

**QUALITY ASSETS**

**ATTRACTIVE DRILLING INVENTORY**

**PER SHARE GROWTH**

**CONSISTENT RECYCLE RATIO PERFORMANCE**

**FLEXIBILITY**

**FIVE YEAR TRACK RECORD**

# **WHAT REALLY MATTERS**

## Quality Assets

- 11.1 year Proved plus Probable Reserve Life Index (based on Q4 2008 average production).
- Access to approximately 225,000 net acres in Western Canada.
- Three horizontal multi-frac resource plays at Fireweed, Irricana and Provost.
- Top tier netbacks.
- Multizone potential with large scalable reserves.

## Attractive Drilling Inventory

- Approximately 375 predominantly low risk drilling locations, with spacing approvals in hand.
- 160 horizontal multi-frac resource play locations dominate drilling inventory.
- Development adds of approximately 26,000 boe/d.
- Balanced light oil and natural gas portfolio.
- 90 percent drilling success rate in 2008.

## Per Share Growth

- Consistent per share funds from operations, reserves and production growth every year since inception.
- 2008 growth:
  - 118% funds from operations per share to \$2.46 per basic share.
  - 30% production per share to 156 boe/d per million shares.
  - 43% reserves per share to 649 boe per thousand shares.

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### ANNUAL GENERAL AND SPECIAL MEETING

Shareholders are cordially invited to attend the Annual General and Special Meeting of Breaker Energy Ltd., which will be held at 3:00pm Mountain Daylight Time on May 26, 2009 in the Devonian Room of the Calgary Petroleum Club at 319 – 5th Avenue S.W.

If unable to attend, shareholders are requested to complete and return the proxy form to the Corporate Secretary of the Company.

# WHAT REALLY MATTERS

## Consistent Recycle Ratio Performance

- \$47.12 operating netback per boe in 2008. Since inception our weighted average operating netback has been \$38.12 per boe.
- \$20.25 Proved plus Probable FD&A costs per boe (including change in FDC discounted at 10 percent) in 2008. Since inception our weighted average Proved plus Probable FD&A costs per boe including change in FDC (discounted at 10 percent) averaged \$18.28 per boe.
- 2.3 times recycle ratio (including change in FDC discounted at 10 percent) in 2008. Since inception our recycle ratio (including change in FDC discounted at 10 percent) has averaged 2.1 times.

## Flexibility

- Ability to allocate capital to either oil or natural gas projects.
- 95 percent operated.
- 85 percent average working interest.
- All-season access.
- Control of infrastructure.
- Many more attractive oil and natural gas opportunities in drilling inventory than available capital.
- Breaker is in a great position to ramp-up capital spending focused on either commodity should conditions improve during the year.

## Five Year Track Record

- Breaker has grown production every quarter since inception. 313% production CAGR; 166% production per share CAGR.
- 61% funds from operations CAGR\*; 29% funds from operations per share CAGR\*.
- 141% reserves CAGR; 97% reserves per share CAGR.
- Since inception Breaker has made five major acquisitions totalling 2,840 boe per day of production in Alberta (at Girouxville, East Prairie, Provost and Irricana) and in British Columbia (at Fireweed). Breaker has had 100 percent success at efficiently adding production through exploration, development and exploitation activities on these acquisitions.

\* Four year CAGR

## CORPORATE PROFILE

Breaker Energy Ltd. is a junior oil and natural gas company focused on building shareholder value by growing per share production and reserves. Breaker Energy has approximately 375 predominantly low risk drilling locations and access to approximately 225,000 net acres in Western Canada – focused in Northern and Southern Alberta, and Northeast British Columbia. A large oil and natural gas inventory allows Breaker flexibility in its capital program.

Breaker's business plan focuses on:

- Targeting per share production and reserves growth;
- Strategic acquisitions balanced with a focused exploration, development and exploitation plan;
- Building core areas with significant undeveloped land/high working interests and/or operatorship;
- Multi-zone potential/large, scalable reserves;
- Available infrastructure;
- All-season access; and
- Utilizing proven team approach.

In light of current depressed economic and commodity price conditions, Breaker will be conservative in producing its reserves while remaining focused on maintaining balance sheet strength, finding operational efficiencies, reducing costs, taking advantage of long-term value creation opportunities and growing shareholder value on a per share basis.

Maintaining financial and operational flexibility has always been a key element in Breaker's business model. Breaker's 2009 capital program was originally set at up to \$80 million with the majority of capital spending weighted to the second half of 2009. The Company will continue to be flexible in its capital spending in order to respond to changes in commodity prices, costs and capital markets.

Breaker is optimistic about its future prospects given its high-quality asset base, large drilling inventory, financial position, great netbacks, and technical and financial professional expertise. Attractive drilling inventory opportunities outweigh available capital, which favourably positions Breaker to ramp-up capital spending should conditions improve during the year.

Breaker's Class A shares trade on the Toronto Stock Exchange under the symbol WAV.

# 08 HIGHLIGHTS



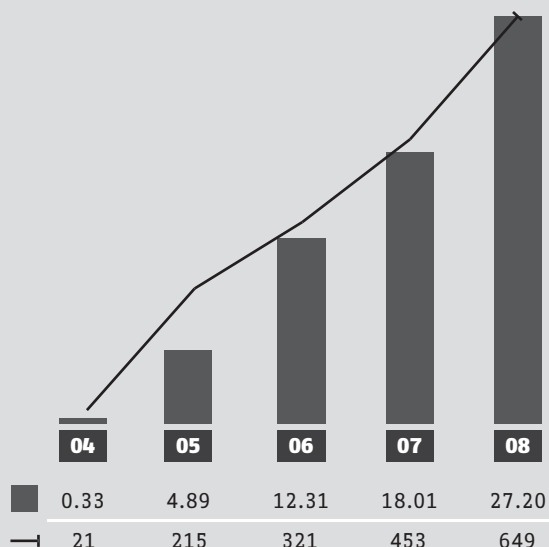
	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
<b>Financial</b> (\$000s except per share amounts)						
Petroleum sales	<b>113,702</b>	48,949	132	<b>19,740</b>	13,968	41
Natural gas sales	<b>52,507</b>	36,623	43	<b>12,388</b>	8,966	38
Processing sales	<b>1,983</b>	1,061	87	<b>598</b>	306	95
Total petroleum and natural gas revenue	<b>168,192</b>	86,633	94	<b>32,726</b>	23,240	41
Funds from operations <sup>(1)</sup>	<b>94,947</b>	41,384	129	<b>14,376</b>	9,833	46
Per share basic (\$)	<b>2.46</b>	1.13	118	<b>0.35</b>	0.27	30
Per share diluted (\$)	<b>2.43</b>	1.11	119	<b>0.35</b>	0.26	35
Net earnings	<b>32,166</b>	3,999	704	<b>321</b>	2,057	(84)
Per share basic (\$)	<b>0.83</b>	0.11	655	<b>0.01</b>	0.06	(83)
Per share diluted (\$)	<b>0.82</b>	0.11	645	<b>0.01</b>	0.06	(83)
Capital expenditures <sup>(2)</sup>	<b>183,512</b>	61,954	196	<b>34,211</b>	19,258	78
Net debt (end of period)	<b>99,700</b>	51,155	95	<b>99,700</b>	51,155	95
<b>Operating Highlights</b>						
Production:						
Oil and NGL (bbls per day)	<b>3,141</b>	1,833	71	<b>3,503</b>	1,845	90
Natural gas (mcf per day)	<b>17,404</b>	15,444	13	<b>19,192</b>	16,066	20
Total (boe per day) (6:1)	<b>6,041</b>	4,407	37	<b>6,702</b>	4,523	48
Average realized price:						
Oil and NGL (\$ per bbl)	<b>98.91</b>	73.17	35	<b>61.25</b>	82.29	(26)
Natural gas (\$ per mcf)	<b>8.24</b>	6.50	27	<b>7.02</b>	6.07	16
Hedging (\$ per boe)	–	(0.34)	nm	–	–	–
Combined average (\$ per boe)	<b>76.07</b>	53.52	42	<b>53.08</b>	55.85	(5)
Netback (\$ per boe)						
Petroleum and natural gas sales	<b>76.07</b>	53.52	42	<b>53.08</b>	55.85	(5)
Royalties	<b>(14.89)</b>	(9.64)	54	<b>(9.89)</b>	(9.25)	7
Operating expenses	<b>(11.09)</b>	(11.52)	(4)	<b>(12.37)</b>	(14.14)	(13)
Transportation expenses	<b>(2.97)</b>	(1.87)	59	<b>(3.38)</b>	(2.31)	46
Operating netback	<b>47.12</b>	30.49	55	<b>27.44</b>	30.15	(9)
G&A expenses	<b>(2.65)</b>	(2.99)	(11)	<b>(2.56)</b>	(3.36)	(24)
Interest expense	<b>(1.29)</b>	(1.41)	(9)	<b>(1.15)</b>	(1.56)	(26)
Corporate netback	<b>43.18</b>	26.09	65	<b>23.73</b>	25.23	(6)
<b>Common Shares (000s)</b>						
Shares outstanding, end of period	<b>41,028</b>	37,114	11	<b>41,028</b>	37,114	11
Weighted average basic shares outstanding <sup>(3)</sup>	<b>38,609</b>	36,692	5	<b>40,508</b>	37,029	9
Weighted average diluted shares outstanding	<b>39,141</b>	37,161	6	<b>40,701</b>	37,380	9

1 Management uses funds from operations (before changes in non-cash working capital) to analyze operating performance and leverage. Funds from operations as presented does not have any standardized meaning prescribed by Canadian GAAP and, therefore, may not be comparable with the calculation of similar measures for other entities.

2 Capital expenditures includes cash additions for the period, including acquisition additions net of dispositions.

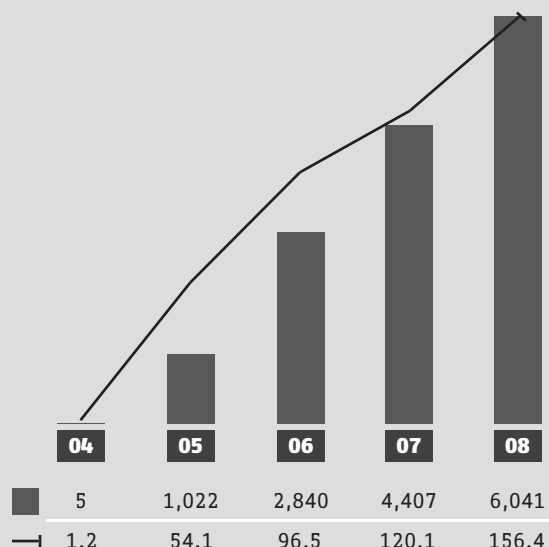
3 The Class B shares were converted to Class A shares on August 13, 2008, and therefore were not outstanding at December 31, 2008. For March 31, 2008 the Class B shares are converted at the quarter-end Class A share price of \$8.15 and added to the Class A shares to calculate basic shares outstanding. For June 30, 2008 the Class B shares are converted at the quarter-end Class A share price of \$12.55 and added to the Class A shares to calculate basic shares outstanding.

## RESERVES GROWTH



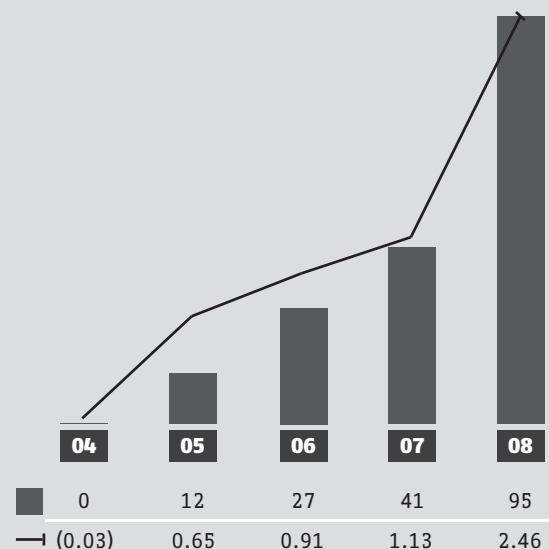
■ PROVED + PROBABLE (MMBOE)  
 — BOE PER M SHARES (FULLY DILUTED)

## PRODUCTION GROWTH (DAILY AVERAGE)



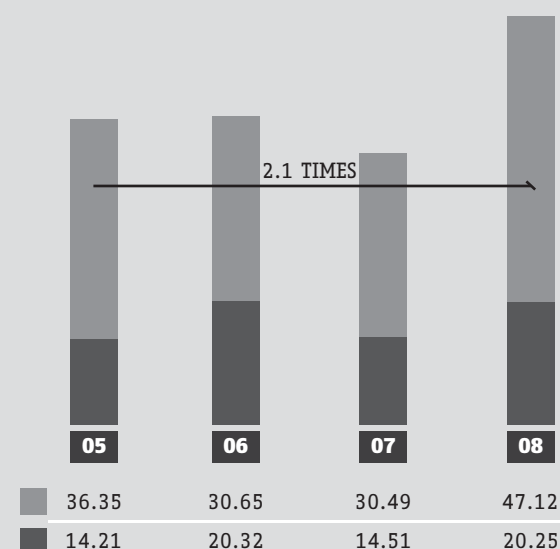
■ BOE PER DAY  
 — BOE PER DAY PER MM SHARES (BASIC)

## FUNDS FROM OPERATIONS (FFO) GROWTH



■ FFO (\$MM)  
 — FFO PER SHARE (BASIC) (\$)

## CONSISTENT RECYCLE RATIO PERFORMANCE



■ NETBACK (\$/BOE)  
 ■ PROVED PLUS PROBABLE FD&A (\$/BOE) INCLUDING FDC DISCOUNTED AT 10 PERCENT  
 — 4 YEAR AVERAGE PROVED PLUS PROBABLE RECYCLE RATIO

# LETTER TO SHAREHOLDERS

## WHAT REALLY MATTERS

Breaker is proud to have achieved a five year track record of delivering per share production and reserves growth every year since its inception in October 2004. Over this time period, Breaker has made five major acquisitions and has had 100 percent success at efficiently adding production through exploration, development and exploitation activities on these acquisitions. Breaker's average recycle ratio (including change in future development capital discounted at 10 percent) has averaged 2.1 times since inception.

### IN 2008 BREAKER:

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- Achieved a gross success rate of 90 percent drilling 48 gross (42.8 net) wells.
- Grew production by 37 percent to an average of 6,041 boe per day from the 2007 average of 4,407 boe per day.
- Grew Proved plus Probable reserves by 51 percent, to 27.2 million boe at December 31, 2008 from 18.0 million boe at year-end 2007.
- Grew funds from operations by 129 percent to \$94.9 million in 2008 from \$41.4 million in 2007.
- Continued its track record of achieving exceptional finding, development and acquisition (FD&A) costs in 2008. Breaker's Proved plus Probable FD&A costs before change in future development capital for 2008 were \$16.09 per boe. Including the change in future development capital (discounted at 10 percent) estimated at \$47.4 million, Breaker's FD&A costs were \$20.25 per boe in 2008. Breaker's capital program for 2008 totalled \$183.5 million.
- Based on fourth-quarter 2008 average production of 6,702 boe per day and Proved plus Probable reserves of 27.2 million boe, Breaker's reserve-life-index was 11.1 years at year-end 2008.
- Achieved an average operating netback (defined as revenue net of commodity derivatives per boe, less royalties per boe, operating costs per boe and transportation costs per boe) of \$47.12 per boe. This high netback has resulted from Breaker's focus on building a large, high quality inventory of drilling locations with the flexibility to switch between predominantly light oil and natural gas prospects.
- Breaker's recycle ratio (defined as the average operating netback per boe divided by FD&A costs) including future development capital (discounted by 10 percent) was 2.3 times in 2008.
- Achieved a year-end debt to trailing 2008 funds from operations ratio of 1.1 times. Breaker's year-end debt to annualized fourth quarter funds from operations ratio was 1.7 times.
- Increased per share net income by 655 percent to \$0.83 per basic share in 2008 compared to \$0.11 per basic share in 2007. Net income was \$32.2 million in 2008, an increase of 704 percent from \$4.0 million in 2007.

- Increased its bank line from \$95 million to \$125 million in 2008 and converted its Class B shares in August 2008. With the conversion of the Class B shares Breaker now has one class of shares outstanding and trades under the symbol WAV on the TSX.
- Completed a \$34.5 million common equity financing in July 2008 in conjunction with the acquisition of the Fireweed property and a \$7.0 million flow-through equity issue in November 2008 for total gross proceeds of \$41.5 million.
- Maintained \$25.3 million of borrowing capacity at year-end, with \$74.6 drawn on its bank line at year-end and year-end net debt of \$99.7 million.

## BUSINESS STRATEGY

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Breaker's management team has created a well defined business strategy to attain growth in production and reserves on a per share basis. Adhering to this strategy has led to significant per share growth to date and positions Breaker to continue this growth into the future. The Corporation's strategy includes the following key principles:

- **Continue to assemble high quality assets that result in per share growth.** Breaker has delivered consistently strong per share production and reserves growth every year since inception. Breaker realized 30 percent production per share growth and 43 percent reserves per share growth in 2008;
- **Use an integrated approach to growth by balancing exploration risk with solid acquisitions that provide significant exploitation, development and exploration opportunities.** By maintaining discipline in its acquisition activities, Breaker added significant production and reserves growth organically in 2008;
- **Build core areas with high working interests, with the opportunity to operate and with significant access to undeveloped land.** Breaker is more than 95 percent operated with approximately 85 percent average working interest;

- **Focus on assets with potential for long-life natural gas and oil reserves.** Breaker increased its reserve-life-index to 11.1 years (based on Q4 2008 average production) and grew Proved plus Probable reserves by 51 percent to 27.2 million boe at year-end 2008;
- **Enter areas that provide multi-zone potential and/or have access to large scalable reserves.** All of Breaker's assets have these attributes;
- **Target focus areas that provide all-season access for operational flexibility.** Greater than 90 percent of Breaker's properties are fully or partially accessible in all seasons;
- **Focus activities where the Corporation owns infrastructure or where third-party infrastructure is underutilized.** Breaker has focused on areas where infrastructure issues are minimized; and
- **Utilize its proven team approach and continue to attract and retain high-quality staff with proven track records of adding value.** Breaker hired 12 full-time staff in 2008, bringing its total to 41.

This business strategy provides Breaker with significant flexibility to control its future and compete effectively for capital and assets in the maturing Western Canada Sedimentary Basin.

## CORPORATE GOVERNANCE

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Breaker's Board of Directors, working with the management team, strives to ensure that the Corporation's governance practices provide effective stewardship and efficient operations in the best interests of the shareholders.

The Board, which functions independently of management, meets frequently to consider a wide range of issues affecting Breaker, including strategic direction, reserves, financial performance, disclosure and compensation. The Board reviews strategic plans proposed by management, business risks facing the Corporation and management's assessment of those risks.

## OUTLOOK

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Given the current depressed economic and commodity price environment we expect our cost structure to improve during the year and we are working to reduce costs throughout the organization. In 2009 we will remain focused on maintaining our balance sheet strength, finding operational efficiencies, reducing costs, taking advantage of long-term value creation opportunities and growing shareholder value on a per share basis.

Breaker's 2009 capital program was originally set at up to \$80 million with the majority of capital spending weighted to the second half of 2009. The Company will continue to be flexible in its capital spending in order to respond to changes in commodity prices, costs and capital markets.

Breaker estimates capital spending in the first quarter of 2009 to be approximately \$20 million. The Company deferred approximately \$5 million of additional first quarter capital spending in light of this depressed commodity price environment. We are reviewing our capital program continually as the year progresses and adjusting capital spending as necessary.

Maintaining financial and operational flexibility has always been a key element in Breaker's business model. In order to further enhance Breaker's balance sheet, the Company issued \$16.1 million of equity in February 2009.

We are optimistic about Breaker's future prospects given the Company's high quality asset base of long-life, predominantly light oil and natural gas properties highlighted by:

- Approximately 375 predominantly low risk drilling locations, with spacing approvals – dominated by 160 horizontal multi-frac resource play locations primarily in Fireweed, Provost and Irricana;

- Low risk development adds of approximately 26,000 boe per day;
- Top quartile netbacks;
- Flexibility to allocate capital to either oil or natural gas projects, and;
- The strength of Breaker's technical and financial professionals.

Breaker has many more attractive oil and natural gas opportunities in its drilling inventory than available capital which puts the Company in a great position to ramp-up capital spending focused on either or both commodities should conditions improve during the year.

## ACKNOWLEDGEMENTS

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I would like to extend a sincere thanks to all Breaker employees, who continue to work hard to implement the Corporation's business strategy and who have delivered cost-effective growth on a per share basis. I also extend thanks to Breaker's shareholders for their support since inception.

On behalf of the Board of Directors,

(signed) "P. Dan O'Neil"

**P. Dan O'Neil**  
President and Chief Executive Officer

March 16, 2009

# EXPLORATION AND OPERATIONS AT A GLANCE

①  
FORT ST. JOHN ◆  
BRITISH COLUMBIA

②  
③  
ALBERTA

◆  
EDMONTON

◆  
CALGARY

⑤

④

⑤

## 1. FIREWEED

- Wholly-owned, all-season access gas resource property with approximately 8,000 net acres of undeveloped Montney/Doig rights
- Breaker's third horizontal multi-frac resource play property in addition to Irricana and Provost
- First horizontal multi-frac well completed in January bringing early 2009 production to more than double rates at acquisition in July 2008
- First horizontal multi-frac well averaged 1,540 boe per day for February 2009
- Up to 55 metres of gross pay in the Triassic Doig formation

## 2. GIROUXVILLE

- More than 95 percent of production is operated on the all-season access property
- Approximately 30,000 net acres of undeveloped land
- Production is very light, sweet oil – a premium commodity
- Facilities in place for cost-effective operations and expansion
- Proprietary 3-D seismic and interpretations give competitive advantage
- Exploratory drilling in last two years with a greater than 90 percent success rate

## 3. EAST PRAIRIE

- All production is operated
- Approximately 30,000 net acres of undeveloped land
- Viking grassroots discovery, which has grown from zero to approximately 1,000 boe per day since 2005
- Waterflood commenced in early 2009 aimed at providing long-life stable production base of sweet light oil

## 4. IRRICANA

- More than 90 percent of production is operated
- Approximately 9,000 net acres of undeveloped land
- Owned and operated facilities have room for additional production
- Significant light oil production gains achieved through horizontal multi-frac drilling development in this large original light oil-in-place pool
- Breaker recently drilled high-performing wells directly beside old wells that had historically performed at below average rates, confirming that the multi-frac technique can be even more lucrative in less-developed boundary portions of the pool
- Over 100 million boe identified of light oil and natural gas original resource-in-place (internal estimate)

## 5. SOUTHEAST ALBERTA

- At Provost, Breaker has access to approximately 17,000 net acres of undeveloped land and has owned facilities in place to control production pace
- Successfully applied multi-frac technology to its first horizontal gas well drilled on the property in the fourth quarter of 2008
- Medicine Hat farmin gives access to approximately 100,000 net acres and facilities to accommodate production
- Original resource-in-place exceeds 150 million boe (internal estimate)
- Waterflood and EOR pilots being implemented

# OPERATIONS STATISTICAL REVIEW

## DRILLING ACTIVITY

In 2008 Breaker achieved a success rate of 90 percent (gross) in drilling 48 (42.8 net) wells, resulting in average production of 6,041 boe per day, a 37 percent increase over the 2007 average of 4,407 boe per day. The 2008 drilling program resulted in Proved plus Probable reserve additions of approximately 11.4 million boe.

	Exploratory Wells		Development Wells		Total Wells	
	Gross	Net	Gross	Net	Gross	Net
Light and Medium Oil	8	4.9	22	20.8	30	25.8
Heavy Oil	–	–	1	1	1	1
Natural Gas	2	1.6	11	10.6	13	12.2
Dry	3	2.8	1	1	4	3.8
Total:	13	9.3	35	33.4	48	42.8

## PRODUCTION

Breaker's production history for 2007 and 2008 is outlined on the following table.

	2008	2007	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Oil and NGL (bbls per day)	<b>3,141</b>	1,833	<b>3,503</b>	<b>3,402</b>	<b>3,167</b>	<b>2,484</b>	1,845	1,993	1,806	1,683
Natural gas (mcf per day)	<b>17,404</b>	15,444	<b>19,192</b>	<b>18,408</b>	<b>16,530</b>	<b>15,458</b>	16,066	15,073	15,881	14,746
Total (boe per day)	<b>6,041</b>	4,407	<b>6,702</b>	<b>6,470</b>	<b>5,922</b>	<b>5,060</b>	4,523	4,506	4,453	4,141
% natural gas	<b>48</b>	58	<b>48</b>	<b>47</b>	<b>47</b>	<b>51</b>	59	56	59	59

Breaker has grown its oil and gas production in terms of boe/d in each successive quarter since inception. The fourth quarter 2008 average production rate of 6,702 boe per day represents an increase of 48 percent over the fourth quarter 2007 average production rate of 4,523 boe per day.

## RESERVES

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In accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities, Sproule Associates Limited prepared the Sproule Breaker Report. The Sproule Breaker Report evaluated, as at December 31, 2008, the oil, NGL and natural gas reserves attributable to the Breaker Properties. The Sproule Breaker Report is dated March 9, 2008.

During 2008, Breaker added 11.4 million boe of high-quality oil, NGL and natural gas Proved plus Probable reserves via total capital expenditures of approximately \$183.5 million. Breaker continues to execute on its business plan of making strategic acquisitions balanced with a focused exploration, development and exploitation plan, which resulted in the following at year-end 2008:

- Proved plus Probable reserves growth to 27.2 million boe, a 51 percent increase over year-end 2007
- Increased Proved plus Probable reserves per fully diluted share by 43 percent
- Net Asset Value (per fully diluted share) BT 10 percent of \$8.34 based on forecast price assumptions
- FD&A Proved (without future development capital (FDC)) of \$24.51/boe
- FD&A Proved plus Probable (without FDC) of \$16.09/boe
- FD&A Proved (with change in FDC discounted at 10 percent) of \$29.73/boe
- FD&A Proved plus Probable (with change in FDC discounted at 10 percent) of \$20.25/boe
- Proved Recycle Ratio (with change in FDC discounted at 10 percent) of 1.6 times
- Proved plus Probable Recycle Ratio (with change in FDC discounted at 10 percent) of 2.3 times
- Proved plus Probable Reserve Life Index (based on Q4 2008 average production) of 11.1 years
- Current inventory of approximately 375 gross oil and natural gas drilling locations with spacing approvals dominated by 160 horizontal multi-frac resource play locations primarily at Fireweed, Provost and Irricana.

The tables on page 10 are a summary of the oil, NGL and natural gas reserves attributable to the Breaker Properties and the net present value of future net revenue attributable to such reserves as evaluated in the Sproule Breaker Report based on forecast price and cost assumptions. The tables summarize the data contained in the Sproule Breaker Report and, as a result, may contain slightly different numbers than such report due to rounding. Also due to rounding, certain columns may not add exactly.

The net present value of future net revenue attributable to reserves is stated without provision for interest costs and general and administrative costs, but after providing for estimated royalties, production costs, development costs, other income, future capital expenditures and well abandonment costs for only those wells assigned reserves by Sproule. It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to reserves estimated by Sproule represent the fair market value of those reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized herein. The recovery and reserve estimates of oil, NGL and natural gas reserves provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein.

## SUMMARY OF OIL AND GAS RESERVES – FORECAST PRICES AND COSTS

	Proved Developed Producing	Proved Developed Non-Producing	Proved Undeveloped	Total Proved	Probable	Total Proved plus Probable
<b>Gross Reserves <sup>(1)</sup></b>						
Light and Medium Crude Oil (mmbbls)	3,756	96	1,677	5,529	3,496	9,025
Heavy Oil (mmbbls)	367	24	527	918	595	1,513
Natural Gas (mmcf)	32,766	5,196	22,855	60,817	31,770	92,587
Natural Gas Liquids (mmbbls)	413	63	294	771	459	1,230
Oil Equivalent (mboe)	9,997	1,049	6,307	17,353	9,845	27,198

	Proved Developed Producing	Proved Developed Non-Producing	Proved Undeveloped	Total Proved	Probable	Total Proved plus Probable
<b>Net Reserves <sup>(2)</sup></b>						
Light and Medium Crude Oil (mmbbls)	2,974	82	1,378	4,434	2,589	7,023
Heavy Oil (mmbbls)	276	19	423	718	477	1,195
Natural Gas (mmcf)	26,331	3,736	18,321	48,388	24,646	73,034
Natural Gas Liquids (mmbbls)	300	49	210	559	339	898
Oil Equivalent (mboe)	7,938	773	5,065	13,776	7,513	21,289

(1) "Gross Reserves" are the Corporation's working interest (operating or non-operating) share of remaining reserves before deduction of royalties and without including any royalty interests of the Corporation.

(2) "Net Reserves" are the Corporation's working interest (operating or non-operating) share of remaining reserves after deduction of royalty obligations, plus its royalty interests in reserves.

## NET PRESENT VALUE OF FUTURE NET REVENUE – FORECAST PRICES AND COSTS

### Before Future Income Tax Expenses and Discounted at:

	0% (\$M)	5% (\$M)	10% (\$M)	15% (\$M)	20% (\$M)
<b>Proved</b>					
Developed Producing	345,168	255,787	206,604	174,990	152,762
Developed Non-Producing	23,694	18,481	15,399	13,331	11,818
Undeveloped	143,038	87,683	56,397	36,339	22,521
<b>Total Proved</b>	<b>511,900</b>	<b>361,951</b>	<b>278,400</b>	<b>224,660</b>	<b>187,101</b>
<b>Probable</b>	<b>363,330</b>	<b>215,110</b>	<b>144,608</b>	<b>104,289</b>	<b>78,652</b>
<b>Total Proved plus Probable</b>	<b>875,230</b>	<b>577,061</b>	<b>423,008</b>	<b>328,949</b>	<b>265,753</b>

### After Future Income Tax Expenses and Discounted at:

	0% (\$M)	5% (\$M)	10% (\$M)	15% (\$M)	20% (\$M)
<b>Proved</b>					
Developed Producing	345,168	255,787	206,604	174,990	152,762
Developed Non-Producing	8,757	10,677	10,788	10,399	9,858
Undeveloped	106,848	63,394	38,632	22,708	11,733
<b>Total Proved</b>	<b>460,773</b>	<b>329,858</b>	<b>256,024</b>	<b>208,097</b>	<b>174,353</b>
<b>Probable</b>	<b>270,627</b>	<b>159,179</b>	<b>106,073</b>	<b>75,704</b>	<b>56,416</b>
<b>Total Proved plus Probable</b>	<b>731,400</b>	<b>489,037</b>	<b>362,097</b>	<b>283,801</b>	<b>230,769</b>

## ADDITIONAL INFORMATION CONCERNING FUTURE NET REVENUE BY PRODUCTION GROUP – FORECAST PRICES AND COSTS

	Net Present Value of Future Net Revenue Before Income Tax Expenses and Discounted at 10% <sup>(1)</sup> (\$M)	Net Present Value of Unit Value Before Income Tax Expenses and Discounted at 10% <sup>(1)</sup> (\$/boe)
<b>Proved</b>		
Light and Medium Crude Oil <sup>(2)</sup>	157,601	24.59
Heavy Oil <sup>(2)</sup>	9,552	12.85
Natural Gas <sup>(3)</sup>	111,247	16.80
<b>Proved plus Probable</b>		
Light and Medium Crude Oil <sup>(2)</sup>	234,490	23.55
Heavy Oil <sup>(2)</sup>	15,075	12.18
Natural Gas <sup>(3)</sup>	173,443	17.18

(1) "Net Revenue" is Net Revenue after Royalties.

(2) Including solution gas and other by-products.

(3) Including by-products, but excluding solution gas from oil wells.

## PRICING ASSUMPTIONS – FORECAST PRICES AND COSTS

Sproule employed the following pricing, exchange rate and inflation rate assumptions as of December 31, 2008 in the Sproule Breaker Report in estimating reserves data using forecast prices and costs. The weighted average historical prices received by Breaker for 2008 are also reflected in the table below.

Year	Inflation	Medium and Light Crude Oil			Natural Gas		NGL	
		WTI Cushing Oklahoma (US\$/bbl)	Edmonton Par Price 40° API (\$/bbl)	Cromer Medium 29.3° API (\$/bbl)	Alberta Gas Reference Price Plant Gate (\$/mmbtu)	AECO-C Spot (\$/mmbtu)	Edmonton Pentane (\$/bbl)	Exchange Rate (\$US/\$Cdn)
2008 (actual)	2.0	99.59	102.85	84.31	8.03	8.15	104.70	0.94
2009	2.0	53.73	65.35	58.16	6.47	6.82	66.93	0.80
2010	2.0	63.41	72.78	66.23	7.24	7.56	74.54	0.85
2011	2.0	69.53	79.95	72.76	7.56	7.84	81.88	0.85
2012	2.0	79.59	86.57	79.65	8.15	8.38	88.66	0.90
2013	2.0	92.01	94.97	87.38	9.00	9.20	97.27	0.95
2014	2.0	93.85	96.89	89.14	9.21	9.41	99.23	0.95
2015	2.0	95.72	98.85	90.94	9.42	9.62	101.23	0.95
2016	2.0	97.64	100.84	92.78	9.63	9.83	103.28	0.95
2017	2.0	99.59	102.88	94.65	9.85	10.05	105.36	0.95
2018	2.0	101.58	104.96	96.56	10.07	10.27	107.49	0.95
2019	2.0	103.61	107.08	98.51	10.30	10.50	109.66	0.95

Escalate at 2.0% per year thereafter.

## BREAKER 2008 NET ASSET VALUE PER FULLY DILUTED SHARE INFORMATION

Using Reserve Value at December 31, 2008 – Forecast Pricing and Costs:

(\$MM except share amounts)	15% BT	10% BT
Proved Plus Probable Reserve Value (with FDC)	328.9	423.0
Undeveloped Land (125,000 acres @ \$180/acre)	22.5	22.5
Estimated Net Debt	(99.7)	(99.7)
Option Proceeds	3.7	3.7
Total Net Assets	255.4	349.5
Fully Diluted Shares Outstanding (MM)	41.9	41.9
Estimated Net Asset Value per Fully Diluted Share (\$/share)	6.10	8.34

In addition to the approximately 125,000 net acres of undeveloped land that Breaker has an ownership interest in, the Company also has access to approximately 100,000 acres via farm-in.

## RECONCILIATION OF CHANGES IN RESERVES

The following table sets forth a reconciliation of Breaker's gross reserves as at December 31, 2008, derived from the Sproule Breaker Report using forecast prices and cost estimates, reconciled to the gross reserves of Breaker as at December 31, 2007.

	Light and Medium Crude Oil (Mbbbls)	Heavy Crude Oil (Mbbbls)	Natural Gas Liquids (Mbbbls)	Natural Gas <sup>1</sup> (MMcf)
<b>Proved</b>				
Balance at Dec. 31, 2007	5,346	427	223	36,486
Extensions and Improved Recovery	1,743	591	181	15,027
Technical Revisions	(937)	(101)	143	1,930
Discoveries	104	-	-	59
Acquisitions	113	-	308	12,778
Dispositions	-	-	-	-
Economic Factors	173	46	6	907
Production <sup>(2)</sup>	(1,014)	(46)	(90)	(6,370)
Balance at Dec. 31, 2008	<b>5,529</b>	<b>918</b>	<b>770</b>	<b>60,817</b>
<b>Proved plus Probable</b>				
Balance at Dec. 31, 2007	8,715	853	285	48,916
Extensions and Improved Recovery	1,729	621	296	23,805
Technical Revisions	(1,216)	20	212	3,393
Discoveries	379	-	-	59
Acquisitions	191	-	519	21,530
Dispositions	-	-	-	-
Economic Factors	242	66	8	1,255
Production	(1,014)	(46)	(90)	(6,370)
Balance at Dec. 31, 2008	<b>9,025</b>	<b>1,513</b>	<b>1,229</b>	<b>92,587</b>

(1) Including coal bed methane.

(2) Annual production as per estimate by Sproule.

## FINDING, DEVELOPMENT, AND ACQUISITION (FD&A) COSTS

Capital Costs (\$000s)	Proved	Proved Plus Probable
2008 Exploration, Development and Acquisition Capital Expenditures	183,511	183,511
FDC year end 2008 (disc@10%)	101,399	139,635
FDC year end 2007 (disc@10%)	62,327	92,250
Change in FDC (disc@10%)	39,072	47,385
2008 Capital + Change in FDC (disc@10%)	222,583	230,896

FD&A Costs (\$/boe)	Proved	Proved Plus Probable
Exploration, Development and Acquisition without FDC	24.51	16.09
Exploration, Development and Acquisition with change in FDC (disc@10%)	29.73	20.25

Breaker's netback for 2008 was \$47.12/boe. Using this netback the following recycle ratios are calculated:

Recycle Ratio	Proved	Proved Plus Probable
For FD&A without FDC	1.9	2.9
For FD&A with change in FDC (disc@10%)	1.6	2.3

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OVERVIEW AND HIGHLIGHTS

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Breaker is proud to have continued its consistent track record of rapidly building shareholder value in 2008. Breaker increased production per share, reserves per share and funds from operations per share in 2008.

Production grew by 37 percent to an average of 6,041 boe per day from the 2007 average of 4,407 boe per day. Proved plus probable reserves grew by 51 percent, to 27.2 million boe at December 31, 2008 from 18.0 million boe at year-end 2007. Funds from operations grew by 129 percent to \$94.9 million in 2008 from \$41.4 million in 2007.

Production per basic share grew by 30 percent, Proved plus Probable reserves per share grew by 43 percent and funds from operations per share grew by 118 percent in 2008.

In 2008 Breaker achieved a success rate of 90 percent (gross) in drilling 48 gross (42.8 net) wells. During the year Breaker achieved a 100 percent success rate on 14 gross (14.0 net) horizontal multi-frac wells at Irricana, an 84 percent success rate on 19 gross (18.3 net) wells in Southeast Alberta which included Breaker's first (1 gross (1.0 net)) horizontal multi-frac well at Provost, an 88 percent success rate on eight gross (4.4 net) wells in Girouxville, an 83 percent success rate on six gross (5.0 net) wells at East Prairie and a 100 percent success rate drilling Breaker's first (1 gross (1.0 net)) horizontal multi-frac well at Fireweed. The Fireweed well was drilled in 2008 and was completed and put on production in the first quarter of 2009. Breaker's inventory of wells that utilize horizontal multi-frac technology continues to grow with a total of more than 160 horizontal multi-frac locations at Fireweed, Provost and Irricana.

The team at Breaker continued its track record of achieving exceptional finding, development and acquisition (FD&A) costs in 2008. Breaker's Proved plus Probable FD&A costs before change in future development capital for 2008 were \$16.09 per boe. Including the change in future development capital (discounted 10 percent) estimated at \$47.4 million, Breaker's FD&A costs were \$20.25 per boe in 2008. Breaker's capital program for 2008 totalled \$183.5 million. Based on fourth-quarter 2008 average production of 6,702 boe per day and Proved plus probable reserves of 27.2 million boe, Breaker's reserve-life-index was 11.1 years at year-end 2008.

Breaker's focus on building a large, high quality inventory of drilling locations with the flexibility to switch between predominantly light oil and natural gas prospects has resulted in a healthy netback. During 2008, the Company's average operating netback (defined as revenue net of commodity derivatives per boe, less royalties per boe, operating costs per boe and transportation costs per boe) was \$47.12 per boe. Breaker's recycle ratio (defined as the average operating netback per boe divided by FD&A costs per boe) in 2008 was 2.9 times excluding future development capital and 2.3 times including future development capital discounted at 10 percent.

On a per share basis net income increased 655 percent to \$0.83 per basic share in 2008 compared to \$0.11 per basic share in 2007. Net income was \$32.2 million in 2008, an increase of 704 percent from \$4.0 million in 2007.

Breaker's year-end debt to trailing 2008 funds from operations ratio was 1.1. Breaker's year-end debt to annualized fourth quarter funds from operations ratio was 1.7. Breaker completed a \$34.5 million common equity financing in July 2008 in conjunction with the acquisition of the Fireweed property and a \$7.0 million flow-through equity issue in November 2008 for total gross proceeds of \$41.5 million. Breaker also increased its bank line from \$95 million to \$125 million in 2008 and converted its Class B shares in August 2008. With the conversion of the Class B shares, Breaker now has one class of shares outstanding and trades under the symbol WAV on the TSX. With \$74.6 drawn on its bank line at year-end and year-end net debt of \$99.7 million, Breaker had \$25.3 million of borrowing capacity at year-end.

## **OUTLOOK**

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Given the current depressed economic and commodity price environment we expect our cost structure to improve during the year and we are working to reduce costs throughout the organization. In 2009 we will remain focused on maintaining our balance sheet strength, finding operational efficiencies, reducing costs, taking advantage of long-term value creation opportunities and growing shareholder value on a per share basis.

Breaker's 2009 capital program was originally set at up to \$80 million with the majority of capital spending weighted to the second half of 2009. The Company will continue to be flexible in its capital spending in order to respond to changes in commodity prices, costs and capital markets.

Breaker estimates capital spending in the first quarter of 2009 to be approximately \$20 million. The Company deferred approximately \$5 million of additional first quarter capital spending in light of this depressed commodity price environment. We are reviewing our capital program continually as the year progresses and adjusting capital spending as necessary.

Maintaining financial and operational flexibility has always been a key element in Breaker's business model. In order to further enhance Breaker's balance sheet, the Company issued \$16.1 million of equity in February 2009.

Breaker is optimistic about its future prospects given the Company's high quality asset base, large inventory of opportunities, financial position, strong netbacks, and the strength of our technical and financial professionals. Breaker has many more attractive oil and natural gas opportunities in its drilling inventory than available capital which puts the Company in a great position to ramp up capital spending on either commodity should conditions improve during the year.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This Management's Discussion and Analysis (MD&A) of the consolidated financial position and results of operations of Breaker Energy Ltd. ("Breaker" or the "Company"), which includes its subsidiaries and partnership arrangements, is for the three-months and years ended December 31, 2008 and 2007. For a full understanding of the financial position and results of operations of the Company, the MD&A should be read in conjunction with the documents filed on SEDAR, including historical financial statements, press releases and the Annual Information Form (AIF). These documents are available at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

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This MD&A contains forward-looking statements.

The forward-looking statements are based on certain key expectations and assumptions made by Breaker, including expectations and assumptions concerning the performance of existing wells and success obtained in drilling new wells, anticipated expenses, cash flow and capital expenditures and the application of regulatory and royalty regimes.

Although Breaker believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Breaker can give no assurance that they 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. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Certain of these risks are set out in more detail in this MD&A and in Breaker's Annual Information Form which has been filed on SEDAR and can be accessed at [www.sedar.com](http://www.sedar.com).

The forward-looking statements contained in this MD&A are made as of the date hereof and Breaker undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

All amounts are expressed in Canadian dollars unless otherwise noted. Petroleum and natural gas reserves and volumes are converted to a common unit of measure, referred to as a barrel of oil equivalent (boe), on the basis of 6,000 cubic feet of natural gas being equal to 1 barrel of oil. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead. It should be noted that the use of boe might be misleading, particularly if used in isolation. The term boe per day (boe/d) has been used throughout this MD&A.

The terms "funds from operations", "funds from operations per share", and "netback" used in this discussion are not recognized measures under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net earnings, funds from operations and netback are useful supplemental measures as they provide an indication of the results generated by the Company's principal business activities before the consideration of how those activities are financed or how the results are taxed. Investors are cautioned, however, that these measures should not be construed as alternatives to net earnings determined in accordance with GAAP, as an indication of Breaker's performance.

Breaker's method of calculating funds from operations may differ from that of other companies, and, accordingly, may not be comparable to measures used by other companies. Breaker determines funds from operations as cash flow from operating activities before changes in non-cash working capital as follows:

(000s)	Year Ended		Quarter Ended	
	Dec 31, 2008	Dec 31, 2007	Dec 31, 2008	Dec 31, 2007
Cash flow from operating activities (per GAAP)	\$ 91,876	\$ 44,476	\$ 30,019	\$ 10,144
Change in non-cash working capital	3,071	(3,092)	(15,643)	(310)
Funds from operations	\$ 94,947	\$ 41,384	\$ 14,376	\$ 9,834

Funds from operations per share is calculated using the weighted average basic and diluted shares used in calculating earnings per share.

Breaker's management is responsible for the integrity of the information contained in this report and for the consistency between the MD&A and financial statements. In preparation of these statements, estimates are necessary to make a determination of future values for certain assets and liabilities. Management believes these estimates have been based on careful judgments and have been properly presented. The financial statements have been prepared using policies and procedures established by management and fairly reflect Breaker's financial position, results of operations and funds from operations.

Breaker's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated March 16, 2009.

## OPERATIONS

### DRILLING

	Drilling		Success Rate	Working
	Gross	Net	(%) Gross	Interest (%)
Q1/2008	13	11.5	100.0	88.4
Q2/2008	7	6.5	71.4	92.9
Q3/2008	20	17.5	95.0	87.5
Q4/2008	8	7.3	87.5	91.3
Total	48	42.8	89.6	88.9

In 2008 Breaker achieved a success rate of 90 percent (gross) in drilling 48 gross (42.8 net) wells. During the year Breaker achieved a 100 percent success rate on 14 gross (14.0 net) horizontal, multi-frac wells at Irricana, an 84 percent success rate on 19 gross (18.3 net) wells in southeast Alberta which included Breaker's first horizontal multi-frac well at Provost, an 88 percent success rate on 8 gross (4.4 net) wells in Girouxville, an 83 percent success rate on 6 gross (5.0 net) wells at East Prairie and a 100 percent (1 gross (1.0 net)) success rate drilling Breaker's first horizontal multi-frac well at Fireweed. The Fireweed well was drilled in 2008 and was completed and put on production in the first quarter of 2009.

In the fourth quarter of 2008 Breaker achieved a success rate of 88 percent in drilling 8 gross (7.3 net) wells. Breaker was successful on 2 gross (2.0 net) horizontal wells at Irricana which utilized the Packer's Plus multi-frac technology. Breaker also had success with 1 gross (1.0 net) of 2 gross (1.5 net) exploratory wells in its Girouxville area, 1 gross (1.0 net) well at Fireweed, 1 gross (0.8 net) well at East Prairie and 2 gross (2.0 net) wells at Provost.

This drilling program in conjunction with the Fireweed acquisition resulted in Proved plus Probable reserve growth of 51 percent from 18.0 million boe at year-end 2007 to 27.2 million boe at year-end 2008. Breaker's weighting of Proved plus Probable natural gas reserves increased from 45 percent in 2007 to 57 percent in 2008. Based on fourth-quarter 2008 average production of 6,702 boe per day and Proved plus Probable reserves of 27.2 million boe, Breaker's reserve-life-index was 11.1 years at year-end 2008.

**RESERVES<sup>(1) (2)</sup>**

	At Dec. 31, 2008	At Dec. 31, 2007	At Dec. 31, 2006
Proved			
Oil and NGL (mmbbls)	<b>7,217</b>	5,996	3,117
Natural gas (mmcf)	<b>60,817</b>	36,486	27,633
Total (mboe)	<b>17,353</b>	12,077	7,722
% Natural gas	<b>58</b>	50	60
Proved plus Probable			
Oil and NGL (mmbbls)	<b>11,767</b>	9,852	5,557
Natural gas (mmcf)	<b>92,587</b>	48,916	40,654
Total (mboe)	<b>27,198</b>	18,005	12,317
% natural gas	<b>57</b>	45	55

(1) Breaker's reserves were independently evaluated by Sproule Associates Limited ("Sproule"), independent reservoir engineers, as of December 31, 2008 according to the requirements of National Instrument (N.I.) 51-101. Additional information on Breaker's reserves can be found in its AIF, which is available at [www.sedar.com](http://www.sedar.com).

(2) Gross Reserves – The Company's working interest (operating or non-operating) share of remaining reserves before deduction of royalties and without including any royalty interests of the Company.

**PRODUCTION**

	2008	2007	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Oil and NGL (bbls per day)	3,141	1,833	3,503	3,402	3,167	2,484	1,845	1,993	1,806	1,683
Natural gas (mcf per day)	17,404	15,444	19,192	18,408	16,530	15,458	16,066	15,073	15,881	14,746
Total (boe per day)	6,041	4,407	6,702	6,470	5,922	5,060	4,523	4,506	4,453	4,141
% natural gas	48	58	48	47	47	51	59	56	59	59

Primarily as a result of successful drilling results and production from the mid year acquisition of the Fireweed property, Breaker's average production rate for 2008 was 6,041 boe per day, a 37 percent increase over the 2007 average of 4,407 boe per day. In 2008 48 percent or 17.4 mmcf per day of Breaker's production consisted of natural gas. Average oil and natural gas liquids production for 2008 grew 71 percent to 3,141 bbls per day. Breaker maintains the flexibility to transition between oil and natural gas targets.

The Company's average production rate of 6,702 boe per day in the fourth quarter was a 48 percent increase over the fourth quarter 2007. Production was lower than forecast in the fourth quarter partially as a result of delays at Fireweed, Irricana and Widewater which also resulted in a reduction of approximately \$6.5 million in capital spending for the year and quarter.

**PETROLEUM, NATURAL GAS, HEDGING AND OTHER REVENUES**

A 37 percent increase in production combined with a 42 percent increase in average revenue per boe resulted in revenues for 2008 of \$168.2 million, an increase of 94 percent over the \$86.6 million recorded in 2007. Processing and other revenue was \$2.0 million for the year ended December 31, 2008, an increase of 87 percent over 2007.

A 48 percent increase in production, practically offset by a 5 percent reduction in average revenue per boe, resulted in revenues of \$32.7 million being recorded in the fourth quarter of 2008 up from \$23.2 million in the fourth quarter of 2007. Processing and other revenue was \$0.6 million in the fourth quarter of 2008, up 95 percent from the fourth quarter of 2007.

All of Breaker's petroleum and natural gas production in 2008 was sold on the spot market. The Company did not have any derivative contracts outstanding as at or during the year ended December 31, 2008. The Company recognized an unrealized loss of \$0.6 million and had a minor realized gain on its commodity derivatives for the year ended December 31, 2007.

## PRICES

Breaker realized average revenue per boe of \$76.07 in 2008, a 42 percent increase from the \$53.52 recorded in 2007.

Breaker realized an average of \$98.91 per bbl of oil and NGL in 2008, an increase of 35 percent from the \$73.17 per bbl realized in 2007. In 2008 the WTI price averaged US\$99.65 per bbl. The average price of Edmonton Par was \$102.02 per bbl in 2008 and \$76.39 per bbl in 2007. Breaker's oil and NGL prices continued to trend consistent with movement in Edmonton Par prices year over year.

The Company realized an average natural gas price of \$8.24 per mcf in 2008, a 27 percent increase from the \$6.50 per mcf averaged in 2007. This compares to an average Alberta Plant Gate price of \$7.88 per mcf in 2008 and \$6.39 per mcf in 2007. The movement in gas prices received by the Company was also consistent with Alberta Plant Gate reference prices.

Breaker realized average revenue of \$53.08 per boe in the fourth quarter, a 5 percent decrease from the \$55.85 per boe realized in the fourth quarter of 2007.

Breaker realized \$61.25 per bbl of oil and NGL in the fourth quarter of 2008, a decrease of 26 percent from the \$82.29 averaged in the same period of 2007. In the fourth quarter of 2008 the WTI price averaged US\$58.73 per bbl. The average Edmonton Par price was \$63.24 per bbl in the fourth quarter of 2008 and \$86.46 per bbl in the fourth quarter of 2007. The decrease in fourth quarter prices was consistent with movement in benchmark prices.

The natural gas price Breaker recorded in the fourth quarter of 2008 was \$7.02 per mcf, up 16 percent from the \$6.07 per mcf averaged in the same period of 2007. This compares to an average Alberta Plant Gate price of \$6.55 per mcf in 2008 and \$5.79 per mcf in 2007. The increase in gas prices is consistent with increases in reference prices.

## REVENUE AND REALIZED PRICES

	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
Oil and NGL (000s)	\$ 113,702	\$ 48,949	132	\$ 19,740	\$ 13,968	41
Natural gas (000s)	\$ 52,507	\$ 36,623	43	\$ 12,388	\$ 8,965	38
Processing and other (000s)	\$ 1,983	\$ 1,061	87	\$ 598	\$ 308	95
Total petroleum and natural gas revenue (000s)	\$ 168,192	\$ 86,633	94	\$ 32,726	\$ 23,241	41
Oil and NGL (per boe)	\$ 98.91	\$ 73.17	35	\$ 61.25	\$ 82.29	(26)
Natural gas (per mcf)	\$ 8.24	\$ 6.50	27	\$ 7.02	\$ 6.07	16
Total petroleum and natural gas revenue (per boe)	\$ 76.07	\$ 53.86	41	\$ 53.08	\$ 55.85	(5)
Unrealized loss on commodity derivatives (per boe)	-	\$ (0.35)	nm	-	-	-
Realized gain on commodity derivatives (per boe)	-	\$ 0.01	nm	-	-	-
Total petroleum and natural gas revenue after commodity derivatives (per boe)	\$ 76.07	\$ 53.52	42	\$ 53.08	\$ 55.85	(5)

## ROYALTIES

Royalty expense increased 112 percent in 2008 to \$32.9 million from \$15.5 million in 2007. Royalty expense was 20 percent of revenue in 2008 up from 18 percent of revenue in 2007. In the fourth quarter of 2008 royalty expense was \$6.1 million or 19 percent of revenue, compared to \$3.9 million or 17 percent of revenue in the fourth quarter of 2007. The increase in royalties was primarily due to higher royalty rates at Irricana which resulted from higher rate production.

On January 1, 2009 the Alberta government's New Royalty Framework ("NRF") took effect. Under the NRF, royalty rates on conventional and non-conventional oil and natural gas production in Alberta may increase to a maximum of 50 percent, the sliding scale royalty calculations are based on a broader range of commodity prices, and royalty incentives and holiday programs have been eliminated with the exception of specific programs.

In response to the drop in commodity prices experienced during the second half of 2008, the Government of Alberta announced on November 19, 2008, the introduction of a five year program of transitional royalty rates with the intent of promoting new drilling. Under this new program companies drilling new natural gas or conventional deep oil wells (between 1,000 and 3,500 metres) will be given a one-time option, on a well by well basis, to adopt either the new transitional royalty rates or those outlined in the NRF. In order to qualify for this program wells must be drilled during the period starting on November 19, 2008 and ending on December 31, 2013. Following this period all new wells drilled will automatically be subject to the NRF.

As a result of the current global financial crisis, Premier Ed Stelmach stated on February 5, 2009, that the Government of Alberta was going to provide incentives to junior and mid-size companies with the objective of easing access to capital for such companies and promoting investment. On March 3, 2009, an incentive program designed to encourage the execution of new drilling projects in Alberta was announced in response to the global economic crisis and slowdown in drilling activity throughout the province of Alberta. The incentive program provides for a drilling royalty credit for new conventional oil and natural gas wells that initiate drilling on or after April 1, 2009 and that complete drilling by March 31, 2010. The incentive program also provides a reduced royalty rate on new wells for the first year of production up to an established total production volume. This program is expected to positively impact the Company. The effect of the March 3, 2009 announcement has not been reflected in the Sproule reserves at December 31, 2008. Approximately 81 percent of Breaker's Proved plus Probable reserves were in Alberta at year end, with the balance located in British Columbia.

As royalties under the NRF are sensitive to both commodity prices and production levels, the estimated NRF Alberta and corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and location of new wells drilled. As a result of these recent changes to royalties, Breaker expects its royalty rates will increase in 2009 given similar commodity prices in 2009 as 2008.

## ROYALTIES

	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
Total (000s)	\$ 32,933	\$ 15,502	112	\$ 6,100	\$ 3,850	58
% of revenue	20%	18%	11	19%	17%	12
Per boe	\$ 14.89	\$ 9.64	54	\$ 9.89	\$ 9.25	7

## OPERATING EXPENSE

Total operating expenses in 2008 were \$24.5 million, up from \$18.5 million in 2007. On a unit-of-production basis operating expenses decreased by 4 percent to \$11.09 per boe in 2008 from \$11.52 per boe in 2007. Total operating expenses in the fourth quarter of 2008 were \$7.6 million, up from \$5.9 million in the fourth quarter of 2007. In the fourth quarter of 2008 operating expenses averaged \$12.37 per boe of production, a decrease of 13 percent from the \$14.14 per boe recorded in the fourth quarter of 2007. The reduction of operating costs on a per boe basis for 2008 and the fourth quarter of 2008 were primarily related to the impact of the Fireweed acquisition, the elimination of one-time items that impacted 2007 and more efficient operations in 2008.

### Operating Expenses

	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
Total (000s)	\$ 24,522	\$ 18,529	32	\$ 7,629	\$ 5,883	30
Per boe	\$ 11.09	\$ 11.52	(4)	\$ 12.37	\$ 14.14	(13)

### TRANSPORTATION EXPENSES

Transportation expenses as a percentage of petroleum and natural gas revenue were 4 percent in 2008 and 3 percent in 2007. Transportation expenses per boe in 2008 were \$2.97, a 59 percent increase from \$1.87 per boe in 2007. Total transportation expenses in 2008 were \$6.6 million, up from \$3.0 million in 2007.

In the fourth quarter of 2008 transportation expenses as a percentage of petroleum and natural gas revenue were 6 percent as compared to 4 percent in 2007. For the fourth quarter of 2008 transportation expenses were \$3.38 per boe, a 46 percent increase from \$2.31 per boe in the fourth quarter of 2007. Total transportation expenses in the fourth quarter of 2008 were \$2.1 million, up from \$1.0 million in the fourth quarter of 2007.

The increase in transportation expense in both the full year and fourth quarter of 2008 is primarily due to increased oil trucking costs at East Prairie and Girouxville as compared to the same periods of last year.

### Transportation Expenses

	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
Total (000s)	\$ 6,569	\$ 3,010	118	\$ 2,084	\$ 960	117
% of revenue	4%	3%	33	6%	4%	50
Per boe	\$ 2.97	\$ 1.87	59	\$ 3.38	\$ 2.31	46

### INTEREST EXPENSE AND OTHER INCOME

Interest expense in 2008 was \$2.9 million or \$1.29 per boe as compared to \$2.3 million or \$1.41 per boe in 2007. Interest expense for the fourth quarter of 2008 was \$0.7 million or \$1.15 per boe as compared to \$0.7 million or \$1.56 per boe in 2007. The increase in interest expense resulted from an increase in debt levels offset by a decrease in interest rates. Breaker's average interest rate in 2008 was 5.1 percent and in the fourth quarter of 2008 was 3.9 percent.

### Interest Expense and Other Income

	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
Interest Expense (000s)	\$ 2,851	\$ 2,273	25	\$ 707	\$ 651	9
Per boe	\$ 1.29	\$ 1.41	(9)	\$ 1.15	\$ 1.56	(26)

### GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

Breaker's net G&A expenses for 2008 decreased 11 percent on a per boe basis to \$2.65 as compared to \$2.99 in 2007. Total G&A expenses for 2008, net of recoveries and capitalized amounts of \$3.8 million, were \$5.9 million, compared to \$4.8 million in 2007 after recoveries and capitalized amounts of \$2.8 million. Total G&A expenses for the fourth quarter of 2008 were \$1.6 million after recoveries and capitalized amounts of \$0.6 million. This compares to \$1.4 million after recoveries and capitalized amounts of \$0.9 million in the fourth quarter of 2007.

G&A costs for 2008 increased on an absolute basis compared to 2007 primarily due to an increase in staffing levels. Breaker had 41 full-time employees at the end of 2008 compared to 29 employees at the end of 2007.

### G&A Expenses

(000s except per boe)	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
Total	\$ 9,637	\$ 7,581	27	\$ 2,224	\$ 2,286	(3)
Recoveries and capitalized amounts	\$ (3,767)	\$ (2,775)	36	\$ (646)	\$ (886)	(27)
Net G&A	\$ 5,870	\$ 4,806	22	\$ 1,578	\$ 1,400	13
Net G&A expense per boe	\$ 2.65	\$ 2.99	(11)	\$ 2.56	\$ 3.36	(24)

### NETBACKS

Breaker's operating netback per boe, defined as revenue net of commodity derivatives per boe less royalties per boe, operating expenses per boe and transportation expenses per boe, was \$47.12 in 2008, a 55 percent increase from \$30.49 recorded in 2007. In the fourth quarter of 2008 Breaker's operating netback was \$27.44 per boe, a 9 percent decrease compared to the \$30.15 per boe recorded in 2007.

Breaker's corporate netback, defined as operating netback per boe less G&A and interest expense per boe, was \$43.18 in 2008, a 66 percent increase from \$26.09 in 2007. The corporate netback increased as result of an increase in revenue per boe and a decrease in operating expenses per boe, G&A per boe and interest expense per boe, offset by increases in royalties per boe and transportation costs per boe in 2008 as compared to 2007.

In the fourth quarter, the Company's corporate netback decreased by 6 percent, from \$25.23 in 2007 to \$23.73 in 2008. The reduction in corporate netback per boe was the result of a decrease in revenue per boe and increases in royalties per boe and transportation costs per boe offset by decreases in operating expenses per boe, G&A per boe and interest expense per boe in 2008 as compared to 2007.

### Corporate Average Netbacks

(\$ per boe except production)	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
Average production (boe per day)	6,041	4,407	37	6,702	4,523	48
Revenue	\$ 76.07	\$ 53.86	41	\$ 53.08	\$ 55.85	(5)
Hedging	–	(0.34)	nm	–	–	–
Royalties	(14.89)	(9.64)	54	(9.89)	(9.25)	7
Operating costs	(11.09)	(11.52)	(4)	(12.37)	(14.14)	(13)
Transportation costs	(2.97)	(1.87)	59	(3.38)	(2.31)	46
<b>Operating netback</b>	<b>\$ 47.12</b>	<b>\$ 30.49</b>	<b>55</b>	<b>\$ 27.44</b>	<b>\$ 30.15</b>	<b>(9)</b>
Interest expense	(1.29)	(1.41)	(9)	(1.15)	(1.56)	(26)
G&A expense	(2.65)	(2.99)	(11)	(2.56)	(3.36)	(24)
<b>Corporate netback</b>	<b>\$ 43.18</b>	<b>\$ 26.09</b>	<b>66</b>	<b>\$ 23.73</b>	<b>\$ 25.23</b>	<b>(6)</b>

### FUNDS FROM OPERATIONS

Funds from operations increased by 129 percent in 2008 to \$94.9 million from \$41.4 million in 2007. On a per share basis funds from operations per basic share increased by 118 percent to \$2.46 in 2008 from \$1.13 in 2007. Funds from operations increased 67 percent on a per boe basis with \$42.94 recorded in 2008 and \$25.73 in 2007. Funds from operations per boe was impacted by a 41 percent increase in revenue per boe, a 4 percent reduction in operating costs per boe, a 9 percent reduction in interest costs per boe and an 11 percent reduction in G&A expense per boe offset by a 54 percent increase in royalties per boe and a 59 percent increase in transportation costs per boe in 2008 as compared to 2007.

In the fourth quarter of 2008, funds from operations increased by 46 percent to \$14.4 million from \$9.8 million in the fourth quarter of 2007. On a per share basis, funds from operations increased by 30 percent to \$0.35 per basic share in the fourth quarter of 2008 from \$0.27 in the fourth quarter of 2007. Funds from operations decreased on a per boe basis by 1 percent to \$23.32 per boe in the fourth quarter of 2008 from \$23.63 in the fourth quarter of 2007. The change was the result of a 5 percent reduction in revenue per boe and a 7 percent increase in royalties per boe and a 46 percent increase in transportation costs per boe in 2008 compared to 2007 offset by a 13 percent reduction in operating costs per boe, a 26 percent reduction in interest expense per boe and a 24 percent reduction in G&A expense per boe.

Cash flow from operations differs from funds from operations due to the inclusion of changes in non-cash working capital. Cash flow from operations for 2008 was \$91.9 million as compared to \$44.5 million in 2007. Included in cash flow from operations is a decrease in non-cash working capital of \$3.1 million for 2008 and an increase of \$3.1 million for the same period of 2007. Cash flow from operations for the fourth quarter of 2008 was \$30.0 million as compared to \$10.1 million in the fourth quarter of 2007. Included in cash flow from operations is an increase in non-cash working capital of \$15.6 million for the fourth quarter of 2008 with a marginal increase for the same period of 2007.

### **Funds from Operations**

	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
Total (000s)	\$ 94,947	\$ 41,384	129	\$ 14,376	\$ 9,834	46
Per share	\$ 2.46	\$ 1.13	118	\$ 0.35	\$ 0.27	30
Per share – diluted	\$ 2.43	\$ 1.11	119	\$ 0.35	\$ 0.26	35
Per boe	\$ 42.94	\$ 25.73	67	\$ 23.32	\$ 23.63	(1)

### **STOCK-BASED COMPENSATION**

Breaker's stock-based compensation expense of \$2.1 million in 2008, included \$1.9 million of stock option expense calculated using the Black-Scholes option-pricing model and \$0.2 million of performance share unit expense. The total estimated value of the PSUs at December 31, 2008, is \$1.2 million. Compensation expense is recognized on a straight-line basis over the vesting period. As a result, during 2008, \$0.2 million of compensation expense was included in stock-based compensation and \$0.2 million was capitalized to petroleum and natural gas properties with a total liability of \$0.4 million included in accounts payable. During the year ended December 31, 2008, Breaker granted 937,250 options at a weighted average exercise price of \$8.17 per option in 2008. The following assumptions were used to calculate stock-based compensation in 2008: zero dividend yield; expected volatility of 47-57 percent; risk-free rate of 1.7-3.4 percent; and expected life of five years. The weighted average fair value of stock options granted during the year was \$3.78 per option. Stock-based compensation increased from \$1.7 million for the year ended December 31, 2007 to \$2.1 million for the year ended December 31, 2008 due to the adoption of a performance share unit plan and a larger amount of options being expensed and an increase in the fair value per option being expensed.

### **Stock-Based Compensation Expense**

	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
Total (000s)	\$ 2,057	\$ 1,668	23	\$ 715	\$ 439	63
Per boe	\$ 0.93	\$ 1.04	(11)	\$ 1.16	\$ 1.05	10

## DEPLETION, DEPRECIATION AND ACCRETION (DD&A)

Depletion and depreciation are calculated based upon capital expenditures, production rates and reserves. Breaker uses the asset retirement obligation method to record the present value of estimated clean-up and restoration costs for all of its facilities, including well sites and pipelines. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Excluded from the Company's depletion and depreciation calculation are costs associated with unproven properties and seismic of \$27.5 million. Future development costs for proved reserves of \$113.3 million have been included in the depletion calculation.

Breaker recorded \$51.2 million or \$23.17 per boe in DD&A expense in 2008, an increase of 4 percent as compared to \$22.19 per boe in DD&A expense in 2007. The increase in DD&A expense in 2008 related mainly to higher future development capital compared to 2007. This DD&A calculation is based on production volumes of 2,211,178 boe in 2008.

Breaker recorded \$15.1 million or \$24.48 per boe in DD&A expense in the fourth quarter of 2008, an increase of 16 percent as compared to \$21.19 per boe in DD&A expense in the fourth quarter of 2007. The increase in DD&A expense in the fourth quarter of 2008 related mainly to higher future development capital compared to the fourth quarter of 2007. This DD&A calculation is based on production volumes of 616,582 boe for the quarter.

### *Depletion, Depreciation and Accretion (DD&A) Expense*

	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
DD&A (000s)	\$ 51,236	\$ 35,684	44	\$ 15,093	\$ 8,815	71
Per boe	\$ 23.17	\$ 22.19	4	\$ 24.48	\$ 21.19	16

## INCOME AND OTHER TAXES

In 2008, the Company issued 823,600 Class A flow-through common shares at \$8.50 per share for gross proceeds of \$7.0 million. This flow-through share offering will be renounced effective December 31, 2008. As at December 31, 2008, the Company has incurred \$2.8 million towards this flow-through share obligation and has remaining eligible exploration expenditures of \$4.2 million to be spent before December 31, 2009 to satisfy the terms of this flow-through share offering. The future tax impact will be recorded in the first quarter of 2009 when the expenditures are renounced.

In 2007, the Company issued 800,000 Class A flow-through common shares at \$6.90 per share for gross proceeds of \$5.5 million. This flow-through share offering was renounced effective December 31, 2007. As at December 31, 2008, the Company has fully incurred \$5.5 million towards this flow-through share obligation and has no remaining eligible exploration expenditures to be spent to satisfy the terms of this flow-through share offering. The future tax impact of \$1.4 million was recorded in the first quarter of 2008 when the expenditures were renounced.

A future tax liability of approximately \$18.9 million has been recognized in the financial statements for the year ended December 31, 2008, an increase of \$11.4 million as compared to December 31, 2007. Of the increase, \$1.4 million relates to the \$5.5 million of flow-through shares issued in 2007 and renounced in 2008, \$10.0 million to future tax expense, and \$0.6 million of tax effect on stock-based compensation capitalized, net of \$0.6 million of tax benefit of share issue costs.

The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate for 2008, which was 29.50 percent and is calculated on income before income taxes. The difference is mainly due to stock-based compensation and future tax rate reductions.

## Tax Expenses

	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
Total (000s)	\$ 9,988	\$ 604	1,553	\$ (1,501)	\$ (814)	85
Per boe	\$ 4.52	\$ 0.38	1,089	\$ (2.44)	\$ (1.96)	24

## TAX POOLS

The table below presents Breaker's estimated tax pools. The table does not deduct the \$7.0 million related to flow-through share obligations that will be renounced in 2009.

(\$ millions)	Dec. 31, 2008	Rate of Claim (%)
Canadian Exploration Expense	7.0	100
Non-capital loss	31.2	100
Canadian Development Expense	115.9	30
UCC	61.8	20-100
Share issue	4.8	20
Canadian Oil and Natural Gas Property Expense	146.2	10
Total	366.9	

The Company has deferred partnership income from the December 31, 2008 tax year, which will be taxed on December 30, 2009. This income has not been reflected in the estimate of tax pools at year-end.

## NET INCOME

Net income in 2008 was \$32.2 million or \$0.83 per basic share, an increase of 704 percent on an absolute basis and an increase of 655 percent on a per share basis from \$4.0 million or \$0.11 per basic share in 2007. Net income increased in 2008 due to higher revenues resulting from higher commodity prices and production volumes. The increase in revenue was offset by the increases in DD&A, royalties and operating expenses. Breaker had net income of \$0.3 million or \$0.01 per basic share in the fourth quarter of 2008, a decrease of 84 percent on an absolute basis from \$2.1 million of net income in 2007. Net income per basic share was \$0.06 in the fourth quarter of 2007. Net income for the fourth quarter of 2008 decreased due to higher DD&A expense related mainly to higher future development capital compared to the fourth quarter of 2007.

## Net Income (Loss)

	Year Ended			Quarter Ended		
	Dec. 31, 2008	Dec. 31, 2007	% Change	Dec. 31, 2008	Dec. 31, 2007	% Change
Total (000s)	\$ 32,166	\$ 3,999	704	\$ 321	\$ 2,056	(84)
Per share	\$ 0.83	\$ 0.11	655	\$ 0.01	\$ 0.06	(83)
Per share – diluted	\$ 0.82	\$ 0.11	645	\$ 0.01	\$ 0.06	(83)
Per boe	\$ 14.55	\$ 2.49	484	\$ 0.52	\$ 4.94	(89)

## CAPITAL EXPENDITURES

Breaker's capital expenditures for 2008 were \$183.5 million, a 196 percent increase from the \$62.0 million spent in 2007. The increase is primarily due to \$62.8 million of net acquisitions in 2008 as compared to dispositions of \$0.4 million in 2007 as well as a \$37.0 million increase in drilling and intangible expenditures. Breaker invested \$78.6 million to drill 48 gross (42.8 net) wells, \$26.6 million on facilities and equipment and \$11.9 million on land and seismic in 2008.

In the fourth quarter of 2008, Breaker's capital expenditures totalled \$34.2 million compared to \$19.3 million in the fourth quarter of 2007. In light of the depressed commodity price environment during the quarter, Breaker's fourth quarter capital expenditures were lower than forecast as the Company deferred \$6.5 million of capital

spending in the quarter. In addition, approximately \$5.0 million of capital spending is planned to be deferred in the first quarter of 2009. Breaker's 2009 capital program was originally set at up to \$80 million with the majority of capital spending weighted to the second half of 2009. The Company will continue to be flexible in its capital spending in order to respond to changes in commodity prices, costs and capital markets. We are reviewing our capital program continually as the year progresses and adjusting capital spending as necessary.

Breaker completed a ceiling test calculation at December 31, 2008, and it was determined that there was no impairment to capital assets.

### Capital Expenditure Summary

(\$ millions)	2008	2007	2006	2005
Land and seismic	11.9	3.6	7.7	3.7
Drilling and intangibles	78.6	41.6	32.0	21.7
Facilities and equipment	26.6	14.9	12.0	5.1
Acquisitions	63.3	–	89.3	22.3
Dispositions	(0.5)	(0.4)	–	–
Other	3.6	2.3	1.6	0.7
<b>Total capital</b>	<b>183.5</b>	<b>62.0</b>	<b>142.6</b>	<b>53.5</b>

## QUARTERLY AND ANNUAL DATA

(\$000s except per share amounts)	Year Ended					Year Ended					Year Ended
	Dec. 31, 2008	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Dec. 31, 2007	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Dec. 31, 2006
Petroleum and natural gas sales	168,192	32,726	51,029	51,329	33,108	86,633	23,241	21,625	22,011	19,756	52,299
Funds from operations	94,947	14,376	30,216	31,072	19,283	41,384	9,834	10,583	11,757	9,210	26,761
Funds from operations per basic share	2.46	0.35	0.76	0.84	0.52	1.13	0.27	0.29	0.32	0.26	0.91
Cash flow from operations	91,876	30,019	27,145	26,098	8,614	44,476	10,144	10,404	11,783	12,145	20,011
Net earnings (loss)	32,166	321	11,078	14,223	6,544	3,999	2,056	607	1,523	(187)	2,083
Net earnings (loss) per basic	0.83	0.01	0.28	0.38	0.18	0.11	0.06	0.02	0.04	(0.01)	0.07
Net earnings (loss) per diluted share	0.82	0.01	0.27	0.37	0.17	0.11	0.06	0.02	0.04	(0.01)	0.07
Total assets (end of period)	369,919	369,919	358,951	274,680	258,286	230,112	230,112	215,296	208,129	209,281	199,501
Total debt (end of period)	74,642	74,642	73,144	54,064	50,270	36,821	36,821	42,399	38,818	35,575	30,621

## SHARE CAPITAL AND OPTION ACTIVITY

### Share Capital

\$000s	2008	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Weighted Class A shares	38,609	40,508	39,713	36,364	36,254
Weighted Class B shares	–	–	–	900	900
Conversion of Class B shares – weighted	–	–	–	717	1,104
Basic shares outstanding <sup>(1)</sup>	38,609	40,508	39,713	37,081	37,358
Stock option dilution (treasury method)	533	193	981	1,014	318
Diluted shares outstanding	39,141	40,701	40,694	38,095	37,676

(1) The Class B shares were converted to Class A shares on August 13, 2008, and therefore were not outstanding at December 31, 2008. For March 31, 2008 the Class B shares are converted at the quarter-end Class A share price of \$8.15 and added to the Class A shares to calculate basic shares outstanding. For June 30, 2008 the Class B shares are converted at the quarter-end Class A share price of \$12.55 and added to the Class A shares to calculate basic shares outstanding.

On November 29, 2007 the Company issued 800,000 Class A flow-through common shares at \$6.90 per share for gross proceeds of \$5,520,000. Certain officers and directors of the Company purchased 58,000 Class A common shares for total gross proceeds of \$400,200.

On July 15, 2008, the Company issued 3,000,000 Class A common shares at \$11.50 per share for total gross proceeds of \$34,500,000.

On August 13, 2008, the Corporation converted all of its Class B Shares to Class A Shares. Each Class B Share was exchanged for 0.8675 of a Class A Share, resulting in the issuance of 780,753 Class A Shares.

On November 27, 2008 the Company issued 823,600 Class A flow-through common shares at \$8.50 per share for gross proceeds of \$7,000,600. Certain officers and directors of the Company purchased 2,000 Class A flow-through common shares for total gross proceeds of \$17,000.

At December 31, 2008, Breaker had 41,027,590 Class A shares and 3,837,475 options outstanding. The Company granted 937,250 stock options during the 2008 year at a weighted average exercise price of \$8.17. During the fourth quarter of 2008, the Company granted 131,500 stock options at a weighted average exercise price of \$5.58.

On February 18, 2009, the Company closed a bought-deal financing of 4,660,000 Class A shares at an issue price of \$3.22 per share. The underwriting syndicate elected to exercise an over-allotment option in part to increase the offering by 342,700 Class A shares, bringing the total offering to 5,002,700 Class A shares and aggregate gross proceeds of \$16,108,694.

On March 16, 2009, Breaker had 46,030,290 Class A shares and 3,832,475 options outstanding.

## **LIQUIDITY AND CAPITAL RESOURCES**

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At December 31, 2008, the Company had drawn \$74.6 million on its bank line and had a working capital deficit including bank debt of \$99.7 million. Breaker's year-end net debt to full year 2008 funds from operations ratio was 1.1 times. Breaker's year-end debt to annualized fourth quarter funds from operations ratio was 1.7 times. At December 31, 2008, the Company had a \$125.0 million credit facility with a syndicate of Canadian chartered banks leaving unutilized borrowing capacity of \$25.3 million. On July 14, 2009, at the Company's discretion, the facility is available on a non-revolving basis for a one year period, at which time the facility would be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Company and subject to the approval of the syndicate. As the available lending limits of the facility are based on the syndicate's interpretation of the Company's reserves and future commodity prices there can be no assurance that the amount of the available facility will not decrease at the next scheduled review. Breaker expects to be in a net debt position throughout 2009. The Company has no exposure to asset-backed commercial paper.

Breaker's 2009 capital program was originally set at up to \$80 million with the majority of capital spending weighted to the second half of 2009. The Company will continue to be flexible in its capital spending in order to respond to changes in commodity prices, costs and capital markets.

Breaker estimates capital spending in the first quarter of 2009 to be approximately \$20 million and deferred approximately \$5.0 million of additional first quarter capital spending in light of this depressed commodity price environment. We are reviewing our capital program continually as the year progresses and adjusting capital spending as necessary.

In order to further enhance Breaker's balance sheet, the Company issued \$16.1 million of equity in February 2009.

Breaker anticipates that future capital requirements will be funded through a combination of internal funds from operations, asset dispositions, debt and/or equity financing. There is no assurance that debt and equity financing or dispositions will be available on terms acceptable to the Company to meet its capital requirements.

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

Certain officers and directors of the Company purchased 139,000 Class A common shares for total gross proceeds of \$447,580 as part of the February 18, 2009 equity offering.

Certain officers and directors of the Company purchased 2,000 Class A flow-through common shares for total gross proceeds of \$17,000 as part of the November 27, 2008 equity offering.

Certain officers and directors of the Company purchased 58,000 Class A flow-through common shares for total gross proceeds of \$400,200 as part of the November 29, 2007 equity offering.

Breaker was not involved in any off-balance-sheet transactions during the year ended December 31, 2008.

## **CONTRACTUAL OBLIGATIONS AND CONTINGENCIES**

The Company has entered into farm-in agreements in the normal course of its business.

Breaker has future minimum lease payments relating to its operating leases totalling \$4.1 million, as summarized below:

### ***Future Minimum Lease Payments***

	<b>(000s)</b>
2009	\$ 1,231
2010	962
2011	916
2012	920
2013	78
<b>Total</b>	<b>\$ 4,107</b>

The Company has entered into a take or pay commitment under a natural gas processing arrangement. The total commitment is estimated at \$429,000 in 2009.

The Company has entered into a take or pay commitment under a natural gas transportation arrangement. The total commitment is estimated at \$1,041,000 in 2009 and \$333,000 in 2010.

The Company is party to legal proceedings and claims that arise during the ordinary course of business operations. It is the opinion of management that the ultimate outcome of any currently outstanding matters will not have a material effect upon the Company's financial position, results of operations or cash flows.

The Company has a \$125,000,000 revolving term credit facility with a syndicate of Canadian chartered banks bearing interest at bank rates. The facility is available on a revolving basis until July 14, 2009. On July 14, 2009, at the Company's discretion, the facility is available on a non-revolving basis for a one year period, at which time the facility would be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Company and subject to the approval of the syndicate. As the available lending limits of the facility are based on the syndicate's interpretation of the Company's reserves and future commodity prices there can be no assurance that the amount of the available facility will not decrease at the next scheduled review.

## FINANCIAL INSTRUMENTS

During December 2006, the Company entered into a crude oil derivatives transaction for 1,000 barrels per day for the period January 1, 2007 to December 31, 2007. This transaction consisted of the purchase of a \$55.00 USD per barrel put option. The Company's fair value at December 31, 2006 was \$570,452 based on the premium being paid at the time of entering the contract. During the year ended December 31, 2007, the Company realized a gain of \$12,049 for settlements under this contract. There are no derivative contracts outstanding during the year ended December 31, 2008.

Subsequent to year-end the Company entered into an oil swap contracts with the following terms:

Term	Type	Volume (Bbls)	Price (C\$/Bbl)	Index	Call Option (C\$/Bbl)
Mar. 1, 2009 – Mar. 31, 2009	Swap	500	C\$ 50.90	C\$ WTI	C\$ 90.00
Apr. 1, 2009 – Apr. 30, 2009	Swap	500	C\$ 50.90	C\$ WTI	C\$ 90.00
May 1, 2009 – May 31, 2009	Swap	500	C\$ 50.90	C\$ WTI	C\$ 90.00
Apr. 1, 2009 – Apr. 30, 2009	Swap	500	C\$ 56.30	C\$ WTI	C\$ 90.00
May 1, 2009 – May 31, 2009	Swap	500	C\$ 56.30	C\$ WTI	C\$ 90.00
Jun. 1, 2009 – Jun. 30, 2009	Swap	500	C\$ 56.30	C\$ WTI	C\$ 90.00

## CRITICAL ACCOUNTING ESTIMATES

### OIL AND NATURAL GAS RESERVES

Under National Instrument 51-101 (N.I. 51-101), "proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable, i.e., that it is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. In accordance with this definition, the level of certainty targeted by the reporting Company should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated reserves. In the case of "probable" reserves, which are obviously less certain to be recovered than proved reserves, N.I. 51-101 states that it must be equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable reserves. With respect to the consideration of certainty, in order to report reserves as Proved plus Probable, the reporting company must believe that there is at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated Proved plus Probable reserves. The implementation of N.I. 51-101 has resulted in a more rigorous and uniform standard of reserve evaluation.

The oil and natural gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans. The effect of changes in proved oil and natural gas reserves on the financial results and position of the Company is described next under depletion expense and impairment of petroleum and natural gas properties.

### DEPLETION EXPENSE

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development are capitalized whether or not the activities funded were successful. The aggregate of net capitalized costs and estimated future development costs, less estimated salvage values, is amortized using the unit-of-production method based on estimated proved oil and natural gas reserves.

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

## **WITHHELD COSTS**

Certain costs related to unproved properties may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly and any impairment is transferred to the costs being depleted, which would increase depletion expense for the given period.

## **IMPAIRMENT OF PETROLEUM AND NATURAL GAS ASSETS**

The Company is required to review the carrying value of all petroleum and natural gas assets for potential impairment. Impairment is indicated if the carrying value of the petroleum and natural gas assets is not recoverable by the future undiscounted funds from operations. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the property, plant and equipment is charged to earnings. The assessment of impairment is dependent on estimates of reserves, production rates, prices, future costs and other relevant assumptions.

## **ASSET RETIREMENT OBLIGATIONS**

The Company is required to provide for future removal and site restoration costs. The Company must estimate these costs in accordance with existing laws, contracts or other policies. The fair value of the liability for the Company's asset retirement obligation is recorded in the period in which it is expected to be incurred, discounted to its present value using the Company's 10 percent credit adjusted risk-free rate and 2 percent inflation rate. The offset to the liability is recorded in the carrying amount of petroleum and natural gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of funds from operations or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

## **STOCK-BASED COMPENSATION**

The Company uses the fair value method for valuing stock option grants. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. A zero dividend yield is used as the Company does not issue dividends; the volatility is a calculation based on past trading history and the risk-free rate is from the Bank of Canada. An increase in dividends would decrease the option expense and an increase in the volatility or the risk-free rate would increase the calculated expense.

## **LEGAL, ENVIRONMENTAL REMEDIATION AND OTHER CONTINGENT MATTERS**

The Company is required to determine whether a loss is probable based on judgement and interpretation of laws and regulations and whether the loss can reasonably be estimated. When the loss is determined, it is charged to earnings.

The Company's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

## **INCOME TAX ACCOUNTING**

The determination of the Company'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 the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management. In addition, the Company calculates future taxes based on rates substantively enacted at each reporting period and expected to apply when temporary differences reverse. Any changes in the anticipated reversals may impact future tax rates and the increase or decrease will be recorded through earnings.

## **FINANCIAL INSTRUMENTS**

The Company recognizes the fair value for the unrealized portion of derivative contracts at each reporting date on the financial statements. The fair value is based on an estimate of the amounts that would have been paid to or received from counterparties to settle these instruments given future market prices and other relevant factors. As the fair value is based on a number of subjective estimates such as future prices and volatility in commodity markets, estimates could differ from actual results realized.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Company has established disclosure controls and procedures for the timely and accurate preparation of financial and other reports. Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the periods specified by applicable securities regulations and that information required to be disclosed is accumulated and communicated to the appropriate members of management and properly reflected in the Company's filings. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these disclosure controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met. The Chief Executive Officer and the Chief Financial Officer oversee this evaluation process and have concluded that the design and operation of these disclosure controls and procedures are adequate and effective in providing reasonable assurance that material information required to be disclosed by the Company in reports filed with Canadian securities regulators is accurate and complete and filed within the periods required other than the material weaknesses identified in internal controls over financial reporting as noted below. The Chief Executive Officer and the Chief Financial Officer have individually signed certifications to this effect.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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The Chief Executive Officer and Chief Financial Officer of Breaker are responsible for designing and ensuring the operating effectiveness of internal controls over financial reporting or causing them to be designed and operating effectively under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Breaker's management has assessed the design and operating effectiveness of internal controls over financial reporting.

While Breaker's Chief Executive Officer and Chief Financial Officer believe the Company's internal controls and procedures provide a reasonable level of assurance that they are reliable, an internal control system cannot prevent all errors and fraud. It is management's belief that any 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.

During the design and operating effectiveness assessment certain material weaknesses in internal controls over financial reporting were identified, as follows:

- Management is aware that there is a lack of segregation of duties due to the small number of employees dealing with general administrative and financial matters. However, management believes that at this time the potential benefits of adding employees to clearly segregate duties do not justify the costs associated with such increase;
- Many of Breaker's information systems are subject to general control deficiencies including a lack of effective controls over spreadsheets, access and documentation. The Company expects that some deficiencies will continue into the future; and

- Breaker does not have full-time in-house tax personnel to address all complex and non-routine tax issues that may arise. It is not deemed as economically feasible at this time to have such personnel. Breaker relies on external experts for review of the tax provision and compilation of corporate tax returns.

These weaknesses in internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the Board of Directors work to mitigate the risk of material misstatement; however, management and the Board do not have reasonable assurance that this risk can be reduced to a remote likelihood of a material misstatement.

## **RISK FACTORS**

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Additional risk factors can be found under “Risk Factors” in the Company’s 2008 Annual Information Form, which can be found on [www.sedar.com](http://www.sedar.com). Many risks are discussed below and in the 2008 Annual Information Form, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

On October 25, 2007 the Alberta Government announced the New Royalty Framework (NRF) which took effect after January 1, 2009. On March 3, 2009 the Alberta government announced a drilling royalty credit and new well incentive program that will be in effect from April 1, 2009 to March 31, 2010. On November 19, 2008 the Alberta government announced that in response to the global economic crisis and a slowdown in oil and natural gas drilling in Alberta, companies drilling certain new wells after November 19, 2008 have a one-time option of selecting a transitional rate or the NRF rate. All wells drilled between 2009 and 2013 that adopt the transitional rate will be required to shift to the NRF on January 1, 2014. All wells drilled prior to November 19, 2008 will move to the NRF on January 1, 2009 and as a result Breaker’s royalty rates are expected to increase in 2009 given similar commodity prices in 2009 as 2008.

Oil and natural gas operations involve many risks that even a combination of experience and knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Breaker depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Breaker may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Breaker’s reserves will depend not only on the Company’s ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that further commercial quantities of oil and natural gas will be discovered or acquired by Breaker.

Breaker’s principal risks include finding and developing economic hydrocarbon reserves efficiently and being able to fund the capital program. The Company’s need for capital is both short-term and long-term in nature. Short-term working capital will be required to finance accounts receivable, drilling deposits and other similar short-term assets, while the acquisition and development of oil and natural gas properties requires large amounts of long-term capital. Breaker anticipates that future capital requirements will be funded through a combination of internal funds from operations, debt and/or equity financing. There is no assurance that debt and equity financing will be available on terms acceptable to the Company to meet its capital requirements. If any components of the Company’s business plan are missing, the Company may not be able to execute the entire business plan.

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the

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

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

The Company utilizes financial derivatives contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

## **CHANGES IN ACCOUNTING POLICIES**

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On January 1, 2008, the Company adopted Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments Disclosures and Section 3863 – Financial Instruments Presentation. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. This Section specifies disclosure about objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with all capital requirements, and if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 establish standards for the presentation and disclosure of information that enable users to evaluate the significance of financial instruments to the entity's financial position, and the nature and extent of risks arising from financial instruments and how the entity manages those risks. The implementation of these new standards did not impact the Company's financial results, however did result in additional disclosures.

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The International Accounting Standards Board ("IASB") has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment, if implemented, will permit the Company to apply IFRS prospectively by utilizing its current reserves at the transition date to allocate the Company's full cost pool, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date.

Although the amended IFRS 1 standard would provide relief, the changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Company reported financial position and reported results of operations.

In response, the Company has completed its high-level IFRS changeover plan and established a preliminary timeline for the execution and completion of the conversion project. The changeover plan was determined following a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight into what are anticipated to be the most significant areas of difference applicable to the Company.

During the next phase of the project, scheduled to take place during 2009, the Company will perform an in-depth review of the significant areas of difference, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities including the effect, if any, on covenants and compensation arrangements. External advisors have been retained and will assist management with the project on an as needed basis. Staff training programs will commence in 2009 and be ongoing as the project unfolds.

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

## MANAGEMENT'S LETTER TO SHAREHOLDERS

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Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial and operating data contained elsewhere in the report. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected with all information available up to March 16, 2009. The financial statements have been prepared using policies and procedures established by management in accordance with Canadian generally accepted accounting principles and reflect fairly Breaker's financial position, results of operations and cash flow.

Management has established and maintains a system of internal controls which are designed to ensure that financial information is relevant, reliable and accurate and to provide assurance that assets are safeguarded from loss or unauthorized use and transactions are executed in accordance with management's authorization.

KPMG LLP, independent auditors appointed by the shareholders, have examined the consolidated financial statements, and Sproule Associates Limited has reviewed the corporate reserves. Their examinations provide independent views as to the amounts and disclosures in the financial statements.

The Audit Committee, consisting exclusively of independent directors, has reviewed in detail the financial statements with management and the external auditors and has recommended their approval to the Board of Directors.

The Board of Directors has approved the financial statements and information as presented in this annual report.

(signed) "P. Dan O'Neil"

**P. Daniel O'Neil**  
President and Chief Executive Officer

March 16, 2009

(signed) "Maxwell A. W. Lof"

**Maxwell A. W. Lof**  
Vice President, Finance and  
Chief Financial Officer

## **AUDITORS' REPORT TO THE SHAREHOLDERS**

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We have audited the consolidated balance sheets of Breaker Energy Ltd. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "KPMG LLP"

### **Chartered Accountants**

Calgary, Canada  
March 16, 2009

# CONSOLIDATED BALANCE SHEETS

As at December 31

(Stated in thousands of dollars)

	2008	2007
<b>ASSETS</b>		
Current assets:		
Accounts receivable	\$ 14,211	\$ 11,812
Prepaid expenses and deposits	1,904	1,631
	<b>16,115</b>	13,443
Petroleum and natural gas properties (note 4)	<b>353,804</b>	216,669
	<b>\$ 369,919</b>	\$ 230,112
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 41,173	\$ 27,777
Bank debt (note 5)	-	36,821
	<b>41,173</b>	64,598
Bank debt (note 5)	<b>74,642</b>	-
Future income taxes (note 8)	<b>18,850</b>	7,492
Asset retirement obligations (note 6)	<b>13,512</b>	11,142
Shareholders' equity:		
Share capital (note 7)	<b>172,535</b>	132,901
Contributed surplus (note 7)	<b>7,778</b>	4,716
Retained earnings	<b>41,429</b>	9,263
	<b>221,742</b>	146,880
Commitments and contingencies (note 10)		
Subsequent events (note 12)		
	<b>\$ 369,919</b>	\$ 230,112

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

(signed) "Keith Macdonald"

(signed) "Peter Bannister"

**Keith Macdonald**  
Director

**Peter Bannister**  
Director

# CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND RETAINED EARNINGS

Years ended December 31

(Stated in thousands of dollars, except per share amounts)

	<b>2008</b>	<b>2007</b>
<b>REVENUES</b>		
Petroleum and natural gas	\$ 168,192	\$ 86,633
Royalties	(32,933)	(15,502)
Unrealized loss on commodity derivatives (note 11(e))	-	(570)
Realized gain on commodity derivatives (note 11(e))	-	12
	<b>135,259</b>	70,573
<b>EXPENSES</b>		
Operating	24,522	18,529
Transportation	6,569	3,010
General and administrative	5,870	4,806
Stock-based compensation	2,057	1,668
Interest expense	2,851	2,273
Depletion, depreciation and accretion	51,236	35,684
	<b>93,105</b>	65,970
Earnings before income taxes	42,154	4,603
Future income tax (note 8)	9,988	604
Net earnings and comprehensive income	32,166	3,999
Retained earnings, beginning of year	9,263	5,264
Retained earnings, end of year	\$ 41,429	\$ 9,263
Earnings per share (note 7):		
Basic	\$ 0.83	\$ 0.11
Diluted	\$ 0.82	\$ 0.11

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31  
(Stated in thousands of dollars)

	2008	2007
Cash provided by (used in):		
<b>OPERATING</b>		
Net earnings	\$ 32,166	\$ 3,999
Items not involving cash:		
Depletion, depreciation and accretion	51,236	35,684
Future income tax	9,988	604
Stock-based compensation	1,893	1,668
Unrealized loss on commodity derivatives	-	570
Abandonment expenditures	(336)	(1,141)
	<b>94,947</b>	41,384
Change in non-cash working capital (note 9)	<b>(3,071)</b>	3,092
	<b>91,876</b>	44,476
<b>FINANCING</b>		
Bank debt	37,821	6,200
Issue of common shares	42,329	5,730
Share issue costs	(2,309)	(324)
	<b>77,841</b>	11,606
<b>INVESTING</b>		
Petroleum and natural gas properties	(120,719)	(62,338)
Property acquisition (note 4)	(63,328)	-
Disposition of properties	535	384
Change in non-cash working capital (note 9)	13,795	5,872
	<b>(169,717)</b>	(56,082)
Change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See note 9 for additional cash flow information.

Cash is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007

(Tabular amounts are stated in thousands of dollars, except share and per share data)

## 1. INCORPORATION:

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Breaker Energy Ltd. (“Breaker” or the “Corporation”) is incorporated under the laws of the Province of Alberta. The Corporation is engaged in the exploration for and development and production of oil and gas in western Canada.

## 2. SIGNIFICANT ACCOUNTING POLICIES:

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The financial statements include the accounts of the Corporation and have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of these financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the statements and accompanying notes. As a result, actual amounts could differ from estimated amounts.

Specifically, the amounts recorded for depletion and depreciation of petroleum and natural gas properties and the provision for asset retirement obligations and abandonment costs are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. The amounts for stock-based compensation are based on estimates of risk-free rates, expected lives and volatility. The fair value estimates for derivatives are based on expected future petroleum and natural gas prices and volatility in those prices. Future income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

### **(a) Consolidation:**

The consolidated financial statements include the accounts of the Corporation, its wholly owned subsidiary and a partnership. All inter-entity transactions and balances have been eliminated.

### **(b) Cash and cash equivalents:**

Cash and cash equivalents are comprised of cash and all investments that are highly liquid in nature and have a maturity date of three months or less.

### **(c) Petroleum and natural gas properties:**

The Corporation follows the full cost method of accounting for oil and gas operations, whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized. Capitalized costs include land acquisition costs, cost of drilling both productive and non productive wells, asset retirement costs, and geological and geophysical expenses and directly related overhead. Gains or losses on the disposition of oil and gas properties are not ordinarily recognized, except under circumstances which would result in a change in the depletion rate of 20 percent or more.

(Tabular amounts are stated in thousands of dollars, except share and per share data)

Capitalized costs, excluding costs relating to unproven properties, are depleted using the unit of production method based on estimated proved reserves of oil and gas before royalties as determined by independent petroleum engineers. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on relative energy content of six thousand cubic feet of gas to one barrel of oil.

Costs of acquiring unproven properties are initially excluded from the depletable base and are assessed at each reporting period to ascertain whether impairment has occurred. When proved reserves are assigned to the property or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the depletable base.

Petroleum and natural gas properties are evaluated in each reporting period to determine whether the carrying amount in a cost centre is recoverable and does not exceed the fair value of the properties in the cost centre.

The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market of unproven properties and the cost of major development projects exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves, the lower of cost and market of unproven properties and the cost of major development projects of the cost centre. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.

Office equipment is recorded at cost and is depreciated on the declining balance basis using rates varying from 20 percent to 30 percent.

***(d) Interest in joint ventures:***

Certain of the Corporation's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

***(e) Asset retirement obligations:***

The Corporation uses the asset retirement obligation method of recording the future cost associated with removal, site restoration and asset retirement costs. The fair value of the liability for the Corporation's asset retirement obligation is recorded in the period in which it is incurred, discounted to its present value using the Corporation's credit adjusted risk-free interest rate and the corresponding amount is recognized by increasing the carrying amount of petroleum and natural gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

***(f) Future income taxes:***

The Corporation uses the asset and liability method of accounting for future income taxes. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets and liabilities. Future income tax assets or liabilities are calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(Tabular amounts are stated in thousands of dollars, except share and per share data)

**(g) Flow-through shares:**

The Corporation will from time to time issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, share capital will be reduced and a future tax liability will be recorded equal to the estimated cost of the renounced tax deductions when the expenditures are renounced.

**(h) Stock-based compensation plans:**

The Corporation uses the fair value method for valuing stock option grants. Under this method, compensation cost attributable to all share options granted is measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Stock-based compensation plans that are to be settled in cash are accounted for as liabilities. The compensation expense is accrued over the vesting period of the award, based on the market value of the Corporation's common shares. Fluctuations in the market value of the Corporation's common shares, determined based on the five day weighted average trading price ending on the last day of each reporting period, will result in a change in the accrued compensation expense, which is recognized in period in which the fluctuation occurs.

**(i) Financial instruments:**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including all derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Corporation has designated its cash and cash equivalents as held for trading which are measured at fair value. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable and accrued liabilities, and bank debt are classified as other liabilities which are measured at amortized cost, which is determined using the effective interest method.

The Corporation will assess at each reporting period whether a financial asset is impaired with any impairment recorded in earnings.

The Corporation is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. A variety of derivative instruments may be used by the Corporation to reduce its exposure to fluctuations in commodity prices, foreign exchange rates, and interest rates. The Corporation does not use these derivative instruments for trading or speculative purposes. The Corporation considers all of these transactions to be economic hedges; however, the majority of the Corporation's contracts do not qualify or have not been designated as hedges for accounting purposes. As a result, all derivative contracts are classified as held for trading and recorded on the balance sheet at fair value, with changes in the fair value recognized in net earnings, unless specific hedge criteria are met. The fair values of these derivative instruments are 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. Proceeds and costs realized from holding the derivative contracts are recognized in earnings at the time each transaction under a contract is settled.

(Tabular amounts are stated in thousands of dollars, except share and per share data)

The Corporation has elected to account for its physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts on an accrual basis rather than as non-financial derivatives.

The Corporation measures and recognizes embedded derivatives separately from the host contracts when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, when it meets the definition of a derivative and when the entire contract is not measured at fair value. Embedded derivatives are recorded at fair value.

The Corporation nets all transaction costs incurred, in relation to the acquisition of a financial asset or liability, against the related financial asset or liability. Bank debt is presented net of deferred interest payments, with interest recognized in earnings on an effective interest basis.

The Corporation applies trade-date accounting for the recognition of a purchase or sale of cash equivalents and derivative contracts.

***(j) Per share amounts:***

Basic per share amounts are calculated using the weighted average number of Class A and Class B shares outstanding during the period. Class B shares are converted to Class A shares at \$10 divided by the greater of \$1 and the Class A shares at the period end market price. Diluted per share amounts are calculated based on the treasury stock method. The weighted average number of shares is adjusted for the dilutive effect of options. The dilutive effect of options uses proceeds received on the exercise of options plus the unamortized portion of stock-based compensation to purchase Class A shares at the average price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

***(k) Revenue recognition:***

Petroleum and natural gas revenues are recognized when the title and risks pass to the purchaser.

***(l) Comparative figures:***

Certain comparative figures have been reclassified to conform with current year's presentation.

### **3. CHANGE IN ACCOUNTING POLICIES:**

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On January 1, 2008, the Corporation adopted Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments Disclosures and Section 3863 – Financial Instruments Presentation. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. This Section specifies disclosure about objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with all capital requirements, and if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 establish standards for the presentation and disclosure of information that enable users to evaluate the significance of financial instruments to the entity's financial position, and the nature and extent of risks arising from financial instruments and how the entity manages those risks. The implementation of these new standards did not impact the Corporation's financial results; however, it did result in additional disclosures – refer to note 11.

## **FUTURE ACCOUNTING PRONOUNCEMENTS:**

### ***Goodwill and Intangible Assets***

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements will be required. The Corporation is still assessing the impact of this new standard on its financial statements.

### ***Business Combinations***

In January 2009, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Corporation. Early adoption is permitted. This section replaces Section 1581, Business Combination and harmonizes the Canadian standards with IFRS.

### ***International Financial Reporting Standards***

In February 2008, the CICA Accounting Standards Board (“AcSB”) confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The International Accounting Standards Board (“IASB”) has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment, if implemented, will permit the Corporation to apply IFRS prospectively by utilizing its current reserves at the transition date to allocate the Corporation’s full cost pool, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date.

Although the amended IFRS 1 standard would provide relief, the changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Corporation reported financial position and reported results of operations.

In response, the Corporation has completed its high-level IFRS changeover plan and established a preliminary timeline for the execution and completion of the conversion project. The changeover plan was determined following a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight into what are anticipated to be the most significant areas of difference applicable to the Corporation.

During the next phase of the project, scheduled to take place during 2009, the Corporation will perform an in-depth review of the significant areas of difference, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities including the effect, if any, on covenants and compensation arrangements. External advisors have been retained and will assist management with the project on an as needed basis. Staff training programs will commence in 2009 and be ongoing as the project unfolds.

The Corporation will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators which may affect the timing, nature or disclosure of its adoption of IFRS.

(Tabular amounts are stated in thousands of dollars, except share and per share data)

#### 4. PETROLEUM AND NATURAL GAS PROPERTIES:

2008	Cost	Accumulated Depletion	Net Book Value
Petroleum and natural gas properties	\$ 469,203	\$ 115,399	\$ 353,804

2007	Cost	Accumulated Depletion	Net Book Value
Petroleum and natural gas properties	\$ 281,815	\$ 65,146	\$ 216,669

During 2008, the Corporation capitalized \$5,288,000 (2007 – \$4,516,000) of overhead-related costs to petroleum and natural gas properties, of which \$1,594,000 (2007 – \$1,463,000) related to stock-option compensation and \$233,000 (2007 – nil) related to performance share unit compensation. The future tax liability associated with the capitalized stock-option compensation totaling \$559,000 (2007 – \$593,000) has also been capitalized for the year ended December 31, 2008.

Costs associated with unproven properties and seismic excluded from costs subject to depletion for 2008 totaled \$27,488,000 (2007 – \$19,493,000). Future development costs for proved reserves of \$113,251,000 (2007 – \$69,843,000) have been included in the depletion calculation.

On July 15, 2008, the Corporation acquired certain petroleum and natural gas properties for cash of \$63,328,000, with associated asset retirement obligations of \$600,000.

At December 31, 2008, the Corporation applied a ceiling test to its petroleum and natural gas properties using expected future market prices of:

	WTI Oil (\$US/bbl)	US\$/Cdn\$ Exchange Rate	WTI Oil (\$Cdn/bbl)	Breaker Oil (\$Cdn/bbl)	Breaker Liquids (\$Cdn/bbl)	Alberta Gas Reference Price Plant Gate (\$Cdn/MMBtu)	Breaker Gas (\$Cdn/mcf)
2009	53.73	0.80	67.16	62.72	54.89	6.47	6.70
2010	63.41	0.85	74.60	69.87	62.70	7.24	7.52
2011	69.53	0.85	81.80	76.53	71.04	7.56	7.84
2012	79.59	0.90	88.43	82.98	78.54	8.15	8.42
2013	92.01	0.95	96.85	91.22	87.92	9.00	9.29
2014	93.85	0.95	98.79	93.04	90.60	9.21	9.52
2015	95.72	0.95	100.76	94.89	93.21	9.42	9.74
2016	97.64	0.95	102.78	96.85	95.92	9.63	9.95
2017	99.58	0.95	104.82	98.84	98.86	9.85	10.18
2018	101.58	0.95	106.93	100.85	101.53	10.07	10.40
Thereafter	+2.0%/yr	1.0	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr

(Tabular amounts are stated in thousands of dollars, except share and per share data)

## 5. BANK DEBT:

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The Corporation has a \$125,000,000 revolving term credit facility with a syndicate of Canadian chartered banks bearing interest at bank rates. The facility is available on a revolving basis until July 14, 2009. On July 14, 2009, at the Corporation's discretion, the facility is available on a non-revolving basis for a one year period, at which time the facility would be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Corporation and subject to the approval of the syndicate. As the available lending limits of the facility are based on the syndicate's interpretation of the Corporation's reserves and future commodity prices there can be no assurance that the amount of the available facility will not decrease at the next scheduled review on or before July 14, 2009.

The facility is secured by a first fixed and floating charge debenture in the minimum face amount of \$200,000,000 and a general security agreement. As at December 31, 2008, \$74,642,000 (2007 – \$36,821,000) had been drawn on this facility. Letters of credit amounting to \$95,000 are held against this facility. This facility had an effective interest rate of 3.65 percent (2007 – 6.00 percent) at December 31, 2008. The Corporation is in compliance with all debt covenants at December 31, 2008.

## 6. ASSET RETIREMENT OBLIGATIONS:

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The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately \$28,685,000 (2007 – \$22,330,000) which will be incurred between 2009 and 2036. The majority of these costs will be incurred between 2009 and 2031. A credit-adjusted risk free rate of eight to ten percent (2007 – eight percent) was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	2008	2007
Balance, beginning of year	\$ 11,142	\$ 9,707
Liabilities incurred	1,123	1,762
Liabilities incurred on acquisitions (note 5)	600	–
Accretion expense	983	814
Abandonment expenditures	(336)	(1,141)
Balance, end of year	\$ 13,512	\$ 11,142

(Tabular amounts are stated in thousands of dollars, except share and per share data)

## 7. SHARE CAPITAL:

### (a) Authorized:

Unlimited number of voting Class A shares.

Unlimited number of voting Class B shares.

Unlimited series of Preferred Shares, terms and conditions to be set by board of directors when issued.

### (b) Issued and outstanding:

	Number of Shares	Amount
<b>Class A shares:</b>		
Balance, December 31, 2006	34,845,175	\$ 123,160
Issued pursuant to flow-through private placement	800,000	5,520
Exercise of stock options	568,579	210
Stock-based compensation on exercise of stock options	–	76
Share issue costs	–	(324)
Tax effect of share issue costs	–	93
Tax effect of flow-through shares issued in 2006	–	(1,808)
Balance, December 31, 2007	36,213,754	\$ 126,927
Issued pursuant to private placement	3,000,000	34,500
Issued pursuant to flow-through private placement	823,600	7,001
Conversion of Class B shares to Class A shares	780,753	5,974
Exercise of stock options	209,483	828
Stock-based compensation on exercise of stock options	–	425
Share issue costs	–	(2,309)
Tax effect of share issue costs	–	624
Tax effect of flow-through shares issued in 2007	–	(1,435)
Balance, December 31, 2008	41,027,590	\$ 172,535
<b>Class B shares:</b>		
Balance, December 31, 2007 and 2006	900,000	\$ 5,974
Conversion of Class B shares to Class A shares	(900,000)	(5,974)
Balance, December 31, 2008	–	\$ –
Total share capital on December 31, 2008		<b>\$ 172,535</b>

On November 29, 2007 the Corporation issued 800,000 Class A flow-through common shares at \$6.90 per share for gross proceeds of \$5,520,000. Certain officers and directors of the Corporation purchased 58,000 Class A common shares for total gross proceeds of \$400,200.

On July 15, 2008, the Corporation issued 3,000,000 Class A common shares at \$11.50 per share for total gross proceeds of \$34,500,000.

On August 13, 2008, the Corporation converted all of its class B shares to class A shares. Each Class B share was exchanged for 0.8675 of a Class A share, resulting in the issuance of 780,753 Class A shares.

(Tabular amounts are stated in thousands of dollars, except share and per share data)

On November 27, 2008 the Corporation issued 823,600 Class A flow-through common shares at \$8.50 per share for gross proceeds of \$7,000,600. Certain officers and directors of the Corporation purchased 2,000 Class A flow-through common shares for total gross proceeds of \$17,000.

**(c) Stock options:**

Under the Corporation's stock option plan it may grant options to its employees for up to 4,102,759 Class A shares of the Corporation. The exercise price of each option equals the closing market price of the Corporation's stock on the day prior to the date of grant, with options having a term of five years to maturity and vesting as to one-third on each of the first, second and third anniversaries from the date of grant.

	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options outstanding beginning of year	3,150,041	\$ 5.48	3,038,287	\$ 4.43
Granted	937,250	8.17	753,500	5.88
Exercised	(209,483)	3.95	(568,579)	0.37
Forfeited	(40,333)	6.11	(73,167)	5.79
Stock options outstanding, end of year	3,837,475	\$ 6.21	3,150,041	\$ 5.48
Exercisable at year-end	1,838,633	\$ 5.38	1,022,648	\$ 4.93

The following table summarizes information about the stock options outstanding at December 31, 2008:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Weighted Average Exercise Price
\$3.45 – \$5.00	831,991	\$ 4.22	1.7	687,038	\$ 4.09
\$5.01 – \$7.00	2,199,734	6.09	2.9	1,151,595	6.15
\$7.01 – \$9.00	604,250	8.25	4.7	–	–
\$9.01 – \$11.18	201,500	9.61	4.4	–	–
	3,837,475	\$ 6.21	3.0	1,838,633	\$ 5.38

**(d) Stock-based compensation:**

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grants in 2008: zero dividend yield (2007 – zero dividend yield); expected volatility of 47-57 percent (2007 – 48-79 percent); risk-free rate of 1.7 – 3.4 percent (2007 – 3.9-4.6 percent); and expected life of 5 years (2007 – 5 years). The weighted average fair value of stock options granted during the year was \$3.78 per option (2007 – \$3.58 per option).

The Corporation has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Corporation accounts for actual forfeitures as they occur.

(Tabular amounts are stated in thousands of dollars, except share and per share data)

**(e) Contributed surplus:**

	<b>2008</b>	<b>2007</b>
Balance, beginning of year	\$ 4,716	\$ 1,661
Stock-based compensation expense	1,893	1,668
Stock-based compensation capitalized	1,594	1,463
Transfer to share capital on exercise of options	(425)	(76)
Balance, end of year	\$ 7,778	\$ 4,716

**(f) Performance share units:**

During 2008, the Corporation implemented a cash-settled performance share unit (PSU) plan for certain executive officers of the Corporation. Each PSU entitles a participant to receive cash equal to the market value of the equivalent number of shares of the Corporation. The PSUs vest at the end of a three-year period and are subject to a performance multiplier that is based on the performance of the Corporation relative to a peer comparison of other junior oil and gas companies. The performance multiplier may range between 0 and 2 and is determined at the end of the three year vesting period. At December 31, 2008, 116,633 PSUs are outstanding with none being exercisable.

The total estimated value of the PSU's at December 31, 2008 is \$1,191,000, compensation expense is recognized on a straight-line basis over the vesting period. As a result, during 2008, \$164,000 of compensation expense was included in stock-based compensation and \$233,000 was capitalized to petroleum and natural gas properties with a total liability of \$397,000 included in accounts payable.

**(g) Per share amounts:**

The following table summarizes the shares used in calculating earnings per share:

	<b>2008</b>	<b>2007</b>
Weighted average number of shares – basic	38,608,515	36,691,759
Effect of dilutive stock options	532,849	469,417
Weighted average number of shares – diluted	39,141,364	37,161,176

Options to purchase 1,037,000 (2007 – 2,488,000) common shares were not included in the computation because they were anti-dilutive.

## 8. INCOME TAXES:

The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate of 29.50 percent (2007 – 32.12 percent) to earnings before income taxes. The difference relates to the following items:

	<b>2008</b>	<b>2007</b>
Earnings before income taxes	\$ 42,154	\$ 4,603
Statutory tax rate	29.50%	32.12%
Computed “expected” income tax expense	\$ 12,435	\$ 1,479
Increase (decrease) in taxes resulting from:		
Stock-based compensation	558	536
Future tax rate reduction and other	(3,005)	(1,411)
Future income taxes	\$ 9,988	\$ 604

(Tabular amounts are stated in thousands of dollars, except share and per share data)

The components of the Corporation's future income tax liability are as follows:

	2008	2007
Future income tax liabilities:		
Petroleum and natural gas properties	\$ 32,796	\$ 11,606
Future income tax assets:		
Asset retirement obligations	(3,378)	(2,785)
Share issue costs	(1,299)	(1,329)
Non capital loss	(9,269)	-
	<b>(13,946)</b>	<b>(4,114)</b>
Future income tax liability	\$ 18,850	\$ 7,492

At December 30, 2008, the Corporation had approximately \$32,000,000 of non-capital losses available to carry forward. These non-capital losses expire between 2011 and 2028.

## 9. CASH FLOW INFORMATION:

	2008	2007
Accounts receivable	\$ (2,399)	\$ 506
Prepaid expenses and deposits	(273)	(785)
Accounts payable and accrued liabilities	13,396	9,243
Change in non-cash working capital	\$ 10,724	\$ 8,964
These changes relate to the following activities		
Operating	\$ (3,071)	\$ 3,092
Investing	13,795	5,872
	\$ 10,724	\$ 8,964

Interest paid and received for the year ended December 31, 2008 was \$2,851,000 (2007 – \$2,273,000). There were no cash income taxes paid for the years ended December 31, 2008 and 2007.

## 10. COMMITMENTS AND CONTINGENCIES:

### (a) Future minimum lease payments relating to operating lease commitments are:

2009	\$ 1,231
2010	962
2011	916
2012	920
2013	78
	<b>\$ 4,107</b>

### (b) Flow-through shares:

In 2008, the Corporation issued 823,600 Class A flow-through common shares at \$8.50 per share for gross proceeds of \$7,000,600. As at December 31, 2008, the Corporation had incurred \$2,775,000 towards this flow-through share obligation and has remaining eligible exploration expenditures of \$4,225,600 to be spent before December 31, 2009 to satisfy the terms of this flow-through share offering.

(Tabular amounts are stated in thousands of dollars, except share and per share data)

**(c) Natural gas processing arrangement:**

The Corporation has entered into a take or pay commitment under a natural gas processing arrangement. The total commitment is estimated at \$429,000 in 2009.

**(d) Natural gas transportation arrangement:**

The Corporation has entered into a take or pay commitment under a natural gas transportation arrangement. The total commitment is estimated at \$1,041,000 in 2009 and \$333,000 in 2010.

**(e) Contingencies:**

The Corporation is party to legal proceedings and claims that arise during the ordinary course of business operations. It is the opinion of management that the ultimate outcome of any currently outstanding matters will not have a material effect upon the Corporation's financial position, results of operations or cash flows.

## **11. FINANCIAL INSTRUMENTS:**

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### **OVERVIEW**

The Corporation has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has implemented and monitors compliance with risk management policies.

The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Corporation's activities.

**(a) Credit risk:**

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from joint-venture partners and petroleum and natural gas marketers. As at December 31, 2008 the Corporation's receivables consisted of \$4,157,000 (2007 – \$1,800,000) from joint-venture partners, \$7,944,000 (2007 – \$8,700,000) of receivables from petroleum and natural gas marketers and \$2,110,000 (2007 – \$1,312,000) of other trade receivables.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation attempts to mitigate credit risk by establishing marketing relationships with a variety of purchasers. The Corporation historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint-venture bill being issued to the partner. The Corporation attempts to mitigate the risk from joint-venture

(Tabular amounts are stated in thousands of dollars, except share and per share data)

receivables by obtaining partner approval of significant capital expenditures prior to the expenditure. However, the receivables are from participants in the petroleum 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-venture partners as disagreements occasionally arise that increase the potential for non-collection. The Corporation does not typically obtain collateral from petroleum and natural gas marketers or joint-venture partners; however, the Corporation does have the ability to withhold production from joint-venture partners in the event of non-payment.

The carrying amount of accounts receivable represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts, as at December 31, 2008 and 2007 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the years ended December 31, 2008 and 2007.

As at December 31, 2008 and 2007 the Corporation considers its receivables to be aged as follows:

<b>Aging</b>	<b>2008</b>	<b>2007</b>
Not past due (less than 120 days)	\$ 12,790	\$ 10,333
Past due (120 days to one year)	1,421	1,479
Total	\$ 14,211	\$ 11,812

**(b) Liquidity risk:**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Corporation's reputation.

The Corporation prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Corporation has a revolving reserve-based credit facility, as outlined in note 6, that is reviewed at least annually by the lender. The Corporation also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month.

Accounts payable are considered due to suppliers in one year or less. Bank debt has a maturity date of July 14, 2010, and is subject to renewal after a 364-day revolving period with a one year term out provision.

**(c) Market risk:**

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

The Corporation utilizes financial derivatives contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

**(d) Foreign currency exchange risk:**

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange risks. Although substantially all of the Corporation's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollars.

(Tabular amounts are stated in thousands of dollars, except share and per share data)

The Corporation had no forward exchange rate contracts in place as at or during the year ended December 31, 2008 and 2007.

**(e) Commodity price risk:**

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

There are no derivative contracts outstanding as of December 31, 2008. During 2007, the Corporation had outstanding a crude oil derivatives contract for 1,000 barrels per day for the period January 1, 2007 to December 31, 2007. This contract consisted of the purchase of a \$55.00 USD per barrel put option. During the year ended December 31, 2007, the Corporation realized a gain of \$12,049 for settlements under this contract.

**(f) 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 Corporation is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. As at December 31, 2008, if interest rates had been 100 basis points lower with all other variables held constant, net earnings for the year then ended would have been approximately \$394,000 (2007 – \$245,000) higher, respectively, due to lower interest expense. An equal and opposite impact would have occurred to net earnings had interest rates been 100 basis points higher. The sensitivity is higher in 2008 as compared to 2007 because of an increase in outstanding bank debt, slightly offset by a decrease in interest rates.

The Corporation has no interest rate swap or financial contracts in place as at or during the year ended December 31, 2008 and 2007.

**(g) Capital management:**

The Corporation's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Corporation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholders' equity of \$221,742,000 (2007 – \$146,880,000), bank debt of \$74,642,000 (2007 – \$36,821,000) and the working capital deficiency of \$25,058,000 (2007 – \$14,334,000). In order to maintain or adjust capital structure, the Corporation may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Corporation monitors its capital based on the ratio of net debt to the rolling four-quarter trailing funds from operations. Net debt is defined as outstanding bank debt plus or minus working capital. Funds from operations is defined as cash flow from operating activities before changes in non-cash working capital. This ratio is calculated as net debt divided by the sum of the rolling four quarter trailing funds from operations. The Corporation's strategy is to maintain a ratio of less than 2.00 to 1. This ratio may increase at certain times as a result of acquisitions. In order to facilitate the management of this ratio, the Corporation prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

(Tabular amounts are stated in thousands of dollars, except share and per share data)

As at December 31, 2008 and 2007, the Corporation's ratio of net debt to the rolling four-quarter trailing funds from operations was 1.05 to 1 and 1.24 to 1, respectively, within the range established by the Corporation. The Corporation's ratio of net debt to the rolling four-quarter trailing funds from operations decreased at December 31, 2008 compared to December 31, 2007 primarily as a result of an increase in net revenue due to higher commodity prices and production volumes.

The net debt to the rolling four-quarter trailing funds from operations has been calculated as follows:

	<b>2008</b>	<b>2007</b>
Working capital deficiency (including bank debt)	\$ <b>99,700</b>	\$ 51,155
Cash flow from operating activities	<b>91,876</b>	44,476
Change in non-cash operating working capital	<b>3,071</b>	(3,092)
Funds from operations	\$ <b>94,947</b>	\$ 41,384
Ratio	<b>1.05 to 1</b>	1.24 to 1

The Corporation also monitors its capital based on interest coverage which is based on the ratio of the rolling four quarter trailing net earnings before interest, future income taxes, depletion, depreciation and accretion (EBITDA) and stock-based compensation to interest expense. In this ratio the rolling four quarter trailing EBITDA and stock-based compensation is divided by interest expense. The Corporation's strategy is to maintain a ratio of greater than 3.00 to 1.

As at December 31, 2008 and 2007, the Corporation's ratio of the rolling four quarter trailing EBITDA and stock-based compensation to interest expense was 34.42 to 1 and 19.46 to 1, respectively, within the range established by the Corporation.

The rolling four quarter trailing EBITDA and stock-based compensation to interest expense has been calculated as follows:

	<b>2008</b>	<b>2007</b>
Net earnings	\$ <b>32,166</b>	\$ 3,999
Interest	<b>2,851</b>	2,273
Future income tax	<b>9,988</b>	604
Depletion, depreciation and accretion	<b>51,236</b>	35,684
Stock-based compensation (non-cash)	<b>1,893</b>	1,668
EBITDA and stock-based compensation	\$ <b>98,134</b>	\$ 44,228
Interest expense	<b>2,851</b>	2,273
Ratio	<b>34.42 to 1</b>	19.46 to 1

The Corporation's share capital is not subject to external restrictions; however, the bank debt facility is based on petroleum and natural gas reserves (see note 5). The Corporation has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There were no changes in the Corporation's approach to capital management during the year.

(Tabular amounts are stated in thousands of dollars, except share and per share data)

**(h) Fair value of financial instruments:**

The Corporation's financial instruments as at December 31, 2008 and 2007 include accounts receivable, accounts payable and accrued liabilities and bank debt. The fair value of accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

Bank debt bears interest as a floating market rate and accordingly the fair market value approximates the carrying value.

## 12. SUBSEQUENT EVENTS:

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**(a) Equity issuance:**

On February 18, 2009, the Corporation issued 5,002,700 Class A shares at \$3.22 per share for gross proceeds of \$16,108,694. Certain directors and officers of the Corporation purchased 139,000 Class A common shares for total gross proceeds of \$447,580.

**(b) Commodity contracts:**

Subsequent to year-end the Corporation entered into a series of oil commodity contracts with the following terms:

Term	Type	Volume (Bbls/d)	Swap Price (C\$/Bbl)	Index	Call Option (C\$/Bbl)
Mar. 1, 2009 – Mar. 31, 2009	Swap	500	C\$ 50.90	C\$ WTI	C\$ 90.00
Apr. 1, 2009 – Apr. 30, 2009	Swap	500	C\$ 50.90	C\$ WTI	C\$ 90.00
May 1, 2009 – May 31, 2009	Swap	500	C\$ 50.90	C\$ WTI	C\$ 90.00
Apr. 1, 2009 – Apr. 30, 2009	Swap	500	C\$ 56.30	C\$ WTI	C\$ 90.00
May 1, 2009 – May 31, 2009	Swap	500	C\$ 56.30	C\$ WTI	C\$ 90.00
Jun. 1, 2009 – Jun. 30, 2009	Swap	500	C\$ 56.30	C\$ WTI	C\$ 90.00

# HISTORICAL FIVE-YEAR REVIEW

	2008	2007	2006	2005	2004
Total petroleum and natural gas revenue (\$000)	\$ <b>168,192</b>	\$ 86,633	\$ 52,299	\$ 22,860	\$ 101
Production					
Oil and NGL (bbls per day)	<b>3,141</b>	1,833	1,039	383	5
Natural Gas (mcf per day)	<b>17,404</b>	15,444	10,809	3,846	–
Total (boe per day) (6:1)	<b>6,041</b>	4,407	2,840	1,024	5
Production per share (boe/mm shares)	<b>156.4</b>	120.1	96.5	54.2	1.2
Proved plus Probable reserves (mmboe)	<b>27.2</b>	18.0	12.3	4.9	0.3
Proved plus Probable reserves per share (boe/m shares)	<b>649</b>	453	321	215	21
Funds from operations <sup>(1)</sup>	<b>94,947</b>	41,384	26,761	12,223	(121)
Per share basic (\$)	<b>2.46</b>	1.13	0.91	0.65	(0.03)
Per share diluted (\$)	<b>2.43</b>	1.11	0.89	0.62	(0.03)
Operating netback (\$/boe)	<b>47.12</b>	30.49	30.65	36.39	17.24
Finding, developing and acquisition <sup>(2)</sup> (\$/boe)	<b>20.25</b>	14.51	20.32	14.21	32.54
Recycle ratio	<b>2.3</b>	2.1	1.5	2.6	0.5
Weighted average basic shares outstanding <sup>(3)</sup> (000s)	<b>38,609</b>	36,692	29,433	18,893	4,288
Weighted average diluted shares outstanding (000s)	<b>39,141</b>	37,161	30,136	19,694	4,288

(1) Management uses funds from operations (before changes in non-cash working capital) to analyze operating performance and leverage. Funds from operations as presented does not have any standardized meaning prescribed by Canadian GAAP and, therefore, may not be comparable with the calculation of similar measures for other entities.

(2) Including change in FDC discounted at 10 percent.

(3) The Class B shares were converted to Class A shares on August 13, 2008, and therefore were not outstanding at December 31, 2008. For March 31, 2008 the Class B shares are converted at the quarter-end Class A share price of \$8.15 and added to the Class A shares to calculate basic shares outstanding. For June 30, 2008 the Class B shares are converted at the quarter-end Class A share price of \$12.55 and added to the Class A shares to calculate basic shares outstanding.

## **ABBREVIATIONS**

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bcf	billion cubic feet
bbbl	barrel
bbls per day	barrels per day
bbls/d	barrels per day
boe	A boe is a barrel of oil equivalent on the basis of 1 boe to 6 mcf of natural gas. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 1 boe for 6 mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead.
boe per day	barrels of oil equivalent per day
cagr	compound annual growth rate
km	kilometre
m	thousand
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mcf per day	thousand cubic feet per day
mcfce	thousand cubic feet equivalent
mm	million
mmbtu	million British Thermal Units
mmcf	million cubic feet

# CORPORATE INFORMATION

## DIRECTORS

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### **Robert Leach** <sup>(1)</sup>

Chairman of the Board  
Chief Executive Officer of Custom Truck Sales Ltd.  
President of International Fitness Inc.

### **Paul Colborne** <sup>(3) (4)</sup>

Chairman of TriStar Oil & Gas Ltd.

### **Peter Bannister** <sup>(1) (2)</sup>

President of Destiny Energy Inc.

### **John Bowlen** <sup>(2) (3) (4)</sup>

President and Chief Executive Officer of Regent Resources Ltd.

### **Denny Hop** <sup>(3)</sup>

President of Hop Asset Management Ltd.  
Partner of UniGlobe Travel (Western Canada Ltd.)

### **P. Dan O'Neil** <sup>(4)</sup>

President and Chief Executive Officer of Breaker Energy Ltd.

### **Keith Macdonald** <sup>(1) (2)</sup>

President of Bamako Investment Management Ltd.

### **Rob Peters**

President of Black Diamond Land and Cattle Company

(1) Member of the Audit Committee

(2) Member of the Reserves Committee

(3) Member of the Compensation Committee

(4) Member of the Environment, Health and Safety Committee

## HEAD OFFICE

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## MANAGEMENT

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### **P. Dan O'Neil**

President  
Chief Executive Officer  
Director

### **Max Lof**

Vice President, Finance,  
Chief Financial Officer

### **Dan Polley**

Vice President, Exploration

### **Ian Langdon**

Vice President, Development

### **Craig McClelland**

Vice President, Land

### **Doug Seams**

Vice President, Business Development

### **James Pasieka**

Corporate Secretary

## LEGAL COUNSEL

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Heenan Blaikie LLP • Calgary, Alberta

## BANKERS

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The Bank of Nova Scotia • Calgary, Alberta  
Bank of Montreal • Calgary, Alberta  
Canadian Imperial Bank of Commerce •  
Calgary, Alberta

## TRANSFER AGENT

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Olympia Trust Company • Calgary, Alberta

## AUDITORS

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KPMG LLP  
Chartered Accountants • Calgary, Alberta

## INDEPENDENT ENGINEERS

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Sproule Associates Limited • Calgary, Alberta

## STOCK EXCHANGE LISTING

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Toronto Stock Exchange WAV



**2008 ANNUAL REPORT**

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