ANDERSON ENERGY LTD.

Consolidated Financial Statements

DECEMBER 31, 2009 AND 2008

Table of Contents

Management's Report

Management is responsible for the preparation of the consolidated financial statements and the consistent presentation of all other financial information that is publicly disclosed. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes to the consolidated financial statements and in accordance with Canadian generally accepted accounting policies and include estimates and assumptions based on management's best judgement. Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced in a timely manner. Independent auditors appointed by the shareholders have examined the consolidated financial statements. Their report is presented below. The Audit Committee, consisting of independent members of the Board of Directors, have reviewed the consolidated financial statements with management and the independent auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

(signed) *Brian H.Dau*

Brian H. Dau
President & Chief Executive Officer

March 19, 2010

(signed) *M. Darlene Wong*

M. Darlene Wong
Vice President, Finance,
Chief Financial Officer & Secretary

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Anderson Energy Ltd. as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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, 2009 and 2008 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 19, 2010

ANDERSON ENERGY LTD.
Consolidated Balance Sheets

DECEMBER 31, 2009 AND 2008

(Stated in thousands of dollars)

	2009	2008
ASSETS		
Current assets:		
Cash	$ 1	$ 1
Accounts receivable and accruals *(note 12)*	22,990	28,960
Prepaid expenses and deposits	3,778	2,692
	26,769	31,653
Property, plant and equipment *(note 4)*	470,400	511,880
	$ 497,169	$ 543,533
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accruals	$ 36,889	$ 71,619
Bank loans *(note 6)*	62,404	85,314
Asset retirement obligations *(note 7)*	33,879	30,820
Future income taxes *(note 8)*	31,278	46,168
	164,450	233,921
Shareholders' equity:		
Share capital *(note 9)*	391,637	334,176
Contributed surplus *(note 9)*	6,104	4,000
Deficit	(65,022)	(28,564)
	332,719	309,612
Commitments *(note 14)*		
Subsequent events *(note 15)*		
	$ 497,169	$ 543,533

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

(signed) *J.C. Anderson* — Director

(signed) *Brian H. Dau* — Director

ANDERSON ENERGY LTD.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	2009	2008
REVENUES		
Oil and gas sales	$ 76,993	$ 156,245
Royalties	(8,253)	(34,038)
Interest income	155	67
	68,895	122,274
EXPENSES		
Operating	26,906	32,110
General and administrative	6,998	6,377
Stock-based compensation	1,092	1,065
Interest and other financing charges	3,733	4,459
Depletion, depreciation and accretion	80,940	65,373
Impairment of goodwill *(note 5)*	-	35,364
	119,669	144,748
Loss before taxes	(50,774)	(22,474)
Future income tax expense (reduction) *(note 8)*	(14,316)	4,390
Loss and comprehensive loss for the year	(36,458)	(26,864)
Deficit, beginning of year	(28,564)	(1,700)
Deficit, end of year	$ (65,022)	$ (28,564)
Loss per share *(note 9)*		
Basic	$ (0.29)	$ (0.31)
Diluted	$ (0.29)	$ (0.31)

See accompanying notes to the consolidated financial statements.

ANDERSON ENERGY LTD.
Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31, 2009 AND 2008

(Stated in thousands of dollars)

	2009	2008
CASH PROVIDED BY (USED IN)		
OPERATIONS		
Loss for the year	$ (36,458)	$ (26,864)
Items not involving cash:		
Depletion, depreciation and accretion	80,940	65,373
Future income tax expense (reduction)	(14,316)	4,390
Impairment of goodwill	-	35,364
Stock-based compensation	1,092	1,065
Asset retirement expenditures	(1,482)	(1,132)
Changes in non-cash working capital:		
Accounts receivable and accruals	3,201	1,553
Prepaid expenses and deposits	(1,036)	(591)
Accounts payable and accruals	(8,121)	3,530
	23,820	82,688
FINANCING		
Increase (decrease) in bank loans	(22,910)	17,333
Issue of common shares, net of issue costs	56,538	25
Changes in non-cash working capital:		
Accounts payable and accruals	115	-
	33,743	17,358
INVESTMENTS		
Additions to property, plant and equipment	(33,612)	(124,712)
Proceeds on disposition of properties	54	18,043
Changes in non-cash working capital:		
Accounts receivable and accruals	2,769	1,027
Prepaid expenses and deposits	(50)	421
Accounts payable and accruals	(26,724)	5,174
	(57,563)	(100,047)
Decrease in cash	-	(1)
Cash, beginning of year	1	2
Cash, end of year	$ 1	$ 1

See note 11 for additional cash information.

See accompanying notes to the consolidated financial statements.

ANDERSON ENERGY LTD.
Notes to the Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 2009 AND 2008

(*Tabular amounts in thousands of dollars, unless otherwise stated*)

Anderson Energy Ltd. ("Anderson Energy" or the "Company") was incorporated under the laws of the province of Alberta on January 30, 2002. Anderson Energy is engaged in the acquisition, exploration and development of oil and gas properties in western Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation. These consolidated financial statements include the accounts of Anderson Energy Ltd. and its wholly owned subsidiaries and a partnership and have been prepared by management in accordance with accounting principles generally accepted in Canada. All inter-entity transactions and balances have been eliminated. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reported period. Actual results could differ from these estimates. Specifically, the amounts recorded for depletion and depreciation of oil and gas properties and the accretion of asset retirement obligations are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and gas prices, future costs and other relevant assumptions. The amounts for stock-based compensation are based on estimates of risk-free rates, expected lives, forfeitures and volatility. 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.

(b) Cash. Cash is defined as cash in the bank, less outstanding cheques.

(c) Property, plant and equipment. The Company follows the full cost method of accounting for oil and gas properties. Under this method, all costs relative to the exploration for and development of oil and gas reserves are capitalized. Capitalized costs include lease acquisitions, geological and geophysical costs, lease rentals on non-producing properties, costs of drilling productive and non-productive wells, plant and production equipment costs, asset retirement costs and that portion of general and administrative expenses directly attributable to exploration and development activities. Proceeds received from disposals of oil and gas properties and equipment are credited against capitalized costs unless the disposal would alter the rate of depletion and depreciation by more than 20%, in which case a gain or loss on disposal is recorded.

Oil and gas capitalized costs are depleted and depreciated using the unit of production method based on total proved reserves before royalties. Natural gas sales and reserves are converted to equivalent units of crude oil using their relative energy content. The costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations until it is determined whether or not proved reserves are attributable to the property or impairment occurs. Office equipment and furniture are being depreciated over their useful lives using the declining balance method at rates between 20% and 30% per annum.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

A detailed impairment calculation is performed when events or circumstances indicate a potential impairment of the carrying amount of oil and gas properties may have occurred, and at least annually in the fourth quarter. An impairment loss is recognized when the carrying amount of a cost centre is not recoverable and exceeds its fair value. The carrying amount is assessed to be recoverable when the sum of the undiscounted cash flows expected from proved reserves plus the cost of unproved properties, net of impairments, exceeds the carrying amount of the cost centre. When the carrying amount is assessed not 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 from proved and probable reserves plus the cost of unproved properties, net of impairments, 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.

(d) Asset retirement obligations. The Company records the fair value of asset retirement obligations as a liability in the period in which it incurs a legal obligation to restore an oil and gas property, typically when a well is drilled, equipment is put in place or in the event of an acquisition. The fair value is discounted using the Company's credit adjusted, risk-free rate with the associated asset retirement costs capitalized as part of the carrying amount of property, plant and equipment and depleted and depreciated using the unit of production method based on total proved reserves before royalties. Subsequent to the initial measurement of the obligations, the obligations are increased at the end of each period to reflect the passage of time resulting in an accretion charge to earnings. The obligations are also adjusted for changes in the estimated future cash flows underlying the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

(e) Goodwill. Goodwill is the excess purchase price over the fair value of identifiable assets and liabilities acquired in a business combination. Goodwill is not amortized and is tested for impairment annually in the fourth quarter or more frequently if events or changes in circumstances indicate that the asset might be impaired. To assess impairment, the fair value of the Company, deemed to be the reporting unit, is determined and compared to the book value of the Company. If the fair value of the Company is less than the book value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the individual assets and liabilities from the fair value of the Company to determine the implied fair value of goodwill. An impairment loss is recognized for the excess of the carrying value of goodwill over the implied fair value.

(f) Income taxes. The Company follows the asset and liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using income tax rates that are substantively enacted and expected to apply in the periods when the temporary differences are expected to reverse. The effect of a change in rates on future income tax assets and liabilities is recognized in the period that the change occurs.

(g) Flow-through shares. The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

arrangements are renounced to investors in accordance with income tax legislation. An estimate of the additional tax liability to be incurred and included in the future tax provision is recognized and charged to share capital at the time the resource expenditure deductions for income tax purposes are renounced to investors.

(h) Stock-based compensation plans. The Company accounts for stock options granted to employees and directors using the fair value method of accounting for stock-based compensation plans. Under this method, the Company recognizes compensation costs, with a corresponding increase to contributed surplus, based on the fair value of the options over the vesting period of the grant. The Company uses a Black-Scholes option pricing model to determine the fair value of options at the date of grant. When exercised, the consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(i) Revenue recognition. Revenue from the sale of oil and gas is recognized when title passes from the Company to the purchaser.

(j) Financial instruments. A financial instrument is any contract that gives rise to a financial asset to 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 Company has designated its cash as held for trading which is 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 loans are classified as other liabilities which are measured at amortized cost determined using the effective interest rate.

The Company 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 Company to reduce its exposure to fluctuations in commodity prices, foreign exchange rates, and interest rates. The Company does not use these derivative instruments for speculative purposes. The Company considers all of these transactions to be economic hedges, however, the Company's contracts do not qualify or have not been designated as hedges for accounting purposes. As a result, derivative contracts are classified as held for trading and are recorded on the balance sheet at fair value, with changes in the fair value recognized in earnings.

The Company has elected to account for its physical delivery sales contracts 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 Company 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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

(k) Interests in joint operations. A substantial portion of the Company's oil and gas exploration and development activities are conducted jointly with others, and accordingly, the consolidated financial statements reflect only the Company's proportionate interest in such activities.

(l) Per share amounts. Basic per share amounts are calculated using the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only options for which the exercise price is less than the market value impact the dilution calculations.

(m) Comparative figures. Certain comparative figures have been reclassified to conform to the current year's presentation.

2. CHANGES IN ACCOUNTING POLICIES

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. The Company adopted the new standard for the year ended December 31, 2009. Adoption of the standard did not have any impact on the Company's results of operations or financial position.

Financial Instruments – Disclosures. In May 2009, the Canadian Institute of Chartered Accountants amended Section 3862, Financial Instruments – Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These disclosures are included in note 12.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

Business combinations. In January 2009, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to

3. FUTURE ACCOUNTING PRONOUCEMENTS *(Continued)*

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 Company. Early adoption is permitted.

This section replaces Section 1581, Business Combinations and harmonizes the Canadian standards with International Financial Reporting Standards.

Consolidated financial statements and non-controlling interests. In 2009, the CICA issued Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests which replace the existing guidance under Section 1600, Consolidated Financial Statements. These standards provide guidance for preparing consolidated financial statements and for accounting for a non-controlling interest in a subsidiary. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption permitted.

4. PROPERTY, PLANT AND EQUIPMENT

		2009		*2008*
Cost	$	723,549	$	686,420
Less accumulated depletion and depreciation		(253,149)		(174,540)
Net book value	$	470,400	$	511,880

At December 31, 2009, unproved property costs of $6.2 million (December 31, 2008 – $8.5 million) have been excluded from the full cost pool for depletion and depreciation calculations. Future development costs of proved, undeveloped reserves of $197.6 million (December 31, 2008 – $204.7 million) have been included in the depletion and depreciation calculation.

For the year ended December 31, 2009, $4.6 million (December 31, 2008 – $4.4 million) of general and administrative costs including $1.0 million (December 31, 2008 – $0.9 million) of stock-based compensation costs were capitalized. The future tax liability of $0.3 million (December 31, 2008 – $0.3 million) associated with the capitalized stock-based compensation has also been capitalized. Capitalized general and administrative costs consist of salaries and associated office rent of staff involved in capital activities.

No impairment was recognized under the ceiling test at December 31, 2009. The future commodity prices used in the ceiling test were based on commodity price forecasts of the Company's independent reserves engineers adjusted for differentials specific to the Company's reserves. Factors used in the ceiling test calculation are as follows:

	AECO Gas Price ($Cdn/Mcf)	*WTI Cushing ($US/bbl)*	*Exchange rate (US$/Cdn)*
2010	5.96	80.00	0.95
2011	6.79	83.00	0.95
2012	6.89	86.00	0.95
2013	6.95	89.00	0.95
2014	7.05	92.00	0.95
2015	7.16	93.84	0.95
2016	7.42	95.72	0.95
2017	7.95	97.64	0.95
2018	8.52	99.59	0.95
2019	8.69	101.58	0.95
Thereafter 2%			

4. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

After 2019, only inflationary growth of 2% was considered. Natural gas liquids prices were tied to crude oil prices based on historical trends and analysis. Exchange rates were expected to remain constant beyond 2019.

5. GOODWILL

The Company reviewed the valuation of goodwill as of December 31, 2008 and determined that the fair value of the reporting entity had declined. Based upon this review, an impairment of goodwill of $35.4 million has been recorded as a non-cash charge to earnings as of December 31, 2008.

6. BANK LOANS

At December 31, 2009, the Company has a $90 million extendible, revolving term credit facility and a $10 million working capital credit facility (the "Facilities") with a syndicate of Canadian banks. At December 31, 2009, the Company has $0.9 million of letters of credit outstanding, which reduces the amount of credit available to the Company.

The reserves-based Facilities have a revolving period ending on July 13, 2010, extendible at the option of the lenders, followed by a term period with three equal quarterly principal repayments commencing 180 days from the term date. The average effective interest rate on advances in 2009 was 4.2% (December 31, 2008 – 5.0%). Advances under the Facilities can be drawn in either Canadian or U.S. funds and bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR loan rates plus applicable margins. The margins vary depending on the borrowing option used and the Company's financial ratios. At December 31, 2009, there were no advances in U.S. funds.

Loans are secured by a floating charge debenture over all assets and guarantees by material subsidiaries.

The available lending limits of the Facilities are reviewed semi-annually and are based on the bank syndicate's interpretations of the Company's reserves and future commodity prices. There can be no assurance that the amount of the available Facilities or the applicable margins will not be adjusted at the next scheduled review on or before July 13, 2010.

7. ASSET RETIREMENT OBLIGATIONS

The Company estimates the total undiscounted cash flows required to settle its asset retirement obligations is approximately $70.1 million (December 31, 2008 – $63.4 million), including expected inflation of 2% (December 31, 2008 – 2%) per annum. The majority of the costs will be incurred between 2010 and 2020. A credit adjusted risk-free rate of 8% to 10% (December 31, 2008 – 8% to 10%) was used to calculate the fair value of the asset retirement obligations. A reconciliation of the asset retirement obligations is provided below:

7. ASSET RETIREMENT OBLIGATIONS *(Continued)*

	2009	2008
Balance, beginning of year	$ 30,820	$ 24,526
Liabilities incurred during the year	1,544	3,951
Liabilities settled during the year	(1,482)	(1,132)
Liabilities settled on disposition	-	(1,234)
Change in estimate	666	2,770
Accretion expense	2,331	1,939
Balance, end of year	$ 33,879	$ 30,820

8. TAXES

The temporary differences that gave rise to the Company's future income tax liabilities (assets) at December 31, 2009 and 2008 were as follows:

	2009	2008
Future income tax liabilities (assets):		
Property, plant and equipment	$ 50,210	$ 53,264
Non-capital losses	(9,289)	(13,395)
Asset retirement obligations	(8,470)	(7,705)
Share issue costs	(1,985)	(1,841)
Current income deferred	812	15,845
Balance, end of year	$ 31,278	$ 46,168

The provision for income taxes differs from the result that would have been obtained by applying the combined federal and provincial tax rates to the loss before taxes. The difference results from the following items:

	2009	2008
Loss before taxes	$ (50,774)	$ (22,474)
Combined federal and provincial tax rates	29.0%	29.6%
Expected future income tax reduction	(14,724)	(6,652)
Increase in income taxes resulting from:		
Non-deductible impairment of goodwill	-	10,468
Non-deductible stock-based compensation and other	408	574
Future income tax expense (reduction)	$ (14,316)	$ 4,390

At December 31, 2009, the Company has loss carryforwards of $36 million that will expire between 2011 and 2029. The Company expects to be able to fully utilize these losses.

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized share capital. The Company is authorized to issue an unlimited number of common and preferred shares. The preferred shares may be issued in one or more series.

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS *(Continued)*

Issued share capital.

	Number of Common Shares		Amount
Balance at December 31, 2007	87,294,401	$	334,147
Stock options exercised	6,000		25
Transferred from contributed surplus on stock option exercise	-		4
Balance at December 31, 2008	87,300,401	$	334,176
Issued pursuant to prospectus(1)	63,200,000		60,040
Share issue costs	-		(3,502)
Tax effect of share issue costs	-		923
Balance at December 31, 2009	150,500,401	$	391,637

(1) Includes 4,992,034 common shares issued to management and directors and 3,377,966 common shares issued to family of management and directors for total gross proceeds of $8.0 million.

Stock options. The Company has an employee stock option plan under which employees, directors and consultants are eligible to receive grants. The exercise price of stock options equals the weighted average trading price of the Company's shares for the five trading days prior to the date of the grant. Options have terms of either five or ten years and vest equally over a three year period starting on the first anniversary date of the grant. Changes in the number of options outstanding during the years ended December 31, 2009 and December 31, 2008 are as follows:

	Number of options		Weighted average exercise price
Balance at December 31, 2007	6,297,306	$	4.65
Granted	1,468,300		3.21
Exercised	(6,000)		4.13
Expirations	(48,800)		4.80
Forfeitures	(115,950)		4.28
Balance at December 31, 2008	7,594,856	$	4.37
Granted	3,316,200		0.80
Expirations	(252,300)		6.47
Forfeitures	(400,000)		3.01
Balance at December 31, 2009	10,258,756	$	3.22
Exercisable at December 31, 2009	5,809,539	$	4.52

	Options outstanding				Options exercisable		
Range of exercise prices	Number of options		Weighted average exercise price	Weighted average remaining life (years)	Number of options		Weighted average exercise price
$0.79 to $0.99	3,145,200	$	0.79	4.6	-	$	-
$1.00 to $1.50	89,100		1.07	2.4	2,700		1.35
$2.26 to $3.35	842,700		2.68	3.7	280,900		2.68
$3.36 to $5.00	5,100,656		4.01	2.5	4,450,839		4.00
$5.01 to $7.50	440,100		6.02	1.6	434,100		6.03
$7.51 to $9.01	641,000		7.93	0.9	641,000		7.93
Total at December 31, 2009	10,258,756	$	3.22	3.1	5,809,539	$	4.52

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS *(Continued)*

The fair value of the options issued during the year ended December 31, 2009 was $0.42 per option (December 31, 2008 – $1.62 per option). The weighted average assumptions used in arriving at the values were: a risk-free interest rate of 2.40% (December 31, 2008 – 3.13%), expected option life of five years (December 31, 2008 – five years), expected volatility of 60% (December 31, 2008 – 57%) and a dividend yield of 0% (December 31, 2008 – 0%).

Per share amounts. During the year ended December 31, 2009 there were 125,047,250 weighted average shares outstanding (December 31, 2008 – 87,298,057). On a diluted basis, there were 125,047,250 weighted average shares outstanding (December 31, 2008 – 87,298,057) after giving effect to dilutive stock options. At December 31, 2009, there were 10,258,756 options that were anti-dilutive (December 31, 2008 – 7,594,856).

Contributed surplus

		Amount
Balance at December 31, 2007	$	2,005
Stock-based compensation		1,999
Transferred from contributed surplus on stock option exercise		(4)
Balance at December 31, 2008	$	4,000
Stock-based compensation		2,104
Balance at December 31, 2009	$	6,104

Employee stock savings plan. Effective July 1, 2008, the Company initiated an Employee Stock Savings Plan (“ESSP”). Employees could contribute up to 5% of their base salaries towards the purchase of Company shares and the Company matched these contributions. The ESSP was suspended effective April 1, 2009. The Company’s matching contribution, prior to the suspension of the plan, for the year ended December 31, 2009 was $77,000 (December 31, 2008 – $149,000) and is included in general and administrative expenses**.** The Company plans to reinstate the plan effective April 1, 2010.

10. MANAGEMENT OF CAPITAL STRUCTURE

Anderson Energy’s capital management policy is to maintain a strong, but flexible capital structure that optimizes the cost of capital and maintains investor, creditor and market confidence while sustaining the future development of the business.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company’s capital structure includes shareholders’ equity of $332.7 million, bank loans of $62.4 million and the working capital deficiency of $10.1 million. In order to maintain or adjust the capital structure, the Company may from time to time issue shares, seek additional debt financing and adjust its capital spending to manage current and projected debt levels.

Consistent with other companies in the oil and gas sector, Anderson Energy monitors capital based on the ratio of total debt to funds from operations. This ratio is calculated by dividing total debt at the end of the period (comprised of the working capital deficiency and outstanding bank loans) by the annualized current quarter funds from operations (cash flow from operating activities before changes in non-cash working capital and asset retirement expenditures). This ratio may increase at certain times as a result of

10. MANAGEMENT OF CAPITAL STRUCTURE *(Continued)*

acquisitions, the timing of capital expenditures and market conditions. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast crude oil and natural gas prices, capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

		2009		*2008*
Bank loans	$	62,404	$	85,314
Current liabilities		36,889		71,619
Current assets		(26,769)		(31,653)
Total debt	$	72,524	$	125,280
Cash from operating activities in quarter	$	5,361	$	11,261
Changes in non-cash working capital		3,246		1,464
Asset retirement expenditures		544		479
Funds from operations in quarter	$	9,151	$	13,204
Annualized current quarter funds from operations	$	36,604	$	52,816
Total debt to funds from operations		2.0		2.4

At December 31, 2009, the Company's total debt to annualized funds from operations was 2.0. During the fourth quarter of 2008 and the first nine months of 2009, commodity prices decreased significantly, adversely affecting the Company's cash flow. Management restricted capital and administrative spending until commodity prices started to recover. Commodity prices continue to be volatile. On May 28, 2009, the Company closed an equity financing for net proceeds of $56.5 million (note 9) and renewed its banking facilities at an available limit of $100 million (note 6) to provide funding for its farm-in commitments (note 14) and other capital spending planned for the 2010 winter drilling season. This decreased the ratio from the 2.4 at December 31, 2008. Additionally, subsequent to year end, the Company closed an equity financing for net proceeds of $29.8 million (note 15).

The Company's share capital is not subject to external restrictions, however, the Facilities are petroleum and natural gas reserves based (see note 6). Anderson Energy has not paid or declared any dividends since the date of incorporation and does not contemplate doing so in the foreseeable future.

11. CASH PAYMENTS

The following cash payments were made (received):

		2009		*2008*
Interest paid	$	2,835	$	3,765
Interest received		(155)		(69)

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments include cash, accounts receivable and accruals, accounts payable and accruals and bank loans. The carrying value of accounts receivable and accruals and accounts payable and accruals approximate their fair value due to their

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(Continued)*

demand nature or relatively short periods to maturity. The fair value of bank loans approximates the carrying value as they bear interest at a floating rate.

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

The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

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

Fair value of financial assets and financial liabilities. Section 3862, Financial Instruments – Disclosures, requires an explanation about how fair value is determined for assets and liabilities measured in the financial statements at fair value and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of input as follows:

- Level 1 – observable inputs such as quoted prices in active markets;
- Level 2 – inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and
- Level 3 – unobservable inputs for the asset or liability in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Cash as shown in the consolidated balance sheet as at December 31, 2009 and 2008, is measured using level 1. The Company does not have any financial instruments that are measured using level 2 or level 3 inputs.

During the years ended December 31, 2009 and 2008, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

Cash. The fair value of cash approximates its carrying value due to its short-term nature.

Accounts receivable and accruals, accounts payable and accruals. The carrying amount of accounts receivable and accruals and accounts payable and accruals approximate their fair values due to the short-term nature of the instruments.

Bank loans. The fair value of the Company's variable-rate bank loans approximates its carrying value, as it is at a floating market rate of interest.

Credit risk. Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable are with natural gas and liquids marketers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at December 31, 2009, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of $23.0

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(Continued)*

million (December 31, 2008 – $29.0 million). As at December 31, 2009, the Company's receivables consisted of $14.4 million (December 31, 2008 – $17.3 million) from joint venture partners and other trade receivables and $8.6 million (December 31, 2008 – $11.7 million) of revenue accruals and other receivables from petroleum and natural gas marketers.

Receivables from petroleum and natural gas marketers are typically collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any significant collection issues with its petroleum and natural gas marketers. Of the $8.6 million of revenue accruals and receivables from petroleum and natural gas marketers, $7.8 million was received on or about January 25, 2010. The balance is expected to be received in subsequent months through joint venture billings from partners.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company mitigates the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risks exist with joint venture partners, as disagreements occasionally arise that increase the potential for non-collection. For properties that are operated by Anderson Energy, production can be withheld from joint venture partners who are in default of amounts owing. In addition, the Company often has offsetting amounts payable to joint venture partners from which it can net receivable balances. As at December 31, 2009, the largest amount owing from one partner is $1.6 million.

The Company is from time to time exposed to credit risk associated with possible non-performance by counterparties to derivative financial instrument contracts. The Company believes these risks to be minimal as the counterparties are major financial institutions.

The Company's allowance for doubtful accounts as at December 31, 2009 is $1.6 million (December 31, 2008 – $1.4 million). This allowance was mostly created in prior years and is associated with prior corporate acquisitions and potential joint venture billing disputes. The Company provided for an additional $0.2 million in allowance and did not write-off any receivables during the year ended December 31, 2009. The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted.

As at December 31, the Company considers it receivables, net of allowance for doubtful accounts, to be aged as follows:

Aging	2009	2008
Not past due	$ 22,402	$ 24,036
Past due by less than 120 days	537	2,197
Past due by more than 120 days	51	2,727
Total	$ 22,990	$ 28,960

These amounts are before offsetting amounts owing to joint venture partners that are included in accounts payable and accrued liabilities.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(Continued)*

Liquidity risk. Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company'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 Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has revolving reserves based credit facilities, as outlined in note 6, which are reviewed at least annually by the lenders. The Company monitors its total debt position monthly. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month. The Company anticipates it will have adequate liquidity to fund its financial liabilities through its future cash flows.

The following are the contractual maturities of financial liabilities and associated interest payments as at December 31, 2009:

Financial Liabilities	< 1 Year	1 -2 Years
Accounts payable and accruals	$ 36,889	$ -
Bank loans – principal	-	62,404
Total	$ 36,889	$ 62,404

Please refer to note 14 for additional details on commitments.

Market risk. Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with a risk management policy that has been approved by the Board of Directors.

Currency 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 rates. Substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, however, 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 dollar. From time to time in 2008, the Company chose to sell a portion of its oil in United States dollars.

The Company had no outstanding forward exchange rate contracts in place at December 31, 2009.

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 world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. The Company may mitigate commodity price risk

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(Continued)*

through the use of financial derivatives and physical delivery fixed price sales contracts. All such contracts require approval of the Board of Directors.

In December 2009, the Company entered into physical sales contracts to sell 20,000 GJ per day of natural gas for each of January, February and March 2010 at an average AECO price of $5.41 per GJ. As of December 31, 2009, there have been no gains or losses recognized in association with these physical sales contracts.

On January 10, 2008, the Company entered into physical sales contracts to sell 25,000 GJ per day for February and March 2008 at an average AECO price of $6.89 per GJ. The losses realized to December 31, 2008 were $1.3 million and have been included in oil and gas sales.

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 Company is exposed to interest rate fluctuations on its bank debt which bears interest at a floating rate. For the year ended December 31, 2009, if interest rates had been 1% lower with all other variables held constant, earnings for the year would have been $0.5 million (December 31, 2008 – $0.5 million) higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amounts.

The Company had no interest rate swap or financial contracts in place at December 31, 2009.

13. RELATED PARTY TRANSACTION

In May 2009, the Company issued 4,992,034 common shares to management and directors and 3,377,966 common shares to family of management and directors of the Company at a price of $0.95 per share for total gross proceeds of $8 million as part of a $60 million bought deal offering of common shares.

14. COMMITMENTS

The Company has entered into an agreement to lease office space until November 30, 2012. Future minimum lease payments are expected to be $1.8 million in 2010 through 2011 and $1.6 million in 2012.

The Company entered into firm service transportation agreements for approximately 25 million cubic feet per day of gas sales in central Alberta for various terms expiring in one to ten years. Based on rate schedules announced to date, the payments in each of the next five years and thereafter are estimated as follows:

	Committed volume (MMcfd)		Committed amount
2010	25	$	1,634
2011	22	$	1,509
2012	14	$	1,109
2013	7	$	795
2014	1	$	640
Thereafter	17	$	1,183

14. COMMITMENTS *(Continued)*

On January 29, 2009, the Company executed a farm-in agreement with a large international oil and gas company (the "Farmor") on lands near its existing core operations. Under the farm-in agreement, the Company has access to 388 gross (205 net) sections of land. During the commitment phase of the transaction, the Company is committed to drill, complete and equip 200 wells to earn an interest in up to 120 sections. The Company is obligated to complete the drilling of the wells on or before December 31, 2010. The Company's equipping obligation is up to, but does not include, multi-well gathering systems downstream of field compression and/or gas plants. The Company has an option to continue the farm-in transaction until April 30, 2012 by committing to drill a minimum of 100 additional wells under similar terms as in the commitment phase to earn a minimum of 50 sections of land. Following the commitment and/or option phases, the parties to the agreement can then jointly develop the lands on denser drilling spacing under terms of an operating agreement.

The Company estimates that the average working interest of the 200 well capital commitment will be approximately 80 to 85%, based on partner participation identified to date and started drilling in the fourth quarter of 2009. The Company's commitment was to drill 75 wells by December 31, 2009, a further 50 wells by April 30, 2010 and a further 75 wells by December 31, 2010. The Company earns its interest in each well as the well is put on production. As of December 31, 2009, the Company has drilled 106 wells under the farm-in agreement.

After December 31, 2009 and April 30, 2010 respectively, the Farmor has the ability to request a letter of credit from the Company in the amount of $550,000 per well not drilled under the minimum commitment at that date. At December 31, 2010, the $550,000 penalty is payable for each well not drilled, subject to certain reductions due to unavoidable events beyond the Company's control and rights of first refusal. The Company estimates that it will spend approximately $50 million in 2010 on the farm-in, before drilling incentive credits earned.

15. SUBSEQUENT EVENTS

On February 3, 2010, the Company issued, pursuant to a prospectus, 19,250,000 common shares at a price of $1.45 per common share for gross proceeds of $27.9 million ($26.1 million, net of commission and expenses).

On February 22, 2010, the underwriters purchased an additional 2,650,000 common shares for additional gross proceeds of approximately $3.8 million under the over-allotment option ($3.7 million, net of commission).

Subsequent to year end, the Company entered into an agreement to sell a portion of its excess drilling incentive credits to a third party for total proceeds of $2.6 million. The agreement closed on March 19, 2010.