion and analysis may not be repeated herein.

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Corporation commenced reporting on this basis in the interim consolidated financial statements for the three months ended March 31, 2011.

The interim consolidated financial statements have been prepared in accordance with IFRS applicable to preparation of interim financial statements, including IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Subject to certain transition elections disclosed in note 19 to the interim consolidated financial statements, the Corporation has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented in the interim consolidated financial statements, as if these policies had always been in effect. The interim consolidated financial statements do not include all of the information required for full annual financial statements.

The interim consolidated financial statements have been prepared in accordance with IFRS currently issued and expected to be effective as at and for the year ending December 31, 2011, the date of the Corporation's first annual reporting under IFRS. Any subsequent changes to IFRS reflected in the Corporation's annual consolidated financial statements for the year ended December 31, 2011 could result in restatement of the interim consolidated financial statements.

While the adoption of IFRS has not changed the Corporation's business activities or actual cash flow, it has resulted in adjustments to the Corporation's financial statements. The areas most impacted by the transition to IFRS are accounting for property and equipment, asset impairment testing, and income taxes. Please refer to Note 3 to the of the Corporation's interim consolidated financial statements for the Corporation's detailed IFRS accounting policies.

In order to allow the users of the financial statements to better understand the impact of the change to IFRS, the impact of the transition to IFRS on the Corporation's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Corporation's consolidated Canadian GAAP financial statements for the year ended December 31, 2010, are provided in note 19 of the Corporation's interim consolidated financial statements.

Comparative amounts throughout this MD&A have been restated to reflect the change in generally accepted accounting principles, other than quarterly information noted herein under "Quarterly Highlights" for periods prior to the transition to IFRS. In this MD&A, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

Petroleum and natural gas reserves and volumes are converted to a common unit of measure on a basis of six thousand cubic feet (Mcf) of gas to one barrel (Bbl) of oil. BOEs may be misleading, particularly if

used in isolation. The forgoing conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Amounts are shown in Canadian dollars unless otherwise stated. All production volumes disclosed herein are sales volumes.

This MD&A is based on information available as of, and is dated, November 10, 2011.

### **Non-GAAP Measurements**

The MD&A contains terms commonly used in the oil and gas industry, such as funds from operations, funds from operations per share, and operating netback. These terms are not defined by IFRS and should not be considered an alternative to, or more meaningful than, cash provided by operating activities or net earnings as determined in accordance with IFRS as an indicator of Guide's performance. Management believes that in addition to net earnings, funds from operations is a useful financial measurement which assists in demonstrating the Corporation's ability to fund capital expenditures necessary for future growth or to repay debt. Guide's determination of funds from operations may not be comparable to that reported by other companies. All references to funds from operations throughout this report are based on cash flow from operating activities before changes in non-cash working capital and abandonment expenditures. The Corporation calculates funds from operations per share by dividing funds from operations by the weighted average number of Class A shares outstanding.

Guide uses the term net debt in the MD&A and presents a table showing how it has been determined. This measure does not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

### **Forward-Looking Statements**

Statements that are not historical facts may be considered forward looking statements including management's assessment of future plans and operations, development plans, drilling plans and the timing thereof, timing of completion of facilities, timing of commencement of production from new wells, the expectation that the Corporation will not be taxable in 2011, anticipated timing of regulatory approvals, planned completion techniques in certain areas, 2011 capital expenditure budget and the anticipated method of funding thereof, the method of funding of potential acquisitions, the expected level of 2011 cash flows compared to 2010, 2011 operating costs and royalties, and the expected continued volatility in commodity prices and stock markets.

Projected level of 2011 cash flow, which was approved by management of the Corporation as at September 16, 2011, may constitute future oriented financial information or a financial outlook under applicable securities laws. This is provided to provide readers with a comparison of expected 2011 cash flows compared to 2010 based on the various assumptions described. Readers are cautioned that the information may not be appropriate for other purposes.

These forward-looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Corporation's objectives, goals or future plans are forward-looking statements. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. As a

consequence, Guide's actual results may differ materially from those expressed in, or implied by, the forward-looking statements.

Forward-looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although the Corporation believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Corporation can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which the Corporation operates; the timely receipt of any required regulatory approvals; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Corporation has an interest in to operate the field in a safe, efficient and effective manor; the ability of the Corporation to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Corporation to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates; and the ability of the Corporation to successfully market its oil and natural gas products.

Readers are cautioned that the foregoing list of factors and assumptions is not exhaustive. Additional information on these and other factors that could affect Guide's operations and financial results are included elsewhere herein and in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)), or at Guide's website ([www.guidex.ca](http://www.guidex.ca)). Furthermore, the forward-looking statements contained herein are made as at the date hereof and Guide does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

## FINANCIAL AND OPERATING HIGHLIGHTS

| (\$000s except per share and per unit amounts)                            | Three months ended<br>September 30 |            | Nine months ended<br>September 30 |            |
|---|------------------------------------|------------|-----------------------------------|------------|
|   | 2011                               | 2010       | 2011                              | 2010       |
| <b>Financial</b>  |                                    |            |                                   |            |
| Petroleum and natural gas revenue   | 44,026                             | 44,279     | 140,154                           | 161,836    |
| Funds flow from operations <sup>1</sup>                                   | 26,789                             | 20,425     | 73,746                            | 79,251     |
| Per share – basic   | 0.32                               | 0.24       | 0.88                              | 0.93       |
| Per share – diluted   | 0.32                               | 0.24       | 0.88                              | 0.93       |
| Net income (loss)   | 17,132                             | 577        | 14,340                            | 33,972     |
| Per share – basic   | 0.20                               | 0.01       | 0.17                              | 0.40       |
| Per share – diluted   | 0.20                               | 0.01       | 0.17                              | 0.40       |
| Capital expenditures  | 36,140                             | 41,055     | 100,199                           | 102,819    |
| Total assets  | 898,110                            | 886,847    | 898,110                           | 886,847    |
| Net dispositions of oil and gas properties                                | 5,835                              | 416        | 6,521                             | 114,362    |
| Net debt <sup>1,2</sup>   | 167,870                            | 139,732    | 167,870                           | 139,732    |
| Total non-current financial liabilities                                   | 13,693                             | 11,194     | 13,693                            | 11,194     |
| Shareholders' equity  | 602,240                            | 614,468    | 602,240                           | 614,468    |
| Weighted average shares outstanding                                       |                                    |            |                                   |            |
| Basic   | 84,364,096                         | 84,869,236 | 84,109,494                        | 85,036,467 |
| Diluted   | 84,364,096                         | 84,869,236 | 84,109,494                        | 85,156,588 |
| <b>Operating</b>  |                                    |            |                                   |            |
| Average daily production  |                                    |            |                                   |            |
| Light oil (Bbl/d)   | 2,343                              | 2,517      | 2,557                             | 3,018      |
| Heavy oil (Bbl/d)   | 1,245                              | 1,009      | 1,020                             | 1,092      |
| NGLs (Bbl/d)  | 374                                | 433        | 363                               | 499        |
| Natural gas (Mcf/d)   | 46,416                             | 59,186     | 49,333                            | 63,662     |
| Total (BOE/d)   | 11,698                             | 13,823     | 12,162                            | 15,219     |
| Average selling prices <sup>3</sup>                                       |                                    |            |                                   |            |
| Light oil (\$/Bbl)  | 80.14                              | 71.26      | 86.25                             | 73.94      |
| Heavy oil (\$/Bbl)  | 69.16                              | 58.13      | 69.58                             | 60.42      |
| NGLs (\$/Bbl)   | 66.79                              | 49.48      | 69.54                             | 53.40      |
| Natural gas (\$/Mcf)  | 3.87                               | 3.75       | 3.99                              | 4.35       |
| Total (\$/BOE)  | 40.91                              | 34.82      | 42.21                             | 38.95      |
| Average selling prices, after financial derivative contracts <sup>4</sup> |                                    |            |                                   |            |
| Crude oil (\$/Bbl)  | 87.47                              | 65.46      | 81.50                             | 68.68      |
| Natural gas (\$/Mcf)  | 5.30                               | 4.32       | 5.33                              | 5.00       |

<sup>1</sup> See "Non-GAAP Measurements"

<sup>2</sup> Net debt includes bank indebtedness and working capital, but excludes financial derivatives and other liability

<sup>3</sup> The average prices reported are prior to financial derivatives and transportation charges

<sup>4</sup> The average prices reported are after financial derivatives and prior to transportation charges

Guide Exploration Ltd. was incorporated under the Business Corporations Act of Alberta on March 27, 2003 as Galleon Energy Inc. On November 1, 2011 the name of the Corporation was changed to Guide.

Total petroleum and natural gas revenue, before royalties and financial derivatives, was \$44.0 million in the third quarter of 2011 compared \$44.3 million in the third quarter of 2010. Although prices for crude oil increased during the quarter, the benefit was offset by a decrease in production volumes. Production in Q3 2011 averaged 11,698 BOE/d compared to 13,823 BOE/d in Q3 2010. The 15% reduction reflects a decline in natural gas production, reflecting the Corporation's capital program being weighted towards oil projects.

The average price for natural gas, before transportation and financial derivative contracts, was \$3.87/Mcf in the third quarter of 2011, 3% higher than the \$3.75/Mcf price received in the third quarter of 2010. Crude oil prices increased 13% in Q3 2011 to \$76.32/Bbl from \$67.50/Bbl in Q3 2010.

Funds flow from operations increased by \$6.4 million, or 31%, in the three months ended September 30, 2011 compared to the third quarter of 2010, due primarily to the \$7.4 million increase in realized gains on financial derivative contracts, reflecting higher gains on both gas and oil derivative contracts. During the third quarter of 2011, oil contracts for 2012 were unwound for which a cash payment of \$3.9 million was received.

Net earnings in the third quarter of 2011 of \$17.1 million include \$15.4 million of unrealized gain on financial derivative contracts, compared to unrealized gains on financial derivative contracts of \$0.4 million in Q3 2010.

## Results of Operations

Comparative financial results for the quarter are as follows:

| Three months ended September 30<br>(\$000s)   | 2011          |              | 2010          |              |
|---|---------------|--------------|---------------|--------------|
|   | 1,076,198 BOE | \$/BOE       | 1,271,739 BOE | \$/BOE       |
| Revenues                                      | 44,026        | 40.91        | 44,279        | 34.82        |
| Realized gain on financial derivatives        | 9,795         | 9.10         | 2,420         | 1.90         |
| Royalties                                     | (8,290)       | (7.70)       | (8,293)       | (6.52)       |
| GCA <sup>1</sup>                              | 2,612         | 2.43         | 3,013         | 2.36         |
| Transportation costs                          | (2,041)       | (1.90)       | (2,110)       | (1.66)       |
| Operating costs                               | (12,689)      | (11.79)      | (12,978)      | (10.20)      |
| <b>Net</b>                                    | <b>33,413</b> | <b>31.05</b> | <b>26,331</b> | <b>20.70</b> |
| G&A   | (4,665)       | (4.34)       | (3,930)       | (3.09)       |
| Restructuring costs                           | -             | -            | (59)          | (0.05)       |
| Interest costs                                | (1,874)       | (1.74)       | (1,849)       | (1.45)       |
| Exploration expenses                          | (23)          | (0.02)       | -             | -            |
| Capital and other taxes                       | (62)          | (0.06)       | (68)          | (0.05)       |
| <b>Funds flow from operations<sup>2</sup></b> | <b>26,789</b> | <b>24.89</b> | <b>20,425</b> | <b>16.06</b> |



Average production was 11,698 BOE/d for the third quarter 2011, 15% lower than the average production of 13,823 BOE/d in the third quarter 2010. By product, production volumes changed as follows: light oil production decreased by 7%, heavy oil production increased by 23%, natural gas liquids production decreased by 14% and natural gas production decreased by 22%.

Crude oil production during the third quarter of 2011 reflects a reclassification of 197 Bbls/d from light oil to heavy oil, relating to the six months ended June 30, 2011.

## Commodity Pricing and Marketing

Petroleum products are sold to major Canadian marketers at spot reference prices or prices subject to commodity contracts based on US WTI for crude oil and AECO for natural gas. As a means of managing the risk of commodity price volatility and improving netback cash flows, Guide has entered into several natural gas and crude oil financial contracts.

The Corporation has the following financial contracts in place as at September 30, 2011:

| Natural Gas:                        |             |                             |
|-------------------------------------|-------------|-----------------------------|
| January 1, 2010 - December 31, 2011 | 5,000 GJ/d  | CDN \$5.85/GJ               |
| January 1, 2010 - December 31, 2011 | 5,000 GJ/d  | CDN \$5.75/GJ               |
| January 1, 2011 - December 31, 2011 | 20,000 GJ/d | CDN \$5.20/GJ               |
| April 1, 2011 - December 31, 2011   | 5,000 GJ/d  | CDN \$5.60/GJ               |
| January 1, 2012 - December 31, 2012 | 22,500 GJ/d | CDN \$5.00/GJ               |
| Crude Oil:                          |             |                             |
| Fixed Price:                        |             |                             |
| January 1, 2011 – December 31, 2011 | 1,000/Bbl/d | WTI CDN \$84.15/Bbl         |
| January 1, 2011 – December 31, 2011 | 500 Bbl/d   | WTI CDN \$92.00/Bbl         |
| Costless Collars:                   |             |                             |
| January 1, 2011 – December 31, 2011 | 1,000 Bbl/d | WTI CDN \$77.10-\$90.00/Bbl |
| Other:                              |             |                             |
| January 1, 2012 – December 31, 2012 | 527 Bbl/d   | WTI US \$85.00/Bbl Put      |
| January 1, 2012 – December 31, 2012 | 1,000 Bbl/d | WTI US \$85.00/Bbl Put      |
| January 1, 2013 – December 31, 2013 | 1,527 Bbl/d | WTI US \$85.00/Bbl Call     |
| January 1, 2013 – December 31, 2013 | 500 Bbl/d   | WTI US\$ 85.00/Bbl Swaption |
| January 1, 2013 – December 31, 2013 | 73 Bbl/d    | WTI US \$100.00/Bbl Call    |
| January 1, 2014 – December 31, 2014 | 980 Bbl/d   | WTI US\$ 85.00/Bbl Swaption |

In the third quarter of 2011, Guide recorded realized gains of \$9.8 million on financial contracts, compared to a \$2.4 million gain realized in the third quarter of 2010. Spot prices for natural gas continued to be substantially lower than the prices Guide has secured using financial contracts. During the third quarter of 2011, oil contracts for 2012 were unwound for which a cash payment of \$3.9 million was received.

Based on the mark to market value at September 30, 2011, unrealized gains on financial contracts of \$15.4 million were recorded in the third quarter of 2011, compared to unrealized gains of \$0.4 million in Q3 2010. If the contracts were unwound at September 30, 2011, the Corporation would receive a net amount of \$11.3 million.

Subsequent to September 30, 2011, the Corporation entered into the following financial derivative contract:

Crude Oil:

Costless collar:

January 1, 2012 – December 31, 2012

500 Bbl/d WTI CDN \$85.00 - \$90.00/Bbl

**Prices (prior to financial derivatives and transportation charges)**

|                      | Three months ended<br>September 30 |       | Nine months ended<br>September 30 |       |
|----------------------|------------------------------------|-------|-----------------------------------|-------|
|                      | 2011                               | 2010  | 2011                              | 2010  |
| Light oil (\$/Bbl)   | 80.14                              | 71.26 | 86.25                             | 73.94 |
| Heavy oil (\$/Bbl)   | 69.16                              | 58.13 | 69.58                             | 60.42 |
| NGLs (\$/Bbl)        | 66.79                              | 49.48 | 69.54                             | 53.40 |
| Natural gas (\$/Mcf) | 3.87                               | 3.75  | 3.99                              | 4.35  |

The prices realized in Q3 2011 were higher for all products compared to Q3 2010. Light oil prices increased 12%, heavy oil prices increased 19%, natural gas prices increased 3%, and NGL prices increased by 35%.

During 2011 Guide realized higher net commodity prices as a result of financial derivative contracts in place. The net price received for crude oil in Q3 2011 was \$11.15/Bbl or 15% higher due to financial derivative contracts. The Q3 2011 net price received for natural gas was \$1.43/Mcf or 40% higher due to financial derivative contracts. For the nine months ended September 30, 2011, financial derivative contracts had no impact on the net oil price received. During the nine months ended September 30, 2011, the net price received for natural gas was \$1.34/Mcf or 36% higher due to financial derivative contracts.

*Crude Oil Prices*

| Three months ended September 30 | 2011   |        | 2010   |        |
|---------------------------------|--------|--------|--------|--------|
|                                 | \$000s | \$/Bbl | \$000s | \$/Bbl |
| Crude oil                       | 25,192 | 76.32  | 21,898 | 67.50  |
| Realized financial contracts    | 3,679  | 11.15  | (661)  | (2.04) |
| Transportation                  | (728)  | (2.21) | (491)  | (1.51) |
| Net crude oil                   | 28,143 | 85.26  | 20,746 | 63.95  |

| Nine months ended September 30 | 2011    |        | 2010    |        |
|--------------------------------|---------|--------|---------|--------|
|                                | \$000s  | \$/Bbl | \$000s  | \$/Bbl |
| Crude oil                      | 79,590  | 81.50  | 78,911  | 70.33  |
| Realized financial contracts   | (2)     | -      | (1,846) | (1.65) |
| Transportation                 | (2,086) | (2.13) | (1,433) | (1.28) |
| Net crude oil                  | 77,502  | 79.37  | 75,632  | 67.40  |

*Natural Gas Prices*

| Three months ended September 30 | 2011    |        | 2010    |        |
|---------------------------------|---------|--------|---------|--------|
|                                 | \$000s  | \$/Mcf | \$000s  | \$/Mcf |
| Natural gas                     | 16,536  | 3.87   | 20,410  | 3.75   |
| Realized financial contracts    | 6,120   | 1.43   | 3,119   | 0.57   |
| Transportation                  | (1,302) | (0.30) | (1,615) | (0.30) |
| Net natural gas                 | 21,354  | 5.00   | 21,914  | 4.02   |

| Nine months ended September 30 | 2011    |        | 2010    |        |
|--------------------------------|---------|--------|---------|--------|
|                                | \$000s  | \$/Mcf | \$000s  | \$/Mcf |
| Natural gas                    | 53,673  | 3.99   | 75,650  | 4.35   |
| Realized financial contracts   | 18,037  | 1.34   | 11,345  | 0.65   |
| Transportation                 | (4,173) | (0.31) | (5,283) | (0.30) |
| Net natural gas                | 67,537  | 5.02   | 81,712  | 4.70   |

#### NGL Prices

| Three months ended September 30 | 2011   |        | 2010   |        |
|---------------------------------|--------|--------|--------|--------|
|                                 | \$000s | \$/Bbl | \$000s | \$/Bbl |
| NGL                             | 2,298  | 66.79  | 1,971  | 49.48  |
| Transportation                  | (11)   | (0.32) | (4)    | (0.08) |
| Net NGL                         | 2,287  | 66.47  | 1,967  | 49.40  |

| Nine months ended September 30 | 2011   |        | 2010   |        |
|--------------------------------|--------|--------|--------|--------|
|                                | \$000s | \$/Bbl | \$000s | \$/Bbl |
| NGL                            | 6,891  | 69.54  | 7,275  | 53.40  |
| Transportation                 | (45)   | (0.46) | (5)    | (0.03) |
| Net NGL                        | 6,846  | 69.08  | 7,270  | 53.37  |

#### Performance by Property

|          | 2011          |            |                                     |                                    | 2010          |            |                                     |                                    |
|----------|---------------|------------|-------------------------------------|------------------------------------|---------------|------------|-------------------------------------|------------------------------------|
|          | Production    |            | Operating netbacks/BOE <sup>1</sup> | Funds from operations <sup>2</sup> | Production    |            | Operating netbacks/BOE <sup>1</sup> | Funds from operations <sup>2</sup> |
|          | BOE/d         | %          | \$                                  | %                                  | BOE/d         | %          | \$                                  | %                                  |
|          |               |            |                                     |                                    |               |            |                                     |                                    |
| Peace    | 6,764         | 58         | 21.07                               | 62                                 | 7,753         | 56         | 17.89                               | 62                                 |
| Smoky    | 2,607         | 22         | 17.43                               | 20                                 | 3,236         | 24         | 16.78                               | 24                                 |
| Cherhill | 993           | 9          | 23.63                               | 10                                 | 1,025         | 7          | 14.82                               | 7                                  |
| Worsley  | 492           | 4          | 3.39                                | 1                                  | 882           | 6          | 5.53                                | 2                                  |
| Other    | 842           | 7          | 18.08                               | 7                                  | 927           | 7          | 12.62                               | 5                                  |
|          | <b>11,698</b> | <b>100</b> | <b>19.52</b>                        | <b>100</b>                         | <b>13,823</b> | <b>100</b> | <b>16.26</b>                        | <b>100</b>                         |

|          | 2011          |            |                                     |                                    | 2010          |            |                                     |                                    |
|----------|---------------|------------|-------------------------------------|------------------------------------|---------------|------------|-------------------------------------|------------------------------------|
|          | Production    |            | Operating netbacks/BOE <sup>1</sup> | Funds from operations <sup>2</sup> | Production    |            | Operating netbacks/BOE <sup>1</sup> | Funds from operations <sup>2</sup> |
|          | BOE/d         | %          | \$                                  | %                                  | BOE/d         | %          | \$                                  | %                                  |
|          |               |            |                                     |                                    |               |            |                                     |                                    |
| Peace    | 6,855         | 56         | 21.63                               | 59                                 | 7,698         | 51         | 18.33                               | 48                                 |
| Smoky    | 2,925         | 24         | 19.78                               | 23                                 | 3,506         | 23         | 19.02                               | 23                                 |
| Cherhill | 964           | 8          | 24.82                               | 10                                 | 1,100         | 7          | 19.77                               | 7                                  |
| Worsley  | 591           | 5          | 8.51                                | 2                                  | 921           | 6          | 8.18                                | 3                                  |
| Other    | 827           | 7          | 18.33                               | 6                                  | 1,994         | 13         | 28.93                               | 19                                 |
|          | <b>12,162</b> | <b>100</b> | <b>20.58</b>                        | <b>100</b>                         | <b>15,219</b> | <b>100</b> | <b>19.37</b>                        | <b>100</b>                         |

<sup>1</sup> Operating netbacks/BOE exclude GCA and hedging gains and losses, and are calculated by subtracting royalties, operating costs, and transportation from revenues and dividing the result by the average production for the period

<sup>2</sup> See "Non-GAAP Measurements"

### Peace Area - Includes Normandville, Girouxville, and Eaglesham

Peace area production averaged 6,764 BOE/d (67% natural gas and 33% oil and NGLs) during the third quarter of 2011, a 13% decrease from 7,753 BOE/d (73% natural gas and 27% oil and NGL) during the same period in 2010. The area contributed 62% to total funds from operating activities in Q3 2011 based on 58% of production volumes.

The Normandville/Girouxville Montney project was initially developed using vertical wells. However, as technology evolved to allow effective stimulation of horizontal wellbores, Guide implemented horizontal development in 2008. To date, Guide has drilled over 80 horizontal wells in the project area.

During the second half of 2010 Guide confirmed the viability of oil in this Montney fairway. This oil project was further advanced over the first three quarters of 2011 with the drilling of thirteen Montney oil wells. Guide plans to continue with the development of this pool over the remainder of 2011 and into 2012. Facility modification and pipeline relicensing was completed in September 2011. Further facility expansion in 2012 will be required to accommodate future growth.

A total of 10 (10.0 net) wells were drilled within the Peace area in the third quarter of 2011. Up to a total of 12 Montney oil wells are planned for Q4 2011.

### Smoky Area – Includes Kakut

The Smoky area production averaged 2,607 BOE/d (84% natural gas and 16% oil and NGLs) during Q3 2011, representing a 19% decrease from 3,236 BOE/d in Q3 2010 (86% natural gas and 14% oil and NGLs).

The Corporation plans to continue drilling on this project at a measured pace and to closely monitor results. One (1.0 net) well was drilled within the Smoky area during the third quarter. One (1.0 net) operated well is planned for Q4 2011.

### Cherhill Area - Includes Alexis and St Anne

Production in the Cherhill area averaged 993 BOE/d in Q3 2011 (37% natural gas and 63% oil and NGLs), a decrease of 3% from the third quarter of 2010 (34% natural gas and 66% oil and NGLs). In Q3 2011, the Cherhill area contributed 10% of the funds from operations and 9% of production volumes.

Assets at Alexis/St. Anne continue to be exploited and optimized with 2 (2.0 net) horizontal oil wells drilled during the third quarter of 2011.

### Royalties

| Three months ended September 30 | 2011         | 2010         |
|---------------------------------|--------------|--------------|
| (\$000s, except as indicated)   |              |              |
| Crown                           | 6,265        | 6,478        |
| Freehold                        | 1,190        | 996          |
| GORR and other                  | 835          | 819          |
| <b>Gross royalties</b>          | <b>8,290</b> | <b>8,293</b> |
| GCA                             | (2,612)      | (3,013)      |
| <b>Net royalties</b>            | <b>5,678</b> | <b>5,280</b> |
| % of revenue                    | 18.8         | 18.7         |
| % of revenue net of GCA         | 12.9         | 11.9         |

| <b>Nine months ended September 30</b> | <b>2011</b>   | <b>2010</b>   |
|---------------------------------------|---------------|---------------|
| (\$000s, except as indicated)         |               |               |
| Crown                                 | 21,218        | 28,994        |
| Freehold                              | 3,112         | 3,397         |
| GORR and other                        | 2,645         | 3,114         |
| <b>Gross royalties</b>                | <b>26,975</b> | <b>35,505</b> |
| GCA                                   | (5,516)       | (9,628)       |
| <b>Net royalties</b>                  | <b>21,459</b> | <b>25,877</b> |
| % of revenue                          | <b>19.2</b>   | <b>21.9</b>   |
| % of revenue net of GCA               | <b>15.3</b>   | <b>16.0</b>   |

Gross royalties were 18.8% of revenues for the third quarter of 2011, compared to 18.7% for the same period in 2010. By product, gross royalties were 18.1% for light oil, 15.4% for natural gas, 23.9% for heavy oil, and 31.7% for liquids. For the third quarter of 2010, gross royalties were 15.7% for light oil, 19.0% for natural gas, 22.9% for heavy oil, and 30.3% for liquids.

Total royalties, net of GCA, were 12.9% for the third quarter of 2011, compared to 11.9% for the same period in 2010.

The gross royalty rate for light oil increased in Q3 2011 as compared to Q3 2010, reflecting higher oil prices in 2011. The gross royalty rate for natural gas decreased in Q3 2011 due to lower production volumes.

Under the Drilling Royalty Credit (“DRC”) incentive program, the Alberta Government applied up to \$200 per meter for wells spud during the period April 1, 2009 to March 31, 2011 against net crown royalties payable. As at September 30, 2011, the Corporation had recorded drilling credits in total of \$23.4 million as a reduction to property and equipment. Of the total \$23.4 million in drilling credits recorded, \$23.3 million had been received at September 30, 2011.

### **Gain on Disposal of Assets**

Any gain or loss on the disposal of property and equipment, including oil and natural gas properties, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of earnings. During the nine months ended September 30, 2011 gains on disposal of assets of \$3.5 million were recognized (September 30, 2010 - \$nil).

During the three months ended September 30, 2011, the Corporation disposed of properties in the Western Montney area of British Columbia for net proceeds of \$12.7 million, resulting in a gain on disposal of \$2.9 million.

### **Operating Costs**

| <b>Three months ended September 30</b> | <b>2011</b> |                 |              | <b>2010</b> |                 |              |
|--|-------------|-----------------|--------------|-------------|-----------------|--------------|
|  | Production  | Operating Costs |              | Production  | Operating Costs |              |
|  | %           | %               | \$/BOE       | %           | %               | \$/BOE       |
| Peace                                  | 58          | 55              | 11.13        | 56          | 53              | 9.65         |
| Smoky                                  | 22          | 13              | 7.14         | 24          | 10              | 4.40         |
| Cherhill                               | 9           | 10              | 13.79        | 7           | 12              | 15.86        |
| Worsley                                | 4           | 7               | 19.65        | 6           | 9               | 14.63        |
| Other                                  | 7           | 15              | 24.54        | 7           | 16              | 24.64        |
|  | <b>100</b>  | <b>100</b>      | <b>11.79</b> | <b>100</b>  | <b>100</b>      | <b>10.20</b> |

**Nine months ended September 30**

|          | 2011       |                 |              | 2010       |                 |             |
|----------|------------|-----------------|--------------|------------|-----------------|-------------|
|          | Production | Operating Costs |              | Production | Operating Costs |             |
|          | %          | %               | \$/BOE       | %          | %               | \$/BOE      |
| Peace    | 56         | 55              | 11.27        | 51         | 52              | 9.62        |
| Smoky    | 24         | 15              | 7.34         | 23         | 11              | 4.59        |
| Cherhill | 8          | 10              | 14.80        | 7          | 11              | 13.83       |
| Worsley  | 5          | 6               | 14.41        | 6          | 9               | 14.03       |
| Other    | 7          | 14              | 23.81        | 13         | 17              | 11.92       |
|          | <b>100</b> | <b>100</b>      | <b>11.61</b> | <b>100</b> | <b>100</b>      | <b>9.34</b> |

Operating costs were \$11.79/BOE during the third quarter of 2011, an increase of 16% from \$10.20/BOE for the third quarter of 2010. This increase was caused by a higher weighting to oil and a drop in daily production volumes.

**General and Administration Expenses**

| Three months ended September 30 | 2011         |             | 2010         |             |
|---------------------------------|--------------|-------------|--------------|-------------|
| (\$000s)                        | \$/BOE       |             | \$/BOE       |             |
| Gross                           | 6,057        | 5.63        | 5,323        | 4.18        |
| Capitalized overhead            | (879)        | (0.81)      | (1,021)      | (0.80)      |
| Overhead recoveries             | (513)        | (0.48)      | (372)        | (0.29)      |
| <b>Net</b>                      | <b>4,665</b> | <b>4.34</b> | <b>3,930</b> | <b>3.09</b> |

| Nine months ended September 30 | 2011          |             | 2010          |             |
|--------------------------------|---------------|-------------|---------------|-------------|
| (\$000s)                       | \$/BOE        |             | \$/BOE        |             |
| Gross                          | 15,402        | 4.64        | 14,504        | 3.49        |
| Capitalized overhead           | (2,339)       | (0.70)      | (2,515)       | (0.61)      |
| Overhead recoveries            | (1,314)       | (0.40)      | (1,428)       | (0.34)      |
| <b>Net</b>                     | <b>11,749</b> | <b>3.54</b> | <b>10,561</b> | <b>2.54</b> |

Gross G&A expenses increased \$734,000 or 14% from Q3 2010 to Q3 2011, due primarily to corporate restructuring.

For the three months ended September 30, 2011 gross G&A expenses by category were: salary and employee – 67%, office – 14%, consulting – 6%, computer – 5%, shareholder costs – 1%, audit, engineering and legal – 4%, and corporate – 3%.

**Share-Based Compensation**

Share-based compensation was a non-cash expense of \$0.5 million during the third quarter of 2011, of which \$0.1 million was capitalized. During the three months ended September 30, 2010, share-based compensation expense was \$0.4 million, of which \$0.1 million was capitalized.

During the three months ended September 30, 2011, the Corporation granted 2,010,000 stock options at an average exercise price of \$3.04, having fair values between \$0.72 and \$1.70 per option.

During the third quarter of 2011, options totalling 843,333, having an average exercise price of \$4.94, were forfeited.

At September 30, 2011, there were 7,561,333 stock options outstanding at an average exercise price of \$4.05 per share.

## **Restructuring Costs**

In March 2010 the Board of Directors initiated a process to identify and consider strategic alternatives, with a view to enhancing shareholder value. The strategic review process was completed in July 2010. To increase balance sheet strength to give the Corporation the flexibility to execute the operational plan, assets in the Puskwa area of Alberta were sold for cash consideration, net of adjustments, of \$131.4 million in the second quarter of 2010. In conjunction with the asset sale, Guide restructured its technical and operational teams. Expenses of \$1.2 million related to the restructuring process were incurred in Q2 2010.

## **Interest**

Interest expense was \$1.9 million during the three months ended September 30, 2011, compared to \$1.9 million recorded in the same period of the prior year. A higher average debt balance outstanding during Q3 2011 was offset by a lower effective interest rate. The effective interest rate during Q3 2011 was 4.8% (Q3 2010 – 6.6%).

As at September 30, 2011, an amount of \$149.4 million was drawn against the Corporation's credit facilities, compared to \$135.7 million at December 31, 2010.

## **Exploration Expenses**

Expenditures incurred before the Corporation has obtained the legal right to explore are expensed. Seismic expenditures of \$23,000, relating to lands not owned by the Corporation, were expensed in the third quarter of 2011.

## **Derecognition Expense**

The carrying amount of an item of property and equipment is derecognized on disposal or when future economic benefits are no longer expected from its use or disposal, with the resulting gain or loss recognized in the statement of earnings. During the three months ended September 30, 2011 costs of \$1.8 million associated with expiring land leases were expensed, compared to \$2.0 million expensed during the third quarter of 2010.

## **Depletion and Depreciation**

Depletion and depreciation expense was \$19.0 million or \$17.68/BOE for the three months ended September 30, 2011, compared to \$18.3 million or \$14.35/BOE for the same period of 2010. Reserve additions for the third quarter of 2011 were estimated internally.

Capital expenditures of \$45.9 million (September 30, 2010 - \$49.7 million) related to undeveloped land and seismic not yet operating in the manner intended by management have been excluded from and \$337.9 million (September 30, 2010 - \$325.8 million) of future development costs have been added into the cost bases for depletion purposes. Estimated residual values of \$47.8 million have been excluded from costs subject to depletion (September 30, 2010 - \$69.2 million).

## **Accretion**

Accretion expense on the Corporation's decommissioning liabilities was \$792,000 for the third quarter of 2011, compared to \$746,000 in the third quarter of 2010.

## Capital and Deferred Taxes

The third quarter 2011 and 2010 current tax provisions of \$62,000 and \$68,000, respectively, relate to Saskatchewan capital and resource tax, and were based upon revenues earned in Saskatchewan. It is not expected that Guide will pay income taxes in 2011.

The Q3 2011 deferred income tax expense was \$6.0 million on earnings before tax of \$23.1 million. A deferred income tax recovery of \$1.0 million on earnings before tax of \$0.4 million was recorded in Q3 2010. The Q3 2010 income tax recovery included a \$1.4 million benefit relating to a reduction in the expected future tax rate.

## Capital Expenditures

|   | (\$000s)       |
|---|----------------|
| Property & equipment balance at December 31, 2010             | 816,647        |
| Additions to property and equipment                           | 100,199        |
| Disposals of property and equipment                           | (10,023)       |
| Acquisitions of property and equipment                        | 7,007          |
| Net decommissioning liability additions (disposals)           | (31)           |
| Capitalized share-based compensation                          | 696            |
| Derecognition expense   | (6,651)        |
| Non-monetary transactions                                     | 123            |
| Depletion, depreciation and other                             | (58,663)       |
| <b>Property &amp; equipment balance at September 30, 2011</b> | <b>849,304</b> |

| Three months ended September 30 | 2011          |            | 2010          |            |
|---------------------------------|---------------|------------|---------------|------------|
| (\$000s)                        |               | %          |               | %          |
| Land                            | 2,061         | 6          | 1,854         | 4          |
| Geological and geophysical      | 360           | 1          | 660           | 2          |
| Drilling and completion         | 25,139        | 69         | 30,369        | 74         |
| Plant and facilities            | 8,750         | 24         | 7,815         | 19         |
| Inventory                       | (239)         | (1)        | 309           | 1          |
| Other assets                    | 69            | 1          | 48            | -          |
| <b>Capital expenditures</b>     | <b>36,140</b> | <b>100</b> | <b>41,055</b> | <b>100</b> |

| Nine months ended September 30 | 2011           |            | 2010           |            |
|--------------------------------|----------------|------------|----------------|------------|
| (\$000s)                       |                | %          |                | %          |
| Land                           | 10,572         | 11         | 6,028          | 6          |
| Geological and geophysical     | 1,447          | 1          | 1,191          | 1          |
| Drilling and completion        | 69,517         | 70         | 77,045         | 75         |
| Plant and facilities           | 18,312         | 18         | 18,066         | 18         |
| Inventory                      | 265            | -          | 410            | -          |
| Other assets                   | 86             | -          | 79             | -          |
| <b>Capital expenditures</b>    | <b>100,199</b> | <b>100</b> | <b>102,819</b> | <b>100</b> |

Capital expenditures during the third quarter of 2011 were \$36.1 million. Drilling and completions expenditures comprised 69% of capital activity. The Corporation drilled 14 (14.0 net) wells, resulting in 2 (2.0 net) natural gas wells and 12 (12.0 net) oil wells, for a success rate of 100% during the quarter.

On August 4, 2011, the Corporation purchased interests in certain natural gas properties in the Kakut area for cash consideration of approximately \$6.9 million including closing adjustments.

On August 31, 2011, properties in the Western Montney area of British Columbia were disposed of for net proceeds of \$12.7 million, resulting in a gain on disposal of \$2.9 million.

## Liquidity and Capital Resources

| <b>As at September 30</b>               | <b>2011</b>    | <b>2010</b>    |
|---|----------------|----------------|
| (\$000s)                                |                |                |
| Bank debt                               | 149,387        | 122,283        |
| Working capital deficiency <sup>1</sup> | 18,483         | 17,449         |
| <b>Total net debt <sup>2</sup></b>      | <b>167,870</b> | <b>139,732</b> |

<sup>1</sup> Excludes fair value of financial derivatives and other liability

<sup>2</sup> See "Non-GAAP Measurements"

### Funding of Capital Program

| <b>Three months ended September 30</b>  | <b>2011</b>   | <b>2010</b>   |
|---|---------------|---------------|
| (\$000s)                                |               |               |
| Issuance of common shares, net of costs | 6,399         | -             |
| Repurchase of common shares             | (900)         | (3,544)       |
| Funds from operations <sup>1</sup>      | 26,789        | 20,425        |
| Change in bank debt                     | (4,411)       | 10,564        |
| Change in financing lease               | -             | (1,135)       |
| Acquisition of properties               | (6,888)       | (684)         |
| Disposals of properties                 | 12,723        | 1,100         |
| Change in working capital and other     | 2,428         | 14,329        |
|   | <b>36,140</b> | <b>41,055</b> |

| <b>Nine months ended September 30</b>   | <b>2011</b>    | <b>2010</b>    |
|---|----------------|----------------|
| (\$000s)                                |                |                |
| Issuance of common shares, net of costs | 6,399          | 268            |
| Repurchase of common shares             | (900)          | (3,544)        |
| Funds from operations <sup>1</sup>      | 73,746         | 79,251         |
| Change in bank debt                     | 13,705         | (94,960)       |
| Change in financing lease               | -              | (1,545)        |
| Acquisition of properties               | (7,007)        | (17,650)       |
| Disposals of properties                 | 13,528         | 132,012        |
| Change in working capital and other     | 728            | 8,987          |
|   | <b>100,199</b> | <b>102,819</b> |

<sup>1</sup> See "Non-GAAP Measurements"

On September 16, 2011, the Corporation issued 2,300,000 units ("Units") for cash consideration of \$6.5 million under a private placement to a new management group of the Corporation and their designates. Each Unit consisted of one Class A Share of the Corporation and one share purchase warrant ("Warrant"). Each Warrant entitles the holder to acquire one Class A Share of the Corporation at an exercise price of \$3.10 for a period of three years. The Warrants are not exercisable until the twenty day volume weighted average trading price of the Class A Shares exceeds \$5.00 per share.

During the three months ended September 30, 2011, under the Normal Course Issuer Bid, the Corporation purchased 367,700 shares for cancellation for \$900,000, of which 190,000 shares were cancelled at September 30, 2011.

Subsequent to September 30, 2011, the Corporation entered into an agreement with a syndicate of underwriters to issue, on a bought deal basis, 5,634,000 common shares on a Canadian Exploration Expense (CEE) flow-through share basis (CEE Flow Through Common Shares) at a price of \$3.55 per CEE Flow Through Common Share for aggregate proceeds of \$20.0 million (the Brokered Offering).

Guide also entered into an agreement to issue, on a non-brokered, private placement basis, 1,515,152 common shares on a Canadian Development Expense (CDE) flow through share basis (CDE Flow Through Common Shares) at a price of \$3.30 per CDE Flow Through Common Share for aggregate gross proceeds of \$5.0 million (the Non-Brokered Offering).

Closing of the Non-Brokered Offering is expected to occur on November 18, 2011 and closing of the Brokered Offering is expected to occur on November 24, 2011 and, in each case, is subject to certain conditions including, but not limited to, the receipt of all necessary approvals including the approval of the Toronto Stock Exchange.

The Corporation has \$250 million in credit facilities available, consisting of a \$225 million extendible 364 day revolving term facility and a \$25 million non-revolving facility. The \$25 million facility is available subject to mutual approval of the banking syndicate and the Corporation, including repayment terms. Collateral for the facilities consists of a demand debenture for \$500 million collateralized by a first floating charge over all of the property and equipment of the Corporation. At September 30, 2011, an amount of \$149.4 million was drawn against the revolving credit facility. (December 31, 2010 - \$135.7 million).

The facilities bear interest at the bank's prime or banker's acceptance rates plus a rate margin. The margins range from 1.25% per annum to 5.25% per annum, based upon the Corporation's debt to cash flow ratio. For the three months ended September 30, 2011, the effective interest rate was 4.8% (September 30, 2010 – 6.6%).

An annual review is scheduled to occur on or before May 28, 2012. The level of the borrowing base will be determined by the bank syndicate based upon their review of, among other things, the Corporation's reserves and the value thereof, utilizing commodity prices determined by the bank syndicate which will be different than that utilized by the Corporation's independent reserve evaluator.

## Commitments

### *Office Lease Payments*

At September 30, 2011 the Corporation is committed to future minimum lease payments under an operating lease for office space with future minimum lease payments as follows:

|            | <u>Amount \$</u> |
|------------|------------------|
| 2011       | 448              |
| 2012       | 1,793            |
| 2013       | 1,793            |
| 2014       | 1,793            |
| 2015       | 1,793            |
| Thereafter | 2,689            |

### *Drilling Rig*

The Corporation has entered into contracts for drilling rig services under which the Corporation is committed to using services totaling \$3.3 million during the ten months ending April 30, 2012.

### *Litigation*

The Corporation is involved in various claims and legal actions arising in the normal course of business. The Corporation does not expect that the outcome of these proceedings will have a material adverse effect on the Corporation as a whole.

### **Financial Instruments**

Refer to the “Commodity Pricing and Marketing” section.

### **Business Risks**

#### *General*

Guide is engaged in the exploration, development and production of crude oil and natural gas. The oil and gas business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Operational risks include competition, reservoir performance uncertainties, environmental factors, and regulatory, environment and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates and the cost of goods and services.

#### *Global Financial Crisis*

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and continued in 2009. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Although economic conditions improved towards the latter portion of 2009 and in 2010, as anticipated, the recovery from the recession has been slow in various jurisdictions including in Europe and the United States which has been impacted by various ongoing factors including sovereign debt levels and high levels of unemployment which continue to impact commodity prices and result in high volatility in the stock market.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies.

#### *Capital Requirements*

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Corporation's revenues have declined as a result of decreased commodity pricing, it has been required to reduce capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Corporation to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its

operations could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

#### *Financial Risks*

Financial risks include fluctuations in commodity prices, interest rates, the Canadian/US dollar exchange rate, and the cost of goods and services. The Corporation currently has financial contracts with Canadian banks (see "Commodity Pricing and Marketing" for details). The Corporation also manages these risks by maintaining a balance sheet with prudent levels of debt measured by debt to funds from operations and debt coverage ratios. This allows for sufficient financial capacity to maintain exploration and development activities in any downturn in commodity prices.

#### *Third Party Credit Risk*

An additional risk is credit risk for failure of performance by counter-parties. This risk is controlled by an evaluation of the credit risk before contract initiation and ensuring product sales and delivery contracts are made with well-known and financially strong crude oil and natural gas marketers.

The Corporation may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

#### *Environmental*

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. Implementation of strategies for reducing greenhouse gases to meet the limits required could have a material impact on the nature of oil and natural gas operations, including those of the Corporation. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Corporation and its operations and financial condition.

### **Critical Accounting Policies**

#### *Adoption of IFRS*

The interim consolidated financial statements have been prepared in accordance with IFRS applicable to preparation of interim financial statements, including IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Prior to January 1, 2011, the Corporation prepared its financial statements in accordance with Canadian GAAP. While the adoption of IFRS has not changed the Corporation's business activities or actual cash flow, it has resulted in adjustments to the Corporation's financial statements.

The areas most impacted by the transition to IFRS are accounting for property and equipment, asset impairment testing, and income taxes. Please refer to Note 3 to the of the Corporation's interim consolidated financial statements for the Corporation's detailed IFRS accounting policies.

The interim consolidated financial statements have been prepared in accordance with IFRS currently issued and expected to be effective as at and for the year ending December 31, 2011, the date of the

Corporation's first annual reporting under IFRS. Any subsequent changes to IFRS reflected in the Corporation's annual consolidated financial statements for the year ended December 31, 2011 could result in restatement of the interim consolidated financial statements.

With respect to the accounting for flow-through shares, the Corporation had indicated in the December 31, 2010 MD&A that the difference between the premium received for the tax benefits to be renounced and the deferred tax liability was expected to be recorded as a tax expense on the effective date of the renouncement. In the Corporation's IFRS interim consolidated financial statements, the tax expense is recorded when the expenditures are incurred and the renouncement has been filed.

In order to allow the users of the financial statements to better understand the impact of the change to IFRS, the Corporation's Canadian GAAP consolidated balance sheets at January 1, 2010, September 30, 2010 and December 31, 2010, the Corporation's consolidated statements of earnings (loss) and comprehensive income (loss) and the consolidated statements of cash flows for the three and nine months ended September 30, 2010 and for the year ended December 31, 2010 have been reconciled to IFRS, with the resulting differences explained. These reconciliations are provided in note 19 of the Corporation's interim consolidated financial statements.

## **Change in Accounting Policies**

### *IFRS 9 Financial Instruments*

As of January 1, 2013, the Corporation will be required to adopt IFRS 9 – *Financial Instruments*, which is the result of the first phase of the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classifications: amortized cost and fair value. The adoption of this standard is not expected to have a material impact on the Corporation's financial statements.

### *IFRS 10 Consolidated Financial Statements*

IFRS 10 *Consolidated Financial Statements* will replace portions of IAS 27 *Consolidated and Separate Financial Statements* and interpretation SIC-12 *Consolidation – Special Purpose Entities*. The key features of IFRS 10 include consolidation using a single control model, definition of control, considerations on power, and continuous reassessment. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

### *IFRS 11 Joint Arrangements*

IFRS 11 *Joint Arrangements* will apply to interests in joint arrangements where there is joint control. IFRS 11 would require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures, previously called jointly controlled entities, using proportionate consolidation may be removed, and equity accounting may be required. Venturers would transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

### *IFRS 12 Disclosure of Interests in Other Entities*

The IASB has issued IFRS 12 *Disclosure of Interests in Other Entities*, which includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. This standard is effective for annual periods beginning on or after January 1, 2013. Entities will be permitted to apply any of the disclosure requirements in IFRS 12 before the effective date. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. The key features of IFRS 13 include: a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied, fair value would be defined as the 'exit price', and concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

### *IAS 27 Separate Financial Statements*

As a result of the issue of the new consolidation suite of standards, IAS 27 *Separate Financial Statements* has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Corporation's financial statements.

### *IAS 28 Investments in Associates and Joint Ventures*

As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 may be applied by entities that are investors with joint control of, or significant influence over, an investee. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

## **Critical Accounting Estimates**

There are a number of critical estimates underlying the accounting policies employed in preparing the financial statements.

### *Oil and Gas Accounting*

All expenditures incurred after the Corporation has obtained the legal right to explore associated with the exploration for and development of oil and gas properties are capitalized whether successful or not. For property and equipment, the aggregate of net capitalized costs and estimated future development costs less estimated residual values is amortized using the unit-of-production method based on estimated proved and probable oil and gas reserves.

Oil and gas accounting relies on the estimated proved and probable reserves believed to be recoverable from the oil and gas properties. Determination of reserves is a complex process involving judgments, estimates and decisions based on available geological, engineering/production and other relevant economic data. These estimates are subject to change as economic conditions change and ongoing production and development activities provide new information. The Corporation's reserves are evaluated annually by an independent firm and by the Corporation on a quarterly basis. Reserve estimates are critical to the following accounting estimates:

- Calculation of unit of production depletion. Proved and probable reserve estimates are used to determine the depletion and depreciation rate applied to each unit of production.
- Impairment of oil and gas assets. Estimated future cash flows are determined using the estimate of proved and probable reserves.

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

The calculation of proved and probable reserves is affected by events, including the following:

- Changes to commodity prices
- Production performance of wells
- Changes to reservoir performance/pressures
- New geological and geophysical data
- Competitor production practices
- Changes to government regulations

As circumstances change and additional data becomes available, revisions are made to these estimates.

Property and equipment may be excluded from depletion until capable of operating in the manner intended by management and the estimated fair value of these assets is included in impairment calculations. Estimated residual values are also excluded from the depletion calculation.

#### *Impairment Calculations*

The Corporation is required to test the carrying value of exploration and evaluation assets for impairment if facts and circumstances suggest the carrying amount exceeds the recoverable amount, and when these assets are transferred to property and equipment. The Corporation is required to test property and equipment, including the carrying value of oil and gas assets, for impairment when indications of impairment exist. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. If either of these amounts exceeds the carrying value, the asset is considered not impaired. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. The amount by which the carrying value exceeds the recoverable amount of an asset is charged to earnings. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in facts and circumstances since the last impairment loss was recognized.

The recoverable amount of an oil and gas asset is based on estimates of fair value, reserves, production rates, petroleum and natural gas prices, future costs, recent market transactions, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

#### *Decommissioning Liabilities*

The Corporation is required to provide for future abandonment and site restoration costs. The Corporation must estimate these costs in accordance with existing laws, contracts or other policies. These estimated costs are charged to property and equipment and the appropriate liability account over

the expected service life of the asset. The estimate of future removal and site restoration costs involves a number of estimates related to timing of abandonment, determination of economic life of the asset, costs associated with abandonment and site restoration, and review of potential abandonment methods.

#### *Income Tax Accounting*

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

### **Controls and Procedures over Financial Reporting**

#### **Disclosure Controls and Procedures**

The Corporation's Executive Chairman (Executive Chairman), who acts in the capacity of the Corporation's Chief Executive Officer, and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Corporation's Executive Chairman and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

#### **Internal Controls over Financial Reporting**

The Executive Chairman, (who acts in the capacity as the Corporation's Chief Executive Officer), and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The adoption of IFRS impacts the Corporation's presentation of financial results and accompanying disclosures. The Corporation has evaluated the impact of the conversion to IFRS on its processes, controls and financial reporting systems and has made modifications required to its control environment.

The Corporation's Executive Chairman and CFO are required to cause the Corporation to disclose any change in the Corporation's internal controls over financial reporting that occurred during the Corporation's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting. No material changes in the Corporation's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

It should be noted that a control system, including the Corporation's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

## Share Information

The following table summarizes the outstanding shares of Guide as of September 30:

|  | 2011       | 2010       |
|--|------------|------------|
| Class A shares outstanding               |            |            |
| Basic                                    | 86,090,083 | 84,758,083 |
| Basic, options and warrants <sup>1</sup> | 95,951,416 | 90,541,584 |

<sup>1</sup> Includes 7,561,333 options and 2,300,000 warrants at September 30, 2011 (September 30, 2010 – 5,783,501 options and nil warrants)

At September 30, 2011 the market value of Guide's outstanding Class A shares was \$207.5 million based on the September 30, 2011 closing price of \$2.41 per share. As of November 10, 2011 the number of Class A shares outstanding was 85,257,983. As of November 10, 2011, the number of options and warrants outstanding were 8,515,333 and 2,300,000 respectively.

On November 29, 2010 the Corporation received regulatory approval from the Toronto Stock Exchange for a Normal Course Issuer Bid ("Bid") to purchase in the open market for cancellation up to a maximum of 2,000,000 Class A shares of the Corporation. The Bid was effective December 1, 2010 and will terminate on November 30, 2011, or such earlier time as the Bid is completed or terminated at the option of the Corporation. Regulatory approval for an amendment to the Bid, increasing the maximum number of shares that may be purchased to 6,200,000 was received on October 7, 2011. Copies of the Notice are available to shareholders of Guide from Guide upon request.

During the three months ended September 30, 2011, under the Normal Course Issuer Bid, the Corporation purchased 367,700 shares for cancellation for \$900,000, of which 190,000 shares were cancelled at September 30, 2011.

## Additional Information

Additional information relating to Guide, including Guide's Annual Information Form, can be accessed on-line on SEDAR at [www.sedar.com](http://www.sedar.com), or from the Corporation's website at [www.guidex.ca](http://www.guidex.ca).

| Quarterly Highlights<br>(unaudited)                                       |               | 2011          |               |               |               | 2010          |               |               | 2009 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------|
|   | Q3            | Q2            | Q1            | Q4            | Q3            | Q2            | Q1            | Q4            |      |
| <b>Production</b>   |               |               |               |               |               |               |               |               |      |
| Light oil (Bbl/d)   | 2,343         | 2,503         | 2,832         | 2,600         | 2,517         | 3,295         | 3,249         | 3,364         |      |
| Heavy oil (Bbl/d)   | 1,245         | 863           | 948           | 985           | 1,009         | 1,108         | 1,161         | 1,210         |      |
| Natural Gas (Mcf/d)   | 46,416        | 48,257        | 53,398        | 57,459        | 59,186        | 67,689        | 64,165        | 57,752        |      |
| Liquids (Bbl/d)   | 374           | 346           | 368           | 394           | 433           | 537           | 527           | 489           |      |
| <b>BOE/d</b>  | <b>11,698</b> | <b>11,755</b> | <b>13,048</b> | <b>13,556</b> | <b>13,823</b> | <b>16,222</b> | <b>15,631</b> | <b>14,688</b> |      |
| Total BOE produced  | 1,076,198     | 1,069,717     | 1,174,344     | 1,247,108     | 1,271,739     | 1,476,256     | 1,406,752     | 1,351,338     |      |
| <b>Daily BOE of production per million Class A shares – basic</b>         | <b>139</b>    | <b>140</b>    | <b>155</b>    | <b>161</b>    | <b>163</b>    | <b>191</b>    | <b>184</b>    | <b>174</b>    |      |
| <b>Prices (prior to financial derivatives and transportation charges)</b> |               |               |               |               |               |               |               |               |      |
| Light oil (\$/Bbl)  | 80.14         | 95.58         | 83.14         | 76.44         | 71.26         | 72.53         | 77.47         | 72.88         |      |
| Heavy oil (\$/Bbl)  | 69.16         | 75.80         | 64.08         | 60.32         | 58.13         | 57.76         | 64.91         | 62.23         |      |
| Crude oil (\$/Bbl)  | 76.32         | 90.51         | 78.41         | 72.01         | 67.50         | 68.82         | 74.17         | 70.06         |      |
| Natural Gas (\$/Mcf)  | 3.87          | 4.10          | 3.98          | 3.81          | 3.75          | 4.07          | 5.22          | 4.60          |      |
| NGLs (\$/Bbl)   | 66.79         | 74.44         | 67.84         | 58.06         | 49.48         | 53.41         | 56.80         | 52.06         |      |
| <b>Per BOE (\$)</b>   |               |               |               |               |               |               |               |               |      |
| Revenues  | 40.91         | 44.95         | 40.91         | 36.88         | 34.82         | 37.44         | 44.28         | 41.65         |      |
| Royalties, net of GCA   | (5.27)        | (9.01)        | (5.23)        | (4.42)        | (4.16)        | (6.71)        | (7.59)        | (6.91)        |      |
| Transportation costs  | (1.90)        | (1.93)        | (1.87)        | (1.67)        | (1.66)        | (1.64)        | (1.56)        | (1.33)        |      |
| Operating costs   | (11.79)       | (12.64)       | (10.51)       | (10.11)       | (10.20)       | (9.03)        | (8.88)        | (9.31)        |      |
| <b>Net</b>  | <b>21.95</b>  | <b>21.37</b>  | <b>23.30</b>  | <b>20.68</b>  | <b>18.80</b>  | <b>20.06</b>  | <b>26.25</b>  | <b>24.10</b>  |      |
| Other revenue   | -             | -             | -             | -             | -             | -             | -             | -             |      |
| G&A   | (4.34)        | (3.67)        | (2.69)        | (3.38)        | (3.09)        | (2.07)        | (2.54)        | (3.28)        |      |
| Restructuring costs   | -             | -             | -             | -             | (0.05)        | (0.81)        | -             | -             |      |
| Interest expense  | (1.74)        | (1.91)        | (1.58)        | (1.32)        | (1.45)        | (2.42)        | (2.14)        | (2.27)        |      |
| Exploration expenses  | (0.02)        | (0.19)        | (0.18)        | -             | -             | -             | -             | -             |      |
| Capital and other taxes   | (0.06)        | (0.05)        | (0.05)        | (0.06)        | (0.05)        | 0.02          | (0.07)        | (0.07)        |      |
| Realized gain (loss) on financial derivatives                             | 9.10          | 3.25          | 4.06          | 1.10          | 1.90          | 3.61          | 1.02          | (1.60)        |      |
| <b>Funds flow from operations</b> <sup>1</sup>                            | <b>24.89</b>  | <b>18.80</b>  | <b>22.86</b>  | <b>17.02</b>  | <b>16.06</b>  | <b>18.39</b>  | <b>22.52</b>  | <b>16.88</b>  |      |

<sup>1</sup> See "Non-GAAP Measurements"

| Quarterly Highlights<br>(unaudited)                 | 2011           |                |                 | 2010            |
|---|----------------|----------------|-----------------|-----------------|
|   | Q3             | Q2             | Q1              | Q4              |
| <b>Financial</b> (\$000s)                           |                |                |                 |                 |
| Petroleum and natural gas revenue, before royalties | 44,026         | 48,046         | 48,042          | 45,995          |
| Operating costs                                     | (12,689)       | (13,517)       | (12,342)        | (12,612)        |
| General & administrative expenses                   | (4,665)        | (3,928)        | (3,156)         | (4,212)         |
| Restructuring costs                                 | -              | -              | -               | -               |
| Interest expense                                    | (1,874)        | (2,046)        | (1,857)         | (1,645)         |
| Impairment of goodwill                              | -              | -              | -               | (25,333)        |
| <b>Funds flow from operations</b> <sup>1</sup>      | <b>26,789</b>  | <b>20,115</b>  | <b>26,842</b>   | <b>21,227</b>   |
| Per share, basic <sup>1</sup>                       | 0.32           | 0.24           | 0.32            | 0.25            |
| Per share, diluted <sup>1</sup>                     | 0.32           | 0.24           | 0.32            | 0.25            |
| <b>Earnings (loss)</b>                              | <b>17,132</b>  | <b>10,505</b>  | <b>(13,297)</b> | <b>(35,055)</b> |
| Per share, basic                                    | 0.20           | 0.13           | (0.16)          | (0.41)          |
| Per share, diluted                                  | 0.20           | 0.13           | (0.16)          | (0.41)          |
| <b>Total assets</b>                                 | <b>898,110</b> | <b>880,379</b> | <b>885,286</b>  | <b>869,652</b>  |
| Weighted average outstanding Class A shares-basic   | 84,364,096     | 83,980,083     | 83,980,083      | 83,983,158      |
| Weighted average outstanding Class A shares-diluted | 84,364,096     | 83,980,083     | 83,980,083      | 83,983,158      |

<sup>1</sup> See "Non-GAAP Measurements"

| Quarterly Highlights<br>(unaudited)                 | 2010           |                |                  | 2009             |
|---|----------------|----------------|------------------|------------------|
|   | Q3             | Q2             | Q1               | Q4 <sup>2</sup>  |
| <b>Financial</b> (\$000s)                           |                |                |                  |                  |
| Petroleum and natural gas revenue, before royalties | 44,279         | 55,273         | 62,284           | 56,287           |
| Operating costs                                     | (12,978)       | (13,328)       | (12,487)         | (12,582)         |
| General & administrative expenses                   | (3,930)        | (3,063)        | (3,568)          | (4,430)          |
| Restructuring costs                                 | (59)           | (1,183)        | -                | -                |
| Interest expense                                    | (1,849)        | (3,578)        | (3,014)          | (3,063)          |
| Impairment of goodwill                              | -              | -              | -                | -                |
| <b>Funds from operations</b> <sup>1</sup>           | <b>20,425</b>  | <b>27,146</b>  | <b>31,680</b>    | <b>22,820</b>    |
| Per share, basic <sup>1</sup>                       | 0.24           | 0.32           | 0.37             | 0.27             |
| Per share, diluted <sup>1</sup>                     | 0.24           | 0.32           | 0.37             | 0.27             |
| <b>Earnings</b>                                     | <b>577</b>     | <b>14,587</b>  | <b>18,808</b>    | <b>(5,654)</b>   |
| Per share, basic                                    | 0.01           | 0.17           | 0.22             | (0.07)           |
| Per share, diluted                                  | 0.01           | 0.17           | 0.22             | (0.07)           |
| <b>Total assets</b>                                 | <b>886,847</b> | <b>861,436</b> | <b>1,010,720</b> | <b>1,136,732</b> |
| Weighted average outstanding Class A shares-basic   | 84,869,236     | 85,143,751     | 85,098,939       | 84,325,666       |
| Weighted average outstanding Class A shares-diluted | 84,869,236     | 85,143,751     | 85,098,939       | 84,325,666       |

<sup>1</sup> See "Non-GAAP Measurements"

<sup>2</sup> All 2009 amounts are as reported under Canadian GAAP and are not adjusted for IFRS

**GUIDE EXPLORATION LTD.**

**(formerly Galleon Energy Inc.)**

**Financial Statements**

**September 30, 2011**

**GUIDE EXPLORATION LTD.**  
**(formerly Galleon Energy Inc.)**  
**Consolidated Statements of Financial Position**  
**(unaudited)**

|   | September 30,<br>2011 | December 31,<br>2010  | January 1,<br>2010    |
|---|-----------------------|-----------------------|-----------------------|
| (\$000's)                                     |                       | <i>(note 19)</i>      | <i>(note 19)</i>      |
| <b>ASSETS</b>                                 |                       |                       |                       |
| CURRENT                                       |                       |                       |                       |
| Accounts receivable (note 14)                 | 19,923                | 28,829                | 41,270                |
| Deposits and prepaid expenses                 | 3,641                 | 3,361                 | 6,190                 |
| Fair value of financial derivatives (note 14) | 20,996                | 20,815                | 4,241                 |
|   | <u>44,560</u>         | <u>53,005</u>         | <u>51,701</u>         |
| Fair value of financial derivatives (note 14) | 4,246                 | -                     | -                     |
| Property and equipment (notes 5, 6, and 8)    | 849,304               | 816,647               | 881,937               |
| Goodwill (note 7)                             | -                     | -                     | 25,333                |
|   | <u><b>898,110</b></u> | <u><b>869,652</b></u> | <u><b>958,971</b></u> |
| <b>LIABILITIES</b>                            |                       |                       |                       |
| CURRENT                                       |                       |                       |                       |
| Accounts payable and accrued liabilities      | 42,047                | 49,369                | 55,531                |
| Financing lease (note 6)                      | -                     | -                     | 1,545                 |
| Bank loan (note 9)                            | 149,387               | 135,682               | 217,243               |
| Other liability (note 19)                     | -                     | -                     | 3,775                 |
| Fair value of financial derivatives (note 14) | 213                   | 6,411                 | 13,789                |
|   | <u>191,647</u>        | <u>191,462</u>        | <u>291,883</u>        |
| Decommissioning liabilities (note 8)          | 41,750                | 39,947                | 38,228                |
| Fair value of financial derivatives (note 14) | 13,693                | 14,980                | -                     |
| Deferred income taxes (note 12)               | 48,780                | 43,257                | 49,245                |
|   | <u>295,870</u>        | <u>289,646</u>        | <u>379,356</u>        |
| <b>SHAREHOLDERS' EQUITY</b>                   |                       |                       |                       |
| Share capital (note 10)                       | 590,277               | 586,626               | 595,559               |
| Contributed surplus (note 10)                 | 44,824                | 40,581                | 30,174                |
| Retained earnings (deficit)                   | (32,861)              | (47,201)              | (46,118)              |
|   | <u>602,240</u>        | <u>580,006</u>        | <u>579,615</u>        |
|   | <u><b>898,110</b></u> | <u><b>869,652</b></u> | <u><b>958,971</b></u> |

*See accompanying notes*

**GUIDE EXPLORATION LTD.**  
**(formerly Galleon Energy Inc.)**  
**Consolidated Statements of Earnings and Comprehensive Income**  
**(unaudited)**

| (\$000s, except per share amounts)                  | Three months ended   |                          | Nine months ended    |                          |
|---|----------------------|--------------------------|----------------------|--------------------------|
|   | September 30<br>2011 | 2010<br><i>(note 19)</i> | September 30<br>2011 | 2010<br><i>(note 19)</i> |
| <b>REVENUE</b>                                      |                      |                          |                      |                          |
| Petroleum and natural gas revenue                   | 44,026               | 44,279                   | 140,154              | 161,836                  |
| Royalties, net of gas cost allowance                | (5,678)              | (5,280)                  | (21,459)             | (25,877)                 |
| Realized gain on financial derivatives (note 14)    | 9,795                | 2,420                    | 18,040               | 9,184                    |
| Unrealized gains on financial derivatives (note 14) | 15,381               | 428                      | 11,912               | 18,005                   |
| Gain on disposal of assets                          | 2,879                | -                        | 3,505                | -                        |
| Other income  | -                    | -                        | 123                  | -                        |
|   | 66,403               | 41,847                   | 152,275              | 163,148                  |
| <b>EXPENSES</b>                                     |                      |                          |                      |                          |
| Operating   | 12,689               | 12,978                   | 38,548               | 38,793                   |
| Transportation                                      | 2,041                | 2,110                    | 6,304                | 6,721                    |
| General and administration (note 11)                | 4,665                | 3,930                    | 11,749               | 10,561                   |
| Restructuring costs (note 17)                       | -                    | 59                       | -                    | 1,242                    |
| Share-based compensation (note 10)                  | 335                  | 283                      | 1,880                | 3,469                    |
| Interest (note 9)                                   | 1,874                | 1,849                    | 5,777                | 8,441                    |
| Exploration expenses                                | 23                   | -                        | 439                  | -                        |
| Accretion (note 8)                                  | 792                  | 746                      | 2,410                | 2,238                    |
| Derecognition expenses                              | 1,812                | 2,041                    | 6,651                | 6,503                    |
| Depletion and depreciation                          | 19,023               | 18,255                   | 58,663               | 57,960                   |
|   | 43,254               | 42,251                   | 132,421              | 135,928                  |
| <b>Earnings (loss) before taxes</b>                 | 23,149               | (404)                    | 19,854               | 27,220                   |
| <b>Income taxes</b> (note 12)                       |                      |                          |                      |                          |
| Capital and other taxes                             | 62                   | 68                       | 172                  | 134                      |
| Deferred income tax (recovery)                      | 5,955                | (1,049)                  | 5,342                | (6,886)                  |
|   | 6,017                | (981)                    | 5,514                | (6,752)                  |
| <b>NET EARNINGS AND COMPREHENSIVE INCOME</b>        | <b>17,132</b>        | <b>577</b>               | <b>14,340</b>        | <b>33,972</b>            |

**NET EARNINGS AND COMPREHENSIVE INCOME PER SHARE** (note 10)

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Basic                                   | 0.20       | 0.01       | 0.17       | 0.40       |
| Diluted                                 | 0.20       | 0.01       | 0.17       | 0.40       |
| Weighted average Class A shares – basic | 84,364,096 | 84,869,236 | 84,109,494 | 85,036,467 |
| – diluted                               | 84,364,096 | 84,869,236 | 84,109,494 | 85,156,588 |

*See accompanying notes*

**GUIDE EXPLORATION LTD.**  
**(formerly Galleon Energy Inc.)**  
**Consolidated Statement of Changes in Equity**  
**(unaudited)**

| (\$000s)                                     | Share<br>Capital | Contributed<br>Surplus | Retained<br>Earnings<br>(Deficit) | Total   |
|--|------------------|------------------------|-----------------------------------|---------|
| Balance, January 1, 2010 (note 19)           | 595,559          | 30,174                 | (46,118)                          | 579,615 |
| Share-based compensation (note 10)           | -                | 6,380                  | -                                 | 6,380   |
| Options exercised (note 10)                  | 460              | (123)                  | -                                 | 337     |
| Shares purchased and cancelled (note 10)     | (8,304)          | 4,150                  | -                                 | (4,154) |
| Tax deduction of share issue costs (note 10) | (1,089)          | -                      | -                                 | (1,089) |
| Comprehensive loss                           | -                | -                      | (1,083)                           | (1,083) |
| Balance, December 31, 2010 (note 19)         | 586,626          | 40,581                 | (47,201)                          | 580,006 |
| Share-based compensation (note 10)           | -                | 2,576                  | -                                 | 2,576   |
| Tax deduction of share issue costs (note 10) | (197)            | -                      | -                                 | (197)   |
| Issue of common shares (note 10)             | 6,415            | -                      | -                                 | 6,415   |
| Shares purchased for cancellation (note 10)  | (2,567)          | 1,667                  | -                                 | (900)   |
| Comprehensive income                         | -                | -                      | 14,340                            | 14,340  |
| Balance, September 30, 2011                  | 590,277          | 44,824                 | (32,861)                          | 602,240 |

**GUIDE EXPLORATION LTD.**  
**(formerly Galleon Energy Inc.)**  
**Consolidated Statement of Changes in Equity**  
**(unaudited)**

| (\$000s)                              | Share<br>Capital | Contributed<br>Surplus | Retained<br>Earnings<br>(Deficit) | Total   |
|---------------------------------------|------------------|------------------------|-----------------------------------|---------|
| Balance, January 1, 2010 (note 19)    | 595,559          | 30,174                 | (46,118)                          | 579,615 |
| Share-based compensation              | -                | 4,974                  | -                                 | 4,974   |
| Options exercised                     | 367              | (99)                   | -                                 | 268     |
| Shares purchased and cancelled        | (7,065)          | 3,521                  | -                                 | (3,544) |
| Tax deduction of share issue costs    | (817)            | -                      | -                                 | (817)   |
| Comprehensive income                  | -                | -                      | 33,972                            | 33,972  |
| Balance, September 30, 2010 (note 19) | 588,044          | 38,570                 | (12,146)                          | 614,468 |

*See accompanying notes*

**GUIDE EXPLORATION LTD.**  
**(formerly Galleon Energy Inc.)**  
**Consolidated Statements of Cash Flows**  
**(unaudited)**

| (\$000s)  | Three months ended<br>September 30 |                          | Nine months ended<br>September 30 |                          |
|---|------------------------------------|--------------------------|-----------------------------------|--------------------------|
|   | 2011                               | 2010<br><i>(note 19)</i> | 2011                              | 2010<br><i>(note 19)</i> |
| <b>Cash provided by (used in):</b>              |                                    |                          |                                   |                          |
| <b>OPERATING ACTIVITIES</b>                     |                                    |                          |                                   |                          |
| Net earnings                                    | 17,132                             | 577                      | 14,340                            | 33,972                   |
| Items not requiring cash:                       |                                    |                          |                                   |                          |
| Deferred income tax (recovery)                  | 5,955                              | (1,049)                  | 5,342                             | (6,886)                  |
| Depletion and depreciation                      | 19,023                             | 18,255                   | 58,663                            | 57,960                   |
| Derecognition expenses                          | 1,812                              | 2,041                    | 6,651                             | 6,503                    |
| Accretion                                       | 792                                | 746                      | 2,410                             | 2,238                    |
| Share-based compensation                        | 335                                | 283                      | 1,880                             | 3,469                    |
| Other income                                    | -                                  | -                        | (123)                             | -                        |
| Gain on disposal of assets                      | (2,879)                            | -                        | (3,505)                           | -                        |
| Unrealized gain on financial derivatives        | (15,381)                           | (428)                    | (11,912)                          | (18,005)                 |
| Abandonment costs                               | (372)                              | (130)                    | (576)                             | (391)                    |
| Change in non-cash working capital (note 16)    | (905)                              | 5,403                    | 725                               | 3,773                    |
|   | 25,512                             | 25,698                   | 73,895                            | 82,633                   |
| <b>FINANCING ACTIVITIES</b>                     |                                    |                          |                                   |                          |
| Issue of common shares, net of costs (note 10)  | 6,399                              | -                        | 6,399                             | 268                      |
| Repurchase of common shares (note 10)           | (900)                              | (3,544)                  | (900)                             | (3,544)                  |
| Financing lease payments                        | -                                  | (1,135)                  | -                                 | (1,545)                  |
| Bank loan (repayment)                           | (4,411)                            | 10,564                   | 13,705                            | (94,960)                 |
|   | 1,088                              | 5,885                    | 19,204                            | (99,781)                 |
| <b>INVESTING ACTIVITIES</b>                     |                                    |                          |                                   |                          |
| Additions to property and equipment (note 6)    | (36,140)                           | (41,055)                 | (100,199)                         | (102,819)                |
| Acquisitions of oil and gas properties (note 6) | (6,888)                            | (684)                    | (7,007)                           | (17,650)                 |
| Disposals of oil and gas properties (note 6)    | 12,723                             | 1,100                    | 13,528                            | 132,012                  |
| Change in non-cash working capital (note 16)    | 3,705                              | 9,056                    | 579                               | 5,605                    |
|   | (26,600)                           | (31,583)                 | (93,099)                          | 17,148                   |
| <b>CHANGE IN CASH</b>                           | -                                  | -                        | -                                 | -                        |
| <b>CASH, BEGINNING AND END OF PERIOD</b>        | -                                  | -                        | -                                 | -                        |
| <b>SUPPLEMENTAL INFORMATION</b>                 |                                    |                          |                                   |                          |
| Cash interest paid                              | 1,886                              | 1,309                    | 6,077                             | 8,049                    |
| Cash taxes paid                                 | 50                                 | 93                       | 112                               | 279                      |

*See accompanying notes*

**Notes to the Consolidated Financial Statements**  
**For the nine months ended September 30, 2011 and 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. REPORTING ENTITY**

Guide Exploration Ltd. (“Guide” or the “Corporation”) was incorporated under the *Business Corporations Act* (Alberta) on March 27, 2003 as Galleon Energy Inc. On November 1, 2011 the name of the Corporation was changed to Guide. The business of the Corporation is the acquisition of, exploration for and development of petroleum and natural gas properties in western Canada. Guide is listed on the TSX under the symbol “GO”.

The financial statements include the accounts of the Corporation, its wholly owned subsidiary 1175176 Alberta Ltd and its indirect wholly owned partnership Guidex Partnership (formerly Galleon Energy Partnership), on a consolidated basis.

The principal address of the Corporation is located at 400, 250 Second Street SW, Calgary, Alberta, T2P 0C1.

**2. BASIS OF PREPARATION**

*Statement of compliance*

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Corporation commenced reporting on this basis in its March 31, 2011 condensed interim consolidated financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to preparation of interim financial statements, including IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Subject to certain transition elections disclosed in note 19, the Corporation has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. The interim consolidated financial statements do not include all of the information required for full annual financial statements.

Note 19 discloses the impact of the transition to IFRS on the Corporation’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Corporation’s consolidated Canadian GAAP financial statements for the year ended December 31, 2010. Comparative figures for 2010 in these financial statements have been restated to give effect to these changes.

These interim consolidated financial statements have been prepared in accordance with IFRS currently issued and expected to be effective as at and for the year ending December 31, 2011, the

date of the Corporation's first annual reporting under IFRS. Any subsequent changes to IFRS reflected in the Corporation's annual consolidated financial statements for the year ended December 31, 2011 could result in restatement of these interim consolidated financial statements.

The financial statements were authorized for issue by the Board of Directors on November 10, 2011.

#### *Basis of presentation*

The financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value, as explained in note 14.

#### *Estimates, assumptions and judgements*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The amounts recorded for depletion and depreciation of property and equipment, the provision for decommissioning liabilities, the provision for income taxes, and impairment testing are based on estimates of proven and probable reserves, production rates, oil and natural gas prices, future costs, future prices, and other relevant assumptions. Accruals for royalties and costs are prepared based on estimates when actual amounts are not yet known. Share-based compensation amounts are determined using certain assumptions (see note 10). The fair value of financial derivatives is based on fair values provided by the counterparties with whom the transactions were completed (see note 14). By their nature, these estimates and assumptions are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### *Cash and cash equivalents*

Cash and cash equivalents may include highly liquid short-term investments with initial maturities of three months or less. They are recorded at cost which approximates fair market value.

#### *Financial instruments*

The financial instruments recognized on the Corporation's balance sheet are deemed to approximate their estimated fair values. All financial assets except derivatives are classified as loans or receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities.

Derivative instruments are classified as held-for-trading and are recorded on the balance sheet at fair value with actual amounts received or paid on the settlement of the derivative financial instrument recorded in revenue. There were no financial assets on the balance sheet which were designated as available-for-sale.

### *Joint interests*

The Corporation's petroleum and natural gas activities may be conducted jointly with others. A jointly controlled operation involves the joint use of assets contributed to the joint venture, without the establishment of a corporation, partnership, or other entity. The financial statements reflect only the Corporation's proportionate interest in such activities.

### *Exploration and evaluation assets*

Expenditures incurred before the Corporation has obtained the legal right to explore are expensed in the statement of earnings.

Exploration and evaluation costs reflect expenditures for an area where technical feasibility and commercial viability had not yet been determined. Expenditures, including land acquisition, geological and geophysical, drilling and completion costs are capitalized and accumulated pending determination of technical feasibility and commercial viability. When assets are determined to be technically feasible and commercially viable, the accumulated costs are tested for impairment and transferred to property and equipment. Technical feasibility and commercial viability is considered established when there are considered to be commercial quantities of reserves in existence.

Exploration and evaluation assets would also be assessed for impairment if facts and circumstances suggest the carrying amount exceeds the recoverable amount.

### *Property and equipment*

Property and equipment are stated at cost less accumulated depletion and depreciation, and accumulated impairment losses.

### *Petroleum and natural gas properties*

Property and equipment includes transfers of exploration and evaluation assets, property acquisitions, facilities, directly attributable overhead and share-based compensation expenses, as well as land acquisition, geological and geophysical, drilling and completion costs incurred within an area considered to be technically feasible and commercially viable.

Property and equipment is depleted on the unit-of-production method using estimated gross proven and probable petroleum and natural gas reserves, determined annually by independent professional engineers. Petroleum and natural gas reserves are converted to a common unit of measure on an energy equivalent basis of six mcf of gas to one barrel of oil. Assets may be excluded from depletion until capable of operating in the manner intended by management. Estimated future development costs necessary to bring the reserves into production are included in the depletion calculation. Estimated residual values are excluded from the depletion calculation.

Proven and probable reserves represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proven and probable components of proven and probable reserves are 90 percent and 10 percent, respectively.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon a reasonable assessment of the future economics of such production, a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production and there is evidence that the

necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if producibility is supported by either actual production or a conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proven limit of the reservoir.

Property and equipment is tested for impairment when indications of impairment exist.

Drilling credits earned under government incentive programs are recorded as a reduction of petroleum and natural gas properties.

#### *Office furniture and equipment*

Office furniture, equipment and other assets are recorded at cost and depreciated on a declining balance basis at rates ranging from 10% - 30% per year.

#### *Disposals*

Any gain or loss on the disposal of property and equipment, including oil and natural gas properties, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of earnings.

#### *Non-monetary transactions*

Non-monetary transactions for the acquisition or disposal of property and equipment are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured.

#### *Derecognition*

The carrying amount of an item of property and equipment is derecognized on disposal or when future economic benefits are no longer expected from its use or disposal, with the resulting gain or loss recognized in the statement of earnings.

#### *Goodwill*

Goodwill, at the time of acquisition, represents the excess of the purchase price of a business over the fair value of net assets acquired. When the excess is negative, it is recognized immediately in the statement of earnings.

Goodwill, measured at cost less accumulated impairment losses, is tested for impairment annually. For purposes of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the combination and tested for impairment at the operating segment level. An impairment loss in respect of goodwill is not reversed.

#### *Business combinations*

Transactions for the purchase of assets, where the assets acquired are deemed to constitute a business, are accounted for as business combinations. Using the acquisition method, identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. Transaction costs related to the acquisition are expensed in the consolidated statement of earnings.

### *Impairments*

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. If either of these amounts exceeds the carrying value, the asset is considered not impaired. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from proven and probable reserves.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. In determining fair value less costs to sell, available fair value indicators, such as recent market transaction information, and an appropriately discounted cash flow valuation model are used.

Impairment losses are recognized in the statement of earnings. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and subsequently to other assets in the CGU. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in facts and circumstances used to determine the asset's recoverable amount since the last impairment loss was recognized, such that the impairment loss no longer exists or has decreased. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

### *Leases*

The Corporation's leases are classified as either financing or operating. Financing leases are those which transfer substantially all the benefits and risks of ownership to the lessee. Assets acquired under financing leases are depleted along with property and equipment. Obligations recorded under financing leases are reduced by the principal portion of lease payments as incurred and the imputed interest portion of financing lease payments is charged to interest expense. Payments under operating leases are expensed as incurred.

### *Decommissioning liabilities*

Decommissioning liabilities arise from the legal obligation to abandon and reclaim property, plant and equipment incurred upon acquisition, construction, development and/or normal use of the asset. The initial liability is measured at the discounted value of the estimated costs to reclaim and abandon using a credit adjusted risk free rate, subsequently adjusted for the accretion of discount and changes in expected costs. The decommissioning cost is capitalized as part of property and equipment and depleted into earnings based on units of production. Actual costs incurred upon settlement of the obligations are charged against the liability.

### *Revenue recognition*

Petroleum and natural gas sales are recognized when delivery of the product has been completed and title passes to an external party.

### *Share-based compensation*

The grant date fair values of share-based compensation awards are recognized over the vesting periods of the awards, with an offsetting credit to contributed surplus. The Black-Scholes option pricing model has been used to calculate the fair value of the stock options granted. The estimated forfeiture rate is adjusted to reflect the actual number of options that vest. Consideration paid by optionees on the exercise of stock options is credited to share capital, together with the related share-based compensation previously included in contributed surplus.

### *Income taxes*

Income tax expense is recognized in the statement of earnings, except to the extent it relates to items recognized directly in equity, in which case the related income tax is also recognized in equity.

Deferred tax is recognized using the balance sheet method. Under this method, deferred income tax assets and liabilities are recognized based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period in which the change is substantively enacted. Deferred income tax assets and liabilities are presented as non-current.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is neither a business combination nor an event resulting in income or expense. Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

### *Flow-through shares*

The Corporation has financed a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Corporation, a deferred tax expense is recognized in the statement of earnings when the expenditures are incurred and the renouncement has been filed. The deferred tax expense recognized is offset by the premium received on the flow-through shares which is initially recorded as a liability.

### *Earnings (loss) per share*

Basic earnings (loss) per share is calculated by dividing the earnings or loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share amounts are calculated using the treasury stock method, whereby diluted earnings per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as stock options granted.

### *Provisions*

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### 4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

##### *IFRS 9 Financial Instruments*

As of January 1, 2013, the Corporation will be required to adopt IFRS 9 – *Financial Instruments*, which is the result of the first phase of the IASB’s project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classifications: amortized cost and fair value. The adoption of this standard is not expected to have a material impact on the Corporation’s financial statements.

##### *IFRS 10 Consolidated Financial Statements*

IFRS 10 *Consolidated Financial Statements* will replace portions of IAS 27 *Consolidated and Separate Financial Statements* and interpretation SIC-12 *Consolidation – Special Purpose Entities*. The key features of IFRS 10 include consolidation using a single control model, definition of control, considerations on power, and continuous reassessment. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

##### *IFRS 11 Joint Arrangements*

IFRS 11 *Joint Arrangements* will apply to interests in joint arrangements where there is joint control. IFRS 11 would require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures, previously called jointly controlled entities, using proportionate consolidation may be removed, and equity accounting may be required. Venturers would transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

##### *IFRS 12 Disclosure of Interests in Other Entities*

The IASB has issued IFRS 12 *Disclosure of Interests in Other Entities*, which includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. This standard is effective for annual periods beginning on or after January 1, 2013. Entities will be permitted to apply any of the disclosure requirements in IFRS 12 before the effective date. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

##### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. The key features of IFRS 13 include: a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied, fair value would be defined as the ‘exit price’, and concepts of ‘highest and best use’ and ‘valuation premise’ would be relevant only for non-financial assets and liabilities. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

### *IAS 27 Separate Financial Statements*

As a result of the issue of the new consolidation suite of standards, IAS 27 *Separate Financial Statements* has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Corporation's financial statements.

### *IAS 28 Investments in Associates and Joint Ventures*

As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 may be applied by entities that are investors with joint control of, or significant influence over, an investee. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

## **5. BUSINESS COMBINATIONS**

On August 4, 2011 the Corporation purchased interests in certain natural gas properties in the Kakut area of Alberta. Details of the transaction are as follows:

|                                  |       |
|----------------------------------|-------|
|                                  | \$    |
| Property and equipment           | 7,270 |
| Decommissioning liabilities      | (400) |
|                                  | <hr/> |
| Identifiable net assets acquired | 6,870 |
|                                  | <hr/> |
| Cash consideration paid          | 6,870 |
|                                  | <hr/> |

The consolidated financial statements incorporate the operations of the acquired properties commencing August 4, 2011. During the period August 4, 2011 to September 30, 2011, the Corporation recorded petroleum and natural gas revenue of \$0.6 million and net income of \$0.1 million in respect of these assets. Had the transaction closed on January 1, 2011, the incremental revenue and net income reported by the Corporation would have been \$1.6 million and \$0.2 million, respectively.

## 6. PROPERTY AND EQUIPMENT

| <b>Cost</b>                          | <b>Petroleum &amp;<br/>natural gas<br/>properties<br/>\$</b> | <b>Office<br/>furniture &amp;<br/>equipment<br/>\$</b> | <b>Total<br/>\$</b> |
|--------------------------------------|--|--|---------------------|
| <b>Balance, January 1, 2010</b>      | 1,045,877  | 2,553  | 1,048,430           |
| Additions                            | 136,219  | 111  | 136,330             |
| Acquisitions                         | 17,791   | -  | 17,791              |
| Disposals                            | (131,949)  | -  | (131,949)           |
| Capitalized share-based compensation | 1,933  | -  | 1,933               |
| Derecognition expense                | (9,069)  | -  | (9,069)             |
| Non-monetary transactions            | 334  | -  | 334                 |
| Decommissioning liabilities          | (774)  | -  | (774)               |
| <b>Balance, December 31, 2010</b>    | 1,060,362  | 2,664  | 1,063,026           |
| Additions                            | 100,113  | 86   | 100,199             |
| Acquisitions                         | 7,007  | -  | 7,007               |
| Disposals                            | (10,023)   | -  | (10,023)            |
| Capitalized share-based compensation | 696  | -  | 696                 |
| Derecognition expense                | (6,651)  | -  | (6,651)             |
| Non-monetary transactions            | 123  | -  | 123                 |
| Decommissioning liabilities          | (31)   | -  | (31)                |
| <b>Balance, September 30, 2011</b>   | 1,151,596  | 2,750  | 1,154,346           |

| <b>Accumulated depletion, depreciation &amp;<br/>impairments</b> | <b>Petroleum &amp;<br/>natural gas<br/>properties<br/>\$</b> | <b>Office<br/>furniture &amp;<br/>equipment<br/>\$</b> | <b>Total<br/>\$</b> |
|--|--|--|---------------------|
| <b>Balance, January 1, 2010</b>                                  | 165,319  | 1,174  | 166,493             |
| Depletion & depreciation expense                                 | 79,586   | 300  | 79,886              |
| <b>Balance, December 31, 2010</b>                                | 244,905  | 1,474  | 246,379             |
| Depletion & depreciation expense                                 | 58,455   | 208  | 58,663              |
| <b>Balance, September 30, 2011</b>                               | 303,360  | 1,682  | 305,042             |

| <b>Net book value</b>       | <b>Petroleum &amp;<br/>natural gas<br/>properties<br/>\$</b> | <b>Office<br/>furniture &amp;<br/>equipment<br/>\$</b> | <b>Total<br/>\$</b> |
|-----------------------------|--|--|---------------------|
| Balance, January 1, 2010    | 880,558  | 1,379  | 881,937             |
| Balance, December 31, 2010  | 815,457  | 1,190  | 816,647             |
| Balance, September 30, 2011 | 848,236  | 1,068  | 849,304             |

As at September 30, 2011, \$45.9 million (September 30, 2010 - \$49.7 million) of undeveloped land and seismic have been excluded from and \$337.9 million (September 30, 2010 - \$325.8 million) in future development costs have been added into the cost bases for depletion purposes. Estimated residual values of \$47.8 million have been excluded from costs subject to depletion (September 30, 2010 - \$69.2 million).

For the nine months ended September 30, 2011, \$0.8 million (September 30, 2010 – \$1.0 million) of exploration salaries have been capitalized.

During the nine months ended September 30, 2011 the Corporation disposed of properties in the Western Montney area of British Columbia for net proceeds of \$12.7 million, resulting in a gain on disposal of \$2.9 million.

At September 30, 2011 the Corporation had recorded drilling credits in total of \$23.4 million as a reduction of property and equipment (December 31, 2010 - \$20.9 million).

During the year ended December 31, 2010 the Corporation sold properties in the Puskwa area of Alberta for cash consideration, net of adjustments, of \$131.4 million.

During the year ended December 31, 2010 the Corporation purchased non-producing assets in the Kakut area of Alberta for cash consideration of \$17.5 million.

The final payment required under the equipment financing leases was made during the year ended December 31, 2010.

## 7. GOODWILL

|  | Cost<br>\$ | Impairment<br>Losses<br>\$ | Net<br>\$ |
|--|------------|----------------------------|-----------|
| Balance, January 1, 2010                           | 25,333     | -                          | 25,333    |
| Impairment   | -          | (25,333)                   | (25,333)  |
| Balance, December 31, 2010 and September 30 , 2011 | 25,333     | (25,333)                   | -         |

The Corporation reviewed the valuation of goodwill as of December 31, 2010 and determined that the recoverable amount had declined below the carrying value. Based upon this review, an impairment of goodwill of \$25.3 million was recorded as a non-cash charge to earnings as of December 31, 2010.

## 8. DECOMMISSIONING LIABILITIES

The Corporation's decommissioning liabilities result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its decommissioning liabilities is approximately \$127 million, which will be incurred over the next 40 years. A credit adjusted risk free rate of 8% and an inflation rate of 2% were used to calculate the present value of the decommissioning liabilities.

|                               | Nine months<br>ended September<br>30, 2011<br>\$ | Year ended<br>December 31,<br>2010<br>\$ |
|-------------------------------|--|--|
| Balance, beginning of period  | 39,947   | 38,228                                   |
| Accretion expense             | 2,410  | 2,984                                    |
| Liabilities incurred          | 1,455  | 1,985                                    |
| Disposal of liabilities       | (1,486)  | (1,839)                                  |
| Settlement of liabilities     | (576)  | (491)                                    |
| Change in estimates           | -  | (920)                                    |
| <b>Balance, end of period</b> | <b>41,750</b>                                    | <b>39,947</b>                            |

## 9. AVAILABLE CREDIT FACILITIES

The Corporation has \$250 million in credit facilities available, consisting of a \$225 million extendible 364 day revolving term facility and a \$25 million non-revolving facility. The \$25 million facility is available subject to mutual approval of the banking syndicate and the Corporation, including repayment terms. Collateral for the facilities consists of a demand debenture for \$500 million collateralized by a first floating charge over all of the property and equipment of the Corporation. At September 30, 2011, an amount of \$149.4 million was drawn against the revolving credit facility (December 31, 2010 - \$135.7 million).

The facilities bear interest at the bank's prime or banker's acceptance rates plus a rate margin. The margins range from 1.25% per annum to 5.25% per annum, based upon the Corporation's debt to cash flow ratio. For the nine months ended September 30, 2011, the effective interest rate was 5.2% (September 30, 2010 - 6.0%).

An annual review is scheduled to occur on or before May 28, 2012. As at September 30, 2011, the Corporation is in compliance with all covenants, obligations and conditions of its credit agreement.

## 10. SHARE CAPITAL

### *Authorized*

Unlimited number of preferred shares with no par value

Unlimited number of voting Class A shares with no par value

Unlimited number of voting Class B shares with no par value

### *Issued*

| Class A Shares  | Number of<br>Shares | Amount<br>\$   |
|---|---------------------|----------------|
| <b>Balance, January 1, 2010</b>                               | <b>85,090,883</b>   | <b>595,559</b> |
| Issued for cash on exercise of stock options                  | 77,000              | 337            |
| Transfer from contributed surplus on exercise of options      | -                   | 123            |
| Shares purchased and cancelled (a)                            | (1,187,800)         | (4,154)        |
| Transfer to contributed surplus on cancellation of shares (a) | -                   | (4,150)        |
| Tax deduction of share issue costs                            | -                   | (1,089)        |
| <b>Balance, December 31, 2010</b>                             | <b>83,980,083</b>   | <b>586,626</b> |
| Issued for cash (b)   | 2,300,000           | 6,463          |
| Share issue costs, net of deferred tax of \$16,000            | -                   | (48)           |
| Common shares purchased (a)                                   | -                   | (900)          |
| Transfer to contributed surplus on purchase of shares (a)     | -                   | (1,667)        |
| Cancellation of shares purchased (a)                          | (190,000)           | -              |
| Tax deduction of share issue costs                            | -                   | (197)          |
| <b>Balance, September 30, 2011</b>                            | <b>86,090,083</b>   | <b>590,277</b> |

- a) On November 26, 2009, the Corporation received regulatory approval for a renewal of a Normal Course Issuer Bid ("Bid") with approval to purchase, for cancellation, up to a maximum of 1,000,000 Class A shares of the Corporation. The renewal commenced on December 1, 2009 and terminated on November 30, 2010. Regulatory approval for an amendment to the Bid, increasing the maximum number of shares that may be purchased to 2,000,000, was received on September 17, 2010.

During the year ended December 31, 2010, the Corporation purchased 1,187,800 shares for cancellation for \$4,154,000, all of which were cancelled at December 31, 2010. Share capital has been reduced and contributed surplus has been increased by an additional \$4,150,000, being the difference between the book value of the shares at the date of purchase and the purchase price of the shares.

On November 29, 2010, the Corporation received regulatory approval for a Bid to purchase for cancellation up to a maximum of 2,000,000 shares of the Corporation, effective December 1, 2010. The Bid was effective on December 1, 2010 and will terminate on November 30, 2011, or such earlier time as the Bid is completed or terminated at the option of the Corporation. Regulatory approval for an amendment to the Bid, increasing the maximum number of shares that may be purchased to 6,200,000 was received on October 7, 2011.

During the nine months ended September 30, 2011, the Corporation purchased 367,700 shares for cancellation for \$900,000, of which 190,000 shares were cancelled at September 30, 2011. Share capital has been reduced and contributed surplus has been increased by an additional \$1,667,000, being the difference between the book value of the shares at the date of purchase and the purchase price of the shares.

- b) On September 16, 2011, the Corporation issued 2,300,000 units (“Units”) for cash consideration of \$6.5 million under a private placement to a new management group of the Corporation and their designates. Each Unit consisted of one Class A share of the Corporation and one share purchase warrant (“Warrant”). Each Warrant entitles the holder to acquire one Class A share of the Corporation at an exercise price of \$3.10 for a period of three years. The Warrants are not exercisable until the twenty day volume weighted average trading price of the Class A shares exceeds \$5.00 per share.

The Corporation has a share option plan which was approved on May 19, 2005 and amended on August 25, 2005, June 19, 2007, May 13, 2008 and January 24, 2011. The exercise price of each option may not be less than the closing price of the Corporation’s Class A shares on the day immediately prior to the date of the grant. Compensation expense is recognized as the options vest. The vesting period is one third on each of the next three anniversaries of the date of the grant. The options expire five years from the date of grant. The Corporation may grant up to 10% of the aggregate number of Class A shares outstanding and no one optionee is permitted to hold options entitling such optionee to purchase more than 5% of the aggregate number of issued and outstanding Class A shares. Class A shares have been reserved for all options granted.

|   | Nine months ended<br>September 30, 2011 | Year ended<br>December 31, 2010 |
|---|---|---------------------------------|
|   | \$                                      | \$                              |
| <b>Contributed Surplus</b>                            |   |                                 |
| Beginning of period                                   | 40,581                                  | 30,174                          |
| Share-based compensation expense                      | 2,576                                   | 6,380                           |
| Transfer from share capital on cancellation of shares | 1,667                                   | 4,150                           |
| Transfer to share capital on exercise of options      | -                                       | (123)                           |
| <b>End of period</b>                                  | <b>44,824</b>                           | <b>40,581</b>                   |

The fair value of options granted during the three months ended September 30, 2011 was estimated at the date of grant using a Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rates of 1.6–2.4%; dividend yield of 0%; volatility factors of the market price of the Corporation’s common shares of 44-69%; and expected option lives of two to four years. Options granted during the three months ended September 30, 2011 had fair values between \$0.72 and \$1.70 per option.

|  | Number of<br>Options | Weighted Average<br>Exercise Price<br>\$ |
|--|----------------------|--|
| <b>Outstanding, January 1, 2010</b>    | <b>6,733,834</b>     | <b>6.08</b>                              |
| Granted                                | 2,569,000            | 4.30                                     |
| Forfeited                              | (2,023,334)          | (5.96)                                   |
| Expired                                | (52,500)             | (13.17)                                  |
| Exercised                              | (77,000)             | (4.38)                                   |
| <b>Outstanding, December 31, 2010</b>  | <b>7,150,000</b>     | <b>5.44</b>                              |
| Granted                                | 290,000              | 3.60                                     |
| Forfeited                              | (428,667)            | (5.22)                                   |
| <b>Outstanding, March 31, 2011</b>     | <b>7,011,333</b>     | <b>5.38</b>                              |
| Granted                                | 1,945,000            | 3.15                                     |
| Forfeited                              | (964,667)            | (5.14)                                   |
| Cancelled                              | (1,597,000)          | (6.38)                                   |
| <b>Outstanding, June 30, 2011</b>      | <b>6,394,666</b>     | <b>4.49</b>                              |
| Granted                                | 2,010,000            | 3.04                                     |
| Forfeited                              | (843,333)            | (4.94)                                   |
| <b>Outstanding, September 30, 2011</b> | <b>7,561,333</b>     | <b>4.05</b>                              |

The following table summarizes information regarding stock options at September 30, 2011:

| Options Outstanding  |                       |   |   | Options Exercisable   |  |
|----------------------|-----------------------|---|---|-----------------------|--|
| Exercise Price<br>\$ | Number<br>Outstanding | Weighted<br>Average<br>Remaining<br>Life<br>(Years) | Weighted<br>Average<br>Exercise<br>Price \$ | Number<br>Exercisable | Weighted<br>Average<br>Exercise Price \$ |
| 2.81-4.20            | 5,334,000             | 4.6   | 3.30  | 83,333                | 3.71                                     |
| 4.70-6.38            | 2,227,333             | 2.6   | 5.86  | 1,022,500             | 5.65                                     |
|                      | <b>7,561,333</b>      | <b>4.0</b>  | <b>4.05</b>                                 | <b>1,105,834</b>      | <b>5.50</b>                              |

An estimated forfeiture rate of 10% (2010 – 10%) was used when recording share-based compensation expense.

*Earnings per share*

|  | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |        |
|--|------------------------------------|--------|-----------------------------------|--------|
|  | 2011                               | 2010   | 2011                              | 2010   |
| Earnings during the period (\$000's)             | 17,132                             | 577    | 14,340                            | 33,972 |
| Weighted average number of common shares (000's) |                                    |        |                                   |        |
| Beginning of period                              | 83,980                             | 85,148 | 83,980                            | 85,091 |
| Issue of common shares                           | 400                                | -      | 135                               | -      |
| Share options exercised                          | -                                  | -      | -                                 | 39     |
| Repurchase of common shares                      | (16)                               | (279)  | (6)                               | (94)   |
| Weighted average number of common shares – basic | 84,364                             | 84,869 | 84,109                            | 85,036 |
| Basic earnings per share                         | \$0.20                             | \$0.01 | \$0.17                            | \$0.40 |

|  | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |        |
|--|------------------------------------|--------|-----------------------------------|--------|
|  | 2011                               | 2010   | 2011                              | 2010   |
| Earnings during the period (\$000's)               | 17,132                             | 577    | 14,340                            | 33,972 |
| Weighted average number of common shares (000's)   |                                    |        |                                   |        |
| Weighted average number of common shares – basic   | 84,364                             | 84,869 | 84,109                            | 85,036 |
| Effect of outstanding options                      | -                                  | -      | -                                 | 120    |
| Weighted average number of common shares – diluted | 84,364                             | 84,869 | 84,109                            | 85,156 |
| Diluted earnings per share                         | \$0.20                             | \$0.01 | \$0.17                            | \$0.40 |

The diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding and in the money options are used to purchase common shares of the Corporation at their average market price for the period. For the nine months ended September 30, 2011, 7,561,333 options have been excluded from the diluted earnings per share calculation as they are anti-dilutive (September 30, 2010 – 4,087,834).

## 11. GENERAL AND ADMINISTRATION EXPENSES

| \$   | Three months ended |              | Nine months ended |               |
|--|--------------------|--------------|-------------------|---------------|
|  | September 30       |              | September 30      |               |
|  | 2011               | 2010         | 2011              | 2010          |
| Salary and employee                        | 4,061              | 3,500        | 9,521             | 8,986         |
| Other                                      | 1,996              | 1,823        | 5,881             | 5,518         |
| Gross expenses                             | 6,057              | 5,323        | 15,402            | 14,504        |
| Capitalized overhead                       | (879)              | (1,021)      | (2,339)           | (2,515)       |
| Operating recoveries                       | (513)              | (372)        | (1,314)           | (1,428)       |
| <b>General and administration expenses</b> | <b>4,665</b>       | <b>3,930</b> | <b>11,749</b>     | <b>10,561</b> |

## 12. INCOME TAXES

The deferred tax liability is comprised of the following temporary differences:

|                                      | September 30,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
|--------------------------------------|-----------------------|----------------------|--------------------|
|                                      | \$                    | \$                   | \$                 |
| Property and equipment               | 51,810                | 43,956               | 56,685             |
| Alberta royalty tax deduction        | (1,190)               | (1,302)              | (1,260)            |
| Share issue costs                    | (400)                 | (681)                | (1,770)            |
| Decommissioning liabilities          | (1,048)               | (960)                | (343)              |
| Non-capital losses                   | (23,513)              | (23,223)             | (28,932)           |
| Partnership income tax deferral      | 20,264                | 25,612               | 27,749             |
| Financing leases                     | -                     | -                    | (402)              |
| Financial derivatives                | 2,857                 | (145)                | (2,482)            |
| <b>Deferred income tax liability</b> | <b>48,780</b>         | <b>43,257</b>        | <b>49,245</b>      |

The provision for income tax differs from the amount that would have been expected if the reported earnings had been subject only to the statutory Canadian income tax rate of 26.6% (September 30, 2010 – 28.1%).

| \$   | Three months ended |                | Nine months ended |                |
|--|--------------------|----------------|-------------------|----------------|
|  | September 30       |                | September 30      |                |
|  | 2011               | 2010           | 2011              | 2010           |
| Earnings (loss) before income tax            | 23,149             | (404)          | 19,854            | 27,220         |
| Corporate tax rate                           | 26.55%             | 28.05%         | 26.55%            | 28.05%         |
| Expected tax (recovery)                      | 6,146              | (116)          | 5,271             | 7,635          |
| Increase (decrease) in taxes resulting from: |                    |                |                   |                |
| Non-deductible items                         | 15                 | 5              | 29                | 28             |
| Stock-based compensation                     | 105                | 79             | 547               | 973            |
| Statutory tax rate changes                   | (318)              | (1,416)        | (295)             | (3,116)        |
| Share issue costs                            | -                  | (287)          | (197)             | (817)          |
| Flow-through share expense                   | -                  | 132            | -                 | 620            |
| Deductible capital taxes                     | (17)               | (19)           | (49)              | (65)           |
| Disposal of properties                       | -                  | 573            | -                 | (12,144)       |
| Other  | 24                 | -              | 36                | -              |
| <b>Deferred income tax (recovery)</b>        | <b>5,955</b>       | <b>(1,049)</b> | <b>5,342</b>      | <b>(6,886)</b> |

At September 30, 2011 the Corporation has approximately \$610.0 million (December 31, 2010 – \$590.0 million) of tax deductions available for Canadian income tax purposes.

### 13. COMMITMENTS AND CONTINGENCIES

#### *Office Lease Payments*

At September 30, 2011 the Corporation is committed to future minimum lease payments under an operating lease for office space with future minimum lease payments as follows:

|            | Amount \$ |
|------------|-----------|
| 2011       | 449       |
| 2012       | 1,793     |
| 2013       | 1,793     |
| 2014       | 1,793     |
| 2015       | 1,793     |
| Thereafter | 2,689     |

#### *Drilling Rig*

The Corporation has entered into contracts for drilling rig services under which the Corporation is committed to using services totaling \$3.3 million during the ten months ending April 30, 2012.

#### *Litigation*

The Corporation is involved in various claims and legal actions arising in the normal course of business. The Corporation does not expect that the outcome of these proceedings will have a material adverse effect on the Corporation as a whole.

### 14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

#### *Fair value of financial assets and liabilities*

The Corporation's financial instruments recognized in the balance sheet consist of accounts receivable, accounts payable, bank loan and financial derivatives ("financial instruments"). The carrying value of accounts receivable and accounts payable approximated their fair values at September 30, 2011 due to their short-term nature. The carrying value of the bank loan approximates fair value due to the floating interest rate on the facility. The fair value of the financial derivatives is recognized on the balance sheet as described below.

#### *Credit risk*

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks. A portion of the Corporation's production is currently sold through joint venture partners under normal industry sale and payment terms. As at September 30, 2011, approximately 58% of the accounts receivable balance is due from three customers, compared to 48% due from three customers at December 31, 2010. These customers are considered to have high credit worthiness. The Corporation generally grants unsecured credit but routinely assesses the financial strength of its customers and joint venture partners. No provision has been made for past due receivables as of September 30, 2011 as the Corporation has assessed there are no impaired receivables.

| At September 30, 2011 | \$     |
|-----------------------|--------|
| Less than 90 days     | 18,908 |
| Greater than 90 days  | 1,015  |
| Total                 | 19,923 |

#### *Liquidity risk*

Liquidity risk arises through excess financial obligations over available financial assets due at any point in time. The Corporation's objective in managing liquidity risk is to maintain sufficient available reserves in order to meet its liquidity requirements at any point in time. The Corporation believes that it has access to sufficient capital through internally generated cash flows and external equity sources, and to undrawn committed credit facilities to meet current spending forecasts. The Corporation's current liabilities mature within a one year period.

#### *Interest rate risk*

The Corporation is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair value of its financial instruments. The Corporation's primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Cash flows are sensitive to changes in interest rates on this instrument. Given the amount of debt employed, the Corporation's strategy is to manage interest rate risk. For the nine months ended September 30, 2011, it is estimated that a 1.0% change to the effective interest rate would have had a \$0.8 million impact on net income (September 30, 2010 - \$1.1 million).

#### *Market risk*

Market risk is the risk of uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Corporation's financial assets, liabilities and expected future cash flows include commodity price risk and interest rate risk. For the nine months ended September 30, 2011, excluding the impact on unrealized financial derivative contracts, it is estimated that a \$0.25/Mcf change in the price of natural gas would have had a \$0.6 million impact on net income, (September 30, 2010 - \$1.6 million). For the nine months ended September 30, 2011, excluding the impact on unrealized financial derivative contracts, it is estimated that a \$5.00 USD WTI/Bbl change in the price of oil would have had a \$3.1 million impact on net income (September 30, 2010 - \$3.5 million).

*Financial derivative contracts*

The Corporation has the following financial contracts in place as at September 30, 2011:

Natural Gas:

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|                                     |             |               |
|-------------------------------------|-------------|---------------|
| January 1, 2010 - December 31, 2011 | 5,000 GJ/d  | CDN \$5.85/GJ |
| January 1, 2010 - December 31, 2011 | 5,000 GJ/d  | CDN \$5.75/GJ |
| January 1, 2011 - December 31, 2011 | 20,000 GJ/d | CDN \$5.20/GJ |
| April 1, 2011 - December 31, 2011   | 5,000 GJ/d  | CDN \$5.60/GJ |
| January 1, 2012 - December 31, 2012 | 22,500 GJ/d | CDN \$5.00/GJ |

Crude Oil:

Fixed Price:

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|                                     |             |                     |
|-------------------------------------|-------------|---------------------|
| January 1, 2011 – December 31, 2011 | 1,000/Bbl/d | WTI CDN \$84.15/Bbl |
| January 1, 2011 – December 31, 2011 | 500 Bbl/d   | WTI CDN \$92.00/Bbl |

Costless Collars:

|                                     |             |                             |
|-------------------------------------|-------------|-----------------------------|
| January 1, 2011 – December 31, 2011 | 1,000 Bbl/d | WTI CDN \$77.10-\$90.00/Bbl |
|-------------------------------------|-------------|-----------------------------|

Other:

|                                     |             |                             |
|-------------------------------------|-------------|-----------------------------|
| January 1, 2012 – December 31, 2012 | 527 Bbl/d   | WTI US \$85.00/Bbl Put      |
| January 1, 2012 – December 31, 2012 | 1,000 Bbl/d | WTI US \$85.00/Bbl Put      |
| January 1, 2013 – December 31, 2013 | 1,527 Bbl/d | WTI US \$85.00/Bbl Call     |
| January 1, 2013 – December 31, 2013 | 500 Bbl/d   | WTI US\$ 85.00/Bbl Swaption |
| January 1, 2013 – December 31, 2013 | 73 Bbl/d    | WTI US \$100.00/Bbl Call    |
| January 1, 2014 – December 31, 2014 | 980 Bbl/d   | WTI US\$ 85.00/Bbl Swaption |

The Corporation has entered into the above contracts for the purpose of protecting funds generated from operations from the volatility of commodity prices. The Corporation recognizes the fair value of its financial derivatives on the balance sheet each reporting period with the change in fair value recognized as an unrealized gain or loss on the statement of earnings. At September 30, 2011, the fair value is estimated to be a net asset of \$11.3 million, composed of a \$21.0 million short term asset, a \$4.2 million long-term asset, a \$0.2 million short-term liability, and a \$13.7 million long-term liability.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Corporation characterizes inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

- Level 1 - inputs represent quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly as of the reporting date. Level 2 valuations are based on inputs which can be observed or corroborated in the market place from sources such as the New York Mercantile Exchange and the Natural Gas Exchange.
- Level 3 - inputs that are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value.

The fair value determinations for the Corporation's financial derivatives are based upon Level 3 inputs, having been provided by the counterparties with whom the transactions were completed and reviewed by the Corporation for reasonableness.

## 15. CAPITAL RISK MANAGEMENT

The Corporation defines capital as total debt and shareholders' equity comprised of retained earnings and share capital. The Corporation's primary capital management objective is to maintain a strong balance sheet affording the Corporation financial flexibility to achieve goals of continued growth and access to capital. The basis for the Corporation's capital structure is dependent on the Corporation's expected business growth and changes in the business environment. The Corporation manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objectives stated above. To manage the capital structure, the Corporation may adjust capital spending, issue new shares, purchase shares under the Normal Course Issuer Bid, issue new debt or repay existing debt.

The Corporation monitors its progress through the following two measures utilizing book values: net debt to funds from operations and total debt to total debt and shareholders' equity. Net debt to funds from operations is calculated as current liabilities and long term debt less current assets divided by the most recent quarters annualized funds from operations. Total debt to total debt plus shareholders' equity is calculated as short term debt plus long term debt divided by short term debt plus long term debt plus shareholders' equity.

The Corporation's strategy is to maintain net debt to funds from operations at or below a level of 1.5 to 1. While the Corporation may exceed this rate from time to time, efforts are made after a period of variation to bring the measure back in line.

The Corporation's strategy concerning capitalization is to utilize more equity than debt. This is measured by targeting total debt to total debt plus shareholders' equity at a ratio of less than 0.4 to 1. The Corporation has no externally imposed capital requirements.

| At September 30 (\$000's except ratio amounts)  | Target Measure | 2011    | 2010    |
|---|----------------|---------|---------|
| Components of ratios  |                |         |         |
| Current assets (excluding fair value of financial derivatives)  |                | 23,564  | 32,599  |
| Current liabilities (including short term debt and excluding other liability and fair value of financial derivatives) |                | 191,434 | 172,331 |
| Net debt  |                | 167,870 | 139,732 |
| Total debt (bank loan and financing lease)  |                | 149,387 | 122,283 |
| Shareholders' equity (share capital plus retained earnings)   |                | 557,416 | 575,898 |
| Total capitalization (total debt plus shareholders' equity)   |                | 706,803 | 698,181 |
| Funds from operations <sup>1</sup>  |                |         |         |
| (nine months ended September 30 annualized)   |                | 98,328  | 105,668 |
| Net debt/funds from operations  | < 1.5 times    | 1.7     | 1.3     |
| Total debt/total debt plus shareholders' equity   | < 0.4 times    | 0.2     | 0.2     |

<sup>1</sup> Funds from operations is a non-GAAP measure and is based on cash flow from operating activities before changes in non-cash working capital and abandonment expenditures

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

The net change in working capital is comprised of:

|  | 2011    | 2010    |
|--|---------|---------|
| Nine months ended September 30           | \$      | \$      |
| Source (use) of cash:                    |         |         |
| Accounts receivable                      | 8,906   | 13,126  |
| Deposits and prepaid expenses            | (280)   | 1,735   |
| Accounts payable and accrued liabilities | (7,322) | (5,483) |
|  | 1,304   | 9,378   |
| Related to operating activities          | 725     | 3,773   |
| Related to investing activities          | 579     | 5,605   |
|  | 1,304   | 9,378   |

## 17. RESTRUCTURING COSTS

In March 2010 the Board of Directors initiated a process to identify and consider strategic alternatives, with a view to enhancing shareholder value. The strategic review process was completed in July 2010. In conjunction with the sale of assets in the Puskwa area of Alberta in the second quarter of 2010, the Corporation restructured its technical and operational teams. Expenses of \$1.2 million related to the restructuring process were incurred during the nine months ended September 30, 2010.

## 18. SUBSEQUENT EVENTS

Subsequent to September 30, 2011, the Corporation entered into an agreement with a syndicate of underwriters to issue, on a bought deal basis, 5,634,000 common shares on a Canadian Exploration Expense (CEE) flow-through share basis (CEE Flow Through Common Shares) at a price of \$3.55 per CEE Flow Through Common Share for aggregate proceeds of \$20.0 million (the Brokered Offering).

Guide also entered into an agreement to issue, on a non-brokered, private placement basis, 1,515,152 common shares on a Canadian Development Expense (CDE) flow through share basis (CDE Flow Through Common Shares) at a price of \$3.30 per CDE Flow Through Common Share for aggregate gross proceeds of \$5.0 million (the Non-Brokered Offering).

Closing of the Non-Brokered Offering is expected to occur on November 18, 2011 and closing of the Brokered Offering is expected to occur on November 24, 2011 and, in each case, is subject to certain conditions including, but not limited to, the receipt of all necessary approvals including the approval of the Toronto Stock Exchange.

Subsequent to September 30, 2011, the Corporation entered into the following financial derivative contract:

Crude Oil:

Costless collar:

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|                                     |           |                               |
|-------------------------------------|-----------|-------------------------------|
| January 1, 2012 – December 31, 2012 | 500 Bbl/d | WTI CDN \$85.00 - \$90.00/Bbl |
|-------------------------------------|-----------|-------------------------------|

## 19. RECONCILIATION OF CANADIAN GAAP FINANCIAL STATEMENTS TO IFRS

### Consolidated Statement of Financial Position As at January 1, 2010

| (\$000s)                                 | Canadian<br>GAAP | Effect of<br>transition to<br>IFRS | IFRS<br>Reclassifications<br>(h) | IFRS           |
|--|------------------|------------------------------------|----------------------------------|----------------|
| <b>ASSETS</b>                            |                  |                                    |                                  |                |
| CURRENT                                  |                  |                                    |                                  |                |
| Accounts receivable                      | 41,270           | -                                  | -                                | 41,270         |
| Deposits and prepaid expenses            | 6,190            | -                                  | -                                | 6,190          |
| Fair value of financial derivatives      | 4,241            | -                                  | -                                | 4,241          |
| Deferred income taxes (h)                | 2,884            | -                                  | (2,884)                          | -              |
|  | 54,585           | -                                  | (2,884)                          | 51,701         |
| Goodwill (b)                             | 34,891           | (9,558)                            | -                                | 25,333         |
| Equipment inventory (h)                  | 6,116            | -                                  | (6,116)                          | -              |
| Property and equipment (a) (f) (h)       | 1,041,140        | (165,319)                          | 6,116                            | 881,937        |
|  | <b>1,136,732</b> | <b>(174,877)</b>                   | <b>(2,884)</b>                   | <b>958,971</b> |
| <b>LIABILITIES</b>                       |                  |                                    |                                  |                |
| CURRENT                                  |                  |                                    |                                  |                |
| Accounts payable and accrued liabilities | 55,531           | -                                  | -                                | 55,531         |
| Financing lease                          | 1,545            | -                                  | -                                | 1,545          |
| Bank loan                                | 217,243          | -                                  | -                                | 217,243        |
| Other liability (d)                      | -                | 3,775                              | -                                | 3,775          |
| Fair value of financial derivatives      | 13,789           | -                                  | -                                | 13,789         |
|  | 288,108          | 3,775                              | -                                | 291,883        |
| Decommissioning liabilities (c)          | 41,499           | (3,271)                            | -                                | 38,228         |
| Deferred income taxes (g) (h)            | 94,262           | (42,133)                           | (2,884)                          | 49,245         |
|  | 423,869          | (41,629)                           | (2,884)                          | 379,356        |
| <b>SHAREHOLDERS' EQUITY</b>              |                  |                                    |                                  |                |
| Share capital (d)                        | 599,334          | (3,775)                            | -                                | 595,559        |
| Contributed surplus (e)                  | 28,884           | 1,290                              | -                                | 30,174         |
| Retained earnings (deficit)              | 84,645           | (130,763)                          | -                                | (46,118)       |
|  | 712,863          | (133,248)                          | -                                | 579,615        |
|  | <b>1,136,732</b> | <b>(174,877)</b>                   | <b>(2,884)</b>                   | <b>958,971</b> |

## Reconciliation of Retained Earnings (Deficit)

| (\$000's)  | December 31,<br>2010 | September 30,<br>2010 | January 1,<br>2010 |
|--|----------------------|-----------------------|--------------------|
| <b>Reported under Canadian GAAP</b>                | <b>45,698</b>        | <b>93,843</b>         | <b>84,645</b>      |
| <b>IFRS adjustments, each net of deferred tax:</b> |                      |                       |                    |
| Development and production asset impairment (a)    | (122,336)            | (122,336)             | (122,336)          |
| Goodwill impairment (b)                            | (9,558)              | (9,558)               | (9,558)            |
| Decommissioning liability adjustment (c)           | 2,421                | 2,421                 | 2,421              |
| Share-based compensation adjustment (e)            | (1,290)              | (1,290)               | (1,290)            |
| <b>Opening balance sheet adjustment</b>            | <b>(130,763)</b>     | <b>(130,763)</b>      | <b>(130,763)</b>   |
| Accretion expense adjustment (c)                   | (93)                 | (66)                  | -                  |
| Share-based compensation expense adjustment (e)    | (375)                | (596)                 | -                  |
| Depletion and depreciation expense adjustment (f)  | 36,202               | 26,158                | -                  |
| Derecognition expense (f)                          | (6,784)              | (4,845)               | -                  |
| Other income (f)                                   | 250                  | -                     | -                  |
| Goodwill allocated to disposed properties (b)      | 4,736                | 4,736                 | -                  |
| Impairment of goodwill (b)                         | 4,822                | -                     | -                  |
| Flow-through share expense (d)                     | (687)                | (620)                 | -                  |
| Tax deduction of share issue costs (g)             | 1,089                | 817                   | -                  |
| Tax rate change on opening IFRS adjustments (g)    | (1,296)              | (810)                 | -                  |
| <b>Income statement adjustment</b>                 | <b>37,864</b>        | <b>24,774</b>         | <b>-</b>           |
| <b>Reported under IFRS</b>                         | <b>(47,201)</b>      | <b>(12,146)</b>       | <b>(46,118)</b>    |

**Consolidated Statement of Financial Position**  
**As at September 30, 2010**

| (\$000s)                                 | Effect of transition to IFRS |                             |   |         | IFRS<br>Reclassifications<br>(h) | IFRS           |
|--|------------------------------|-----------------------------|---|---------|----------------------------------|----------------|
|  | Canadian<br>GAAP             | As at<br>January 1,<br>2010 | Nine months<br>ended<br>September<br>30, 2010 |         |                                  |                |
| <b>ASSETS</b>                            |                              |                             |   |         |                                  |                |
| <b>CURRENT</b>                           |                              |                             |   |         |                                  |                |
| Accounts receivable                      | 28,144                       | -                           | -   | -       | -                                | 28,144         |
| Deposits and prepaid expenses            | 4,455                        | -                           | -   | -       | -                                | 4,455          |
| Fair value of financial derivatives      | 19,046                       | -                           | -   | -       | -                                | 19,046         |
|  | 51,645                       | -                           | -   | -       | -                                | 51,645         |
| Goodwill (b)                             | 30,155                       | (9,558)                     | 4,736   | -       | -                                | 25,333         |
| Fair value of financial derivatives      | 3,704                        | -                           | -   | -       | -                                | 3,704          |
| Equipment inventory (h)                  | 6,526                        | -                           | -   | (6,526) | -                                | -              |
| Property and equipment (a) (f) (h)       | 934,845                      | (165,319)                   | 30,113  | 6,526   | -                                | 806,165        |
|  | <b>1,026,875</b>             | <b>(174,877)</b>            | <b>34,849</b>                                 | -       | -                                | <b>886,847</b> |
| <b>LIABILITIES</b>                       |                              |                             |   |         |                                  |                |
| <b>CURRENT</b>                           |                              |                             |   |         |                                  |                |
| Accounts payable and accrued liabilities | 50,048                       | -                           | -   | -       | -                                | 50,048         |
| Future income taxes                      | 4,067                        | -                           | -   | (4,067) | -                                | -              |
| Bank loan                                | 122,283                      | -                           | -   | -       | -                                | 122,283        |
| Other liability (d)                      | -                            | 3,775                       | (3,410)                                       | -       | -                                | 365            |
| Fair value of financial derivatives      | 3,099                        | -                           | -   | -       | -                                | 3,099          |
|  | 179,497                      | 3,775                       | (3,410)                                       | (4,067) | -                                | 175,795        |
| Decommissioning liabilities (c)          | 41,986                       | (3,271)                     | 89  | -       | -                                | 38,804         |
| Fair value of financial derivatives      | 11,194                       | -                           | -   | -       | -                                | 11,194         |
| Deferred income taxes (g)                | 77,002                       | (42,133)                    | 7,650   | 4,067   | -                                | 46,586         |
|  | 309,679                      | (41,629)                    | 4,329   | -       | -                                | 272,379        |
| <b>SHAREHOLDERS' EQUITY</b>              |                              |                             |   |         |                                  |                |
| Share capital (d)                        | 588,174                      | (3,775)                     | 3,645   | -       | -                                | 588,044        |
| Contributed surplus (e)                  | 35,179                       | 1,290                       | 2,101   | -       | -                                | 38,570         |
| Retained earnings (deficit)              | 93,843                       | (130,763)                   | 24,774  | -       | -                                | (12,146)       |
|  | 717,196                      | (133,248)                   | 30,520  | -       | -                                | 614,468        |
|  | <b>1,026,875</b>             | <b>(174,877)</b>            | <b>34,849</b>                                 | -       | -                                | <b>886,847</b> |

**Consolidated Statement of Earnings and  
Comprehensive Income**

Nine months ended September 30, 2010

| (\$000s)   | Canadian GAAP | Effect of<br>transition to IFRS | IFRS          |
|--|---------------|---------------------------------|---------------|
| <b>REVENUE</b>                                   |               |                                 |               |
| Petroleum and natural gas revenue                | 161,836       | -                               | 161,836       |
| Royalties, net of GCA                            | (25,877)      | -                               | (25,877)      |
| Realized gain on financial derivatives           | 9,184         | -                               | 9,184         |
| Unrealized gain on financial derivatives         | 18,005        | -                               | 18,005        |
|  | 163,148       | -                               | 163,148       |
| <b>EXPENSES</b>                                  |               |                                 |               |
| Operating  | 38,793        | -                               | 38,793        |
| Transportation                                   | 6,721         | -                               | 6,721         |
| General and administration                       | 10,561        | -                               | 10,561        |
| Restructuring costs                              | 1,242         | -                               | 1,242         |
| Share-based compensation (e)                     | 2,873         | 596                             | 3,469         |
| Interest   | 8,441         | -                               | 8,441         |
| Accretion (c)                                    | 2,149         | 89                              | 2,238         |
| Derecognition expense (f)                        | -             | 6,503                           | 6,503         |
| Depletion and depreciation (f)                   | 93,071        | (35,111)                        | 57,960        |
| Goodwill allocated to disposed properties        | 4,736         | (4,736)                         | -             |
|  | 168,587       | (32,659)                        | 135,928       |
| <b>Earnings (loss) before taxes</b>              | (5,439)       | 32,659                          | 27,220        |
| <b>Income taxes</b>                              |               |                                 |               |
| Capital and other taxes                          | 134           | -                               | 134           |
| Deferred income taxes (recovery) (g)             | (14,771)      | 7,885                           | (6,886)       |
|  | (14,637)      | 7,885                           | (6,752)       |
| <b>NET EARNINGS AND<br/>COMPREHENSIVE INCOME</b> | <b>9,198</b>  | <b>24,774</b>                   | <b>33,972</b> |

## Consolidated Statement of Cash Flows

Nine months ended September 30, 2010

| (\$000s)                                  | Canadian<br>GAAP | Effect of<br>transition to<br>IFRS | IFRS      |
|---|------------------|------------------------------------|-----------|
| <b>Cash provided by (used in):</b>        |                  |                                    |           |
| <b>OPERATING ACTIVITIES</b>               |                  |                                    |           |
| Net earnings                              | 9,198            | 24,774                             | 33,972    |
| Items not requiring cash:                 |                  |                                    |           |
| Deferred income taxes (recovery)          | (14,771)         | 7,885                              | (6,886)   |
| Goodwill allocated to disposed properties | 4,736            | (4,736)                            | -         |
| Depletion and depreciation                | 93,071           | (35,111)                           | 57,960    |
| Derecognition expense                     | -                | 6,503                              | 6,503     |
| Accretion                                 | 2,149            | 89                                 | 2,238     |
| Share-based compensation                  | 2,873            | 596                                | 3,469     |
| Unrealized gain on financial derivatives  | (18,005)         | -                                  | (18,005)  |
| Abandonment costs                         | (391)            | -                                  | (391)     |
| Change in non-cash working capital        | 3,773            | -                                  | 3,773     |
|   | 82,633           | -                                  | 82,633    |
| <b>FINANCING ACTIVITIES</b>               |                  |                                    |           |
| Issue of common shares                    | 268              | -                                  | 268       |
| Repurchase of common shares               | (3,544)          | -                                  | (3,544)   |
| Financing lease payments                  | (1,545)          | -                                  | (1,545)   |
| Bank loan repayment                       | (94,960)         | -                                  | (94,960)  |
|   | (99,781)         | -                                  | (99,781)  |
| <b>INVESTING ACTIVITIES</b>               |                  |                                    |           |
| Additions to equipment inventory          | (410)            | 410                                | -         |
| Additions to property and equipment       | (102,409)        | (410)                              | (102,819) |
| Acquisitions of oil and gas properties    | (17,650)         | -                                  | (17,650)  |
| Disposals of oil and gas properties       | 132,012          | -                                  | 132,012   |
| Change in non-cash working capital        | 5,605            | -                                  | 5,605     |
|   | 17,148           | -                                  | 17,148    |
| <b>CHANGE IN CASH</b>                     | -                | -                                  | -         |
| <b>CASH, BEGINNING AND END OF PERIOD</b>  | -                | -                                  | -         |

**Consolidated Statement of Earnings and  
Comprehensive Income**

**Three months ended September 30, 2010**

| (\$000s)   | Canadian GAAP  | Effect of transition<br>to IFRS | IFRS       |
|--|----------------|---------------------------------|------------|
| <b>REVENUE</b>   |                |                                 |            |
| Petroleum and natural gas revenue                              | 44,279         | -                               | 44,279     |
| Royalties, net of GCA  | (5,280)        | -                               | (5,280)    |
| Realized gain on financial derivatives                         | 2,420          | -                               | 2,420      |
| Unrealized gain on financial derivatives                       | 428            | -                               | 428        |
|  | 41,847         | -                               | 41,847     |
| <b>EXPENSES</b>  |                |                                 |            |
| Operating  | 12,978         | -                               | 12,978     |
| Transportation   | 2,110          | -                               | 2,110      |
| General and administration                                     | 3,930          | -                               | 3,930      |
| Restructuring costs  | 59             | -                               | 59         |
| Share-based compensation (e)                                   | 171            | 112                             | 283        |
| Interest   | 1,849          | -                               | 1,849      |
| Accretion (c)  | 712            | 34                              | 746        |
| Derecognition expense (f)                                      | -              | 2,041                           | 2,041      |
| Depletion and depreciation (f)                                 | 29,547         | (11,292)                        | 18,255     |
| Goodwill allocated to disposed properties                      | -              | -                               | -          |
|  | 51,356         | (9,105)                         | 42,251     |
| <b>Earnings (loss) before taxes</b>                            | (9,509)        | 9,105                           | (404)      |
| <b>Income taxes</b>  |                |                                 |            |
| Capital and other taxes  | 68             | -                               | 68         |
| Deferred income taxes (recovery) (g)                           | (3,956)        | 2,907                           | (1,049)    |
|  | (3,888)        | 2,907                           | (981)      |
| <b>NET EARNINGS (LOSS) AND<br/>COMPREHENSIVE INCOME (LOSS)</b> | <b>(5,621)</b> | <b>6,198</b>                    | <b>577</b> |

## Consolidated Statement of Cash Flows

Three months ended September 30, 2010

| (\$000s)                                       | Canadian<br>GAAP | Effect of<br>transition to<br>IFRS | IFRS     |
|--|------------------|------------------------------------|----------|
| <b>Cash provided by (used in):</b>             |                  |                                    |          |
| <b>OPERATING ACTIVITIES</b>                    |                  |                                    |          |
| Net earnings (loss)                            | (5,621)          | 6,198                              | 577      |
| Items not requiring cash:                      |                  |                                    |          |
| Deferred income taxes (recovery)               | (3,956)          | 2,907                              | (1,049)  |
| Depletion and depreciation                     | 29,547           | (11,292)                           | 18,255   |
| Derecognition expense                          | -                | 2,041                              | 2,041    |
| Accretion                                      | 712              | 34                                 | 746      |
| Share-based compensation                       | 171              | 112                                | 283      |
| Unrealized gain on financial derivatives       | (428)            | -                                  | (428)    |
| Abandonment costs                              | (130)            | -                                  | (130)    |
| Change in non-cash working capital             | 5,403            | -                                  | 5,403    |
|  | 25,698           | -                                  | 25,698   |
| <b>FINANCING ACTIVITIES</b>                    |                  |                                    |          |
| Repurchase of common shares                    | (3,544)          |                                    | (3,544)  |
| Financing lease payments                       | (1,135)          | -                                  | (1,135)  |
| Bank loan                                      | 10,564           | -                                  | 10,564   |
|  | 5,885            | -                                  | 5,885    |
| <b>INVESTING ACTIVITIES</b>                    |                  |                                    |          |
| Disposal of (additions to) equipment inventory | (309)            | 309                                | -        |
| Additions to property and equipment            | (40,746)         | (309)                              | (41,055) |
| Acquisitions of oil and gas properties         | (684)            | -                                  | (684)    |
| Disposals of oil and gas properties            | 1,100            | -                                  | 1,100    |
| Change in non-cash working capital             | 9,056            | -                                  | 9,056    |
|  | (31,583)         | -                                  | (31,583) |
| <b>CHANGE IN CASH</b>                          | -                | -                                  | -        |
| <b>CASH, BEGINNING AND END OF PERIOD</b>       | -                | -                                  | -        |

**Consolidated Statement of Financial Position**  
**As at December 31, 2010**

| (\$000s)                                 | Canadian<br>GAAP | Effect of transition to IFRS |                                    | Reclassifications<br>(h) | IFRS           |
|--|------------------|------------------------------|------------------------------------|--------------------------|----------------|
|  |                  | As at<br>January 1,<br>2010  | Year ended<br>December<br>31, 2010 |                          |                |
| <b>ASSETS</b>                            |                  |                              |                                    |                          |                |
| CURRENT                                  |                  |                              |                                    |                          |                |
| Accounts receivable                      | 28,829           | -                            | -                                  | -                        | 28,829         |
| Deposits and prepaid expenses            | 3,361            | -                            | -                                  | -                        | 3,361          |
| Fair value of financial derivatives      | 20,815           | -                            | -                                  | -                        | 20,815         |
|  | 53,005           | -                            | -                                  | -                        | 53,005         |
| Goodwill (b)                             | -                | (9,558)                      | 9,558                              | -                        | -              |
| Equipment inventory (h)                  | 5,876            | -                            | -                                  | (5,876)                  | -              |
| Property and equipment (a) (f) (h)       | 934,494          | (165,319)                    | 41,596                             | 5,876                    | 816,647        |
|  | <b>993,375</b>   | <b>(174,877)</b>             | <b>51,154</b>                      | <b>-</b>                 | <b>869,652</b> |
| <b>LIABILITIES</b>                       |                  |                              |                                    |                          |                |
| CURRENT                                  |                  |                              |                                    |                          |                |
| Accounts payable and accrued liabilities | 49,369           | -                            | -                                  | -                        | 49,369         |
| Bank loan                                | 135,682          | -                            | -                                  | -                        | 135,682        |
| Future income taxes (h)                  | 3,630            | -                            | -                                  | (3,630)                  | -              |
| Other liability (d)                      | -                | 3,775                        | (3,775)                            | -                        | -              |
| Fair value of financial derivatives      | 6,411            | -                            | -                                  | -                        | 6,411          |
|  | 195,092          | 3,775                        | (3,775)                            | (3,630)                  | 191,462        |
| Decommissioning liabilities (c)          | 43,094           | (3,271)                      | 124                                | -                        | 39,947         |
| Fair value of financial derivatives      | 14,980           | -                            | -                                  | -                        | 14,980         |
| Deferred income taxes (g) (h)            | 70,500           | (42,133)                     | 11,260                             | 3,630                    | 43,257         |
|  | 323,666          | (41,629)                     | 7,609                              | -                        | 289,646        |
| <b>SHAREHOLDERS' EQUITY</b>              |                  |                              |                                    |                          |                |
| Share capital (d)                        | 587,028          | (3,775)                      | 3,373                              | -                        | 586,626        |
| Contributed surplus (e)                  | 36,983           | 1,290                        | 2,308                              | -                        | 40,581         |
| Retained earnings (deficit)              | 45,698           | (130,763)                    | 37,864                             | -                        | (47,201)       |
|  | 669,709          | (133,248)                    | 43,545                             | -                        | 580,006        |
|  | <b>993,375</b>   | <b>(174,877)</b>             | <b>51,154</b>                      | <b>-</b>                 | <b>869,652</b> |

**Consolidated Statement of Earnings (Loss), and  
Comprehensive Income (Loss)**

**Year ended December 31, 2010**

| (\$000s)   | Canadian GAAP   | Effect of<br>transition to<br>IFRS | IFRS           |
|--|-----------------|------------------------------------|----------------|
| <b>REVENUE</b>   |                 |                                    |                |
| Petroleum and natural gas revenue                              | 207,831         | -                                  | 207,831        |
| Royalties, net of GCA  | (31,390)        | -                                  | (31,390)       |
| Realized gain on financial derivatives                         | 10,552          | -                                  | 10,552         |
| Unrealized gain on financial derivatives                       | 8,972           | -                                  | 8,972          |
| Other income (f)   | -               | 334                                | 334            |
|  | 195,965         | 334                                | 196,299        |
| <b>EXPENSES</b>  |                 |                                    |                |
| Operating  | 51,405          | -                                  | 51,405         |
| Transportation   | 8,806           | -                                  | 8,806          |
| General and administration (h)                                 | 14,773          | -                                  | 14,773         |
| Restructuring costs  | 1,242           | -                                  | 1,242          |
| Share-based compensation (e) (h)                               | 4,072           | 375                                | 4,447          |
| Interest   | 10,086          | -                                  | 10,086         |
| Accretion (c)  | 2,860           | 124                                | 2,984          |
| Derecognition expense (f)                                      | -               | 9,069                              | 9,069          |
| Depletion and depreciation (f)                                 | 128,284         | (48,398)                           | 79,886         |
| Goodwill allocated to disposed properties (b)                  | 4,736           | (4,736)                            | -              |
| Impairment of goodwill (b)                                     | 30,155          | (4,822)                            | 25,333         |
|  | 256,419         | (48,388)                           | 208,031        |
| <b>Earnings (loss) before taxes</b>                            | (60,454)        | 48,722                             | (11,732)       |
| <b>Income taxes</b>  |                 |                                    |                |
| Capital and other taxes  | 203             | -                                  | 203            |
| Deferred income taxes (recovery) (g)                           | (21,710)        | 10,858                             | (10,852)       |
|  | (21,507)        | 10,858                             | (10,649)       |
| <b>NET EARNINGS (LOSS) AND<br/>COMPREHENSIVE INCOME (LOSS)</b> | <b>(38,947)</b> | <b>37,864</b>                      | <b>(1,083)</b> |

## Consolidated Statement of Cash Flows

Year ended December 31, 2010

| (\$000s)                                  | Canadian<br>GAAP | Effect of<br>transition to<br>IFRS | IFRS      |
|---|------------------|------------------------------------|-----------|
| <b>Cash provided by (used in):</b>        |                  |                                    |           |
| <b>OPERATING ACTIVITIES</b>               |                  |                                    |           |
| Net earnings (loss)                       | (38,947)         | 37,864                             | (1,083)   |
| Items not requiring cash:                 |                  |                                    |           |
| Deferred income taxes (recovery)          | (21,710)         | 10,858                             | (10,852)  |
| Impairment of goodwill                    | 30,155           | (4,822)                            | 25,333    |
| Goodwill allocated to disposed properties | 4,736            | (4,736)                            | -         |
| Depletion and depreciation                | 128,284          | (48,398)                           | 79,886    |
| Derecognition expense                     | -                | 9,069                              | 9,069     |
| Accretion                                 | 2,860            | 124                                | 2,984     |
| Share-based compensation                  | 4,072            | 375                                | 4,447     |
| Other income                              | -                | (334)                              | (334)     |
| Unrealized gain on financial derivatives  | (8,972)          | -                                  | (8,972)   |
| Abandonment costs                         | (491)            | -                                  | (491)     |
| Change in non-cash working capital        | 3,378            | -                                  | 3,378     |
|   | 103,365          | -                                  | 103,365   |
| <b>FINANCING ACTIVITIES</b>               |                  |                                    |           |
| Issue of common shares                    | 337              | -                                  | 337       |
| Repurchase of common shares               | (4,154)          | -                                  | (4,154)   |
| Financing lease payments                  | (1,545)          | -                                  | (1,545)   |
| Bank loan repayment                       | (81,561)         | -                                  | (81,561)  |
|   | (86,923)         | -                                  | (86,923)  |
| <b>INVESTING ACTIVITIES</b>               |                  |                                    |           |
| Disposals of equipment inventory          | 240              | (240)                              | -         |
| Additions to property and equipment       | (136,570)        | 240                                | (136,330) |
| Acquisitions of oil and gas properties    | (17,791)         | -                                  | (17,791)  |
| Disposals of oil and gas properties       | 131,949          | -                                  | 131,949   |
| Change in non-cash working capital        | 5,730            | -                                  | 5,730     |
|   | (16,442)         | -                                  | (16,442)  |
| <b>CHANGE IN CASH</b>                     | -                | -                                  | -         |
| <b>CASH, BEGINNING AND END OF PERIOD</b>  | -                | -                                  | -         |

a) *IFRS 1 election for full cost oil and gas entities*

The Corporation elected under IFRS 1 D8A to measure the Canadian full cost pool at the amount determined under Canadian GAAP upon transition to IFRS (the “full cost exemption”). The Canadian GAAP full cost pool was allocated to production and development assets pro-rata using proven and probable reserve values. There were no exploration and evaluation assets on January 1, 2010.

Under IFRS, the impairment test compares the carrying value of an asset to the greater of its fair value less costs to sell or its value in use. IFRS impairment calculations are done at an asset or cash-generating unit (CGU) level, compared to being calculated at the country cost centre under Canadian GAAP. CGUs are identified on the basis of cash inflows being independent from other assets or groups of assets. The impairment tests required on transition resulted in a \$165.3 million (\$122.3 million net of deferred tax) impairment of development and production assets.

b) *Goodwill*

Under IFRS, goodwill was allocated to CGU’s and tested for impairment at the operating segment level, compared to an impairment calculation at the reporting unit under Canadian GAAP. This change resulted in a \$9.6 million write-down of goodwill upon transition to IFRS, and a reversal of the \$4.7 million allocation of goodwill to disposed properties under Canadian GAAP during the nine months ended September 30, 2010 and year ended December 31, 2010.

At December 31, 2010, goodwill was considered impaired in both the Canadian GAAP and IFRS financial statements. The IFRS impairment was \$4.8 million lower than the Canadian GAAP impairment due to the impairment taken on transition to IFRS, less the allocation of goodwill to disposed properties which was not applicable under IFRS.

c) *Decommissioning liabilities*

Under Canadian GAAP decommissioning liabilities were discounted at an average historical credit adjusted risk free rate of 7.4%. Under IFRS the estimated cash flow to abandon and remediate the wells and facilities has been discounted at the January 1, 2010 credit adjusted risk free rate of 8%. As a result of the full cost election for oil and gas entities described above, this resulted in a \$3.3 million decrease in the decommissioning liability, with a corresponding increase in retained earnings (\$2.4 million net of deferred tax) on transition.

As a result of the change in the decommissioning obligation, accretion expense increased by \$89,000 (\$66,000 net of deferred tax) during the nine months ended September 30, 2010, and by \$124,000 (\$93,000 net of deferred tax) during the year ended December 31, 2010, under IFRS compared to Canadian GAAP.

d) *Flow-through shares*

The Corporation has financed a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. Under Canadian GAAP, to recognize the foregone tax benefits to the Corporation, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers when the renouncements are filed.

Under IFRS, share capital is recorded at the fair value of the shares issued, excluding any premium received for the tax benefits to be renounced. The difference between the premium received and the liability for the tax benefits renounced is recorded as tax expense in the statement of earnings

when the expenditures are incurred and the renouncement has been filed. Upon transition to IFRS, this resulted in a decrease to share capital of \$3.8 million, and the establishment of a \$3.8 million other liability.

The \$4.5 million future tax liability and corresponding reduction to share capital booked under Canadian GAAP in 2010 when the flow-through renouncements were filed was reversed under IFRS. Under IFRS, a deferred tax liability of \$4.0 million, including a deferred tax expense of \$0.6 million, was recorded in the nine months ended September 30, 2010, and during the year ended December 31, 2010, a deferred tax liability of \$4.5 million, including a deferred tax expense of \$0.7 million, was recorded.

e) *Share-based compensation*

Under Canadian GAAP, the Corporation recognized an expense related to share-based compensation on a straight-line basis over the vesting period, and the expense did not incorporate an estimated forfeiture rate. Under IFRS, the Corporation is required to estimate a forfeiture rate and to recognize share-based compensation over the individual vesting periods for graded vesting awards. Upon transition to IFRS, this resulted in a \$1.3 million increase to contributed surplus with a corresponding decrease in retained earnings.

As a result of the change in the share-based compensation methodology, share-based compensation increased by \$2.1 million during the nine months ended September 30, 2010, and by \$2.3 million during the year ended December 31, 2010 under IFRS compared to Canadian GAAP.

Under Canadian GAAP the Corporation did not capitalize share-based compensation expense as the amount was not considered material. Under IFRS the Corporation capitalized \$1.5 million of share-based compensation during the nine months ended September 30, 2010, and \$1.9 million during the year ended December 31, 2010. There was no impact of this change to property and equipment at transition due to the full cost election described above.

f) *Property and equipment*

The impact of the IFRS adjustments on property and equipment is summarized as follows:

| (\$000's)                                      | Year ended<br>December 31,<br>2010 | Nine months<br>ended<br>September 30,<br>2010 | As at<br>January 1,<br>2010 |
|--|------------------------------------|---|-----------------------------|
| Impairment (a)                                 | -                                  | -   | (165,319)                   |
| Reduction in depletion expense                 | 48,398                             | 35,111  | -                           |
| Derecognition expense                          | (9,069)                            | (6,503)                                       | -                           |
| Capitalization of share-based compensation (e) | 1,933                              | 1,505   | -                           |
| Other income                                   | 334                                | -   | -                           |
| <b>Current period balance sheet adjustment</b> | <b>41,596</b>                      | <b>30,113</b>                                 | <b>(165,319)</b>            |

Upon transition to IFRS, the Corporation adopted a policy of depleting oil and natural gas interests on a unit of production basis using estimated proven plus probable reserves. The depletion policy under Canadian GAAP was based on units of production using estimated proven reserves. In addition, depletion was calculated for the Canadian cost centre under Canadian GAAP. IFRS requires items of property and equipment with significant costs to be depleted and depreciated separately.

There was no impact of this difference on adoption of IFRS at January 1, 2010 as a result of the IFRS 1 election for full cost oil and gas entities discussed above.

For the nine months ended September 30, 2010 depleting property and equipment using proven and probable reserves resulted in a decrease to depletion and depreciation expense under IFRS compared to Canadian GAAP of \$35.1 million (\$26.2 million net of deferred tax) with a corresponding change to property and equipment.

During the year ended December 31, 2010 depleting property and equipment using proven and probable reserves resulted in a decrease to depletion and depreciation expense under IFRS compared to Canadian GAAP of \$48.4 million (\$36.2 million net of deferred tax) with a corresponding change to property and equipment.

Under IFRS, the carrying amount of an item of property and equipment is derecognized on disposal, or when future economic benefits are no longer expected from its use or disposal. As a result, \$6.5 million in costs (\$4.9 million net of deferred tax) associated with expiring lands were expensed during the nine months ended September 30, 2010. During the year ended December 31, 2010, costs associated with expiring lands of \$9.1 million (\$6.8 million net of deferred tax) were expensed.

Non-monetary transactions for the acquisition or disposal of property and equipment are measured at fair value under IFRS. During the year ended December 31, 2010, other income of \$0.3 million (\$0.3 million net of deferred tax) was recognized relating to farm-out arrangements, with a corresponding change to property and equipment.

g) *Deferred income taxes*

Under IFRS, income tax expense is recognized in the statement of earnings, except to the extent it relates to items recognized directly in equity, in which case the related income tax is also recognized in equity. Accordingly, during the nine months ended September 30, 2010, and the year ended December 31, 2010, \$0.8 million and \$1.1 million, respectively, of deferred tax expense relating to the deduction of share issue costs has been reclassified from deferred tax expense under Canadian GAAP to share capital.

The impact of the IFRS adjustments on deferred taxes is summarized as follows:

| (\$000's)                                      | December 31,<br>2010 | September 30,<br>2010 | January 1,<br>2010 |
|--|----------------------|-----------------------|--------------------|
| Current deferred income tax asset              | -                    | -                     | (2,884)            |
| Current deferred income tax liability          | 3,630                | 4,067                 | -                  |
| Long-term deferred income tax liability        | 70,500               | 77,002                | 94,262             |
| <b>Reported under Canadian GAAP</b>            | <b>74,130</b>        | <b>81,069</b>         | <b>91,378</b>      |
| <b>IFRS adjustments:</b>                       |                      |                       |                    |
| Property and equipment impairment (a)          | (42,983)             | (42,983)              | (42,983)           |
| Decommissioning liability adjustment (c)       | 850                  | 850                   | 850                |
| <b>Opening balance sheet adjustment</b>        | <b>(42,133)</b>      | <b>(42,133)</b>       | <b>(42,133)</b>    |
| Accretion expense adjustment (c)               | (31)                 | (23)                  | -                  |
| Depletion and depreciation expense (f)         | 12,196               | 8,953                 | -                  |
| Derecognition expense (f)                      | (2,285)              | (1,658)               | -                  |
| Other income (f)                               | 84                   | -                     | -                  |
| Tax deduction of share issue costs             | (1,089)              | (817)                 | -                  |
| Flow-through share expense (d)                 | 687                  | 620                   | -                  |
| Tax rate change on opening IFRS adjustments    | 1,296                | 810                   | -                  |
| <b>Income statement adjustment</b>             | <b>10,858</b>        | <b>7,885</b>          | <b>-</b>           |
| Flow-through share renouncement (d)            | (4,462)              | (4,462)               | -                  |
| Flow-through share expenditures (d)            | 3,775                | 3,410                 | -                  |
| Tax deduction of share issue costs (d)         | 1,089                | 817                   | -                  |
| <b>Current period balance sheet adjustment</b> | <b>11,260</b>        | <b>7,650</b>          | <b>-</b>           |
| <b>Reported under IFRS</b>                     | <b>43,257</b>        | <b>46,586</b>         | <b>49,245</b>      |

b) *IFRS reclassifications*

Under IFRS, deferred taxes are presented as non-current and equipment inventory is presented as property and equipment.

i) *IFRS exemptions*

In addition to the IFRS 1 full cost exemption discussed above, the Corporation elected to apply IFRS 3 *Business Combinations* prospectively and not restate business combinations that occurred prior to January 1, 2010. The Corporation also elected to not apply IFRS 2 *Share-Based Payments* to equity awards that vested prior to January 1, 2010.