

**HIGHLIGHTS**

Three Months Ended March 31	2011	2010 <sup>(5)</sup>	Change
<i>(000s, except per share data)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<b>FINANCIAL</b>			
Oil and gas revenues	<b>44,098</b>	27,842	58
Funds from operations <sup>(1)</sup>	<b>22,986</b>	12,470	84
Per share – basic	<b>0.32</b>	0.23	39
Per share – diluted	<b>0.31</b>	0.22	41
Cash flow from operating activities	<b>21,442</b>	5,488	291
Net income and comprehensive income	<b>4,210</b>	3,507	20
Per share – basic	<b>0.06</b>	0.06	–
Per share – diluted	<b>0.06</b>	0.06	–
Capital expenditures <sup>(2)</sup>	<b>37,480</b>	84,126	(55)
Total assets	<b>557,322</b>	337,947	65
Net debt <sup>(3)</sup>	<b>165,719</b>	60,712	173
Shareholders' equity	<b>327,579</b>	215,851	52
<i>(000s)</i>			
<b>COMMON SHARE DATA</b>			
Shares outstanding			
At end of period	<b>72,478</b>	54,780	32
Weighted average – basic	<b>72,044</b>	54,670	32
Weighted average – diluted	<b>73,450</b>	55,995	31
<b>OPERATING</b>			
Sales			
Natural gas (mcf/d)	<b>46,574</b>	29,197	60
NGLs (bbls/d)	<b>3,932</b>	2,831	39
Light crude oil (bbls/d)	<b>1,035</b>	306	238
Combined average (boe/d)	<b>12,730</b>	8,003	59
Average wellhead prices			
Natural gas (\$/mcf)	<b>3.95</b>	5.21	(24)
NGLs (\$/bbl)	<b>52.59</b>	47.16	12
Light crude oil (\$/bbl)	<b>86.38</b>	77.63	11
Total oil equivalent (\$/boe)	<b>37.73</b>	38.65	(2)
Netbacks (\$/boe)			
Operating <sup>(4)</sup>	<b>24.70</b>	22.14	12
Funds from operations <sup>(1)</sup>	<b>20.06</b>	17.31	16
Gross (net) wells drilled (#)			
Natural gas	<b>3 (3.0)</b>	7 (6.3)	-57 (-52)
Oil	<b>3 (3.0)</b>	3 (1.9)	– (58)
Dry and abandoned	<b>1 (1.0)</b>	– (–)	100 (100)
Total	<b>7 (7.0)</b>	10 (8.2)	-30 (-15)
Average working interest (%)	<b>100</b>	82	18

(1) Funds from operations, funds from operations per share and funds from operations per boe are not recognized measures under International Financial Reporting Standards (IFRS). Refer to the Management's Discussion and Analysis for further discussion.

(2) Total capital expenditures, including acquisitions.

(3) Current assets less current liabilities, bank debt and convertible debentures outstanding, excluding current derivative instruments.

(4) Operating netback equals oil and gas revenues less royalties, transportation and operating costs calculated on a per boe basis. Operating netback is not a recognized measure under IFRS and therefore may not be comparable with the calculations of similar measures presented by other companies.

(5) Amounts presented for the three months ended March 31, 2011 have been restated for the effect of the adoption of IFRS.

(6) For a description of the boe conversion ratio, refer to the commentary at the beginning of the Management's Discussion and Analysis.

## LETTER TO SHAREHOLDERS

Angle's first quarter of 2011 was significant for the Company, with record production of 12,730 boe/d achieved in the period. Importantly, the operating netback per barrel also increased by 12 percent over the first quarter of 2010, despite the decrease in realized natural gas prices of approximately 24 percent between the comparative periods. This consistent improvement in our corporate performance highlights the strength of Angle's natural gas liquids and light oil. Currently, the Company produces one of the highest natural gas liquids yields amongst our peers, with a total corporate yield of 84 bbls of NGLs/per mmcf of sales gas. Condensate is 29 percent of this total, which at the time of this report, is commanding approximately 108 percent of Edmonton light oil price. The quarter also yielded development drilling progress as well as exploratory data to continue project expansions. Operational details of the quarter were pre-released on April 18, 2011, capturing all event news prior to spring break up conditions.

### Company Highlights

#### PRODUCTION:

- Achieved record corporate production of 12,730 boe/day, resulting in increases of 10 percent and 59 percent over the fourth and first quarters of 2010, respectively;
- Increased light oil production to average 1,035 bbls/day, three times the volume of the comparative period in 2010. Total light oil and natural gas liquids production increased by 58 percent to 4,967 bbls/day from 3,137 bbls/day in the comparative quarter of 2010. Light oil and condensate, the products commanding the highest per barrel prices, were 44 percent of this oil and liquids production.

#### FINANCIAL RESULTS AND CAPITAL INVESTMENT:

- Revenues increased 58 percent to \$44.1 million from the first quarter of 2010 while the average operating netback increased to \$24.70 per boe from \$23.60 per boe and \$22.14 per boe in the fourth and first quarters of 2010, respectively;
- Recorded \$23.0 million in funds from operations, respectively a 7 percent and 84 percent increase over the fourth and first quarters of 2010;
- Funds from operations on a per share basis increased to \$0.32, up 7 percent and 39 percent from the fourth and first quarters of 2010.
- Capital spending in the quarter was \$37.5 million which included drilling 7 net wells with 5 wells drilling over the period end.

#### DEBT AND CREDIT FACILITIES:

- Exited the quarter with total net debt, including working capital deficiency, of \$165.7 million. This represents a debt to annualized cash flow ratio of 1.8:1, within Angle's targeted range of less than 2.0 to 1;
- Completed the annual credit review in March which resulted in our banking syndicate increasing Angle's borrowing base to \$210 million from \$180 million, which combined with the Company's \$60 million convertible unsecured subordinated debentures, brings total credit capacity to \$270 million.

## Outlook

Spring break up conditions are currently prevalent in Angle's operating areas, with activity planned to recommence in late May or early June in the Company's southern core areas, and in late June in Edson. There are six horizontal wells at 100% working interest awaiting completion, with four of these wells in Harmattan (two in the Viking light oil project, and two in the Mannville gas condensate project), one in Edson (Wilrich gas project) and one exploratory test. Additionally, two facilities projects are slated to begin construction or installation in June, these being the pipeline off load project in Harmattan and the Edson gas plant installation and compression upgrade.

In Harmattan, the pipeline off load project is expected to increase Angle's take away capacity from the current levels of 5,500 boe per day to approximately 10,000 boe per day, allowing recovery of the volumes currently being backed out by the high pressure, high rate production in the Mannville gas condensate play, and to add volumes from the horizontal wells awaiting completion. The gathering system is also being utilized for solution gas production from Angle's Viking light oil play. The Company is continuing in the evaluation of best completion techniques in the Viking light oil play and will have further reports on this post our scheduled activity in June.

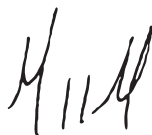
In Edson, the gas plant installation and compression expansion will allow for 10 mmcf per day of additional out take for Angle's production, and is expected to reduce corporate operating expenses by \$0.20 per boe, by reducing the Company's use of third party processing.

With our forward development program, Angle is well positioned in 2011 to deliver exciting growth per share for our investors, in production, cash flow and reserves. We look forward to reporting the results of our second quarter operational activities, anticipated to be released in July.

On behalf of the Management and Board of Directors,



Heather Christie-Burns  
President & Chief Operating Officer  
May 17, 2011



D. Gregg Fischbuch  
Chief Executive Officer

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) reports on the financial condition and the results of operations of Angle Energy Inc. ("Angle" or the "Company") for the three months ended March 31, 2011 and 2010 and should be read in conjunction with the accompanying March 31, 2011 unaudited interim consolidated financial statements and notes as well as the audited consolidated financial statements and notes for the year ended December 31, 2010. All financial measures are expressed in Canadian dollars unless otherwise indicated. This commentary is based on the information available as at and is dated May 17, 2011.

Angle is a growth-oriented, exploration-focused oil and natural producer, with a focus on achieving cost-effective reserve discovery and production in large, resource-in-place accumulations of liquids-rich natural gas and light oil. Angle prefers to drill in areas where it can complete multi-well projects at high working interest and operate the resulting production. Additionally, to maintain control, such areas should also have available access to existing infrastructure owned by third-party midstream operators to transport and process the commodities produced.

Prior to 2009, all of Angle's reserves had been added through drilling as the Company had not previously completed any material property or corporate acquisitions. In 2009, Angle completed its first property acquisition in its existing Ferrier core area. In 2010, Angle built a new core area in Edson through its first corporate acquisition and a subsequent material property acquisition. Additionally, in 2010 the Company made the transition from vertical to horizontal drilling.

Angle currently has four core operating areas: Harmattan, Ferrier, Edson and Lone Pine Creek, all in Alberta. Angle is focusing on five main "plays" in these four core area: Cardium light oil, Viking light oil, Mannville liquids-rich natural gas, Deep Basin liquids-rich multi-zone natural gas and Wabamun high-rate natural gas and liquids.

The terms "first quarter of 2011" and "same period of 2010" or similar terms are used throughout this document and refer to the three-month periods ended March 31, 2011 and 2010, respectively.

### BASIS OF PRESENTATION

The interim consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards (IFRS). Angle adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Previously, the Company prepared its interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP). Angle has provided IFRS accounting policies and prepared reconciliations between Canadian GAAP and IFRS in Note 3 and Note 15 of its March 31, 2011 interim consolidated financial statements. Further information on the IFRS impacts is provided in the Change in Accounting Policies section of this MD&A.

Certain financial measures referred to in this MD&A, such as funds from operations and funds from operations per share, are not prescribed by IFRS and previous Canadian GAAP. Funds from operations is calculated by taking cash flow from operating activities as presented in the consolidated statement of cash flows and adding back changes in non-cash working capital and the settlement of decommissioning liabilities. Funds from operations per share is calculated using weighted average shares outstanding consistent with the calculation of net income or loss per share. Angle uses funds from operations to analyze operating performance and leverage, and considers funds from operations to be a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments and repay debt. Angle's determination of funds from operations, on an absolute and per share basis, may not be comparable to that reported by other companies. The following table reconciles funds from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS:

(000s)	Three Months Ended March 31	
	2011	2010
Cash flow from operating activities	\$ 21,442	\$ 5,488
Change in non-cash working capital	1,447	6,853
Settlement of decommissioning liabilities	97	129
Funds from operations	\$ 22,986	\$ 12,470

Management considers corporate netbacks important measures as they demonstrate the Company's profitability relative to current commodity prices. Corporate netbacks are comprised of operating, funds from operations and net earnings netbacks. Operating netback is calculated as the average sales price of Angle's commodities (including realized derivative gains and losses) less royalties, operating costs and transportation costs. Funds from operations netback starts with the operating netback and further deducts general and administrative costs (excluding share-based compensation) and interest expense. Net earnings netback starts with the funds from operations netback and deducts unrealized gains and losses on derivative instruments, share-based compensation expense, depletion and depreciation, accretion and finance charges, deferred income tax expense and any other non-recurring items. These measures do not have standardized meanings prescribed by IFRS and may not be comparable to netbacks presented by other companies.

Net debt is also considered a non-prescribed measure under IFRS and is used by Angle's management to monitor remaining availability under its credit facilities. Net debt is calculated by subtracting current assets from the sum of current liabilities, long-term debt and convertible debentures outstanding, excluding current derivative instruments.

### Boe Conversions

Production information is commonly reported in units of barrels of oil equivalent (boe). For purposes of computing such units, natural gas is converted to equivalent barrels of crude oil using a conversion factor of six thousand cubic feet of natural gas to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalency conversion for the individual products, primarily applicable at the burner tip, and is not intended to represent a value equivalency at the wellhead. Such disclosure of boe may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

## **Forward-Looking Statements**

Certain statements contained in this MD&A constitute forward-looking statements. All statements other than statements of historical fact are forward-looking statements. These statements are often, but not always, identified by the use of words such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “forecast”, “guidance”, “intend”, “may”, “plan”, “predict”, “project”, “should”, “target”, “will” or similar words suggesting future outcomes or language suggesting an outlook.

Statements relating to “reserves” are also deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

More particularly and without limitation, this MD&A contains forward-looking statements relating to the Company’s risk management program, petroleum and natural gas production, future funds from operations, capital programs, commodity prices, costs and debt levels. The forward-looking statements are based on certain key expectations and assumptions made by Angle, including expectations and assumptions relating to prevailing commodity prices, applicable royalty rates and tax laws, future well production rates, the performance of existing wells, the success of drilling new wells, the capital availability to undertake planned activities and the availability and cost of labour and services. Please refer to “Business Risk and Mitigation” at the end of this MD&A for further details.

Management believes the expectations reflected in such forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. Forward-looking statements contained in this document are made as of the date hereof and Angle undertakes no obligation, except as required by applicable securities legislation, to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

## **GUIDANCE AND OUTLOOK**

### **2011 Guidance**

The table below provides Angle’s guidance for 2011, as previously disclosed by press release on January 13, 2011. With proceeds from its flow-through equity financing in November 2010, convertible debenture financing in January 2011 and its inventory of opportunities, Angle has prepared a budget based on capital expenditures that are in excess of funds from operations. However, throughout 2011 Angle plans to maintain a net debt to annualized quarterly funds from operations ratio no higher than 2.0:1. The Company is well-positioned to monitor commodity prices and resulting cash flows and adjust its capital budget accordingly. Angle expects its 2011 drilling program to include approximately 19 (19.0 net) wells in Harmattan, 7 (5.8 net) wells in Ferrier, 5 (5.0 net) wells in Lone Pine Creek and 4 (3.1 net) wells in Edson.

The planned activities outlined above result in a \$150 million capital budget from which Angle is projecting 2011 average daily production to increase by a range of 41 percent to 46 percent over the 2010 daily average. Due to this increased production, along with higher oil and NGL prices, funds from operations are projected to increase by 69 percent to 77 percent to \$105 million to \$110 million (\$1.35 to \$1.40 per diluted share). Angle has forward-sold approximately 35 percent of 2011 natural gas sales at an average price of \$4.00/mcf. Year-end net debt is projected to increase to \$195 million to \$200 million with a debt to annualized fourth quarter funds from operations ratio of 1.75:1. The table below summarizes the Company's 2011 guidance.

	2011 Guidance
2011 pricing	
Natural gas – AECO	\$4.10/mcf
Crude oil – Edmonton par	\$85.00/bbl
2011 production (boe/d)	
Annual	13,000 – 13,500
Exit	15,000 – 16,000
2011 net operating income	
Annual	\$121 – \$126 million
Annual – per boe	\$24.50 – \$26.50
2011 funds from operations	
Annual	\$105 – \$110 million
Annual – per diluted share	\$1.35 – \$1.40
2011 capital budget	
Expenditures	\$150 million
Wells drilled (gross/net)	35/32.9
Total year-end net debt	\$195 – \$200 million

## OPERATING RESULTS

### Capital Expenditures

(000s)	Three Months Ended March 31		
	2011	2010	% Change
Drilling	\$ 24,376	\$ 17,061	43
Drilling credits	(2,106)	(3,690)	(43)
Completions	11,067	6,500	70
Equipping and tie-ins	2,366	2,021	17
Facilities and pipelines	1,272	1,528	(17)
Geological and geophysical	68	682	(90)
Land and lease retention	243	14,621	(98)
Acquisitions	–	45,088	(100)
Head office	62	119	(48)
Capitalized G&A and other	132	196	(33)
Total capital expenditures	\$ 37,480	\$ 84,126	(55)

Drilling expenditures totalled \$24.4 million during the first quarter of 2011 and included seven gross (7.0 net) wells with five gross (5.0 net) wells drilling over quarter end, resulting in an average cost of approximately \$2.4 million per net well. The per well cost was slightly higher than in the comparable period of 2010 when Angle spent \$17.1 million on 10 gross (8.2 net) wells (\$2.1 million per net well). Angle's drilling expenditures for the three months ended March 31, 2011 were reduced by \$2.1 million in recognized Alberta Crown drilling credits.

Completion expenditures were \$11.1 million in 2011 versus \$6.5 million in 2010. In first quarter of 2011, Angle completed nine gross wells, compared to only six gross wells completed in 2010, resulting in comparable completion costs per well year over year.

Equipping and tie-in costs were \$2.4 million in 2011 compared to \$2.0 million in 2010. Angle brought four gross wells on production in each period, resulting in similar per well costs for the two quarters.

Facility and pipeline expenditures were \$1.2 million and \$1.5 million for 2011 and 2010, respectively. During the first three months of 2011 Angle initiated several projects to improve infrastructure and increase transportation and processing capacities in the Edson and Harmattan core areas.

Angle incurred only \$0.2 million at Crown land sales during the first quarter of 2011, compared to 2010 when the company was very active and spent \$14.6 million on Crown land (primarily in the Harmattan area).

## DRILLING ACTIVITY

Angle's drilling activity for the three months ended March 31, 2011 is summarized below:

	Three Months Ended March 31, 2011	
	Gross	Net
Natural gas and NGL	3	3.0
Light crude oil	3	3.0
Dry and abandoned	1	1.0
Total	7	7.0
Success rate		86%
Average working interest		100%

The above drilling activity was allocated to Angle's core areas as follows:

	Three Months Ended March 31, 2011	
	Gross	Net
Edson	–	–
Ferrier	2	2.0
Harmattan	4	4.0
Lone Pine Creek	1	1.0
Total	7	7.0

During the first quarter of 2011, Angle drilled seven gross wells, all at 100 percent working interest, of which six were successful and one was abandoned. In Harmattan, Angle continued to develop the Viking oil play and the Mannville B liquids-rich gas play by drilling two horizontal wells in each formation. Angle drilled one horizontal Cardium oil well and one directional Ellerslie gas well in Ferrier, as well as one horizontal Wabamun gas well at Lone Pine Creek.

## FINANCIAL AND OPERATING RESULTS OF OIL AND NATURAL GAS ACTIVITIES

### Sales, Revenues and Prices

	Three Months Ended March 31		
	2011	2010	% Change
<b>Sales</b>			
Natural gas ( <i>mcf/d</i> )	<b>46,574</b>	29,197	60
NGLs ( <i>bbls/d</i> )	<b>3,932</b>	2,831	39
Light crude oil ( <i>bbls/d</i> )	<b>1,035</b>	306	238
Total ( <i>boe/d</i> )	<b>12,730</b>	8,003	59
Total ( <i>boe</i> )	<b>1,145,671</b>	720,286	59
<b>Revenues (000s)</b>			
Natural gas	<b>\$ 16,563</b>	\$ 13,688	21
NGLs	<b>18,610</b>	12,014	55
Light crude oil	<b>8,050</b>	2,140	276
Commodity revenues	<b>\$ 43,223</b>	\$ 27,842	55
Processing revenues	<b>875</b>	–	100
Oil and gas revenues	<b>\$ 44,098</b>	\$ 27,842	58
<b>Average Prices</b>			
Natural gas ( <i>per mcf</i> )	<b>\$ 3.95</b>	\$ 5.21	(24)
NGLs ( <i>per bbl</i> )	<b>52.59</b>	47.16	12
Light crude oil ( <i>per bbl</i> )	<b>86.38</b>	77.63	11
Combined average ( <i>per boe</i> )	<b>\$ 37.73</b>	\$ 38.65	(2)
Processing revenues ( <i>per boe</i> )	<b>0.76</b>	–	100
Total average ( <i>per boe</i> )	<b>\$ 38.49</b>	\$ 38.65	–

For the three months ended March 31, 2011, revenue was \$44.1 million compared to \$27.8 million for the same period in 2010 (before royalties and derivative gains/losses). Sales volumes during the first quarter of 2011 averaged 12,730 boe/d versus 8,003 boe/d in the comparable 2010 quarter and 11,612 boe/d recorded in the fourth quarter of 2010. The increase in revenue of 58 percent was primarily due to the increase in sales volumes because the total average price per boe did not materially change period over period as natural gas price declines were offset by increases in NGL and oil prices.

During the three months ended March 31, 2011, Angle's product volume mix was 61 percent natural gas, 31 percent NGLs and 8 percent light crude oil. During the current quarter, Harmattan contributed approximately 43 percent of the Company's total sales volumes, Ferrier 27 percent, Edson 24 percent and Lone Pine Creek the remaining six percent.

The Company's drilling operations often target natural gas that is rich in associated NGLs. Angle's NGLs are comprised of approximately 29 percent ethane, 27 percent propane, 15 percent butane and 29 percent condensate. The price received for NGLs is based on this mix, with condensate having the highest value of the NGL stream.

Angle's production is sold in Canada and is sensitive to North American natural gas and world crude oil price variations in addition to Canada/U.S. currency exchange rate changes. All of the Company's production is sold through eight purchasers.

The Company has fixed the price applicable to future sales through the following contracts:

Period	Commodity	Type of Contract	Quantity Contracted	Contract Price (\$/unit)
Jan. 1/11 – Dec. 31/11	Natural Gas	Financial	5,000 GJ/d	AECO Cdn\$3.825/GJ
Jan. 1/11 – June 30/12	Crude Oil	Financial	500 bbls/d	Nymex US\$87.05/bbl
Apr. 1/11 – Oct. 31/11	Natural Gas	Financial	5,000 GJ/d	AECO Cdn\$3.82/GJ
Apr. 1/11 – Mar. 31/12	Natural Gas	Financial	2,500 GJ/d	AECO Cdn\$3.775/GJ
Apr. 1/11 – Mar. 31/12	Natural Gas	Financial	2,500 GJ/d	AECO Cdn\$3.815/GJ

The Company has entered into a currency average rate forward swap transaction whereby U.S. dollars have been converted to Canadian dollars as summarized in the following table:

Term	Amount	Strike Price
Jan. 1/11 – June 30/12	US\$1,300,000/month	Cdn\$1.0535

Angle is only entitled to a cash settlement if the monthly average Bank of Canada rate is greater than 0.95.

The following tables summarize the derivative gains (losses) recognized in income during the three months ended March 31, 2011 and 2010:

Three months ended March 31, 2011 (000s, except per boe)	Crude Oil	Natural Gas	Q1 2011 Total
Realized gain (loss) on derivative instruments	\$ (50)	\$ 114	\$ 64
Realized gain on derivative instruments (\$/boe)			\$ 0.05
Unrealized gain (loss) on derivative instruments	\$ (2,496)	\$ 588	\$ (1,908)
Unrealized loss on derivative instruments (\$/boe)			\$ (1.66)

Three months ended March 31, 2010 (000s, except per boe)	Natural Gas	Q1 2010 Total
Unrealized gain on derivative instruments	\$ 1,798	\$ 1,798
Unrealized gain on derivative instruments (\$/boe)		\$ 2.50

## Royalties

(000s except per boe)	Three Months Ended March 31		
	2011	2010	% Change
Oil and gas revenues	\$ 44,098	\$ 27,842	58
Royalties			
Crown	\$ 4,046	\$ 4,779	(15)
Freehold and overriding	3,611	2,974	21
Total royalties	\$ 7,657	\$ 7,753	(1)
Total royalties (\$/boe)	\$ 6.68	\$ 10.76	(38)
As % of revenue			
Crown	9%	17%	(8)
Freehold and overriding	8%	11%	(3)
Total	17%	28%	(11)

Angle's Crown royalties declined to nine percent for the three months ended March 31, 2011 from an average of 17 percent for the comparative period a year earlier. This decrease was largely due to Alberta Crown royalty incentives which reduce the royalty rate on production from new Crown wells to 5 percent for the first 50,000 boe. Angle also received higher gas cost allowance credits in 2011 related to higher qualifying capital expenditures. Freehold and overriding royalties decreased slightly in 2011 as a percentage of revenue due to a higher proportion of Angle's revenue coming from Crown wells.

### Operating and Transportation Expense

<i>(000s except per boe)</i>	Three Months Ended March 31		
	2011	2010	% Change
Operating expense	\$ 7,542	\$ 3,716	103
Transportation expense	662	423	57
Total operating and transportation expense	\$ 8,204	\$ 4,139	98
Total operating expense <i>(\$/boe)</i>	\$ 7.16	\$ 5.75	25

The 25 percent increase in the 2011 per boe rate is due to two main factors. The primary factor is the production acquired in the Edson area in June 2010 as operating costs in Edson are higher than in Angle's other core areas due to less favourable third party processing rates. A secondary factor is the significant increase in oil production quarter over quarter as oil production typically has a higher per boe operating expense than natural gas production.

### General and Administrative (G&A) Expense

<i>(000s except per boe)</i>	Three Months Ended March 31		
	2011	2010	% Change
Gross G&A expense <sup>(1)</sup>	\$ 3,464	\$ 3,434	1
Capitalized (direct) <sup>(1)</sup>	(612)	(384)	59
Net G&A expense	\$ 2,852	\$ 3,050	(6)
Net G&A expense <i>(\$/boe)</i>	\$ 2.49	\$ 4.23	(41)
Share-based compensation (net) <sup>(2)</sup>	\$ 1,060	\$ 613	73
Share-based compensation <i>(\$/boe)</i>	\$ 0.93	\$ 0.86	7
Total G&A expense	\$ 3,912	\$ 3,663	7
Total G&A expense <i>(\$/boe)</i>	\$ 3.42	\$ 5.09	(33)

(1) Gross G&A expense and Capitalized G&A for the three months ended March 31, 2010 were restated for the effect of adopting IFRS.

(2) Share-based compensation for the three months ended March 31, 2010 was restated and reclassified for the effect of adopting IFRS.

Due to the adoption of IFRS, G&A expense for the first quarter of 2010 was restated to include transaction costs of \$1.1 million related to the corporate acquisition that was completed in January 2010. This adjustment added \$0.93 to the per boe expense recognized during the period. Excluding this adjustment, net G&A expense decreased \$0.81 per boe (25 percent) and total G&A expense decreased \$0.74 per boe (18 percent) quarter over quarter, primarily due to a 59% increase in volumes and, to a lesser degree, an increase in directly attributable capitalized G&A.

On an absolute basis, share-based compensation increased quarter over quarter due to a higher fair value per option consistent with the increase in Angle's stock price, but rose only seven percent on a per boe basis.

## Depletion and Depreciation

<i>(000s except per boe)</i>	Three Months Ended March 31		
	2011	2010	% Change
Depletion and depreciation <sup>(1)</sup>	\$ 14,534	\$ 9,083	60
Depletion and depreciation (\$/boe)	\$ 12.69	\$ 12.61	1

(1) Depletion and depreciation for the three months ended March 31, 2010 was restated for the effect of adopting IFRS.

Depletion and depreciation expense is computed on a unit of production basis. Such expense, on a boe basis, fluctuates period to period primarily as a result of changes in the underlying proved plus probable reserve base and in the amount of costs subject to depletion and depreciation, including future development costs. Such costs are segregated and depleted on an area by area basis relative to the respective underlying proved plus probable reserve base. Depletion and depreciation for the three months ended March 31, 2011 was higher on an absolute basis compared to the same period of 2010, but on a per boe basis increased only one percent. If Angle had not recognized an impairment on its property and equipment in the third quarter of 2010, depletion and depreciation would have been \$0.57 per boe higher for the three months ended March 31, 2011 representing a five percent increase over the comparable period of 2010.

Under previous Canadian GAAP, Angle calculated depletion and depreciation expense based on proved reserves only. The adoption of IFRS and the use of proved plus probable reserves as the base resulted in a significant decrease to depletion and depreciation expense on both an absolute and per boe basis.

Under IAS 36 – *Impairment of Assets*, impairment testing is performed at the cash generating unit (CGU) level and is a one-step process for testing and measuring impairment of assets where each CGU's carrying value is compared to the higher of value in use and fair value less costs to sell. Value in use is defined as the present value of future cash flows expected to be derived from the CGU. For the three months ended March 31, 2011, Angle performed impairment tests resulting in recoverable amounts greater than the carrying values of the Company's property and equipment for each CGU. Consequently, no write-down of property and equipment was required.

## Interest Expense

<i>(000s except per boe)</i>	Three Months Ended March 31		
	2011	2010	% Change
Interest expense	\$ 2,463	\$ 430	473
Interest expense (\$/boe)	\$ 2.15	\$ 0.60	258

Interest expense incurred during the first quarter of 2011 was \$2.5 million on average debt of \$149.2 million (including the \$60.0 million in convertible debentures outstanding) for an effective interest rate of 6.4 percent. In comparison, interest expense incurred during the first quarter of 2010 was \$0.4 million on average debt of \$43.7 million for an effective interest rate of 3.9%. Angle's debt to cash flow ratio increased throughout 2010 causing a rise in the margins charged on the Company's bank facility, which resulted in a higher effective interest rate for the three month period ended March 31, 2011.

## Accretion and Finance Charges

(000s except per boe)	Three Months Ended March 31		
	2011	2010	% Change
Accretion expense on decommissioning liabilities <sup>(1)</sup>	\$ 97	\$ 53	83
Accretion expense on convertible debentures	253	–	100
Amortization of deferred financing charges on convertible debentures	116	–	100
Total accretion and finance charges	\$ 466	\$ 53	779
Total accretion and finance charges (\$/boe)	\$ 0.41	\$ 0.07	486

(1) Accretion expense on decommissioning liabilities was restated for the effect of adopting IFRS.

Accretion represents the change in the time value of an underlying obligation. Accretion expense on decommissioning liabilities increased for the three months ended March 31, 2011 due to new obligations on wells drilled. Accretion expense on convertible debentures is a new charge in 2011 related to the convertible debenture offering that closed in January. Transaction costs incurred related to the issuance of the convertible debentures have been recorded on the balance sheet as a reduction to the liability and will be amortized to earnings over the life of the debentures using the effective interest method.

## Income Taxes

Angle does not have current income taxes payable and does not expect to pay current income taxes in 2011 as the Company has estimated resource tax pools available at March 31, 2011 of \$428.7 million.

## Netback Analysis

(\$/boe)	Three Months Ended March 31		
	2011	2010	% Change
Sales price	\$ 38.49	\$ 38.65	–
Realized gain on derivative instruments	0.05	–	100
Royalties	(6.68)	(10.76)	(38)
Operating and transportation expense	(7.16)	(5.75)	25
Operating netback	\$ 24.70	\$ 22.14	12
G&A expense (excluding share-based compensation) <sup>(3)</sup>	(2.49)	(4.23)	(41)
Interest expense	(2.15)	(0.60)	258
Funds from operations netback <sup>(1)</sup>	\$ 20.06	\$ 17.31	16
Unrealized gain (loss) on derivative instruments	(1.66)	2.50	(166)
Share-based compensation <sup>(2)</sup>	(0.93)	(0.86)	7
Depletion and depreciation <sup>(3)</sup>	(12.69)	(12.61)	1
Accretion and finance charges <sup>(3)</sup>	(0.41)	(0.07)	486
Gain on disposition of undeveloped land	1.23	–	100
Deferred income tax reduction (expense) <sup>(3)</sup>	(1.93)	(1.40)	38
Net income netback	\$ 3.67	\$ 4.87	(25)

(1) Non-prescribed measure under IFRS, refer to the commentary at the beginning of this MD&A. Funds from operations netback is calculated by dividing funds from operations by the sales volume in boe for the period then ended.

(2) For a description of the boe conversion ratio, refer to the commentary at the beginning of this MD&A.

(3) Amounts presented for the three months ended March 31, 2010 have been restated for the effect of the adoption of IFRS.

Angle's operating netback was \$24.70 per boe for the three months ended March 31, 2011 compared to \$22.14 per boe in the same period of 2010. This 12 percent increase was the result of lower royalties, slightly offset by higher operating and transportation expenses on a per unit basis. Angle's March 31, 2011 net income netbacks were positively influenced by the gain recognized on the sale of undeveloped land in non-core areas.

### Funds from Operations, Cash Flow from Operating Activities and Net Income or Loss

	Three Months Ended March 31		
	2011	2010 <sup>(1)</sup>	% Change
Funds from operations (000s)	\$ 22,986	\$ 12,470	84
Funds from operations (per boe)	\$ 20.06	\$ 17.31	16
Funds from operations per share			
Basic	\$ 0.32	\$ 0.23	39
Diluted	\$ 0.31	\$ 0.22	41
Cash flow from operating activities (000s)	\$ 21,442	\$ 5,488	291
Net income (000s)	\$ 4,210	\$ 3,507	20
Net income (per boe)	\$ 3.67	\$ 4.87	(25)
Net income per share			
Basic	\$ 0.06	\$ 0.06	–
Diluted	\$ 0.06	\$ 0.06	–
Weighted average shares outstanding (000s)			
Basic	72,044	54,670	32
Diluted	73,450	55,995	31

(1) Amounts presented for the three months ended March 31, 2011 have been restated for the effect of the adoption of IFRS.

The increase in 2011 funds from operations and cash flows from operating activities was the result of higher volumes as well as an improvement in the operating netback per boe realized by Angle. The higher net income recognized in the first quarter of 2011 resulted primarily from the gain on disposition of undeveloped land as well as the inclusion of acquisition transaction costs in the comparable period of 2010.

### Liquidity and Capital Resources

The following table summarizes the change in net debt (working capital) during the three months ended March 31, 2011 and the year ended December 31, 2010:

(000s)	Three Months Ended March 31, 2011	Year Ended December 31, 2010
Net debt (working capital) – beginning of period	\$ (152,378)	\$ 38,255
Funds from operations	22,986	58,615
Issuance of capital stock for cash (net of issue costs)	1,759	130,414
Issuance of convertible debentures for cash (net of issue costs)	57,171	–
Settlement of decommissioning liabilities	(97)	(122)
Capital expenditures	(37,480)	(183,924)
Acquisitions	–	(167,637)
Proceeds on disposition of undeveloped land	2,320	–
Debt and working capital deficiency acquired on corporate acquisition	–	(27,979)
Net debt – end of period (excluding convertible debentures)	\$ (105,719)	\$ (152,378)

Since inception on January 23, 2004 to December 31, 2010, Angle has raised funds through treasury equity issues in the amount of \$311.1 million (net of share issue expenses and normal course issuer bid) at share prices ranging from \$0.60 to \$10.05 per common share.

The Company exited the first quarter of 2011 with net debt of \$105.7 million (excluding convertible debentures) compared to available credit lines of \$210 million. Angle's credit facility was increased from \$180 million at year end 2010 to \$210 million in March 2011. The amount of the credit facility is subject to a borrowing base test performed on a semi-annual basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facility, which could require a repayment to the lenders. The next semi-annual review of the credit facility is to take place on or before October 31, 2011.

Other liabilities included in net debt (working capital) consist primarily of trade payables and accrued liabilities. Management expects to be able to fully meet all current obligations when due with funding provided by a combination of accounts receivable collections, funds from operations and available credit under the bank line.

In addition to the \$210 million credit facility, Angle closed its convertible unsecured subordinated debenture offering in January 2011 for gross proceeds of \$60.0 million (\$57.2 million net of issue costs). The debentures bear interest at a rate of 5.75 percent per annum, which is payable semi-annually in arrears on January 31 and July 31 of each year commencing on July 31, 2011. The debentures mature on January 31, 2016 and can be converted into common shares of Angle at any time at the option of the holders at a conversion price of \$12.55 per common share.

In order to protect a portion of the Company's revenue stream, Angle will periodically enter into forward sales contracts for its commodities. At March 31, 2011, the Company had entered into fixed-price contracts on approximately 20 percent of its estimated 2011 natural gas production and approximately 30 percent of its estimated 2011 oil production.

As at May 17, 2011, Angle had 72,515,831 common shares and 5,976,050 stock options issued and outstanding.

### Selected Quarterly Information

Three Months Ended	Mar. 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009 <sup>(3)</sup>	Sept 30, 2009 <sup>(3)</sup>	June 30, 2009 <sup>(3)</sup>
(000s, except per share data)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Total assets	<b>557,322</b>	534,613	518,780	496,899	337,947	246,465	212,040	212,578
Total sales (boe/d)	<b>12,730</b>	11,612	10,021	7,290	8,003	7,446	7,552	7,472
Oil and gas revenues	<b>44,098</b>	39,473	29,421	22,619	27,842	23,652	17,483	17,405
Funds from operations	<b>22,986</b>	21,180	13,728	11,237	12,470	13,227	8,699	8,539
Per share – basic	<b>0.32</b>	0.30	0.20	0.19	0.23	0.27	0.19	0.21
Cash flow from operating activities	<b>21,442</b>	23,540	15,397	5,521	5,488	14,179	4,907	(3,799)
Net income (loss)	<b>4,210</b>	4,218	(31,128)	(594)	3,507	1,801	(1,896)	(2,248)
Per share – basic	<b>0.06</b>	0.06	(0.45)	(0.01)	0.06	0.04	(0.04)	(0.05)
Capital expenditures <sup>(1)</sup>	<b>37,480</b>	30,206	70,860	166,259	84,126	8,284	9,496	29,020
Net debt (working capital)	<b>165,719</b>	152,378	168,314	111,438	60,712	(38,255)	9,350	9,228
Shareholders' equity	<b>327,579</b>	317,462	292,204	321,975	215,851	166,374	167,231	140,260

(1) Total capital expenditures, including acquisitions.

(2) The selected quarterly information has been prepared in accordance with the accounting principles as contained in the notes to the consolidated financial statements for the three months ended March 31, 2011 and 2010, except for funds from operations, which is a non-prescribed measure under IFRS and previous Canadian GAAP.

(3) Angle's IFRS transition date was January 1, 2010, therefore 2009 comparative information above was calculated in accordance with Canadian GAAP and has not been restated.

## FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

Angle's total assets and capital expenditures increased significantly throughout 2010 due to the acquisition of Stonefire that closed on January 12, 2010, the property acquisition in the Edson area that closed on June 30, 2010 and an active 2010 drilling program. These factors also contributed to the substantial change in net debt (working capital). Working capital was positive at year-end 2009 due to Angle closing an equity financing in December 2009 that was used to fund the Stonefire acquisition in January 2010. The fluctuations in Angle's revenues and net earnings from quarter to quarter are primarily caused by changes in production volumes and realized commodity prices and the related impact on royalties. The increase in revenues and cash flow in the fourth quarter of 2010 was due to an increase in production volumes as well as an improvement in commodity prices. The decrease in production volumes in the second quarter of 2010 was primarily due to a planned plant turnaround in Ferrier, which resulted in all of Angle's production in the area being shut-in for 17 days. During 2009, Angle's revenue stream was negatively impacted by the decrease in commodity prices experienced by the industry as a whole. During the second quarter of 2009, the Company experienced production downtime due to mechanical failures at its processing facilities in both the Harmattan and Ferrier core producing areas. The significant loss incurred in the third quarter of 2010 was primarily due to an impairment loss recognized related to one of Angle's CGUs. This impairment was caused by declining natural gas prices. Please refer to "Financial and Operating Results of Oil and Natural Gas Activities" and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Angle's previously issued interim and annual MD&A for changes in prior quarters.

## CONTRACTUAL OBLIGATIONS

The Company has a committed revolving term facility with three Canadian chartered banks. The authorized borrowing amount under this facility as at March 31, 2011 was \$210 million. The Company's commitments are summarized below:

(000s)	2011	2012	2013	2014
Operating lease – office	\$ 791	\$ 690	\$ 690	\$ 633
Operating lease – compressors	1,167	834	–	–
Exploration expenditures (flow-through)	14,366	–	–	–
Total	\$ 16,324	\$ 1,524	\$ 690	\$ 633

Please refer to "Liquidity and Capital Resources" for further information.

## RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Angle has retained the law firm Osler, Hoskin and Harcourt LLP ("Osler") to provide legal services. A Director of Angle is a partner of this firm. During the three months ended March 31, 2011, Angle incurred \$0.2 million in costs with Osler (2010 – \$0.4 million). Services provided related to advice and counsel primarily in the areas of general legal and corporate governance matters, as well as banking and equity offerings. These services were billed at rates consistent with those charged to third parties. The Company expects to continue using the firm's services throughout 2011.

## CONTROLS AND PROCEDURES

### Disclosure Controls

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), to allow timely decisions regarding required disclosure. Angle's CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the Company's interim filings, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer is made known to them by others within the Company.

### Internal Controls Over Financial Reporting

Management has assessed the effectiveness of the Company's internal controls over financial reporting as defined by NI 52-109. The assessment was based on the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations. Management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2010. No changes were made to the Company's internal controls over financial reporting during the period ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting. There were no material changes to internal controls over financial reporting as a result of the transition to IFRS.

It should be noted that while Angle's CEO and CFO believe that the Company's internal controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that these controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

## CHANGE IN ACCOUNTING POLICIES

The interim consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards (IFRS). The Company adopted IFRS on January 1, 2011. Previously, Angle prepared its interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The Company has provided IFRS accounting policies and prepared reconciliations between Canadian GAAP and IFRS in Note 3 and Note 15 of its March 31, 2011 interim consolidated financial statements. The following paragraphs provide summary reconciliations of Angle's 2010 net income under Canadian GAAP and IFRS to illustrate the impact on adoption. The adoption of IFRS did not have an impact on the Company's operations.

### Summary of Net Income

(\$000s)	2010 Total	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Net income (loss) – Canadian GAAP	(5,098)	(1,208)	(4,546)	(955)	1,611
(Addition)/deduction:					
General and administrative	(3,440)	(111)	(550)	(1,620)	(1,159)
Depletion and depreciation	16,797	5,805	5,144	2,197	3,651
Accretion and finance charges	(369)	(125)	(91)	(100)	(53)
Deferred income taxes	8,566	(143)	9,368	(116)	(543)
Property and equipment impairment	(40,453)	–	(40,453)	–	–
Total increase (decrease) to expense	(18,899)	5,426	(26,582)	361	1,896
Net income (loss) – IFRS	(23,997)	4,218	(31,128)	(594)	3,507

The following discussion illustrates the significant differences between Canadian GAAP and the accounting policies applied by Angle under IFRS. IFRS 1 – *First-time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from retrospective application of certain IFRS. IFRS policies have been retrospectively applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS.

### **IFRS Exemptions**

IFRS 1 contains exemptions whereby a company may choose to apply IFRS to Property and Equipment (P&E) prospectively to its full cost pool provided an impairment test under IFRS standards is conducted at the transition date. More specifically, a company may choose to allocate the historical full cost pool to cash generating units (CGUs) by utilizing either volumes or values from current reserves at the transition date. Angle elected to apply this optional exemption under IFRS 1 and has allocated the historical full cost pool (net book value) to CGUs based on proved plus probable reserve values.

As part of the aforementioned exemption, Angle re-measured its decommissioning liabilities (previously referred to as asset retirement obligations) as at the date of transition in accordance with IFRS and recognized the difference from the amount recorded under Canadian GAAP directly into retained earnings. Refer to “Decommissioning Liabilities” below for further details.

Angle determined that the total impact of the conversion to IFRS was a reduction in retained earnings on January 1, 2010 in the amount of \$4.5 million. The Company performed impairment tests at the CGU level as of this date and did not have a transitional impairment (write-down) of its property and equipment.

### **Exploration and Evaluation (E&E)**

Exploration and evaluation (E&E) are those expenditures for an area or project for which technical feasibility and commercial viability have not yet been determined. Such expenditures include costs of acquiring licenses and exploratory drilling and completion costs. E&E assets are not amortized. When technical feasibility and commercial viability are determined, the costs are transferred to property and equipment. At the date of transition, Angle determined its E&E balance was \$14.1 million, entirely related to undeveloped land.

E&E will be expensed if technical feasibility and commercial viability cannot be established. For the year ended December 31, 2010, Angle expensed costs under IFRS related to land expiries totalling \$0.5 million that were previously capitalized in property and equipment under Canadian GAAP. These amounts are included in the change to depletion and depreciation expense in the reconciliation of net income above.

### **Property and Equipment and Impairment of Assets**

Development and production (D&P) costs include those expenditures for areas or projects where technical feasibility and commercial viability have been determined. Under IFRS, Angle will continue to capitalize these costs within property and equipment.

Under Canadian GAAP, with respect to dispositions, there is no recognition of a gain or loss unless the deduction would result in a change to the depletion rate of 20 percent or greater, in which case a gain or loss is recorded. Under IFRS, property and equipment dispositions will generally result in recognition of a gain or loss to income regardless of the amount of the transaction.

Under IFRS, Angle is required to recognize and measure an impairment loss if the carrying value of D&P exceeds the recoverable amount for any individual CGU. Under IFRS, the recoverable amount is the higher of fair value less costs to sell and value in use. Angle will group its D&P assets into four CGUs for the impairment calculation. Under Canadian GAAP impairment tests were calculated at the country level. As a result of the accounting policy change, an impairment of \$40.5 million was recorded in the third quarter of 2010 due primarily to declining natural gas prices. The impact of this change is illustrated in the reconciliation of net income above.

### **Depletion and Depreciation**

Costs in D&P are depleted on a unit of production basis at a lower unit of account than the country level utilized under Canadian GAAP. Angle determined the area level to be the appropriate unit of account and has used the unit of production basis to calculate depletion and depreciation on its D&P assets utilizing proved plus probable reserves compared to proved reserves only under Canadian GAAP. This change has resulted in a lower depletion and depreciation charge to income during 2010 and going forward. The impact of this change is illustrated in the reconciliation of net income above.

### **Decommissioning Liabilities**

Under Canadian GAAP, decommissioning liabilities were measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. In measuring the fair value, Angle used a credit-adjusted risk-free rate. Under IFRS, the cash flows to abandon and remediate the wells and facilities have been risk adjusted, therefore the Company concluded that it should apply a lower risk-free discount rate to value the decommissioning liabilities. As a result, Angle's decommissioning liabilities increased at the date of transition by \$1.9 million. During the year ended December 31, 2010, Angle's decommissioning liabilities increased by an additional \$4.4 million. Due to the higher fair values and the reduced discount rate, the accretion recognized in income throughout 2010 decreased. The impact of this change is illustrated in the reconciliation of net income above.

### **Share-based Compensation**

Under Canadian GAAP, Angle accounted for options granted to officers, directors, employees and certain consultants by measuring the fair value of the instruments issued and amortized this value over the instruments' vesting period. The fair value was measured using a Black-Scholes option pricing model using share price, exercise price, expected volatility, weighted average expected life, expected dividends and a risk-free rate. Under IFRS, Angle must apply a forfeiture rate on the grant date and subsequently adjust to reflect the actual number of options that vest. Under Canadian GAAP, forfeitures were recorded at the time of the expiry or cancellation. Further, under IFRS each tranche of options is required to be treated as a separate contract award with a separate life which resulted in more expense being recognized in income at the beginning of the contract life. Angle recorded an adjustment for the application of a forfeiture rate and graded vesting which is illustrated above in the net income reconciliation. Share-based compensation is included with G&A expenses on the statement of income and comprehensive income.

### **Flow-through Shares**

Flow-through shares are resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements which are renounced to investors in accordance with income tax legislation. Under Canadian GAAP, the accounting treatment for flow-through shares is to record the full amount of the proceeds in share capital. When expenditures are renounced, the related tax effect is recorded to share capital and the future tax liability. Under IFRS, the amount initially recorded in share capital is limited to the amount of common shares that would have been issued on that date and the difference between the actual proceeds and the amount recorded in share capital is set up as a deferred credit premium on the statement of financial position. When the expenditures are incurred, the deferred credit premium is reversed and the related tax effect is recorded to the deferred income tax liability. The impact of this change in accounting policy resulted in a transitional adjustment to share capital and retained earnings of \$3.3 million.

In November 2010, Angle issued flow-through shares and under IFRS recorded a premium liability of \$5.5 million with an offsetting decrease to share capital. Expenditures incurred in the fourth quarter of 2010 accounted for approximately six percent of the total flow-through commitment and as a result the premium liability was reduced by \$0.3 million, deferred income tax liabilities increased by \$0.4 million and the net amount of \$0.1 million was recognized as deferred income tax expense.

### **Income Taxes**

Deferred income taxes have been adjusted to reflect the tax effect arising from the differences between Canadian GAAP and IFRS. The impact of this change is illustrated in the reconciliation of net income above.

### **CRITICAL ESTIMATES**

Management is required to make judgments and use estimates in the application of IFRS that have significant impact on the financial results of the Company. The following discussion outlines the accounting policies and practices that are critical to determining Angle's financial results.

#### **Decommissioning Liabilities**

The Company records liabilities for the estimated fair value of its legal obligations associated with the retirement of long-lived assets in the period in which they are incurred, normally when the assets are purchased or developed. On recognition of the liabilities, there is a corresponding increase in the carrying value of the related assets. The total amount of the decommissioning liabilities is an estimate based on the Company's net ownership in all wells and facilities, the estimated cost to abandon and reclaim the wells and facilities, the estimated timing of those cash flows, changes in environmental regulations and the discount rate used to calculate the present value of those cash flows, all of which are subject to measurement uncertainty. Any change in these estimates would impact the decommissioning liabilities.

#### **Reserves Determination**

The proved plus probable natural gas, NGL and crude oil reserves that are used in determining Angle's depletion rates, the magnitude of the borrowing base available to the Company from its lender and impairment tests are based on management's best estimates, and are subject to uncertainty. Through the use of geological, geophysical and engineering data, the reservoirs and deposits of natural gas, NGLs and crude oil are examined to determine quantities available for future production, given existing operations and economic conditions and technology. The evaluation of reserves is an ongoing process impacted by current production, continuing development activities and changing economic conditions as reflected in natural gas and crude oil prices. Consequently, the reserves are estimated, which are subject to variability. To assist with the reserves evaluation process, the Company employs the services of independent oil and gas reservoir engineers.

### **Income Taxes**

The determination of Angle'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 after lapse of considerable time. Accordingly, the actual income tax liabilities could differ significantly from the liabilities estimated or recorded.

### **Financial Instruments**

Derivative contracts are recorded at fair value based on an estimate of the amounts that would have been received or paid to settle these instruments prior to maturity given future market prices and other relevant factors. The actual amounts received or paid to settle these instruments at maturity could differ significantly from those estimated.

### **Other Estimates**

The accrual method of accounting requires management to incorporate certain estimates, including revenues, royalties, production costs and capital expenditures as at a specific reporting date but for which actual revenues and royalties have not yet been received, and estimates on capital projects that are in progress or recently completed where actual costs have not been received at a specific reporting date.

## **BUSINESS RISKS AND RISK MITIGATION**

There are a number of risks facing participants in the Canadian oil and natural gas industry. Some of the risks are common to all businesses while others are specific to the sector. The most important of these risks are set out below, together with the strategies Angle employs to mitigate and minimize these risks.

Angle's exploration and production activities are concentrated in the Western Canada Sedimentary Basin, where activity is highly competitive and is subject to a number of risks which are also common to other organizations involved in the oil and natural gas industry. Such risks include finding and developing oil and natural gas reserves in quantities and at costs enabling a return to be generated, estimating amounts of recoverable reserves, production of oil and natural gas in commercial quantities, marketability of oil and natural gas produced, fluctuations in commodity prices, financial and liquidity risks and environmental and safety risks.

The Company's risk-mitigation strategies include focusing on carefully selected areas of western Canada that are prone to yielding light oil and liquids-rich natural gas reserves, utilizing a team of highly qualified professionals with expertise and experience in these areas, continuously assessing new exploration opportunities to complement existing activities and striving for a balance between higher-risk exploratory drilling and lower-risk development drilling.

Beyond exploration risk, there is the potential that the Company's oil and natural gas reserves will not be economically produced at prevailing prices. Angle minimizes this risk by continual economic evaluation of internally generated prospects, targeting high-quality projects and retaining operatorship with access to the sales market through Company-owned or mid-stream operated facilities.

Angle has retained an independent engineering consulting firm that assists the Company in evaluating recoverable amounts of oil and natural gas reserves. Values of recoverable reserves are based on a number of variable factors and assumptions such as commodity prices, projected production, future production costs and government regulation. As such, estimates could vary from actual results.

Angle is exposed to market risk to the extent that the demand for oil and natural gas produced by the Company varies within Canada and the United States. External factors beyond the Company's control may affect the marketability of oil and natural gas produced. These factors include commodity prices and variations in the Canada-United States currency exchange rate, which in turn respond to economic and political circumstances throughout the world. Oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are affected by North American supply and demand fundamentals. Angle uses futures and options contracts to hedge its exposure against the potential adverse impact of commodity price volatility.

The oil and natural gas industry is very capital intensive and, as a result, the Company relies on equity markets as a source of new capital in addition to bank financing to support its ongoing capital investments. Funds from operations also provide capital required to grow the Company's business. Equity and debt capital is subject to market conditions and availability may increase or decrease from time to time. Funds from operations also fluctuate with changing commodity prices. Angle anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available bank debt. The Company had no defaults or breaches on its bank debt or any of its financial liabilities.

Substantially all of the Company's oil and natural gas production is marketed under standard industry terms. Management monitors purchaser credit positions to mitigate any potential credit losses. The Company does not typically obtain collateral from oil and natural gas marketers or joint venture partners; however, Angle has the ability to withhold production from joint venture partners in the event of non-payment.

Oil and natural gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. The Company conducts its operations with high standards in order to protect the environment and the general public and operates in accordance with all applicable environmental legislation and strives to maintain compliance with such regulations. Angle has an Environmental, Health and Safety Committee of the Board of Directors and has updated its operational emergency response plan and operational safety manual to address these operational issues. In addition, a comprehensive insurance program is maintained to mitigate risks and protect against significant losses where possible. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations.

The Government of Canada has announced its intention to regulate greenhouse gases (GHG). As these regulations are under development, the Company is unable to predict the total impact of the potential regulations upon its business. The Government of Alberta has set targets for GHG emission reductions, including maximum emissions of GHG from large industrial facilities. In order to comply with the Alberta regulations, companies can make operating improvements to their facilities, purchase carbon offsets or make a monetary contribution to the Alberta Climate Change and Emissions Management Fund.



Stuart C. Symon, CMA  
Vice President Finance & Chief Financial Officer  
May 17, 2011

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at	Note	March 31, 2011	December 31, 2010	January 1, 2010
(000s) (unaudited)		(\$)	(\$)	(\$)
<b>ASSETS</b>				
Cash and cash equivalents		–	–	34,644
Accounts receivable		20,246	19,724	11,988
Deposits and prepaid expenses		3,376	3,894	3,722
Derivative instruments	12	–	–	226
Total current assets		23,622	23,618	50,580
Exploration and evaluation	4	51,817	49,442	14,129
Property and equipment	5	481,883	461,553	181,756
		557,322	534,613	246,465
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities		41,799	37,080	12,099
Derivative instruments	12	2,830	1,047	–
Total current liabilities		44,629	38,127	12,099
Bank debt	6	87,542	138,916	–
Convertible debentures	7	51,975	–	–
Derivative instruments	12	935	810	–
Decommissioning liabilities	8	12,726	12,324	4,601
Premium liability	9	3,144	5,145	–
Deferred tax liabilities		28,792	23,115	18,981
		229,743	218,437	35,681
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	9	309,314	306,742	178,523
Equity component of convertible debentures	7	4,105	–	–
Contributed surplus		8,359	7,843	5,387
Retained earnings		5,801	1,591	26,874
Total equity		327,579	316,176	210,784
Commitments	9, 14			
		557,322	534,613	246,465

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Three Months Ended March 31	Note	2011	2010
<i>(000s, except per share amounts) (unaudited)</i>		(\$)	(\$)
<b>REVENUE</b>			
Oil and natural gas revenues		<b>44,098</b>	27,842
Royalties		<b>(7,657)</b>	(7,753)
Oil and natural gas revenues, net of royalties		<b>36,441</b>	20,089
Realized gain on derivative instruments		<b>64</b>	–
Unrealized (loss) gain on derivative instruments		<b>(1,908)</b>	1,798
		<b>34,597</b>	21,887
<b>EXPENSES</b>			
Operating and transportation		<b>8,204</b>	4,139
General and administrative		<b>3,912</b>	3,663
Depletion and depreciation		<b>14,534</b>	9,083
Gain on disposition of undeveloped land		<b>(1,408)</b>	–
		<b>25,242</b>	16,885
Operating income		<b>9,355</b>	5,002
Interest expense		<b>2,463</b>	430
Accretion and finance charges		<b>466</b>	53
Net income before income tax		<b>6,426</b>	4,519
Deferred income tax expense		<b>2,216</b>	1,012
Net income and comprehensive income		<b>4,210</b>	3,507
Net income per share			
Basic	9	<b>0.06</b>	0.06
Diluted	9	<b>0.06</b>	0.06

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Convertible debentures, equity component	Contributed surplus	Retained earnings	Total equity
<i>(\$000s) (unaudited)</i>					
Balance at January 1, 2011	<b>306,742</b>	–	<b>7,843</b>	<b>1,591</b>	<b>316,176</b>
Issue of common shares	<b>1,759</b>	–	–	–	<b>1,759</b>
Share-based compensation expensed	–	–	<b>1,060</b>	–	<b>1,060</b>
Share-based compensation capitalized	–	–	<b>269</b>	–	<b>269</b>
Options exercised	<b>813</b>	–	<b>(813)</b>	–	–
Issue of convertible debentures, net of issue costs and deferred income taxes	–	<b>4,105</b>	–	–	<b>4,105</b>
Net income for the period	–	–	–	<b>4,210</b>	<b>4,210</b>
<b>Balance at March 31, 2011</b>	<b>309,314</b>	<b>4,105</b>	<b>8,359</b>	<b>5,801</b>	<b>327,579</b>
Balance at January 1, 2010	178,523	–	5,387	26,874	210,784
Issue of common shares	797	–	–	–	797
Share-based compensation expensed	–	–	613	–	613
Share-based compensation capitalized	–	–	150	–	150
Options exercised	363	–	(363)	–	–
Net income for the period	–	–	–	3,507	3,507
<b>Balance at March 31, 2010</b>	<b>179,683</b>	–	<b>5,787</b>	<b>30,381</b>	<b>215,851</b>

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31	Note	2011	2010
(000s) (unaudited)		(\$)	(\$)
<b>OPERATING ACTIVITIES</b>			
Net income		4,210	3,507
Adjustments for:			
Depletion and depreciation	4, 5	14,534	9,083
Change in fair value of derivative instruments	11	1,908	(1,798)
Accretion and finance charges	7, 8	466	53
Share-based compensation	9	1,060	613
Deferred income tax expense		2,216	1,012
Gain on disposition of undeveloped land		(1,408)	–
Settlement of decommissioning liabilities		(97)	(129)
Change in non-cash working capital	10	(1,447)	(6,853)
Net cash from (used in) operating activities		21,442	5,488
<b>FINANCING ACTIVITIES</b>			
Issue of common shares, net of issue costs	9	1,759	797
Increase (decrease) in bank debt		(51,374)	25,693
Issue of convertible debentures, net of issue costs	7	57,171	–
Change in non-cash working capital	10	837	(59)
Net cash from (used in) financing activities		8,393	26,431
<b>INVESTING ACTIVITIES</b>			
Exploration and evaluation expenditures		(17,529)	(18,409)
Property and equipment expenditures		(19,951)	(20,629)
Business acquisition, net of cash acquired	5, 15	–	(45,088)
Proceeds on disposition of undeveloped land		2,320	–
Change in non-cash working capital	10	5,325	17,563
Net cash from (used in) investing activities		(29,835)	(66,563)
Change in cash and cash equivalents		–	(34,644)
Cash and cash equivalents, beginning of period		–	34,644
Cash and cash equivalents, end of period		–	–

See accompanying notes to the consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the period ended March 31, 2011 (unaudited)

### 1. REPORTING ENTITY

Angle Energy Inc. ("Angle" or the "Company") is a publicly traded company incorporated under the laws of Alberta. The Company is principally engaged in the exploration for, and exploitation, development and production of, oil and natural gas and conducts many of its activities jointly with others. These financial statements reflect only the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

### 2. BASIS OF PREPARATION

#### (a) Statement of Compliance

These consolidated interim financial statements for the three months ended March 31, 2011 are unaudited and have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS) and IFRS 1 – *First-time Adoption of International Financial Reporting Standards* has been applied. These financial statements do not include all of the information required for full annual financial statements.

Angle's significant accounting policies under IFRS are presented in note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1. The impact of the new standards, including reconciliations presenting the change from Canadian GAAP to IFRS as at January 1, 2010, as at and for the three months ended March 31, 2010 and as at and for the year ended December 31, 2010, is presented in note 15.

The consolidated financial statements were authorized for issue by the Board of Directors on May 17, 2011.

#### (b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- (i) derivative financial instruments are measured at fair value; and
- (ii) held for trading financial assets are measured at fair value with changes in fair value recorded in earnings.

The methods used to measure fair values are discussed in note 11.

#### (c) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

#### **(d) Use of Estimates and Judgments**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

- Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.
- Amounts recorded for decommissioning liabilities and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Decommissioning liabilities are recognized in the period when it becomes probable that there will be a future cash outflow.
- The estimated fair value of derivative instruments resulting in financial assets and liabilities are by their very nature subject to measurement uncertainty.
- Compensation costs recognized for share-based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term. Several compensation plans are also performance based and are subject to management's judgment as to whether or not performance criteria will be met.
- Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

### **3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements, and have been applied consistently by the Company.

Certain comparative amounts have been reclassified to conform with the current quarter's presentation as noted below.

**(a) Basis of Consolidation**

The purchase method of accounting is used to account for corporate acquisitions and assets that meet the definition of a business combination under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of closing. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in the statement of income and comprehensive income.

**(b) Foreign Currency**

Transactions in foreign currencies are translated to Canadian dollars at exchange rates in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate in effect on the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

**(c) Financial Instruments**

*(i) Non-Derivative Financial Instruments*

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

*Cash and Cash Equivalents*

Cash and cash equivalents comprise cash on hand, term deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

*Financial Assets At Fair Value Through Profit Or Loss*

An instrument is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated as fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has designated cash and cash equivalents at fair value.

*Compound Instruments*

Compound instruments are separated into their liability and equity components using the effective interest method. The liability component accretes up to the principal balance at maturity. The equity component will be reclassified to share capital upon conversion. Any balance in equity that remains after the settlement of the liability is transferred to contributed surplus. The equity portion is recognized net of deferred income taxes and deferred issue costs.

#### *Other*

Other non-derivative financial instruments, such as accounts receivable, accounts payable and accrued liabilities and bank debt are measured at amortized cost using the effective interest method, less any impairment losses.

#### *(ii) Derivative Financial Instruments*

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and therefore has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the balance sheet at fair value. Transaction costs are recognized in profit or loss when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

#### *(iii) Share Capital*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of deferred income taxes.

### **(d) Exploration and Evaluation Assets and Property and Equipment**

#### *(i) Recognition and Measurement*

##### *Exploration and Evaluation Expenditures*

Pre-licence costs are recognized in the statement of income and comprehensive income as incurred.

Exploration and evaluation costs, including the costs of acquiring licences and drilling and completing wells, initially are capitalized as exploration and evaluation assets according to the nature of the expenditure. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved and/or probable reserves are determined to exist. A review of each exploration licence or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of proved and/or probable reserves, exploration and evaluation assets attributable to those reserves are tested for impairment and reclassified from exploration and evaluation assets to a separate category within assets referred to as petroleum and natural gas properties. The cost of undeveloped land that expires or any impairment recognized during a period, is charged as additional depletion expense.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are tested at an operating segment level.

#### *Development and Production Costs*

Items of property and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses net of reversals.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit or CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

Development and production assets are grouped into CGUs for impairment testing. The Company has grouped its development and production assets into the following CGUs based on its core operating areas: Harmattan, Ferrier, Lone Pine and Edson. When significant parts of an item of property and equipment, including petroleum and natural gas properties, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property and equipment, including petroleum and natural gas properties, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized on a net basis on the statement of income and comprehensive income.

#### *(ii) Subsequent Costs*

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as petroleum and natural gas properties only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized petroleum and natural gas properties generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

#### *(iii) Depletion and Depreciation*

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to convert those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators and 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 producible. For interim financial statements, internal estimates of changes in reserves and future development costs are used for determining depletion for the period.

For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Office equipment is amortized over its estimated useful life at declining-balance rates between 20 percent and 50 percent per year.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

**(e) Leased Assets**

Other leases are operating leases, which are not recognized on the Company's balance sheet.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

**(f) Impairment**

*(i) Financial Assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) *Non-Financial Assets*

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property and equipment, as petroleum and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. In assessing value in use, the 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 the 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 production of proved and probable reserves.

E&E assets are tested for impairment at an operating segment level at the time of any triggering facts and circumstances. Upon their reclassification to producing assets (petroleum and natural gas properties in property and equipment), the entire CGU is tested for impairment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, if no impairment loss had been recognized.

**(g) Share-based Compensation**

The grant date fair value of options granted to officers, directors, employees and certain consultants is recognized as compensation expense, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that options are forfeited, previously recognized compensation expense associated with the unvested portion of such stock options is reversed.

**(h) Flow-through Shares**

Periodically, the Company finances a portion of its exploration and development activities through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes related to exploratory development activities are renounced to investors in accordance with tax legislation. Flow-through shares issued are recorded in share capital at the fair value of common shares on the date of issue. The premium received on issuing flow-through shares is initially recorded as a deferred credit. As qualifying expenditures are incurred, the premium is reversed and a deferred income tax liability is recorded. The net amount is then recognized as deferred income tax expense.

**(i) Decommissioning Liabilities**

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the balance sheet date. The fair value of the estimated obligation is recorded as a liability with a corresponding increase in the carrying amount of the related asset. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion costs whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

**(j) Revenues**

Revenues from the sale of natural gas, natural gas liquids and crude oil are recognized based on volume delivered at contractual delivery points and rates. The costs associated with the delivery, including operating, transportation and production-based royalty expenses, are recognized in the same period in which the related revenues are earned and recorded.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

**(k) Interest Expense, Accretion and Finance Charges**

Finance expense comprises interest expense on borrowings, accretion of the discount on decommissioning liabilities and convertible debentures, amortization of deferred finance charges and impairment losses recognized on financial assets.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

**(l) Income Tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(m) Per Share Amounts**

Basic net income or loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting the profit 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 and convertible debentures.

**(n) New Standards and Interpretations Not Yet Adopted**

In November 2009, the IASB published IFRS 9 – *Financial Instruments*, which covers the classification and measurement of financial assets as part of its project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There will be no significant impact to the Company upon implementation of the issued standard.

**4. EXPLORATION AND EVALUATION ASSETS**

	E&E Assets
Cost:	
Balance at January 1, 2010	\$ 14,129
Acquisitions through business combinations	5,750
Additions	88,539
Transfers to property and equipment	(58,515)
Lease expiries	(461)
Balance at December 31, 2010	49,442
Additions	17,530
Transfers to property and equipment	(13,902)
Lease expiries	(340)
Disposition of undeveloped land	(912)
Balance at March 31, 2011	\$ 51,817

E&E assets consist of Angle’s exploration and development projects which are pending the determination of proved or probable reserves. Additions represent Angle’s share of costs incurred on E&E assets during the period. The cost of undeveloped land that expires during a period is recognized as additional depletion expense.

## 5. Property and Equipment

	Petroleum and Natural Gas Properties	Office Equipment	Total
Cost or deemed cost:			
Balance at January 1, 2010	\$ 181,014	\$ 1,137	\$ 182,151
Acquisitions through business combinations	198,479	–	198,479
Additions	109,700	303	110,003
Transfer from exploration and evaluation assets	58,515	–	58,515
Balance at December 31, 2010	547,708	1,440	549,148
Additions	<b>20,560</b>	<b>62</b>	<b>20,622</b>
Transfer from exploration and evaluation assets	<b>13,902</b>	–	<b>13,902</b>
Balance at March 31, 2011	<b>\$ 582,170</b>	<b>\$ 1,502</b>	<b>\$ 583,672</b>
Accumulated depletion and depreciation:			
Balance at January 1, 2010	\$ –	\$ 395	\$ 395
Depletion and depreciation for the year	46,507	240	46,747
Impairment loss	40,453	–	40,453
Balance at December 31, 2010	86,960	635	87,595
Depletion and depreciation for the year	<b>14,140</b>	<b>54</b>	<b>14,194</b>
Balance at March 31, 2011	<b>\$ 101,100</b>	<b>\$ 689</b>	<b>\$ 101,789</b>

	Petroleum and Natural Gas Properties	Office Equipment	Total
Net book value:			
At January 1, 2010	\$ 181,014	\$ 742	\$ 181,756
At December 31, 2010	\$ 460,748	\$ 805	\$ 461,553
At March 31, 2011	<b>\$ 481,070</b>	<b>\$ 813</b>	<b>\$ 481,883</b>

### (a) Capitalization of General and Administrative and Share-based Compensation Expenses

During the three months ended March 31, 2011, approximately \$0.6 million of directly attributable general and administrative expense and \$0.3 million of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (2010 – \$0.2 million and \$0.2 million, respectively).

### (b) Amortization and Impairment Charges

During 2010, as a result of decreasing natural gas prices, Angle recognized a \$40.5 million impairment relating to one of the Company's CGUs. The impairment charge was taken at September 30, 2010 and recorded as an impairment loss with the offset recorded to accumulated depletion and depreciation. The impairment was based on the difference between the period end net book value of the assets and the recoverable amount. The recoverable amount was determined using fair value less costs to sell based on discounted cash flows of proved and probable reserves using forecast prices and costs.

**(c) Future Development Costs and Salvage Value**

For the March 31, 2011 period, an estimated \$253.9 million of future development costs associated with proved plus probable undeveloped reserves was included in the calculation of depletion and depreciation expense and an estimated \$12.3 million of salvage value of production equipment was excluded (December 31, 2010 – \$280.8 million and \$11.9 million, respectively).

**(d) Property Acquisition**

On June 30, 2010, Angle acquired certain interests in petroleum and natural gas properties for cash consideration of \$116.4 million. Using the purchase method, \$5.0 million was recognized in exploration and evaluation assets for the value of undeveloped land, \$110.0 million was recognized in property and equipment and decommissioning liabilities of \$3.9 million were recognized in relation to the acquired properties. Acquisition costs of \$1.4 million were charged to general and administrative expense on the consolidated statement of income and comprehensive income.

**6. BANK DEBT**

The Company has a revolving committed credit facility with three chartered banks with a borrowing base of \$210.0 million. The next semi-annual review of the credit facility is to take place on or before October 31, 2011.

The credit facility may be extended and revolve beyond the initial one-year period, if requested by the Company and accepted by the lenders. The current revolving period will expire April 28, 2012. If the credit facility does not continue to revolve, the facility will convert to a 366-day non-revolving term loan facility. The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facility, which may require a repayment to the lenders.

The credit facility provides that advances may be made by way of direct advances or bankers' acceptances. The credit facility bears interest at the bank's prime rate plus a margin (1.00 percent to 2.50 percent) or at bankers' acceptance rates plus a stamping fee (2.00 percent to 3.50 percent) based on the Company's consolidated total debt to cash flow ratio. For purposes of this calculation, consolidated total debt is defined as total liabilities less current assets and cash flow is defined as cash flow from operations for the last two quarters multiplied by two (annualized). A general security agreement over all present and after acquired personal property and a floating charge on all lands has been provided as security.

**7. CONVERTIBLE DEBENTURES**

On January 6, 2011, Angle completed the issuance of convertible unsecured subordinated debentures for gross proceeds of \$60.0 million (net proceeds of \$57.2 million) at a price of \$1,000 per debenture. The debentures bear interest at a rate of 5.75 percent per annum, which is payable semi-annually in arrears on January 31 and July 31 of each year commencing on July 31, 2011. The debentures mature on January 31, 2016 and can be converted into common shares of Angle at any time at the option of the holders at a conversion price of \$12.55 per common share.

After January 31, 2014, the Company may redeem the debentures in whole or in part provided the common shares weighted average trading price during a specified period prior to redemption is at least 125 percent of the conversion price. The Company may satisfy the payment of principal or interest in common shares under certain circumstances.

The debentures have been classified as debt, net of issue costs and net of the fair value of the conversion feature at the date of issue which has been classified as part of shareholders' equity. The issue costs will be amortized over the term of the debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed on the consolidated statement of income and comprehensive income. The fair value of the conversion feature was determined at the time of issue as the difference between the principal value of the debentures and the discounted cash flows assuming an 8.3 percent rate which was the estimated rate for debt with similar terms at the time. If the debentures are converted to shares, a portion of the value of the conversion feature under shareholders' equity will be reclassified to shareholders' capital along with the conversion price paid.

The following table sets forth a reconciliation of the convertible debentures for the three months ended March 31, 2011:

	Total
Principal at January 1, 2011	\$ -
Issued	60,000
Principal at March 31, 2011	\$ 60,000
Debt portion at January 1, 2011	\$ -
Issued, net of deferred financing charges	51,604
Accretion	253
Amortization of deferred financing charges	116
Debt portion at March 31, 2011	\$ 51,973
Equity portion at January 1, 2011	\$ -
Issued, net of the deferred income taxes	4,380
Deferred financing charges	(275)
Equity portion at March 31, 2011	\$ 4,105

Total interest charged to net income for the period ended March 31, 2011 was \$0.8 million. In addition, \$0.3 million of debenture accretion and \$0.1 million of amortized financing charges were included in accretion and finance charges on the consolidated statement of income and comprehensive income.

## 8. DECOMMISSIONING LIABILITIES

	Decommissioning Liabilities
Balance at January 1, 2010	\$ 4,601
Change in estimates	497
Liabilities incurred	1,850
Liabilities acquired on business acquisitions	5,240
Liabilities settled	(232)
Accretion of decommissioning liabilities	368
Balance at December 31, 2010	12,324
Liabilities incurred	402
Liabilities settled	(97)
Accretion of decommissioning liabilities	97
Balance at March 31, 2011	\$ 12,726

**(a) Decommissioning Liabilities**

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas assets. The total decommissioning liabilities are estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning obligations to be \$12.7 million as at March 31, 2011 (December 31, 2010 – \$12.3 million) based on an undiscounted total future liability of \$19.7 million (December 31, 2010 – \$19.3 million). These payments are expected to be incurred over a period of one to 25 years with the majority of costs to be incurred between 2012 and 2030. At March 31, 2011 a risk-free rate of 1.7 to 3.7 percent (December 31, 2010 – 1.7 to 3.5 percent) and an inflation rate of 2 percent were used to calculate the net present value of the decommissioning liabilities.

**9. SHARE CAPITAL**

**(a) Authorized**

Unlimited number of common voting shares, no par value.

Unlimited number of preferred shares, no par value, issuable in series.

**(b) Issued**

	Number of Shares	Amount
Balance at January 1, 2010	54,481,132	\$ 178,523
Common shares issued	14,999,699	114,453
Flow-through shares issued, net of premium (i)	2,488,000	19,531
Share issue costs	–	(7,780)
Tax benefit of share issue costs	–	2,015
Balance at December 31, 2010	71,968,831	306,742
Common shares issued (ii)	<b>509,500</b>	<b>2,572</b>
Balance at March 31, 2011	<b>72,478,331</b>	<b>\$ 309,314</b>

*(i) Flow-through Shares*

In November 2010, the Company issued 2,488,000 flow-through shares at \$10.05 per share for total gross proceeds of \$25.0 million and \$2.20 per share or \$5.5 million was determined to be the implied premium on the flow-through shares. As at March 31, 2011 the Company is committed to spending an additional \$14.4 million on qualified exploration and development expenditures by December 31, 2011.

*(ii) Exercise of Stock Options*

During the three months ended March 31, 2011 the Company issued 509,500 common shares, resulting from the exercise of stock options, for cash proceeds of \$1.8 million and previously recognized share-based compensation expense of \$0.8 million

(c) **Per Share Amounts**

Basic net income per share was calculated as follows:

Three Months Ended March 31	2011	2010
Net income for the year	\$ 4,210	\$ 3,507
Weighted average number of basic common shares:		
Issued common shares at January 1	71,968,831	54,481,132
Stock options exercised	74,984	188,452
Weighted average number of basic common shares	72,043,815	54,669,584
Net income per weighted average basic common share	\$ 0.06	\$ 0.06

Diluted per share amounts were calculated as follows:

Three Months Ended March 31	2011	2010
Net income for the year	\$ 4,210	\$ 3,507
Weighted average number of diluted common shares:		
Weighted average number of basic common shares	72,043,815	54,669,584
Effect of outstanding options	1,406,363	1,325,121
Weighted average number of diluted common shares	73,450,178	55,994,705
Net income per weighted average diluted common share	\$ 0.06	\$ 0.06

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding. Excluded from diluted per share amounts is the effect of 7,784,751 options and the convertible debentures (2010 – 2,828,000 options) as their effect is anti-dilutive.

(d) **Options Outstanding**

The Company has an option program that entitles officers, directors, employees and certain consultants to purchase shares in the Company. Options are granted at the market price of the shares at the date of grant and vest equally one-third on the first, second and third anniversaries from the option grants and expire in five years.

The number and weighted average exercise prices of stock options are as follows:

Three Months Ended March 31	2011		2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at January 1	6,059,217	\$ 5.77	4,380,916	\$ 4.14
Granted	532,500	8.28	373,000	8.47
Exercised	(509,500)	3.45	(298,466)	(2.69)
Forfeited	(203,667)	6.75	–	–
Outstanding at March 31	5,878,550	\$ 6.16	4,455,450	\$ 4.60
Exercisable at March 31	1,678,793	\$ 4.61	1,610,448	\$ 3.57

The range of exercise prices of the outstanding options as at March 31, 2011 is as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
<b>\$2.80 to \$4.59</b>	<b>2,102,967</b>	<b>2.44</b>	<b>\$ 4.21</b>	<b>1,275,796</b>	<b>\$ 4.07</b>
<b>\$4.60 to \$6.39</b>	<b>738,750</b>	<b>3.20</b>	<b>5.36</b>	<b>278,665</b>	<b>5.36</b>
<b>\$6.40 to \$8.19</b>	<b>2,377,500</b>	<b>4.45</b>	<b>7.48</b>	<b>51,500</b>	<b>7.96</b>
<b>\$8.20 to \$10.00</b>	<b>659,333</b>	<b>4.64</b>	<b>8.57</b>	<b>2,832</b>	<b>8.82</b>
	<b>5,878,550</b>	<b>3.60</b>	<b>\$ 6.16</b>	<b>1,678,793</b>	<b>\$ 4.61</b>

The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following weighted average inputs:

Three Months Ended March 31	2011	2010
Fair value at grant date	<b>\$ 2,003</b>	\$ 1,400
Risk-free interest rate	<b>2.35%</b>	2.28%
Expected life	<b>4.38 years</b>	4.30 years
Expected volatility	<b>53.58%</b>	52.72%
Expected dividend yield	<b>0%</b>	0%

A forfeiture rate of 3.8 percent (2010 – 4.8 percent) is used when recording share-based compensation expense. This estimate is adjusted to the actual forfeiture rate. Share-based compensation cost of \$1.1 million was expensed during 2011 (2010 – \$0.6 million).

## 10. SUPPLEMENTED CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of:

Three Months Ended March 31	2011	2010
Source (use) of cash:		
Accounts receivable	<b>\$ (522)</b>	\$ (3,097)
Deposit and prepaid expenses	<b>518</b>	(67)
Accounts payable and accrued liabilities	<b>4,719</b>	13,815
	<b>\$ 4,715</b>	\$ 10,651
Related to operating activities	<b>\$ (1,447)</b>	\$ (6,853)
Related to financing activities	<b>837</b>	(59)
Related to investing activities	<b>5,325</b>	17,563
	<b>\$ 4,715</b>	\$ 10,651

## 11. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (a) Evaluation and Exploration Assets and Property and Equipment

The fair value of property and equipment recognized in a business combination is based on market values. The market value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of petroleum and natural gas properties (included in property and equipment) and exploration and evaluation assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

### (b) Cash and Cash Equivalents, Accounts Receivable, Accounts Payable and Accrued Liabilities and Bank Debt

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of these balances approximated their carrying value due to their short term to maturity.

### (c) Convertible Debentures

The convertible debentures trade on the Toronto stock exchange under the symbol NGL.DB. The fair value of the convertible debentures is based on quoted market prices. The carrying value includes the debt and equity portion of the convertible debentures and excludes the deferred income tax impact of the debentures charged against the equity portion.

### (d) Derivative Instruments

The fair value of derivative contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates).

### (e) Stock Options

The fair value of stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour) and the risk-free interest rate (based on government bonds).

Angle classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The following tables provide fair value measurement information for financial assets and liabilities. The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities included in the consolidated statement of financial position approximate fair value due to the short term nature of those instruments. These assets and liabilities are not included in the following tables.

As at March 31, 2011	Carrying value	Fair value	Fair value measurements using		
			Quoted prices in active markets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Financial liabilities:					
Bank debt	<b>87,542</b>	<b>87,542</b>	<b>87,542</b>	–	–
Convertible debentures	<b>57,540</b>	<b>62,250</b>	–	–	–
Derivative instruments	<b>3,765</b>	<b>3,765</b>	–	<b>3,765</b>	–

As at December 31, 2010	Carrying value	Fair value	Fair value measurements using		
			Quoted prices in active markets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Financial liabilities:					
Bank debt	138,916	138,916	138,916	–	–
Derivative instruments	1,857	1,857	–	1,857	–

## 12. FINANCIAL RISK MANAGEMENT

### (a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

### (b) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers.

#### *Accounts receivable*

All of the Company's operations are conducted in Canada. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with a number of large purchasers. The Company historically has not experienced any collection issues with its oil and natural gas marketers. Receivables from joint venture partners are typically collected within one to three months of the joint venture bill being issued. The Company attempts to mitigate the risk from joint venture receivables by obtaining venturer pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venturers as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint venturers; however, the Company does have the ability to withhold production from joint venturers in the event of non-payment.

The Company does not anticipate any default as it transacts with creditworthy customers and management does not expect any losses from non-performance by these customers. As such a provision for doubtful accounts has not been recorded.

As at March 31, 2011 the maximum exposure to credit risk for loans and receivables at the reporting date by type of customer was:

	2011
Oil and natural gas marketing companies	\$ 15,314
Joint venture partners	1,598
Government agencies	2,956
Other	378
<b>Total accounts receivable</b>	<b>\$ 20,246</b>

As at March 31, 2011 the Company's accounts receivable are aged as follows:

	2011
Current (less than 90 days)	\$ 18,723
Past due (more than 90 days)	1,523
<b>Total</b>	<b>\$ 20,246</b>

At March 31, 2011, of the \$20.2 million in accounts receivable, 92 percent was current, 4 percent was 31 to 90 days due and the balance was over 90 days due. Angle had no material accounts receivable deemed uncollectible.

**(c) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's financial liabilities consist of accounts payable and accrued liabilities, bank debt, derivative instruments and convertible debentures.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a normal period, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month.

The Company maintains a \$210.0 million credit facility to provide capital when needed of which \$122.5 million was available at March 31, 2011. Angle anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available bank debt. The Company had no defaults or breaches on its bank debt or any of its financial liabilities as at March 31, 2011.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements at March 31, 2011:

	Carrying amount	Contractual cash flows	Less than one year	One – two years	Two – five years	More than five years
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	\$ 41,799	\$ 41,799	\$ 41,799	\$ –	\$ –	\$ –
Bank debt	87,542	92,284	4,377	87,907	–	–
Convertible debentures <sup>(i)</sup>	57,540	76,675	3,450	3,450	69,775	–
Derivative financial liabilities:						
Derivative instruments	3,765	3,765	2,830	935	–	–
	<b>\$ 190,646</b>	<b>\$ 214,523</b>	<b>\$ 52,456</b>	<b>\$ 92,292</b>	<b>\$ 69,775</b>	<b>\$ –</b>

(i) Carrying value includes the debt and equity portion of the convertible debentures March 31, 2011 and excludes the deferred income tax impact of the debentures charged against the equity portion.

#### (d) Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company may use financial derivative contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

##### *Currency Risk*

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Prices for oil are determined in global markets and generally denominated in United States dollars. The Company does not sell or transact in any foreign currency; however, the United States dollar influences the price of petroleum and natural gas sold in Canada.

The Company has entered into a currency average rate forward swap transaction whereby U.S. dollars have been converted to Canadian dollars as summarized in the following table:

Amount	Strike Price	Term
US\$1,300,000/month	Cdn\$1.0535	Jan. 1/11 – June 30/12

Angle is only entitled to a cash settlement if the monthly average currency exchange rate as reported by the Bank of Canada is greater than 0.95. Angle entered into the above transaction to protect against foreign exchange fluctuations on the U.S. Nymex oil hedge. The fair value at March 31, 2011 was an asset of \$0.6 million (December 31, 2010 – \$0.2 million) resulting in an unrealized gain of \$0.4 million for the three months ended March 31, 2011. There was no unrealized gain or loss recorded for the three months ended March 31, 2010.

### *Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the outstanding bank loan fluctuates with the interest rates posted by the lenders. The Company is exposed to interest rate risk and has not entered into any mitigating interest rate hedges or swaps. With regards to interest rate risk, a change of 1 percent in the effective interest rate would impact net income by approximately \$0.2 million annually, based on average debt outstanding during the period.

### *Commodity Price Risk*

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand.

It is the Company's policy to economically hedge some oil and natural gas sales through the use of financial derivative contracts. The Company does not apply hedge accounting to these contracts.

As at March 31, 2011, the Company had fixed the price applicable to future production through the following contracts:

Period	Commodity	Type of Contract	Quantity Contracted	Contract Price (\$/unit)
Apr. 1/11 – Oct. 31/11	Natural Gas	Financial	5,000 GJ/d	AECO Cdn \$3.82/GJ
Jan. 1/11 – Dec. 31/11	Natural Gas	Financial	5,000 GJ/d	AECO Cdn \$3.825/GJ
Apr. 1/11 – Mar. 31/12	Natural Gas	Financial	2,500 GJ/d	AECO Cdn \$3.775/GJ
Apr. 1/11 – Mar. 31/12	Natural Gas	Financial	2,500 GJ/d	AECO Cdn \$3.815/GJ
Jan. 1/11 – June 30/12	Crude Oil	Financial	500 bbls/d	Nymex US \$87.05/bbl

At March 31, 2011 the fair value of the derivative contracts was a liability of \$4.4 million (2010 – asset of \$2.0 million) resulting in an unrealized loss of \$2.3 million for the three months ended March 31, 2011 (2010 – unrealized gain of \$1.8 million).

### **(e) Capital Management**

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include shareholders' equity, bank debt, convertible debentures and working capital. In order to maintain or adjust the capital structure, the Company may issue shares and adjust its capital spending to manage current and projected debt levels.

In the management of capital, the Company includes share capital of \$309.3 million and net debt of \$165.7 million (defined as the sum of current assets, current liabilities, bank debt and convertible debentures outstanding excluding current derivative instruments) in the definition of capital.

The key measures that the Company utilizes in evaluating its capital structure are the ratio of net debt to funds from operations (which is cash flow from operations before changes in non-cash working capital and settlement of decommissioning liabilities) and the current credit available from its creditors in relation to the Company's budgeted capital expenditure program. The ratio of net debt to funds from operations is determined as net debt divided by funds from operations and represents the time it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations stayed constant. Annualized funds from operations for the period ended March 31, 2011 were \$91.6 million, resulting in a net debt to funds from operations ratio of 1.8:1. This ratio is within the acceptable range for the Company of 2.0 or less. The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including the current economic conditions, the risk characteristics of the underlying assets, the depth of its investment opportunities, forecast investment levels, the past efficiencies of the Company's investments, the efficiencies of forecast investments and the desired pace of investment, current and forecast total debt levels, current and forecast energy commodity prices, and other factors that influence commodity prices and funds from operations, such as foreign exchange and quality basis differentials.

In order to maintain or adjust the capital structure, the Company will consider its forecast net debt to funds from operations ratio while attempting to finance an acceptable capital expenditure program, including incremental capital spending and acquisition opportunities, the current level of bank credit available from the commercial bank, the level of bank credit that may be attainable from its commercial bank as a result of growth in the Company's oil and natural gas reserves, the availability of other sources of debt with different characteristics than the existing bank debt, the sale of assets limiting the size of the Company's capital spending program, and new common equity if available on favourable terms. The annual and updated budgets are approved by the Board of Directors.

There were no changes in the Company's approach to capital management during the period.

The Company is not subject to externally imposed capital requirements. The credit facilities are subject to a semi-annual review of the borrowing base which is directly impacted by the value of the oil and natural gas reserves.

### 13. RELATED PARTIES

During 2011, expenses were recorded totalling \$0.2 million (2010 – \$0.4 million) that were charged to the Company by a legal firm of which a Director of the Company is a partner, and none of these amounts remained in accounts payable at March 31, 2011 or 2010. These amounts are billed and recorded at rates consistent with those charged to third parties.

#### 14. COMMITMENTS

The Company has lease commitments for office premises that expire in 2014, for three compressors that expire in 2011 and for four compressors that expire in 2012. Future minimum payments under the leases are as follows:

Three Months Ended March 31	2011	2010
Less than one year	\$ 1,958	\$ 1,048
Between one and five years	2,847	3,249
More than five years	–	–
	\$ 4,805	\$ 4,297

#### 15. TRANSITION TO IFRS

Angle's accounting policies under IFRS differ from those followed under Canadian GAAP as described in note 3. These accounting policies have been applied for the three months ended March 31, 2011, as well as to the opening statement of financial position on the transition date, January 1, 2010, the comparative information for the three months ended March 31, 2010 and the comparative information for the year ended December 31, 2010.

The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date, and on transactions prior to that date, were recognized as an adjustment to the Company's opening retained earnings on the statement of financial position when appropriate.

On transition to IFRS on January 1, 2010 Angle used certain exemptions allowed under IFRS 1 – *First Time Adoption of International Reporting Standards*. The exemptions used were:

##### (a) Full Cost Accounting

IFRS 1 allows an entity that used full cost accounting under Canadian GAAP to elect, at the time of adoption to IFRS, to measure petroleum and natural gas assets in the development and production phases by allocating the amount determined under the entity's Canadian GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. Angle has used reserve values as at January 1, 2010 to allocate the cost of development and production assets to CGUs.

##### (b) Decommissioning Liabilities

A decommissioning liabilities exemption was utilized by Angle which allows for the remeasurement of decommissioning liabilities on the IFRS transition date to be offset to retained earnings.

## RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION FROM CANADIAN GAAP TO IFRS

At the date of IFRS transition – January 1, 2010:

	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
<i>(000s) (unaudited)</i>		(\$)	(\$)	(\$)
<b>ASSETS</b>				
Cash and cash equivalents		34,644	–	34,644
Accounts receivable		11,988	–	11,988
Deposits and prepaid expenses		3,722	–	3,722
Derivative instruments		226	–	226
Total current assets		50,580	–	50,580
Exploration and evaluation	(a)	–	14,129	14,129
Property and equipment	(a)	195,885	(14,129)	181,756
		246,465	–	246,465
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities		12,099	–	12,099
Total current liabilities		12,099	–	12,099
Decommissioning liabilities	(c)	2,712	1,889	4,601
Deferred tax liabilities	(g)	19,453	(472)	18,981
		34,264	1,417	35,681
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	(h)	175,710	2,813	178,523
Contributed surplus	(d)	5,118	269	5,387
Retained earnings		31,373	(4,499)	26,874
Total equity		212,201	(1,417)	210,784
		246,465	–	246,465

## RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION FROM CANADIAN GAAP TO IFRS

At the end of the last reporting comparative period under Canadian GAAP – March 31, 2010:

	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
<i>(000s) (unaudited)</i>		(\$)	(\$)	(\$)
<b>ASSETS</b>				
Accounts receivable		15,953	–	15,953
Deposits and prepaid expenses		4,304	–	4,304
Derivative instruments		2,024	–	2,024
Total current assets		22,281	–	22,281
Exploration and evaluation	(a)	–	28,952	28,952
Property and equipment	(a)(f)	312,692	(25,978)	286,714
		334,973	2,974	337,947
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities		32,576	–	32,576
Deferred tax liabilities	(g)	566	(566)	–
Total current liabilities		33,142	(566)	32,576
Bank debt		48,393	–	48,393
Decommissioning liabilities	(c)	3,454	2,825	6,279
Deferred tax liabilities	(g)	34,638	210	34,848
		119,627	2,469	122,096
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	(h)	176,868	2,815	179,683
Contributed surplus	(d)	5,494	293	5,787
Retained earnings		32,984	(2,603)	30,381
Total equity		215,346	505	215,851
		334,973	2,974	337,947

## RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION FROM CANADIAN GAAP TO IFRS

At the end of the last reporting year under Canadian GAAP – December 31, 2010:

	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
<i>(000s) (unaudited)</i>		(\$)	(\$)	(\$)
<b>ASSETS</b>				
Accounts receivable		19,724	–	19,724
Deposits and prepaid expenses		3,894	–	3,894
Deferred tax asset	(g)	520	(520)	–
Total current assets		24,138	(520)	23,618
Exploration and evaluation	(a)	–	49,442	49,442
Property and equipment	(a)(f)	534,831	(73,278)	461,553
		558,969	(24,356)	534,613
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities		37,080	–	37,080
Derivative instruments		1,047	–	1,047
Total current liabilities		38,127	–	38,127
Bank debt		138,916	–	138,916
Derivative instruments		810	–	810
Decommissioning liabilities	(c)	6,271	6,053	12,324
Premium liability	(h)	–	5,145	5,145
Deferred tax liabilities	(g)	31,678	(8,563)	23,115
		215,802	2,635	218,437
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	(h)	309,648	(2,906)	306,742
Contributed surplus	(d)	7,244	599	7,843
Retained earnings		26,275	(24,684)	1,591
Total equity		343,167	(26,991)	316,176
		558,969	(24,356)	534,613

**RECONCILIATION OF CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME FROM CANADIAN GAAP TO IFRS**

Reconciliation of consolidated statements of income and comprehensive income for the period ended March 31, 2010:

	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
<i>(000s, except per share amounts) (unaudited)</i>				
		(\$)	(\$)	(\$)
<b>REVENUE</b>				
Oil and natural gas revenues		27,842	–	27,842
Royalties		(7,753)	–	(7,753)
Oil and natural gas revenues, net of royalties		20,089	–	20,089
Unrealized gain on derivative instruments		1,798	–	1,798
		21,887	–	21,887
<b>EXPENSES</b>				
Operating and transportation	(f)	4,139	–	4,139
General and administrative	(e)	1,925	1,738	3,663
Share-based compensation	(d)	579	(579)	–
Depletion and depreciation		12,734	(3,651)	9,083
		19,377	(2,492)	16,885
Operating Income		2,510	2,492	5,002
Interest expense		430	–	430
Accretion and finance charges	(c)	–	53	53
Net income before income tax		2,080	2,439	4,519
Deferred income tax expense	(g)	469	543	1,012
Net income and comprehensive income		1,611	1,896	3,507

## RECONCILIATION OF CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME FROM CANADIAN GAAP TO IFRS

Reconciliation of consolidated statements of income (loss) and comprehensive income for the year ended December 31, 2010:

	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
<i>(000s, except per share amounts) (unaudited)</i>				
		(\$)	(\$)	(\$)
<b>REVENUE</b>				
Oil and natural gas revenues		119,355	–	119,355
Royalties		(23,720)	–	(23,720)
Oil and natural gas revenues, net of royalties		95,635	–	95,635
Realized gain on derivative instruments		2,113	–	2,113
Unrealized (loss) on derivative instruments		(2,084)	–	(2,084)
		95,664	–	95,664
<b>EXPENSES</b>				
Operating and transportation		23,053	–	23,053
General and administrative	(f)	7,920	6,386	14,306
Share-based compensation	(d)	2,946	(2,946)	–
Depletion and depreciation	(e)	64,004	(16,796)	47,208
Impairment loss	(b)	–	40,453	40,453
		97,923	27,097	125,020
Operating Loss		(2,259)	(27,097)	(29,356)
Interest expense		4,595	–	4,595
Accretion and finance charges	(c)	–	368	368
Net loss before income tax		(6,854)	(27,465)	(34,319)
Deferred income tax reduction		(1,756)	(7,280)	(9,036)
Net loss and comprehensive loss		(5,098)	(20,185)	(25,283)

### (a) IFRS 1 Election for Full Cost Oil and Gas Entities

The Company elected to use an IFRS 1 exemption whereby the Canadian GAAP full cost pool was used to measure exploration and evaluation assets and development and production assets on transition to IFRS as follows:

- (i) exploration and evaluation assets were reclassified from the full cost pool to exploration and evaluation assets at the amount that was recorded under Canadian GAAP; and
- (ii) the remaining full cost pool was allocated to the producing/development assets and components pro rata using reserve values.

This resulted in a transfer of \$14.1 million to exploration and evaluation assets and a corresponding decrease in property and equipment on transition. For the year ended December 31, 2010 the transfer was \$93.8 million, which included undeveloped land acquired in 2010 net of expiries.

**(b) Impairment of Property and Equipment**

In accordance with IFRS, impairment tests of property and equipment must be performed at the CGU level as opposed to the entire balance which was required under Canadian GAAP through the full cost ceiling test. An impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. For Angle, the recoverable amount is determined using fair value less costs to sell based on discounted future cash flows of proved plus probable reserves using forecast prices and costs. There was no impairment of property and equipment on transition at January 1, 2010. For the nine months ended September 31, 2010, as a result of decreasing natural gas prices, Angle incurred a charge of \$40.5 million on the impairment of property and equipment relating to one of the Company's CGUs which was recognized through the statement of income and comprehensive income. Impairments can be reversed in the future if the recoverable amount increases.

**(c) Decommissioning Liabilities**

Under Canadian GAAP decommissioning liabilities (previously referred to as asset retirement obligations) were discounted at a credit adjusted risk fee rate of 8 to 10 percent. Under IFRS the estimated cash flows to abandon and remediate the wells and facilities has been risk adjusted, therefore the provision is discounted at the risk-free rate in effect at the end of each reporting period. The change in the decommissioning liabilities each period as a result of changes in the discount rate will result in an offsetting charge to property and equipment. Upon transition to IFRS the impact of this change was a \$1.9 million increase in decommissioning liabilities with a corresponding decrease to retained earnings on the statement of financial position. As at December 31, 2010 decommissioning liabilities were \$6.1 million higher than under Canadian GAAP due to the change in discount rate and its impact on liabilities incurred or acquired during 2010.

As a result of the decrease in the discount rate, accretion expense on decommissioning liabilities decreased slightly during the three months ended March 31, 2010. In addition, under Canadian GAAP, accretion of the discount was included in depletion and depreciation expense. Under IFRS it is included in accretion and finance charges on the statement of income and comprehensive income.

**(d) Share-based Compensation**

Under Canadian GAAP, the Company recognized an expense related to share based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture rate at the grant date. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate at the date of grant and update it throughout the vesting period. Adjustments to the performance factor are measured using the original grant date price under IFRS as opposed to treating the adjustment like an additional grant on the adjustment date. The impact on transition was an increase to contributed surplus of \$0.3 million with an offsetting decrease to opening retained earnings. For the year ended December 31, 2010 contributed surplus increased by \$0.6 million with an offsetting decrease to opening retained earnings. Share-based compensation is included with general and administrative expenses on the statement of income and comprehensive income.

**(e) Depletion Policy**

Upon transition to IFRS, the Company adopted a policy of depleting petroleum and natural gas assets on a unit of production basis over proved plus probable reserves. The depletion policy under Canadian GAAP was based on units of production over proved reserves. In addition, depletion was calculated on the Canadian cost centre under Canadian GAAP. IFRS requires depletion and depreciation to be calculated based on individual components. Angle has determined the area level to be the appropriate level to use for calculating depletion.

There was no impact on adoption of IFRS at January 1, 2010 as a result of the IFRS 1 election discussed in note (a) above.

For the three months ended March 31, 2010 depleting the petroleum and natural gas properties over proved plus probable reserves resulted in a decrease to depletion of \$3.6 million. For the year ended December 31, 2010, depletion and depreciation was reduced by \$16.7 million as a result of changes to the depletion calculation.

For exploration and evaluation assets, the cost of undeveloped land that expires during the period is charged as additional depletion expense.

**(f) Business Combinations**

On January 12, 2010, Angle acquired all of the issued and outstanding shares of Stonefire Energy Corp. for cash consideration of \$47.7 million. Using the purchase method, \$0.8 million was recognized in exploration and evaluation assets for the value of undeveloped land, \$88.5 million was recognized in property and equipment and decommissioning liabilities of \$1.3 million were recognized in relation to the acquired assets. Acquisition costs of \$1.1 million were charged to general and administrative expenses on the consolidated statement of income and comprehensive income.

On June 30, 2010, Angle acquired certain interests in petroleum and natural gas properties for cash consideration of \$116.4 million. Using the purchase method, \$5.0 million was recognized in exploration and evaluation assets for the value of undeveloped land, \$110.0 million was recognized in property and equipment and decommissioning liabilities of \$3.9 million were recognized in relation to the acquired properties. Acquisition costs of \$1.4 million were charged to general and administrative expenses on the consolidated statement of income and comprehensive income.

**(g) Deferred Income Taxes**

The adjustment to deferred income taxes on transition relates to the opening adjustment to decommissioning liabilities. The opening adjustment for decommissioning liabilities was charged through retained earnings on the statement of financial position thereby creating a temporary difference. The deferred income tax impact of the opening adjustment was a deferred income tax asset of \$0.5 million with an offsetting increase to the opening retained earnings.

Under IFRS there is no requirement to separate the portion of deferred income taxes related to current assets or liabilities. The amounts previously classified as current have been reclassified to long-term.

Adjustments to deferred income taxes have been made in regards to the adjustments noted above that resulted in a change to the temporary difference between tax and accounting values.

**(h) Flow-through Shares**

Under IFRS, flow-through shares issued are recorded in share capital at the fair value of common shares on the date of issue. The premium received on issuing flow-through shares is initially recorded as a deferred credit as qualifying expenditures are incurred, the premium is reversed and a deferred tax liability is recorded. The net amount is then recognized as deferred income tax expense.

The impact of the flow through change in accounting policy resulted in a transitional adjustment to share capital and retained earnings of \$3.3 million.

In November 2010, the Company issued flow-through shares and under IFRS recorded a premium liability of \$5.5 million with an offsetting decrease to share capital. Expenditures incurred in the fourth quarter of 2010 accounted for approximately 6 percent of the total flow-through commitment and as a result the premium liability was reduced by \$0.3 million, deferred income tax liabilities increased by \$0.4 million and the net amount of \$0.1 million was recognized as deferred income tax expense.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Noralee Bradley – Chairman <sup>(3)(4)</sup>  
Partner  
Osler, Hoskin & Harcourt LLP

Clarence Chow <sup>(2)(4)</sup>  
President  
CGS Asset Management Ltd.

Timothy V. Dunne <sup>(1)(3)</sup>  
Independent Businessman

D. Gregg Fischbuch  
Chief Executive Officer  
Angle Energy Inc.

John Gareau <sup>(1)(3)</sup>  
Independent Businessman

Edward Muchowski <sup>(2)(4)</sup>  
Independent Businessman

Jacob Roorda <sup>(1)(2)</sup>  
Vice Chairman  
Canoe Financial

<sup>(1)</sup> Audit Committee Member

<sup>(2)</sup> Reserves Committee Member

<sup>(3)</sup> Corporate Governance & Compensation  
Committee Member

<sup>(4)</sup> Environmental, Health & Safety  
Committee Member

### OFFICERS

Heather Christie-Burns <sup>(3)(4)</sup>  
President & Chief Operating Officer

D. Gregg Fischbuch  
Chief Executive Officer

Stuart C. Symon  
Vice President Finance, Chief Financial  
Officer & Corporate Secretary

G. Graham Cormack  
Vice President Operations

Glen Richardson  
Vice President Land

Elizabeth More  
Vice President Exploration

Matthew Mazuryk  
Vice President Engineering

Heather Post  
Controller

### HEAD OFFICE

Suite 700  
324 Eighth Avenue S.W.  
Calgary, Alberta T2P 2Z2  
Telephone: 403-263-4534  
Facsimile: 403-263-4179  
Website: [www.angleenergy.com](http://www.angleenergy.com)

### AUDITORS

KPMG LLP  
Calgary, Alberta

### BANKERS

ATB Financial  
Calgary, Alberta

Bank of Montreal  
Calgary, Alberta

Canadian Imperial Bank of  
Commerce  
Calgary, Alberta

### EVALUATION ENGINEERS

GLJ Petroleum Consultants Ltd.  
Calgary, Alberta

Seaton-Jordan & Associates Ltd.  
Calgary, Alberta

### LEGAL COUNSEL

Osler, Hoskin & Harcourt LLP  
Calgary, Alberta

### REGISTRAR AND TRANSFER AGENT

Inquiries regarding change of  
address, registered shareholdings,  
stock transfers or lost certificates  
should be directed to:

Valiant Trust Company  
Suite 310  
606 Fourth Street S.W.  
Calgary, Alberta T2P 1T1  
Telephone: 403-233-2801

### STOCK TRADING

Toronto Stock Exchange  
Trading Symbol: NGL

### Abbreviations

bbls	barrels
bcf	billion cubic feet
boe	barrels of oil equivalent
GJ	gigajoules
/d	per day
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mm	million
mmboe	million barrels of oil equivalent
mmbtu	million British thermal units
mmcf	million cubic feet
NGL	natural gas liquids
2-D	two dimensional
3-D	three dimensional

### Conversion of Units

1.0 acre	=	0.40 hectares
2.5 acres	=	1.0 hectare
1.0 bbl	=	0.159 cubic metres
6.29 bbls	=	1.0 cubic metre
1.0 foot	=	0.3048 metres
3.281 feet	=	1.0 metre
1.0 mcf	=	28.2 cubic metres
0.035 mcf	=	1.0 cubic metre
1.0 mile	=	1.61 kilometres
0.62 miles	=	1.0 kilometre

Natural gas is equated to oil on the  
basis of 6 mcf : 1 bbl