EQUAL ENERGY LTD.

MESSAGE TO SHAREHOLDERS

Dear Equal Energy Supporters:

This past year was one of major transition for Equal Energy Ltd. We took many important and proactive steps to improve the company's financial position and provide clarity and focus for its future operations. Our balance sheet is in excellent condition, providing financial flexibility to execute our plans. We also have responded to our shareholders who sought immediate return from our efforts and we've implemented a US$0.20 annual dividend, paid quarterly beginning January 1, 2013.

Asset sales, including those concluded as part of Equal's strategic review process launched in May 2012, totaled $160 million. Overall the sales were completed at values in excess of our trading multiples at the time and were collectively accretive to the value of Equal. The asset sales totaled approximately 5.1 million boe of proved reserves on a net revenue interest basis and 6.8 million proved plus probable reserves. Equal received $31.40 per boe proved and $23.50 per boe on a proved plus probable basis for these sales. The proceeds of the sales were used primarily for debt reduction. Net debt, including working capital was reduced from $176 million at December 31, 2011 to $18 million at December 31, 2012. Based on our 2013 budgeted cash flow of $33 million, Equal's net debt to cash flow ratio has been reduced from over 5.3 times to 0.5 times.

The culmination of the strategic review process also resulted in the complete exit of Equal from its Canadian operations. We are in the process of relocating our head office and transitioning management to Oklahoma City. The combined interest and general and administrative cost savings total over $7 million as a result of the debt reduction and focus of our operations in Oklahoma.

As a result of the changes made in 2012, Equal has become a US Domestic Issuer and this year's financial reports reflect the company's operations, financial results and reserves under US SEC disclosure rules.

Strong Operating Results

- Production averaged 7,186 boe/d during 2012, up 30% compared to 2011, primarily due to the acquisition of Hunton assets in June 2011 offset partially by the sale of Northern Oklahoma assets in September 2012.
- Funds from operations were down only 12% as the company offset commodity prices that were 29% weaker on a boe basis compared to 2011 with higher production and savings in operating costs, general and administrative costs and interest expense.

Successful Drilling Programs in 2012

- Equal drilled 3 (2.7 net) Twin Cities Central Dolomite Hunton liquids rich natural gas wells. These wells were brought on stream in the first half of 2012 and are performing well above our historical average and budget type curve for Twin Cities Central Dolomite Hunton wells.
- Significant effort has been put into geological mapping and targeting of the drilling horizon for our Hunton wells, resulting in our most recent wells being some of our best to date.
- Six wells were drilled in Northern Oklahoma early in 2012 and subsequently sold with the Northern Oklahoma sale in late September.
- Two successful Cardium horizontal oil wells were drilled during 2012 and were subsequently sold as part of the strategic review outcome.

Looking Forward

Management and the board of directors continue to take action to transition Equal's mind and management to reflect its focus in Oklahoma. Scott Smalling has joined the company as its new Vice President and Chief Financial Officer resident in Oklahoma City. Additional management positions are expected to be filled in Oklahoma in the coming months.

Three current directors will not be standing for re-election and the director slate for the May Annual Shareholder Meeting will be announced shortly. The Governance and Nominating Committee of the board of directors is working to re-constitute the board and to bring in expertise and background relevant to the U.S. mid-continent oil and gas business.

We have established a 5 year inventory for one rig drilling continuously and our geological team is working to add future drilling locations. Plans for 2013 include the drilling of up to 10 horizontal liquids rich natural gas wells in the Twin Cities Central Dolomite area. Two have been drilled with one on production at this time. Our priorities are to

protect the balance sheet and to maintain our dividend distribution. Capital spending compared to cash flow will be monitored on an ongoing basis to ensure both objectives are met.

I'd like to thank the Equal employees for their hard work and dedication during 2012. It was a year of transition and uncertainty which is always challenging. We've had to depart with many of our Canadian staff and friends which was difficult. We thank these people their integrity and professionalism during the transition. I'd also like to thank the board of directors for their hard work and guidance. In particular, I'd like to thank our shareholders for their support as we changed the face of Equal in 2012. We believe the actions we've taken sets Equal up for success and the company has an exciting future.

Sincerely,

Signed "*Don Klapko*"

President and Chief Executive Officer
March 13, 2013

INTRODUCTION*: The following is Management's Discussion and Analysis ("MD&A") of Equal Energy Ltd. (the "Company" or "Equal") for the years ended December 31, 2012, 2011 and 2010. This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2012, 2011 and 2010. All amounts, unless otherwise noted, are stated in Canadian dollars and in accordance with generally accepted accounting principles in the United States of America ("GAAP") as issued by the Financial Accounting Standards Board ("FASB") and U.S. Securities and Exchange Commission ("SEC"). This commentary is based on information available to, and is dated, March 13, 2013.*

CONVERSION: *Natural gas volumes recorded in thousand cubic feet ("mcf") are converted to barrels of oil equivalent ("boe") using the ratio of six (6) thousand cubic feet to one (1) barrel of oil ("bbl"). Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead.*

NON–GAAP TERMS: *This document contains the terms "funds from operations", "working capital including long-term debt " and "cash flow netback", which do not have any standardized meaning as prescribed by GAAP and, therefore, are considered non-GAAP measures. Non-GAAP measures are commonly used in the oil and gas industry and by Equal to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to analyze profitability of its operations. The Company uses these measures to help evaluate its performance. The Company considers cash flow netback a key measure for the ability of the Company to analyze the profitability of its operations. The term should not be considered as an alternative to, or more meaningful indicator of performance than net income or loss as determined in accordance with GAAP. Working capital and cash flow netback, as determined by the Company may not be comparable to that reported by other companies. The reconciliation of cash flow netback to net income or loss can be found in the non-GAAP financial measures section of this MD&A. The working capital calculations can be found in the liquidity and capital resources section of the MD&A.*

This MD&A also contains other terms such as working capital including long-term debt and operating netbacks which are not recognized measures under GAAP. Management believes these measures are useful supplemental measures of firstly, the total amount of current and long-term debt and secondly, the amount of revenues received after transportation, royalties and operating costs. Readers are cautioned, however that these measures should not be construed as an alternative measures of performance to other terms such as current and long-term debt or net income determined in accordance with GAAP. Equal's method of calculating these measures may differ from other entities, and accordingly, may not be comparable to measures used by other companies.

FORWARD-LOOKING STATEMENTS: *Certain information contained herein may contain forward-looking statements under applicable securities laws and necessarily involve risks including management's assessment of future plans and operations, drilling plans and timing thereof, expected production increases from certain projects and the timing thereof, the effect of government announcements, proposals and legislation, plans regarding wells to be drilled, expected or anticipated production rates, completion of acquisitions or divestitures, expected exchange rates, anticipated borrowing base under the credit facility, maintenance of productive capacity, capital expenditures and the nature of capital expenditures and the timing and method of financing thereof. All statements other than statements of historical facts contained in this MD&A are forward-looking statements. The words "believe", "may", "will", "estimate", "continue", "anticipate," "intend", "should", "plan", "expect" and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. The Company has based these forward-looking statements on the current expectations and projections about future events and financial trends that the Company believes may affect its financial condition, results of operations, business strategy and financial needs.*

These forward-looking statements are subject to uncertainties, assumptions and a number of risks, including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, failure to realize the anticipated benefits of the strategic review process, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. The recovery and reserve estimates of Equal's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Events or circumstances may cause actual results to differ materially from those predicted, as a result of the risk factors set out and other known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. In addition to other factors and assumptions which may be identified herein, assumptions have been made regarding: the result of increasing competition; the general stability of the economic and political environment in which the Company operates; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient

manner; drilling results; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; the ability of the Company to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisitions, development and exploration; the timing and cost of pipeline, storage and facility construction and expansion and the ability of the Company to secure adequate reasonably priced transportation; future commodity oil and gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; and the ability of the Company to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Additional information on these and other factors could effect Equal's operations and financial results are included in reports on file with the Canadian and United States regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), or the EDGAR website (www.sec.gov/edgar.shtml), or at Equal's website (www.equalenergy.ca). Furthermore, the forward-looking statements contained herein are made as at the date hereof and Equal does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of the new information, future events or otherwise, except as may be required by applicable securities law. The Company operates in a very competitive and rapidly changing business environment. New risk factors emerge from time to time and it is not possible for management to predict all risk factors, nor can the Company assess the result of all factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. The reader should not rely upon forward-looking statements as predictions of future events or performance. The Company cannot provide assurance that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements.

The reader is further cautioned that the preparation of financial statements in accordance with GAAP requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Estimating reserves is also critical to several accounting estimates and requires judgments and decisions based upon available geological, geophysical, engineering and economic data. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes.

CORPORATE PROFILE

Equal Energy Ltd. is an exploration and production oil and gas company which had its head office in Calgary, Alberta for 2012 which has subsequently moved to Oklahoma City, Oklahoma during 2013. Equal's shares are listed on the New York Stock Exchange (EQU) and Equal's shares and convertible debentures are listed on the Toronto Stock Exchange (EQU and EQU.DB.B). Its current production is approximately 6,400 boe per day (49% NGLs, 49% natural gas and 2% crude oil) all of which is produced in Oklahoma.

On May 3, 2012, the Company's board of directors initiated a strategic review process to identify, examine and consider alternatives with the view to enhancing shareholder value. As a result of the strategic review process, several important initiatives were concluded:

- A major reduction in debt as a result of several asset sales.
- Initiation of a USD$0.20 per share annual dividend starting January 1, 2013, which is to be paid quarterly.
- A review of the composition of the board of directors and senior management team.
- A review of compensation policies.
- A focus on the liquids-rich natural gas Hunton property in Central Oklahoma.

As a result of the Canadian asset sales in Q4 2012, the Canadian operations are considered discontinued for 2012 and all comparative years in the following Management's Discussion and Analysis ("MD&A"), financial statements and notes to the financial statements. Only the Company's continuing operations, which include the Oklahoma operations and corporate costs, are discussed in the following MD&A except in the Discontinued Operations section where the Canadian operations are discussed and referred to.

It is important to note that within this MD&A, production volumes reflect the Company's continuing operations net of royalty interest which is in accordance with U.S. regulations. Reported production volumes in previous press releases, quarterly reports, annual reports and other public documents included discontinued Canadian operations and were in accordance with the Canadian National Instrument 51 – 101 which is before the deduction of royalty interest.

Financial and Operations Summary *(in thousands except for volumes, percentages and per share and boe amounts)*	Year ended December 31				
	2012	*Change*	2011	*Change*	2010
FINANCIAL					
Oil, NGL and natural gas revenues including realized hedging	**67,541**	(7%)	72,887	32%	55,327
Funds from operations [1]	**30,048**	(12%)	34,113	71%	19,915
Net income/(loss) from continuing operations	**31,111**	>1000%	2	(100%)	3,615
Per share – basic [2] ($)	**0.89**	>1000%	0.00	(100%)	0.14
Per share – diluted [2] ($)	**0.82**	>1000%	0.00	(100%)	0.14
Net income/(loss) from discontinued operations	**30,716**	472%	5,371	(141%)	(12,957)
Per share – basic [2] ($)	**0.87**	412%	0.17	(133%)	(0.52)
Per share – diluted [2] ($)	**0.76**	375%	0.16	(131%)	(0.52)
Net income/(loss)	**61,827**	>1000%	5,373	(158%)	(9,342)
Per share – basic [2] ($)	**1.76**	935%	0.17	(145%)	(0.38)
Per share – diluted [2] ($)	**1.58**	888%	0.16	(142%)	(0.38)
Total assets	**226,222**		323,094		247,228
Working capital (deficit) including long-term debt [1]	**26,602**		(131,462)		(26,697)
Convertible debentures	**45,000**		45,000		119,775
Shareholders' equity	**161,277**		99,880		37,329
SHARES OUTSTANDING					
Shares outstanding – basic[2] (000s)	**35,062**		32,040		24,595
Shares outstanding – diluted[2] (000s)	**41,125**		32,768		24,896
Shares outstanding at period end (000s)	**35,227**		34,779		27,710
OPERATIONS					
Average daily production net of royalties[3]					
NGL (bbls per day)	**3,237**	35%	2,401	32%	1,813
Natural gas (mcf per day)	**22,664**	30%	17,461	46%	11,954
Oil (bbls per day)	**172**	(19%)	212	(5%)	224
Total (boe per day)	**7,186**	30%	5,523	37%	4,030
Average sales price [4]					
NGL ($ per bbl)	**31.41**	(34%)	47.46	14%	41.73
Gas ($ per mcf)	**2.95**	(23%)	3.83	(21%)	4.87
Oil ($ per bbl)	**92.63**	4%	89.22	13%	78.72
Cash flow netback [1] ($ per boe)					
Revenue [4]	**25.68**	(29%)	36.16	(4%)	37.61
Production expenses	**7.78**	(7%)	8.39	18%	7.11
Production taxes	**1.43**	(13%)	1.64	(8%)	1.79
Operating netback	**16.47**	(37%)	26.13	(9%)	28.71
Cash general and administrative	**2.88**	(31%)	4.20	(56%)	9.62
Interest expense	**2.25**	(54%)	4.88	(27%)	6.68
Other cash costs [5]	**(0.08)**	(162%)	0.13	(111%)	(1.14)
Cash flow netback	**11.42**	(33%)	16.92	25%	13.54

(1) Funds from operations, cash flow netback and working capital including long-term debt are non-GAAP financial measures. Please refer to "Non-GAAP Financial Measures".
(2) Weighted average shares outstanding. See Note 9 to the Financial Statements.
(3) Production volumes reflect the Company's continuing operations net of royalty interest which is in accordance with U.S. regulations. Reported production volumes in previous press releases, quarterly reports, annual reports and other public documents included discontinued Canadian operations and were in accordance with the Canadian National Instrument 51 – 101 which is before the deduction of royalty interest.
(4) Price received includes royalty deductions, realized commodity contract gains or losses and excludes unrealized mark-to-market gain or loss.
(5) Other cash costs include realized foreign exchange gains and losses.

QUARTERLY FINANCIAL INFORMATION *(in thousands of Canadian dollars except for per share amounts)*

	Full Year	2012				Full Year	2011			
	2012	Q4	Q3	Q2	Q1	2011	Q4	Q3	Q2	Q1
Revenues	64,393	14,960	11,793	19,034	18,606	78,311	18,727	27,018	23,393	9,173
Funds from operations	30,048	7,770	6,293	6,248	9,737	34,113	10,787	10,838	8,218	4,270
Income/(loss) before taxes from continuing operations	37,945	(1,245)	34,873	290	4,027	10,834	5,036	1,959	9,239	(5,400)
Net income/(loss) from continuing operations	31,111	(5,153)	38,615	(5,429)	3,078	2	92	(1,885)	8,007	(6,212)
Net income/(loss) from discontinued operations	30,716	28,057	3,346	(1,566)	879	5,371	(1,192)	810	1,131	4,622
Net income/(loss)	61,827	22,904	41,961	(6,995)	3,957	5,373	(1,100)	(1,075)	9,138	(1,590)
Basic net income/(loss) per share ($):										
Continuing operations	0.89	(0.15)	1.10	(0.16)	0.09	0.00	0.00	(0.05)	0.26	(0.22)
Discontinued operations	0.87	0.80	0.10	(0.04)	0.02	0.17	(0.03)	0.02	0.04	0.16
Net income/(loss)	1.76	0.65	1.20	(0.20)	0.11	0.17	(0.03)	(0.03)	0.30	(0.06)
Diluted net income/(loss) per share ($ per share):										
Continuing operations	0.82	(0.15)	0.94	(0.16)	0.09	0.00	0.00	(0.05)	0.22	(0.22)
Discontinued operations	0.76	0.68	0.08	(0.04)	0.02	0.16	(0.03)	0.02	0.04	0.14
Net income/(loss)	1.58	0.57	1.03	(0.20)	0.11	0.16	(0.03)	(0.03)	0.26	(0.06)

For 2012, quarterly revenues and funds from operations were generally lower than the previous quarters mainly due to the asset disposition in Q4 2011 and decreased prices received for NGLs and natural gas. The Company's sale of its assets in Northern Oklahoma in Q3 2012 resulted in a gain of $36.0 million which increased net income. The Company's sale of its assets in Canada in Q4 2012 resulted in a gain of $56.8 million which increased net income during the quarter and resulted in the discontinuation of operations in Canada.

Q4, Q3 and Q2 2011 revenues and funds from operations are higher than the previous quarters due to the June 1, 2011 acquisition of working interests from a former joint venture partner in Oklahoma (the "Hunton Acquisition"). During Q1 2011, funds from operations were lower due to legal fees relating to legal proceedings against a former joint venture partner in Oklahoma.

OVERALL PERFORMANCE

Average production for 2012 of 7,186 boe per day was 30% higher than the 2011 production of 5,523 boe per day mainly due to the Hunton Acquisition which occurred in June 2011 contributing for the full year in 2012 and contribution from new wells drilled during 2012 which was partially offset by the sale of the Northern Oklahoma assets on September 24, 2012, that produced approximately 1,100 boe per day, and the natural decline in older production.

Revenues including realized hedging decreased 7% to $67.5 million from $72.9 million in 2011 due to decreased NGL and natural gas prices. The decreases in prices were partially offset by increased NGL and natural gas production and realized gains on commodity contracts. The average price received for NGLs decreased 34% to $31.41 per bbl compared to $47.46 per bbl in 2011 due to excess supply relative to demand in the mid-continent of the United States where Equal's NGL production is located. The average price received for natural gas in 2012, net of commodity contract settlements, decreased 23% to $2.95 per mcf from $3.83 per mcf in 2011 due to an oversupply situation for North American natural gas. The average price received for oil in 2012 increased 4% to $92.63 per bbl from $89.22 per bbl in 2011.

Production expense increased 21% to $20.5 million from $16.9 million in 2011 mainly due to increased volumes from the Hunton Acquisition in June 2011 and the addition of new wells drilled during the past year. On a per boe basis, production expense decreased 7% to $7.78 per boe in 2012 from $8.39 per boe in 2011 partially due to the sale of

the Northern Oklahoma assets that had a higher average production expense per boe than the Company's average production costs and a Company focus on cost control. Production taxes increased 13% to $3.8 million from $3.3 million in 2011 mainly due to the 30% increase in production which was partially offset by the decrease in prices received for NGLs and natural gas.

General and administrative costs ("G&A") decreased 11% to $7.6 million from $8.5 million in 2011. The decrease in G&A costs was mainly due to higher costs in 2011 for legal fees related to court proceedings involving a former joint venture participant that ended during Q2 2011. Interest expense was $5.9 million which was 40% lower than $9.8 million in 2011. The lower interest expense is mainly due to proceeds from the asset dispositions being used to pay down the bank credit facility and lower interest paid on the convertible debentures as an 8.25% debenture was redeemed in Q4 2011.

The overall result was that funds from operations decreased by 12% to $30.0 million in 2012 compared to $34.1 million in 2011 due to the decrease in revenues and increase in production expense which were partially offset by decreases in G&A and interest expense.

In 2012, the Company had net income of $61.8 million which was mainly due to the $36.0 million ($22.3 million net of income tax) gain on sale of assets in Oklahoma and the $58.8 million ($42.6 million net of income tax) gain on sale of assets in Canada.

PRODUCTION VOLUMES

Production Net of Royalties

	Year ended December 31				
	2012	*Change*	2011	*Change*	2010
Daily sales volumes net of royalties[1] – average					
NGL (bbls per day)	3,237	35%	2,401	32%	1,813
Natural gas (mcf per day)	22,664	30%	17,461	46%	11,954
Oil (bbls per day)	172	(19%)	212	(5%)	224
Total (boe per day)	7,186	30%	5,523	37%	4,030
Sales volumes mix by product					
NGL	**45%**		43%		45%
Natural gas	**53%**		53%		49%
Oil	**2%**		4%		6%
	100%		100%		100%

(1) Production volumes reflect the Company's continuing operations net of royalty interest which is in accordance with U.S. regulations. Reported production volumes in previous press releases, quarterly reports, annual reports and other public documents included discontinued Canadian operations and were in accordance with the Canadian National Instrument 51 – 101 which is before the deduction of royalty interest.

In 2012, production of 7,186 boe per day was 30% higher compared to 5,523 boe per day during 2011. The increase in production is primarily due to the Hunton Acquisition which occurred in June 2011 contributing to the full year in 2012 and volumes from new wells drilled during 2012 which was partially offset by the sale of the Northern Oklahoma assets in September 2012 that produced approximately 1,100 boe per day and the natural production decline.

In 2011, production of 5,523 boe per day was 37% higher compared to 4,030 boe per day during 2010. The increase in production is primarily due to the Hunton Acquisition which occurred in June 2011, wells drilled during 2011 and a reactivation and workover program.

On September 24, 2012, Equal closed the sale of its interest in its Northern Oklahoma assets for total cash consideration of US$40.0 million to its Mississippian joint venture partner Atlas Resource Partners L.P. ("Atlas"). The assets sold include production of approximately 1,100 boe per day which is primarily natural gas and NGLs, related infrastructure and interests in approximately 8,550 acres of Mississippian lands.

The Company's current portfolio of assets consists almost exclusively of the liquids-rich natural gas asset in Central Oklahoma. Equal's current corporate production is approximately 6,400 boe per day consisting of 49% natural gas, 49% NGLs and 2% crude oil.

For the year ended December 31, 2012, Equal drilled 9 (7.2 net) wells with a 100% success rate:

- 3 (2.7 net) Twin Cities / Central Dolomite Hunton liquids-rich natural gas wells in Central Oklahoma;
- 4 (3.5 net) K-9 Hunton vertical liquids-rich natural gas wells in Northern Oklahoma which were sold in Q3 2012; and
- 2 (1.0 net) K-9 Mississippian horizontal oil wells which were sold in Q3 2012.

COMMODITY PRICING

Pricing Benchmarks

	Year ended December 31				
	2012	*Change*	2011	*Change*	2010
Propane, Conway, KS (US$ per bbl)	**36.12**	(37%)	56.89	20%	47.24
NYMEX natural gas (US$ per mmbtu)	**2.79**	(32%)	4.08	(8%)	4.42
NYMEX natural gas (US$ per mcf) (1)	**2.89**	(32%)	4.22	(8%)	4.57
WTI (US$ per bbl)	**94.19**	(1%)	95.12	20%	79.53
Average exchange rate: US$ to Cdn$1.00	**1.00**	(1%)	1.01	4%	0.97
WTI (Cdn$ per bbl)	**94.19**	0%	94.17	15%	81.92

(1) Conversion rate of 1.0350 mmbtu per mcf.

The prices Equal receives for its NGLs are indexed to Conway, Kansas prices, so the price variations at Conway are reflected in Equal's variations in NGL price. The propane price quoted at Conway, Kansas has historically been a representative proxy of the price Equal receives for its basket of NGL products produced in Oklahoma. The NYMEX natural gas price is based at Henry Hub in Louisiana and is priced in U.S. dollars per mmbtu. West Texas Intermediate ("WTI") is a standard benchmark for the price of oil and is expressed in U.S. dollars per barrel. For the purposes of financial reporting, Equal expresses its realized prices for oil, NGLs and natural gas in Canadian dollars.

Benchmark propane prices for 2012 decreased 37% to an average of US$36.12 per bbl from US$56.89 per bbl in 2011 due to an increased supply in the market from increased liquids-rich drilling and lower consumption from a warmer than usual winter. Benchmark propane prices for 2011 increased 20% to an average of US$56.89 per bbl from US$47.24 per bbl compared to the same period in 2010 which was also partially offset in Canadian dollar terms, by the strengthening of the Canadian dollar compared to the U.S. dollar.

Benchmark natural gas prices for 2012 on the NYMEX decreased 32% to an average of US$2.79 per mmbtu from US$4.08 per mmbtu in 2011. Benchmark natural gas prices for 2011 on the NYMEX decreased 8% to an average of US$4.08 per mmbtu from US$4.42 per mmbtu compared 2010.

Benchmark oil prices for 2012 decreased slightly by 1% to an average of US$94.19 per bbl WTI from US$95.12 per bbl WTI in 2011. Benchmark oil prices for the 2011 increased 20% to an average of US$95.12 per bbl WTI from US$79.53 per bbl WTI in 2010.

Average Commodity Prices Received

	Year ended December 31				
	2012	*Change*	2011	*Change*	2010
NGL (Cdn$ per bbl)	**31.41**	(34%)	47.46	14%	41.73
Natural gas (Cdn$ per mcf)	**2.22**	(36%)	3.46	(12%)	3.93
Natural gas commodity contract settlements (Cdn$ per mcf)	**0.73**	96%	0.37	(61%)	0.94
Combined natural gas (Cdn$ per mcf)	**2.95**	(23%)	3.83	(21%)	4.87
Oil (Cdn$ per bbl)	**92.63**	4%	89.22	13%	78.72
Total (1) (Cdn$ per boe)	**25.68**	(29%)	36.16	(4%)	37.62

(1) Price received excludes unrealized mark-to-market gain or loss on commodity contracts.

In 2012, the average price received for NGLs decreased 34% to $31.41 per bbl compared to $47.46 per bbl in 2011 due to excess supply relative to demand in the mid-continent of the United States where Equal's NGL production is located. The average price received for natural gas in 2012, net of commodity contract settlements, decreased 23% to $2.95 per mcf from $3.83 per mcf in 2011 due to an oversupply situation in North America resulting in a decrease in market prices for natural gas. The average price received for oil in 2012 increased 4% to $92.63 per bbl from $89.22 per bbl in 2011.

In 2011, the average price received for NGLs increased 14% to $47.46 per bbl compared to $41.73 per bbl in 2010. The average price received for natural gas in 2011, net of commodity contract settlements, decreased 21% to $3.83 per mcf from $4.87 per mcf in 2010 due to an oversupply situation resulting in a decrease in market prices for natural gas. The average price received for oil in 2011 increased 13% to $89.22 per bbl from $78.72 per bbl in 2010.

REVENUES

Revenues *(in thousands of Canadian dollars)*

	Year ended December 31				
	2012	*Change*	2011	*Change*	2010
NGL revenues	**37,202**	(11%)	41,593	51%	27,620
Natural gas revenues	**18,433**	(16%)	22,024	28%	17,154
Oil revenues	**5,843**	(15%)	6,895	7%	6,432
Realized gain on commodity contracts	**6,063**	155%	2,375	(42%)	4,121
Revenues including realized hedging	**67,541**	(7%)	72,887	32%	55,327
Unrealized gain/(loss) on commodity contracts	**(3,148)**	(158%)	5,424	(695%)	(912)
Total revenues	**64,393**	(18%)	78,311	44%	54,415

In 2012, revenues including realized hedging decreased 7% to $67.5 million from $72.9 million in 2011 due to decreased NGL and natural gas prices. The decreases in prices were partially offset by increased NGL and natural gas production and realized gains on commodity contracts.

NGL revenues for 2012 decreased 11% to $37.2 million from $41.6 million in 2011 which was the result of a 34% decrease in sales price received for NGLs partially offset by a 35% increase in production volumes. Natural gas revenues for 2012 decreased 16% to $18.4 million from $22.0 million in 2011 which was the result of a 36% decrease in sales price received for natural gas partially offset by a 30% increase in production volumes. Oil revenues for 2012 decreased 15% to $5.8 million compared to $6.9 million in 2011 which was the result of a 19% decrease in production volumes partially offset by a 4% increase in price received. In 2012, there was a realized gain on commodity contracts of $6.1 million compared to a $2.4 million realized gain in 2011 and an unrealized loss of $3.1 million compared to an unrealized gain of $5.4 million in 2011.

In 2011, revenues including realized hedging increased 32% to $72.9 million from $55.3 million in 2010 due to increased NGL and natural gas volumes produced from the Hunton Acquisition in June 2011.

NGL revenues for 2011 increased 51% to $41.6 million from $27.6 million in 2010 which was the result of a 32% increase in production volumes and a 14% increase in sales price received for NGLs. Natural gas revenues for 2011 increased 28% to $22.0 million from $17.2 million in 2010 which was the result of a 46% increase in production volumes partially offset by a 12% decrease in sales price received for natural gas. Oil revenues for 2011 increased 7% to $6.9 million compared to $6.4 million in 2010 which was the result of a 13% increase in sales price received partially offset by a 5% decrease production volume. In 2011, there was a realized gain on commodity contracts of $2.4 million compared to a $4.1 million realized gain in 2010 and an unrealized gain of $5.4 million compared to an unrealized loss of $0.9 million in 2010.

The Company's 2013 assumptions for planning purposes are: US$90.00 per bbl for WTI (Equal realization of 96% of WTI), US$3.90 per mmbtu for NYMEX natural gas (Equal realization of 87% of NYMEX), US$0.90 per gallon (US$37.80 per bbl) for Conway propane (Equal realization of 89% of Conway Propane). The Company constantly

monitors actual prices against plan prices and adjusts its operational plans to address changes in cash flow caused by commodity price fluctuation.

COMMODITY CONTRACTS

The Company has a risk management policy which is in line with the terms of its bank credit facility that permits management to use specified price risk management strategies for up to 65% of its estimated net oil and gas production which includes fixed price contracts, costless collars and the purchase of floor price options and other derivative instruments to reduce the impact of price volatility and ensure minimum prices for a maximum of 36 months. The program is designed to provide price protection on a portion of Equal's future production in the event of adverse commodity price movement, while retaining exposure to upside price movements. By doing this, Equal seeks to provide a measure of stability and predictability of cash inflows to enable it to carry out its planned capital spending programs.

The mark-to-market value of the commodity contracts is determined based on the estimated fair value as at December 31, 2012 that was obtained from the counterparties to the economic hedges. Equal then evaluates the reasonableness of the valuations in comparison to the value of other commodity contracts it currently owns as well as recently quoted prices received from other counterparties for various commodity contracts. The Company deals with large, credit-worthy financial institutions to diversify its counterparty risk. The credit worthiness of each counterparty is assessed at the time of purchase of each financial instrument and is regularly assessed based on any new information regarding the counterparty.

At December 31, 2012, Equal had the following financial derivatives and fixed price contracts outstanding:

Derivative Instrument	Commodity	Price (2)	Volume per day (2)	Period
Fixed	Gas	3.45 (US$/mmbtu) (3.57 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	3.60 (US$/mmbtu) (3.73 US$/mcf)	3,000 mmbtu (2,899 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	3.61 (US$/mmbtu) (3.74 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	3.65 (US$/mmbtu) (3.78 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	3.70 (US$/mmbtu) (3.83 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	3.99 (US$/mmbtu) (4.13 US$/mcf)	1,000 mmbtu (966 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	4.05 (US$/mmbtu) (4.19 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	4.25 (US$/mmbtu) (4.40 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2014 – December 31, 2014
Fixed Basis Differential (1)	Gas	Differential Fixed @ $0.20 US$/mmbtu ($0.21 US$/mcf)	7,000 mmbtu (6,763 mcf)	January 1, 2013 – December 31, 2013
Fixed Basis Differential (1)	Gas	Differential Fixed @ $0.205 US$/mmbtu ($0.212 US$/mcf)	5,000 mmbtu (4,831 mcf)	January 1, 2013 – December 31, 2013
Fixed	Oil	101.50 (CDN$/bbl)	200 bbl	January 1, 2013 – December 31, 2013

(1) NYMEX / Southern Star (Oklahoma) basis differential.
(2) Conversion rate of 1.0350 mmbtu per mcf.

As at December 31, 2012 the above commodity contracts had a net mark-to-market asset position of $1.6 million compared to a net mark-to-market asset position of $4.8 million on December 31, 2011. The mark-to-market asset position at December 31, 2012 relates to the oil and natural gas contracts which have average hedged prices higher than the market prices at December 31, 2012.

Subsequent to December 31, 2012, Equal entered fixed price contracts with the following details:

Derivative Instrument	Commodity	Price [1]	Volume per day [1]	Period
Fixed	Gas	4.05 (US$/mmbtu) (4.19 US$/mcf)	4,000 mmbtu (3,865 mcf)	January 1, 2014 – December 31, 2014
Fixed	Gas	4.055 (US$/mmbtu) (4.20 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2014 – December 31, 2014
Fixed	Gas	4.06 (US$/mmbtu) (4.20 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2014 – December 31, 2014
Fixed	Gas	4.10 (US$/mmbtu) (4.24 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2014 – December 31, 2014

(1) Conversion rate of 1.0350 mmbtu per mcf.

Equal has 14,000 mmbtu per day of its 2013 natural gas hedged at US$3.69 per mmbtu and 200 bbls per day of its 2013 oil and NGL hedged at $101.50 per barrel which is 38% of the Company's total production hedged for calendar year 2013 based on 2013 budgeted production levels of 6,400 boe per day.

The Company also has 12,000 mmbtu per day of its 2014 natural gas hedged at US$4.09 per mmbtu which is 30% of the Company's current production levels of 6,400 boe per day.

PRODUCTION EXPENSE

Production Expense *(in thousands of Canadian dollars except for percentages and per boe amounts)*

	Year ended December 31				
	2012	*Change*	2011	*Change*	2010
Production expense	**20,457**	21%	16,908	62%	10,462
Production expense per boe ($)	**7.78**	(7%)	8.39	18%	7.11

In 2012, production expense increased 21% to $20.5 million from $16.9 million in 2011 mainly due to increased volumes from the Hunton Acquisition in June 2011 and the addition of new wells drilled during the past year. On a per boe basis, production expense decreased 7% to $7.78 per boe in 2012 from $8.39 per boe in 2011 due to the sale of the Northern Oklahoma assets that had a higher average production expense per boe than the Company's average production costs and a general Company focus on cost control.

In 2011, production expense increased 62% to $16.9 million from $10.5 million in 2010 mainly due to increased volumes from the Hunton Acquisition in June 2011 and the addition of new wells drilled during 2011. On a per boe basis, production expenses increased 18% to $8.39 per boe in 2011 from $7.11 per boe in 2010 due to the initial high water volumes from newly completed wells during their early producing phase and the increased utilization of rental pumps in the older producing wells.

PRODUCTION TAXES

Production Taxes *(in thousands of Canadian dollars except for percentages and per boe amounts)*

	Year ended December 31				
	2012	*Change*	2011	*Change*	2010
Production taxes	**3,754**	13%	3,312	26%	2,639
Production taxes per boe ($)	**1.43**	(13%)	1.64	(8%)	1.79

In 2012, production taxes increased 13% to $3.8 million from $3.3 million in 2011 mainly due to the 30% increase in production. On a per boe basis, production taxes decreased to $1.43 per boe compared from $1.64 per boe due to the decrease in natural gas prices.

In 2011, production taxes increased 26% to $3.3 million from $2.6 million in 2010 mainly due to the 37% increase in production. On a per boe basis, production taxes decreased to $1.64 per boe compared from $1.79 per boe due to the decrease in natural gas prices.

GENERAL AND ADMINISTRATIVE EXPENSE EXCLUDING SHARE-BASED COMPENSATION

General and Administrative Expense *(in thousands of Canadian dollars except for percentages and per boe amounts)*

	Year ended December 31				
	2012	*Change*	2011	*Change*	2010
Gross G&A expense	**10,124**	(6%)	10,749	(34%)	16,253
Capitalized	**(748)**	64%	(456)	(3%)	(472)
Recoveries	**(1,799)**	(1%)	(1,819)	12%	(1,628)
G&A expense	**7,577**	(11%)	8,474	(40%)	14,153
G&A expense per boe ($)	**2.88**	(31%)	4.20	(56%)	9.62

In 2012, the general and administrative costs decreased 11% to $7.6 million from $8.5 million in 2011. The decrease in G&A costs was mainly due to higher costs in 2011 for legal fees related to court proceedings involving a former joint venture participant that ended in Q2 2011.

In 2011, the general and administrative costs decreased 40% to $8.5 million from $14.2 million in 2010. The decrease in G&A costs was mainly due to higher costs in 2010 for professional fees incurred relating to the conversion from a trust to a corporate entity and legal fees related to court proceedings involving a former joint venture participant that ended in Q2 2011.

SHARE-BASED COMPENSATION EXPENSE

Share-Based Compensation Expense *(in thousands of Canadian dollars except for percentages and per boe amounts)*

	Year ended December 31				
	2012	*Change*	2011	*Change*	2010
Share-based compensation expense	**3,568**	43%	2,501	13%	2,217
Share-based compensation expense per boe ($)	**1.36**	10%	1.24	(18%)	1.51

In 2012, the non-cash share-based compensation expense was $3.6 million which was 43% higher compared to $2.5 million in 2011. The increase in the share-based compensation was mainly due to the accelerated vesting and cancellation of restricted shares related to staff reductions as part of the discontinued operations in Canada which totaled $0.7 million ($0.27 per boe).

In 2011, the non-cash share-based compensation expense was $2.5 million which was 13% higher compared to $2.2 million in 2010. The increase in the share-based compensation was due to an employee retention initiative which resulted in a higher number of restricted shares and options outstanding during 2011 compared to 2010.

INTEREST EXPENSE

Interest Expense *(in thousands of Canadian except for percentages and per boe amounts)*

	Year ended December 31				
	2012	*Change*	2011	*Change*	2010
Interest expense on long-term debt	**3,757**	(11%)	4,222	161%	1,616
Interest expense on convertible debentures	**3,038**	(57%)	7,088	27%	9,684
Interest expense before allocation to discontinued operations	**6,795**	(40%)	11,310	0%	11,300
Interest expense allocated to discontinued operations [(1)]	**(883)**	(40%)	(1,470)	0%	(1,469)
Total interest expense of continuing operations	**5,912**	(40%)	9,840	0%	9,831
Total interest expense per boe ($)	**2.25**	(54%)	4.88	(27%)	6.68

(1) Interest expense allocated to discontinued operations was 13% of the total interest expense in accordance with EITF Issue No. 87-24.

In 2012, interest expense was $5.9 million which was 40% lower than $9.8 million in 2011. The lower interest expense is mainly due to proceeds from the asset dispositions being used to pay down the bank credit facility and

lower interest paid on the convertible debentures as an 8.25% debenture was redeemed in Q4 2011. During 2011, Equal re-structured its balance sheet by partially redeeming its convertible debentures which paid interest amounts of 8.0% and 8.25% and replacing these with lower interest paying 6.75% convertible debentures and the bank credit facility which also carries a lower interest rate.

In 2011, interest expense was $9.8 million which was consistent with 2010. The lower cash interest expense on convertible debentures was offset by higher interest on the long-term debt due to a greater outstanding balance.

Equal's bank credit facility was undrawn at December 31, 2012 compared to $138.8 million at December 31, 2011. The bank credit facility was repaid with the proceeds of asset sales during 2012 which included the sales of all the Company's Canadian assets and the assets in Northern Oklahoma.

The maturity date of Equal's bank credit facility is June 2013 and should the lenders decide not to renew the facility, any amounts borrowed on the credit facility at that time must be repaid by June 2014. The bank credit facility was reviewed after the asset sales and was lowered to a total of $125.0 million from $200.0 million at the beginning of 2012 and is secured against the borrowing base of the Oklahoma assets.

DEPLETION AND DEPRECIATION ("D&D")

Depletion and Depreciation *(in thousands Canadian dollars except for percentages and per boe amounts)*

	Year ended December 31				
	2012	*Change*	2011	*Change*	2010
D&D	**22,888**	53%	14,936	250%	4,262
D&D per boe ($)	**8.70**	17%	7.41	156%	2.90

In 2012, depletion and depreciation increased to $22.9 million from $14.9 million in 2011. The increase in depletion expense is due to the increase in production and the Hunton Acquisition in June 2011. The increase in D&D on a per boe basis is mainly due to the Hunton Acquisition in June 2011 and 2012 capital expenditures on wells drilled.

In 2011, depletion and depreciation increased to $14.9 million from $4.3 million in 2010. The increase in D&D expense is mainly due to the Hunton Acquisition in June 2011 and the increase in production. In years prior to 2010, the depletable base was significantly affected by ceiling test write-downs which decreased the oil and natural gas properties by $295.0 million ($177.2 million after tax). The increase in D&D on a per boe basis is mainly due to the Hunton Acquisition in June 2011 and 2011 capital expenditures on wells drilled.

AMORTIZATION OF DEFERRED CHARGES

In 2012, the amortization of deferred charges was $0.4 million compared to $1.9 million in 2011. The amortization of deferred charges relates to the initial fees for the issuance of the Company's convertible debentures. The $0.4 million in 2012 are for the only outstanding 6.75% convertible debentures and the $1.8 million in 2011 was the remaining deferred charge for the 8.0% and 8.25% convertible debentures before they were redeemed.

In 2011, the amortization of deferred charges was $1.9 million compared to $1.2 million in 2010.

ACCRETION OF ASSET RETIREMENT OBLIGATION

In 2012, the accretion of the asset retirement obligation was $0.4 million compared to $0.2 million in 2011. The accretion expense in 2012 increased compared to 2011 mainly due to the change in management's estimate which occurred in Q4 2011 which increased the asset retirement obligation and as a result, the accretion expense going forward.

In 2011 and 2010, the accretion of the asset retirement obligation was $0.2 million.

GAIN ON SALE OF ASSETS

In 2012, there was a gain on sale of assets of $36.0 million from the sale of Equal's Northern Oklahoma assets. Equal sold 50% of its working interest in the Mississippian oil play in Northern Oklahoma for US$18.1 million on April 26, 2012 and the remaining Northern Oklahoma properties for US$40.0 million on September 24, 2012.

There were no gains or losses on sales of assets in 2011 and 2010.

TRANSACTION COSTS ON ASSET ACQUISITION/DISPOSITIONS

In 2012, the transaction costs associated with the Northern Oklahoma sale totalled $0.7 million.

In 2011, the transaction costs associated with the Hunton Acquisition totaled $1.8 million.

There were no transaction costs during 2010.

FOREIGN EXCHANGE

In 2012, there was a foreign exchange gain of $3.2 million mainly due to the effect of the strengthening of the Canadian dollar against the U.S. dollar on the Company's U.S. dollar denominated debt.

In 2011, there was a foreign exchange loss of $4.7 million mainly due to the effect of the weakening of the Canadian dollar against the U.S. dollar on the Company's U.S. dollar denominated debt.

In 2010, there was a foreign exchange gain of $1.3 million mainly due to the effect of the strengthening of the Canadian dollar against the U.S. dollar on the Company's U.S. dollar denominated debt.

TAXES

The tax expenses for the years 2012, 2011 and 2010 were $6.8 million, $10.8 million and $7.1 million, respectively.

DISCONTINUED OPERATIONS

On May 3, 2012, Equal announced that its Board of Directors initiated a strategic review process to identify, examine and consider alternatives with the view to enhancing shareholder value. As a result of the strategic review process, the Company completed the following asset sales from which the proceeds were used to pay down the Company's outstanding bank debt:

- on September 24, 2012, the Northern Oklahoma assets were sold for total cash consideration of US$40.0 million to its Mississippian joint venture partner;
- on October 15, 2012, the assets in the Halkirk, Wainwright, Alliance and Clair areas of Alberta sold for $15.4 million in addition with the transfer of substantially all of its non-producing, suspended and abandoned wells in Alberta;
- on November 2, 2012, the assets in the Lochend Cardium were sold for $62.1 million; and
- on December 13, 2012, the royalty and fee title lands in Western Canada were sold for $12.1 million.

The three asset sales in Q4 2012 resulted in the discontinuation of operations in Canada.

The results from the discontinued operations added $30.7 million to the Company's net income for 2012. This included a $56.8 million gain on sale of assets ($42.6 million net of income tax) and $6.6 million for advisory fees, legal fees, severance and termination of contracts related to the discontinuation of operations in Canada.

Discontinued operations had net income of $5.4 million in 2011 and a loss of $13.0 million in 2010.

In 2012, Equal spent $14.1 million to develop two Lochend Cardium oil wells, participate in associated infrastructure (gathering lines, batteries and gas plants) and support all other Canadian operations. One of the Cardium wells had reserves of 157.8 Mboe of new proved + probable reserves (net of royalties) and the other Cardium well converted 157.8 Mboe from proved undeveloped to proved developed (net of royalties).

Including a property sale of $8.3 million in Canada previous to the initiation of the Strategic Review, all Canadian assets were disposed for $97.9 million which included proved and probable reserves of 4.7 MM boe (net of royalties).

NET INCOME

In 2012, the Company had net income of $61.8 million which was higher than the $5.4 million in 2011 mainly due to the $36.0 million ($22.3 million net of tax) gain on sale of assets in Oklahoma and the $56.8 million ($42.6 million net of income tax) gain on sale of assets in Canada which was partially offset by decrease in revenues, increase in production expense, increase in depletion and the unrealized loss on commodity contracts.

In 2011, the Company had net income of $5.4 million compared to a loss of $9.3 million in 2010 due to the increase in revenues from the Hunton Acquisition and decreased G&A which was partially offset by the increase in production expense, increase in depletion and the unrealized foreign exchange loss.

COMPREHENSIVE INCOME/LOSS

In 2012, the Company had comprehensive income of $56.7 million compared to comprehensive income $10.2 million in 2011. The difference between the net income and comprehensive income in 2012 is due to the negative foreign currency translation adjustment in 2012 of $5.1 million related to the Company's investment in U.S. operations which fluctuates with the change in exchange rate between the Canadian and U.S. dollar.

In 2011, the Company had comprehensive income of $10.2 million compared to comprehensive loss of $15.9 million in 2010. The difference between the net income and comprehensive income in 2011 is due to the positive foreign currency translation adjustment in 2011 of $4.8 million related to the Company's investment in U.S. operations which fluctuates with the change in exchange rate between the Canadian and U.S. dollar.

NON-GAAP FINANCIAL MEASURES

Management uses certain key performance indicators ("KPIs") and industry benchmarks such as funds from operations, cash flow netback and working capital including long-term debt to analyze financial performance. Management feels that these KPIs and benchmarks are key measures of profitability and overall sustainability for Equal. These KPIs and benchmarks as presented do not have any standardized meanings prescribed by U.S. GAAP and therefore may not be comparable with the calculation of similar measures presented by other entities.

Funds from Operations

The Company considers funds from operations a key measure for the ability of the Company to repay debt and to fund future growth through capital investment. Funds from operations, as presented, is not intended to represent cash provided by operating activities nor should it be viewed as an alternative to cash provided by operating activities or other measures of financial performance calculated in accordance with U.S. GAAP. All references to funds from operations throughout this MD&A are based on cash provided by operating activities as reconciled in the table below:

Funds from Operations *(in thousands of Canadian dollars)*

	Year ended December 31		
	2012	2011	2010
Cash provided by operations activities – continuing operations	**27,584**	29,138	6,504
Changes in operating assets and liabilities			
Accounts receivable	**(3,899)**	6,708	8,691
Prepaid expenses and other current assets	**386**	(983)	460
Accounts payable and accrued liabilities	**5,931**	(2,908)	3,965
Cash paid on asset retirement obligations provision	**46**	-	-
Other	**-**	2,158	295
Funds from operations	**30,048**	34,113	19,915

Funds from operations decreased by 12% to $30.0 million in 2012 compared to $34.1 million in 2011 due to the decrease in revenues and increase in production expense which were partially offset by the decrease in interest

expense. The decrease in revenues is attributed to the decreased prices received for NGLs and natural gas and the increase in production expense is mainly due to the increase in production volumes. The decrease in interest expense is mainly due to proceeds from the asset dispositions being used to pay down the bank credit facility and lower interest paid on the convertible debentures as an 8.25% debenture was redeemed in Q4 2011.

Funds from operations increased by 71% to $34.1 million in 2011 compared to $19.9 million in 2010 due to the increase in revenues and decrease in G&A expense which were partially offset by the increase in production expense. The increase in revenues is mainly due to the Hunton Acquisition in June 2011 and the decrease in G&A expense is mainly due to the legal proceedings with a former joint venture participant that ended in Q2 2011. The increase in production expense is mainly due to the increase in production volumes.

Cash Flow Netback

Management uses cash flow netback to analyze the profitability of its operations. Cash flow netback, as presented, is not intended to represent an alternative to net income (loss) or other measures of financial performance calculated in accordance with GAAP. All references to cash flow netback throughout this MD&A are based on the reconciliation in the following table:

Cash Flow Netback *(in thousands of Canadian dollars, except for volume and per boe amounts)*

	Year ended December 31		
	2012	2011	2010
NGL, natural gas and oil revenues	**61,478**	70,512	51,206
Realized gain on commodity contracts	**6,063**	2,375	4,121
Production expense	**(20,457)**	(16,908)	(10,462)
Production taxes	**(3,754)**	(3,312)	(2,639)
General and administrative expense	**(7,577)**	(8,474)	(14,153)
Interest expense	**(5,912)**	(9,840)	(9,831)
Realized foreign exchange	**207**	(240)	1,673
Funds from operations	**30,048**	34,113	19,915
Total production volume (mboe)	**2,630**	2,016	1,471
Cash flow netback (non-GAAP) ($ per boe)	**11.42**	16.92	13.54

Cash flow netback decreased 33% to $11.42 per boe in 2012 compared to $16.92 per boe in 2011 mainly due to the 29% decrease in revenues to $25.68 per boe in 2012 compared to $36.16 per boe in 2011 as a result of the decrease in prices for NGLs and natural gas. The decreases in revenues on a per boe basis was partially offset by the per boe decreases in production expense, production taxes, G&A and interest expense.

Cash flow netback increased 25% to $16.92 per boe in 2011 compared to $13.54 per boe in 2010 mainly due to the per boe decreases G&A and interest expense which were partially offset by per boe decreases in revenues and increases in production expenses.

Working Capital (Deficit) including Long-term Debt

Working Capital (Deficit) including Long-term Debt (*in thousands of Canadian dollars*)	**December 31, 2012**	December 31, 2011
Cash	**22,969**	5,553
Accounts receivable	**15,524**	19,742
Prepaid expenses, deposits and other	**926**	552
Accounts payable and accrued liabilities	**(8,600)**	(14,673)
Accounts receivable – discontinued operations	**1,463**	5,432
Prepaid expenses, deposits and other – discontinued operations	**130**	318
Accounts payable and accrued liabilities – discontinued operations	**(5,810)**	(9,566)
Working capital	**26,602**	7,358
Long-term debt	**-**	(138,820)

Working capital (deficit) including long-term debt	**26,602**	(131,462)

The working capital including long-term debt at December 31, 2012 was $26.6 million which was higher compared to a working capital deficit including long-term debt at December 31, 2011 of $131.5 million. The increase in working capital is mainly attributed to surplus cash from the asset sales during the year which totaled CDN$97.9 million and US$58.1 million from which proceeds exceeded amounts required to repay the outstanding long-term debt.

CAPITAL EXPENDITURES

Capital Expenditures *(in thousands of Canadian dollars)*

	Year ended December 31		
	2012	2011	2010
Property, plant and equipment expenditures [1]	**24,480**	32,900	13,207
Hunton Acquisition [2]	**-**	91,656	-
Dispositions [1]	**(63,925)**	-	-
Total	**(39,445)**	124,556	13,207

(1) Includes the settlement of $5.2 million (US$5.2 million) in payables to Atlas as part of the Mississippian Sales in 2012.

(2) Includes the settlement of $5.6 million (US$5.8 million) in receivables from JV Participant in 2011.

During the year ended December 31, 2012, expenditures in the U.S. totaled $24.5 million and proceeds from dispositions totaled $63.9 million. The major components of these expenditures include:

- $19.2 million related to wells, drilling and workovers;
- $2.9 million on capital enhancements;
- $1.6 million on acquisitions of land for future development in Oklahoma; and
- $0.8 million related to the capitalization of certain G&A costs attributable to exploration and development activities.

In two separate transactions on April 26, 2012 and September 24, 2012, the Company sold its Northern Oklahoma assets to its Mississippian joint venture partner for total cash proceeds of US$58.1 million and the settlement of US$5.2 million in payables owed to the joint venture partner.

During 2012, the Company drilled a total of 9 (7.2 net) wells in Oklahoma. Of the 9 wells drilled in Oklahoma, 6 (4.5 net) wells were sold to Atlas on September 24, 2012 as part of the asset disposition in Northern Oklahoma.

BUSINESS RISKS

The disclosures under this heading should be read in conjunction with Note 10 to the consolidated financial statements.

In the current volatile economic and financial market conditions, Equal continually assesses its risks and manages those risks to the best of its abilities. Equal is exposed to normal market risks inherent in the oil and natural gas business, including but not limited to exploration, development and production risks, volatility of commodity prices, capital risks, funding risks, risks associated with reserves, foreign currency risks, interest rate risks, acquisitions, environmental risks and liquidity risks. From time to time, Equal attempts to mitigate its exposure to these risks by using commodity hedging contracts and by other means. These risks are described in more detail in Equal's annual filings with securities regulatory authorities.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company 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 the Company may have at any particular time, and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on its 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 the Company will be

able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Company.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In particular, the Company may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Company. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although the Company maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on the Company.

Oil, Gas and NGL Prices are Volatile

The marketability and price of oil and natural gas that may be acquired or discovered by Equal Energy is and will continue to be affected by numerous factors beyond its control. The Company's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. The Company may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing and storage facilities and operational problems affecting such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Equal Energy's revenues, profitability and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas. The Company's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include economic conditions, in the United States, Canada, the actions of the OPEC and Russia, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations.

Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings available to Equal Energy are in part determined by the Company's borrowing base. A sustained material decline in prices from historical average prices could reduce the Company's borrowing base,

therefore reducing the bank credit available to the Company which could require that a portion, or all, of the Company's bank debt be repaid.

Substantial Capital Requirements

Equal Energy anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Company's revenues or reserves decline, it may limit Equal Energy's ability to expend or access the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

Capital Markets

The market events and conditions witnessed over the past three years, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility in commodity prices and increases in the rates at which Equal Energy is able to borrow funds for its capital programs. While there have been recent signs which may suggest the beginning of a global economic recovery, there can be no certainty regarding the timing or extent of a potential recovery, and such continued uncertainty in the global economic situation means that the Company, along with all other oil and gas entities, may continue to face restricted access to capital and increased borrowing costs. This could have an adverse effect on the Company, as its ability to make future capital expenditures is dependent on, among other factors, the overall state of the capital markets and investor appetite for investments in the energy industry generally and the Company's securities in particular.

Additional Funding Requirements

Equal Energy's cash flow from its producing reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Company's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favourable terms.

Issuance of Debt

From time to time Equal Energy may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, the Company may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither the articles of the Company nor its by-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time, could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise and could negatively affect the Company's debt ratings. This in turn, could have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

Reserve Estimates

The reserves information contained in Equal's independent reserve evaluations are estimates. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserve evaluators. The reserve reports were prepared using certain commodity price assumptions. If lower prices for oil, NGLs and natural gas are realized by Equal and substituted for the price assumptions utilized in those reserve reports, the present value of estimated future net cash flows for Equal's reserves as well as the amount of Equal's reserves would be reduced and the reduction could be significant.

Foreign Currency Rates

The price that Equal Energy receives for a majority of its oil and natural gas is based on United States dollar denominated benchmarks and therefore the revenue recorded in Canadian dollars is affected by the exchange rate between the two currencies. A material increase in the value of the Canadian dollar relative to the United States dollar, may negatively impact the Company's net production revenue by decreasing the Canadian dollar revenue recorded in the financial statements. Equal conducts its business and operations in the United States and is therefore exposed to foreign currency risk on both revenues and costs to the extent the value of the Canadian dollar decreases relative to the United States dollar.

Interest Rates

Interest rate risk arises from changes in market interest rates that may affect the fair value of future cash flows from the Company's financial instruments. Equal has a floating interest rate for its long-term debt and fixed interest rate for its convertible debentures.

Acquisitions

The price paid for acquisitions is based on engineering and economic estimates of the potential reserves made by independent engineers modified to reflect the technical views of management. These assessments include a number of material assumptions regarding such factors as recoverability and marketability of oil, NGLs and natural gas, future prices of oil, NGLs and natural gas and operating costs, future capital expenditures and royalties and other government levies that will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the operators of the working interests, management and Equal. In particular, changes in the prices of and markets for oil, NGLs and natural gas from those anticipated at the time of making such assessments will affect the value of the shares. In addition, all such estimates involve a measure of geological and engineering uncertainty that could result in lower production and reserves than attributed to the working interests. Actual reserves could vary materially from these estimates. Consequently, the reserves acquired may be less than expected, which could adversely impact cash flows and distributions to shareholders.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and international, national, provincial, state and local law and regulation. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and 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 of same can result in the imposition of clean-up orders, fines and/or penalties, some of which may be material, as well as possible forfeiture of requisite approval obtained from the various governmental authorities. The discharge of green house gas ("GHG") emissions and other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. Although the Company 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 its financial condition, results of operations or prospects.

Liquidity Risk

Liquidity risk is the risk that Equal is unable to meet its financial liabilities as they come due. Management utilizes a long-term financial and capital forecasting program that includes continuous review of debt forecasts to ensure credit facilities are sufficient relative to forecast debt levels, capital program levels are appropriate and financial covenants will be met. In the short term, liquidity is managed through daily cash management activities, short-term financing strategies and the use of commodity hedging contracts to increase the predictability of cash flow from operating activities. Additional information on specific instruments is discussed in the "Commodity Contracts" section, "Liquidity and Capital Resources" section and in Note 10 to the consolidated financial statements.

Commitments

As of December 31, 2012, Equal has commitments for the following payments:

Commitments & Obligations *(in thousands of Canadian dollars)*

	2013	2014	2015	2016	2017 and past	Total
Long-term debt [1]	-	-	-	-	-	-
Interest on long-term debt [2]	625	313	-	-	-	938
Convertible debentures [3]	-	-	-	45,000	-	45,000
Interest on convertible debentures [3]	3,038	3,038	3,038	759	-	9,873
Accounts payable & accrued liabilities	8,600	-	-	-	-	8,600
Office leases	985	995	1,007	763	-	3,750
Vehicle leases	150	133	72	44	-	399
Liabilities from discontinued operations	5,840	-	-	-	783	6,623
Total	19,238	4,479	4,117	46,566	783	75,183

(1) The bank credit facility was undrawn as of December 31, 2012. If the bank credit facility is not renewed in June 2013, any outstanding balance is to be paid by June 2014.
(2) Interest is based on the standby-charge of 0.5% for the unused balance of the bank credit facility.
(3) The convertible debentures bear interest at 6.75% per annum and mature March 31, 2016.

LIQUIDITY & CAPITAL RESOURCES

Development activities and acquisitions may be funded internally through cash flow or through external sources such as debt or the issuance of equity. The Company finances its operations and capital activities primarily with funds generated from operating activities, but also through the issuance of shares, debentures and borrowing from its credit facility. The Company believes its sources of cash, including bank debt and funds from operations, will be sufficient to fund its operations and anticipated capital expenditure program in 2013. Equal's ability to fund its operations will also depend on operating performance and is subject to commodity prices and other economic conditions which may be beyond its control. The Company will monitor commodity prices and adjust the 2013 capital expenditure program to stay within its means. The Company operates all of its drilling programs and as a result, can control the pace and targets of its capital spending to react quickly to changes in cash flow to ensure ongoing financial flexibility.

Equal's capital structure at December 31, 2012 is as follows:

	December 31, 2012	
Capitalization *(in thousands of Canadian dollars except percentages)*	**Amount**	**%**
Working capital surplus [1]	**(26,602)**	**(21%)**
Convertible debentures	**45,000**	**35%**
Shares issued, at market [2]	**108,498**	**86%**
Total capitalization	**126,896**	**100%**

(1) Refer to Non-GAAP Financial Measures for more information.
(2) The market price of Equal's shares on December 31, 2012 was $3.08 per share.

Cash Flow from Operating, Investing and Financing Activities *(in thousands of Canadian dollars)*

	Year ended December 31		
	2012	2011	2010
Cash provided by operating activities – continuing operations	**27,584**	29,138	6,504
Cash provided by operating activities – discontinued operations	**7,211**	27,141	27,932
Cash provided by operating activities	**34,795**	56,279	34,436
Cash provided by (used in) investing activities – continuing operations	**37,124**	(116,933)	(10,517)
Cash provided by (used in) investing activities – discontinued operations	**80,646**	(12,972)	(32,197)
Cash provided by (used in) investing activities	**117,770**	(129,905)	(42,714)

Cash provided by (used in) financing activities	**(135,066)**	76,612	(8,071)

In 2012, cash provided by operating activities has decreased to $34.8 million from $56.3 million in 2011 mainly due to the asset disposition in Q4 2011. In 2012, cash provided by investing activities was $117.8 million due to the asset sales in Canada and Oklahoma compared to the cash used in investing activities in 2011 for capital expenditures. In 2012, the cash used in financing activities was $135.1 million due to the repayment of the bank credit facility using proceeds from the asset sales which occurred during 2012.

In 2011, cash provided by operating activities has increased to $56.3 million from $34.4 million in 2010 mainly due to the Hunton acquisition in June 2011. In 2011, cash used in investing activities was $129.9 million from capital expenditures compared to $47.7 million in 2010. In 2011, the cash provided by financing activities was $76.6 million due to the drawdown of the bank credit facility to redeem the 8.0% convertible debentures.

Long-term Debt

Long-term debt is represented by the amounts drawn on the bank credit facility. At December 31, 2012, Equal did not have any outstanding long-term debt as the Company repaid the outstanding bank credit facility with the proceeds of the sales during 2012. As a result of the asset dispositions, the bank credit facility was reduced from a maximum of $200.0 million to $125.0 million which is secured against the borrowing base of the Oklahoma assets.

Equal monitors capital using an interest coverage ratio that has been externally imposed as part of the credit agreement. Equal is required to maintain an interest coverage ratio greater than 3.00 to 1.00; this ratio is calculated as follows:

	As at	
(in thousands of Canadian dollars except for ratios)	**December 31, 2012**	December 31, 2011
Interest coverage [(1)]:		
Cash flow over the prior four quarters	**36,135**	69,246
Interest expenses over the prior four quarters [(2)]	**6,795**	11,338
Interest coverage ratio	**5.32 : 1.00**	6.11 : 1.00

(1) These amounts are defined terms within the credit agreements.
(2) The interest expense is the gross amount before the deduction of the amount allocated to discontinued operations.

Working Capital

The working capital at December 31, 2012 was $26.6 million which increased compared to working capital at December 31, 2011 of $7.4 million. The increase in working capital is mainly attributed to the asset sales during the year which totaled CDN$97.9 million and US$58.1 million from which proceeds were used to repay the outstanding long-term debt.

Working Capital (*in thousands of Canadian dollars*)	**December 31, 2012**	December 31, 2011
Cash	**22,969**	5,553
Accounts receivable	**15,524**	19,742
Prepaid expenses, deposits and other	**926**	552
Accounts payable and accrued liabilities	**(8,600)**	(14,673)
Accounts receivable – discontinued operations	**1,463**	5,432
Prepaid expenses, deposits and other – discontinued operations	**130**	318
Accounts payable and accrued liabilities – discontinued operations	**(5,810)**	(9,566)
Working capital	**26,602**	7,358
Long-term debt	**-**	(138,820)
Working capital including long-term debt	**26,602**	(131,462)

Convertible Debentures

As at December 31, 2012 and 2011, Equal had $45.0 million of 6.75% convertible debentures (EQU.DB.B) outstanding. The 6.75% convertible debentures have the conversion price of $9.00 per share. Each $1,000 principal amount of EQU.DB.B debentures is convertible into approximately 111.11 Equal shares and mature on March 31, 2016.

EQUITY INFORMATION

Equal is capitalized through a combination of shares and convertible debt. Equal also has a share option plan and restricted share plan. The following table outlines the outstanding equity instruments:

Outstanding Equity Data as at	**March 13, 2013**	December 31, 2012	December 31, 2011
Shares	**35,562,967**	35,226,526	34,779,435
Share options	**596,459**	734,537	1,303,495
Restricted shares	**820,014**	1,220,489	946,285
6.75% Convertible debentures ($1,000 per debenture)	**45,000**	45,000	45,000

OUTLOOK

As a part of the of the Strategic Review, the Canadian operations and Northern Oklahoma operations were sold so that Equal could focus on a single asset base in Central Oklahoma, the liquids-rich natural gas Hunton formation. Equal will continue to operate its Central Oklahoma assets consisting of approximately 6,400 boe per day of liquids-rich natural gas where it's had strong historical drilling success. The Company has identified a strong inventory of future drilling locations and has a staff of experienced people in Oklahoma managing these assets. Management believes that in addition to successful drilling, there is significant additional upside from natural gas and NGL commodity price recovery.

The Company has re-commenced drilling in the Hunton during 2013 and plans to drill up to 10 wells as part of the 2013 capital budget of $36.0 million that was approved by the board; which includes $30.0 million for drilling and related infrastructure and $6.0 million for land and maintenance capital.

As a result of the asset sales, the Company has strengthened the balance sheet and re-paid all of the outstanding debt on its bank credit facility and has surplus cash remaining to exit 2012 with a working capital balance of $26.6 million. With the strong balance sheet and projected cash flows, Equal will pay a USD$0.20 per share annual dividend, beginning on January 1, 2013 and payable at the end of each calendar quarter.

ENVIRONMENTAL AND CLIMATE CHANGE RISK

The oil and gas industry has a number of environmental risks and hazards and is subject to regulation by all levels of government. Environmental legislation includes, but is not limited to, operational controls, final site restoration requirements and increasing restrictions on emissions of various substances produced in association with oil and natural gas operations. Compliance with such legislation could require additional expenditures and a failure to comply may result in fines and penalties which could, in the aggregate, become material.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2012, an internal evaluation was carried out of the effectiveness of Equal's disclosure controls and procedures as defined in Rule 13a-15 under the US Securities Exchange Act of 1934 and as defined in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that the information required to be disclosed in the reports that Equal files or submits under the Exchange Act or under Canadian Securities legislation is recorded, processed, summarized and reported, within the time periods specified in the rules and forms therein. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by Equal in the reports that it files or submits under the Exchange Act or under Canadian Securities Legislation is accumulated and communicated to Equal's management, including the senior executive and financial officers, as appropriate to allow timely decisions regarding the required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of Equal's internal control over financial reporting as defined in Rule 13a-15 under the US Securities Exchange Act of 1934 and as defined in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The assessment was based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management concluded that Equal's internal control over financial reporting was effective as of December 31, 2012. The effectiveness of Equal's internal control over financial reporting as of December 31, 2012 has been audited by KPMG LLP, an independent registered public accounting firm. No changes were made to Equal's internal control over financial reporting during the year ending December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

CHANGES IN ACCOUNTING POLICIES

As required by Rule 3b-4(c) of the United States *Securities Exchange Act of 1934*, as amended, and Rule 405 of the United States *Securities Act of 1933*, as amended, Equal has adopted U.S. GAAP financial reporting starting with the reporting of the quarter ended December 31, 2012. The Company no longer qualifies as a foreign private issuer as it did not meet certain conditions and, therefore, must follow the requirements of a U.S. domestic filer which includes financial reporting in accordance with U.S. GAAP.

Recently Issued Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet – Disclosure about Offsetting Assets and Liabilities (Topic 210)." The update requires an entity to disclose information about offsetting assets and liabilities and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2013. The implementation of this update is not expected to materially impact the Company's disclosure.

CRITICAL ACCOUNTING ESTIMATES

Equal has continuously evolved and documented its management and internal reporting systems to provide assurance that accurate, timely internal and external information is gathered and disseminated.

Equal's financial and operating results incorporate certain estimates including:

- estimated revenues, royalties and operating costs on production as at a specific reporting date but for which actual revenues and costs have not yet been received;
- estimated capital projects that are in progress;
- estimated depletion and depreciation that are based on estimates of oil, NGL and natural gas reserves and useful lives of equipment;
- estimated future recoverable value of property, plant and equipment that are based on estimates of oil, NGL and natural gas reserves that Equal expects to recover in the future;
- estimated value of assert retirement obligations that are dependent upon estimates of future costs and timing of expenditures;
- estimated fair values of derivative contracts that are subject to fluctuation depending upon the underlying commodity prices;
- estimated expenses from Equal's share-based compensation plans that are based on pricing models such as the Black-Scholes model; and
- estimated deferred income taxes which are dependent upon tax interpretations, regulations and legislation in various jurisdictions in which the Company operates that are subject to change.

Equal has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

The Equal leadership team's mandate includes ongoing development of procedures, standards and systems to allow Equal staff to make the best decisions possible and ensuring those decisions are in compliance with Equal's environmental, health and safety policies.

ADDITIONAL INFORMATION

Additional information relating to Equal Energy Ltd. can be found on SEDAR at www.sedar.com, on EDGAR at www.sec.gov/edgar.shtml, as well as on the website at www.equalenergy.ca.

GLOSSARY

AECO	a storage and pricing hub for Canadian natural gas market
bbl or bbls	barrels of oil
bbls per day	barrels of oil per day
boe	barrels of oil equivalent (6 mcf equivalent to 1 bbl)
boe per day	barrels of oil equivalent per day
Cdn$	Canadian dollars
FD&A	Finding Development & Acquisition Costs
FDC	Future Development Costs
GAAP	U.S. Generally Accepted Accounting Principles
GJ	Gigajoule
GORR	Gross overriding royalty
LNG	Liquefied Natural Gas
mbbl	thousand barrels of oil
mboe	thousands of barrels of oil equivalent
mcf	thousand cubic feet of natural gas
mcf per day	thousands of cubic feet of natural gas per day
mmbtu	millions of British Thermal Units
mmbtu per day	millions of British Thermal Units per day
mmcf	millions of cubic feet of natural gas
Mwh	megawatt-hour
NGL	natural gas liquids (ethane, propane, butane and condensate)
NI 51-101	National Instrument 51-101
NYMEX	New York Mercantile Exchange
Q1	first quarter of the year - January 1 to March 31
Q2	second quarter of the year - April 1 to June 30
Q4	third quarter of the year - July 1 to September 30
Q4	fourth quarter of the year - October 1 to December 31
US$	United States dollars
WTI	West Texas Intermediate (oil reference price)

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Equal Energy Ltd.

We have audited the accompanying consolidated balance sheets of Equal Energy Ltd. as of December 31, 2012 and December 31, 2011 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Equal Energy Ltd. as of December 31, 2012 and December 31, 2011, and the results of their consolidated operations and their consolidated cash flows for each of the years in the three-year period ended December 31, 2012 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Equal Energy Ltd.'s internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 14, 2013 expressed an unqualified opinion on the effectiveness of Equal Energy Ltd.'s internal control over financial reporting.

Signed "KPMG LLP"
Chartered Accountants
Calgary, Canada
March 14, 2013

To the Board of Directors and Shareholders of Equal Energy Ltd.

We have audited Equal Energy Ltd.'s (the "Company") internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the section of the Form 10-K titled "Management's Annual Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated March 14, 2013 expressed an unqualified opinion on those consolidated financial statements.

Signed "KPMG"
Chartered Accountants
Calgary, Canada
March 14, 2013

EQUAL ENERGY LTD.

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)	**December 31, 2012**	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	**22,969**	5,553
Accounts receivable (note 3)	**15,524**	19,742
Prepaid expenses, deposits and other	**926**	552
Commodity contracts (note 10)	**1,446**	4,813
Assets of discontinued operations (note 13)	**2,168**	5,750
Total current assets	**43,033**	36,410
Oil and natural gas properties, full cost method of accounting: (note 4)		
Proved	**145,442**	173,417
Unproved	**2,080**	4,627
Total oil and natural gas properties, net	**147,522**	178,044
Other capital assets	**485**	917
Total property, plant and equipment, net	**148,007**	178,961
Other assets	**1,422**	1,859
Commodity contracts (note 10)	**159**	-
Deferred income tax asset (note 11)	**33,601**	41,293
Assets of discontinued operations (note 13)	**-**	64,571
Total assets	**226,222**	323,094
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**8,600**	14,673
Liabilities of discontinued operations (note 13)	**5,840**	10,887
Total current liabilities	**14,440**	25,560
Long-term debt (note 5)	**-**	138,820
Convertible debentures (note 6)	**45,000**	45,000
Asset retirement obligation (note 7)	**4,722**	5,270
Liabilities of discontinued operations (note 13)	**783**	8,564
Total liabilities	**64,945**	223,214
Shareholders' equity		
Common shares (35,226,526 and 34,779,435 shares issued and outstanding)	**225,249**	223,437
Contributed surplus	**9,298**	6,439
Accumulated other comprehensive loss (note 15)	**(26,218)**	(21,117)
Deficit	**(47,052)**	(108,879)
Total shareholders' equity	**161,277**	99,880
Total liabilities and shareholders' equity	**226,222**	323,094

Commitments and contingencies (notes 10 and 14)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

Signed *"Dan Botterill"* Signed *"Victor Dusik"*
Director Director

(in thousands of Canadian dollars except shares)	Number of common shares	Share capital	Contributed surplus	Accumulated other comprehensive income/(loss)	Deficit	Shareholders' equity
Balances, December 31, 2009	-	$ -	$ -	$ (19,394)	$ (103,691)	$ (123,085)
Conversion – effected through Plan of Arrangement (note 8)	21,902,530	136,673	3,110	-	(1,219)	138,564
Issue of common shares under restricted share plan	193,729	1,105	(1,105)	-	-	-
Issue of common shares under equity offering (net of issue costs/tax)	5,613,600	36,215	-	-	-	36,215
Share-based compensation before capitalization	-	-	1,529	-	-	1,529
Comprehensive loss and loss for the year	-	-	-	(6,552)	(9,342)	(15,894)
Balances, December 31, 2010	27,709,859	$ 173,993	$ 3,534	$ (25,946)	$ (114,252)	$ 37,329
Issue of common shares under restricted share plan	194,576	1,142	(1,142)	-	-	-
Issue of common shares on exercise of options	25,000	134	(10)	-	-	124
Issue of common shares under equity offering (net of issue costs/tax)	6,850,000	48,168	-	-	-	48,168
Share-based compensation before capitalization	-	-	4,057	-	-	4,057
Comprehensive income and net income for the year	-	-	-	4,829	5,373	10,202
Balances, December 31, 2011	34,779,435	$ 223,437	$ 6,439	$ (21,117)	$ (108,879)	$ 99,880
Issue of common shares under restricted share plan	**447,091**	**1,812**	**(1,812)**	**-**	**-**	**-**
Share-based compensation before capitalization	**-**	**-**	**4,671**	**-**	**-**	**4,671**
Comprehensive loss and net income for the year	-	**-**	**-**	**(5,101)**	**61,827**	**56,726**
Balances, December 31, 2012	**35,226,526**	**$ 225,249**	**$ 9,298**	**$ (26,218)**	**$ (47,052)**	**$ 161,277**

See accompanying notes to the consolidated financial statements.

EQUAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars except per share amounts)	Year ended December 31 **2012**	2011	2010
Revenues			
NGL, natural gas and oil revenues	**61,478**	70,512	51,206
Realized gain on commodity contracts (note 10)	**6,063**	2,375	4,121
Unrealized gain/(loss) on commodity contracts (note 10)	**(3,148)**	5,424	(912)
Total revenues	**64,393**	78,311	54,415
Expenses			
Production	**20,457**	16,908	10,462
Production taxes	**3,754**	3,312	2,639
General and administrative including share-based compensation (note 8)	**11,145**	10,975	16,370
Interest expense (notes 5, 6 and 12)	**5,912**	9,840	9,831
Depletion and depreciation (note 4)	**22,888**	14,936	4,262
Amortization of deferred charges	**437**	1,860	1,242
Accretion of asset retirement obligation (note 7)	**405**	248	175
Gain on sale of assets (note 4)	**(36,036)**	-	-
Transaction costs on asset acquisition/dispositions	**708**	1,767	-
Redemption fee on convertible debentures (note 6)	**-**	2,975	-
Realized foreign exchange (gain)/loss	**(207)**	240	(1,673)
Unrealized foreign exchange (gain)/loss	**(3,015)**	4,416	383
	26,448	67,477	43,691
Income from continuing operations before taxes	**37,945**	10,834	10,724
Taxes (note 11)			
Current tax expense	**-**	391	295
Deferred tax expense	**6,834**	10,441	6,814
	6,834	10,832	7,109
Income/(loss) from continuing operations	**31,111**	2	3,615
Discontinued operations (note 13):			
Income/(loss) from discontinued operations	**(11,890)**	5,371	(12,957)
Gain on sales of discontinued operations, net of tax expense of $13.4 million	**42,606**	-	-
Net income/(loss)	**61,827**	5,373	(9,342)
Other comprehensive income/(loss)			
Foreign currency translation adjustment	**(5,101)**	4,829	(6,552)
Comprehensive income/(loss)	**56,726**	10,202	(15,894)
Earnings per share information (note 9)			
Basic earnings per share from continuing operations	**$ 0.89**	$ 0.00	$ 0.14
Basic earnings per share from discontinued operations	**$ 0.87**	$ 0.17	($ 0.52)
Basic earnings per share	**$ 1.76**	$ 0.17	($ 0.38)
Diluted earnings per share from continuing operations	**$ 0.82**	$ 0.00	$ 0.14
Diluted earnings per share from discontinued operations	**$ 0.76**	$ 0.16	($ 0.52)
Diluted earnings per share	**$ 1.58**	$ 0.16	($ 0.38)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Year ended December 31		
(in thousands of Canadian dollars)	**2012**	2011	2010
Operating Activities			
Net income / (loss)	**61,827**	5,373	(9,342)
Net income / (loss) from discontinued operations	**(30,716)**	(5,371)	12,957
Adjustments to reconcile net income to net cash provided by operating activities			
Depletion and depreciation (note 4)	**22,888**	14,936	4,262
Accretion of asset retirement obligation (note 7)	**405**	248	175
Share-based compensation (note 8)	**3,568**	2,501	2,217
Amortization of deferred charges	**437**	1,860	1,242
Unrealized commodity contracts (gain) / loss (note 10)	**3,148**	(5,424)	912
Gain on sale of assets (note 4)	**(36,036)**	-	-
Transactions costs on asset dispositions	**708**	-	-
Redemption fee on convertible debentures	**-**	2,975	-
Deferred tax expense	**6,834**	10,441	6,814
Cash paid on asset retirement obligations provision (note 7)	**(46)**	-	-
Unrealized foreign exchange (gain)/loss	**(3,015)**	4,416	383
Changes in operating assets and liabilities:			
Accounts receivable	**3,899**	(6,708)	(8,691)
Prepaid expenses and other current assets	**(386)**	983	(460)
Accounts payable and accrued liabilities	**(5,931)**	2,908	(3,965)
Cash provided by operating activities – continuing operations	**27,584**	29,138	6,504
Cash provided by operating activities – discontinued operations	**7,211**	27,141	27,932
Cash provided by operating activities	**34,795**	56,279	34,436
Investing Activities			
Property, plant and equipment additions	**(20,841)**	(30,835)	(14,020)
Asset acquisition	**-**	(86,098)	-
Proceeds on sale of property, plant and equipment	**58,673**	-	-
Transaction costs on asset dispositions	**(708)**	-	-
Repayment of long-term receivable	**-**	-	3,503
Cash provided by / (used in) investing activities – continuing operations	**37,124**	(116,933)	(10,517)
Cash provided by / (used in) investing activities – discontinued operations	**80,646**	(12,972)	(32,197)
Cash provided by / (used in) investing activities	**117,770**	(129,905)	(42,714)
Financing Activities			
Increase / (decrease) in long-term debt (note 5)	**(135,066)**	109,047	(43,630)
Issue of shares, net of issuance costs	**-**	47,417	35,641
Issuance of convertible debentures, net of costs	**-**	42,741	-
Redemption of convertible debentures	**-**	(119,618)	(82)
Redemption fee on convertible debentures	**-**	(2,975)	-
Cash provided by / (used in) financing activities	**(135,066)**	76,612	(8,071)
Foreign exchange on financial balances	**(83)**	62	(826)
Change in cash and cash equivalents	**17,416**	3,048	(17,175)
Cash and cash equivalents, beginning of year	**5,553**	2,505	19,680
Cash and cash equivalents, end of year	**22,969**	5,553	2,505
Supplementary Cash Flow Information			
Interest paid	**6,795**	10,945	12,048
Income tax paid	**67**	391	693

See accompanying notes to the consolidated financial statements.

1. Description of Business

Equal Energy Ltd. ("Equal" or the "Company") is a publicly listed company whose common shares trade on both the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") under the symbol EQU. Equal is engaged in the exploration, development and production of oil, NGLs and natural gas in the United States and conducts many of its activities jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

As required by Rule 3b-4(c) of the United States *Securities Exchange Act of 1934*, as amended, and Rule 405 of the United States *Securities Act of 1933*, as amended, Equal has adopted generally accepted accounting principles in the United States of America ("U.S. GAAP") financial reporting. The Company no longer qualifies as a foreign private issuer as it did not meet certain conditions and, therefore, must follow the requirements of a U.S. domestic filer which includes financial reporting in accordance with U.S. GAAP.

2. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with U.S. GAAP. The Company believes that the information and disclosures presented are adequate to ensure the information presented is not misleading.

Significant accounting policies are:

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include: oil and natural gas reserves and related present value of future cash flows; depreciation, depletion, amortization and impairment ("DD&A"); timing of transfers from oil and gas properties not subject to amortization to the amortization base; asset retirement obligations; determining the value of the consideration transferred and the net identifiable assets acquired and liabilities assumed in connection with business combinations; income taxes; legal and other contingencies; and stock-based compensation. Although management believes these estimates are reasonable, changes in facts and circumstances or discovery of new information may result in revised estimates, and actual results may differ from these estimates.

Discontinued operations

As a part of the Strategic Review which the board of directors initiated on May 3, 2012, the Company's Canadian assets were sold in Q4 2012 and are classified as discontinued operations (Note 13).

The captions assets of discontinued operations and liabilities of discontinued operations in the accompanying consolidated balance sheets present the assets and liabilities associated with Equal's discontinued operations. Equal measures its assets of discontinued operations at the lower of its carrying amount or estimated fair value less costs to sell.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Allowance for doubtful accounts

The Company estimates losses on receivables based on known uncollectible accounts, if any, and historical experience of losses incurred. The allowance for doubtful receivables was $0.2 million at December 31, 2012 (December 31, 2011 – $35 thousand).

Income taxes

Income taxes are recognized using the liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax base, and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carry forwards are expected to be recovered or settled. Valuation allowances are provided if, after considering available evidence, it is not more likely than not that some or all of the deferred tax assets will be realized.

The tax benefit from an uncertain tax position is recognized when it is more likely than not, based on the technical merits of the position, that the position will be sustained on examination by the taxing authorities. Additionally, the amount of the tax benefit recognized is the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Company presumes that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The Company recognizes potential penalties and interest related to unrecognized tax benefits as a component of income tax expense.

Oil and gas properties

The Company uses the full cost method of accounting for its investment in oil and natural gas properties as defined by the Securities and Exchange Commission ("SEC"). Under this method, the Company capitalizes all acquisition, exploration and development costs incurred for the purpose of finding oil and natural gas reserves, including salaries, benefits and other internal costs directly attributable to these activities. Costs associated with production and general corporate activities; however, are expensed as incurred. Separate cost centers are maintained for each country in which the Company incurs costs.

The Company computes depletion of oil and natural gas properties on a quarterly basis using the unit-of-production method based upon production and estimates of proved reserve quantities. Future development costs related to properties with proved reserves are also included in the amortization base for computation of depletion. The costs of unproved properties are excluded from the amortization until the properties are evaluated. The cost of exploratory dry wells is transferred to proved properties, and thus subject to amortization, immediately upon determination that a well is dry in those countries where proved reserves exist.

The Company performs a ceiling test calculation each quarter in accordance with SEC Regulation S-X Rule 4-10. In performing its ceiling test, the Company limits, on a country-by-country basis, the capitalized costs of proved oil and natural gas properties, net of accumulated depletion and deferred income taxes, to the estimated future net cash flows from proved oil and natural gas reserves discounted at 10%, net of related tax effects, plus the lower of cost or fair value of unproved properties included in the costs being amortized. If such capitalized costs exceed the ceiling, the Company will record a write-down to the extent of such excess as a non-cash charge to net income. Any such write-down will reduce earnings in the period of occurrence and results in a lower DD&A rate in future periods. A write-down may not be reversed in future periods even though higher oil and natural gas prices may subsequently increase the ceiling.

The Company implemented the SEC final rule "Modernization of Oil and Gas Reporting" at December 31, 2009 and calculates future net cash flows by applying the average of prices in effect on the first day of the month for the preceding 12 month period, adjusted for location and quality differentials.

Unproved properties are not depleted pending the determination of the existence of proved reserves. Costs are transferred into the amortization base on an ongoing basis as the properties are evaluated and proved reserves are established or impairment is determined. Unproved properties are evaluated quarterly to ascertain whether impairment has occurred. This evaluation considers, among other factors, seismic data, requirements to relinquish acreage, drilling results and activity, remaining time in the commitment period, remaining capital plans, and political, economic, and market conditions. During any period in which factors indicate an impairment, the cumulative costs incurred to date for such property are transferred to the full cost pool and are then subject to amortization.

In exploration areas, related geological and geophysical ("G&G") costs are capitalized in unproved property and evaluated as part of the total capitalized costs associated with a property. G&G costs related to development projects are recorded in proved properties and therefore subject to amortization as incurred.

Gains and losses on the sale or other disposition of oil and natural gas properties are not recognized, unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves of oil and natural gas attributable to a country.

Other capital assets

Other capital assets, including additions and replacements, are recorded at cost upon acquisition and include furniture, fixtures and leasehold improvement, computer equipment and automobiles. Depreciation is provided over the estimated useful life of the respective assets which approximates 5 years. The cost of repairs and maintenance is charged to expense as incurred.

Asset retirement obligations

The Company records the fair value of a liability for a legal obligation to retire an asset in the period in which the liability is incurred with an offsetting increase to the related oil and gas properties. The fair value of asset retirement obligations is measured by reference to the expected future cash outflows required to satisfy the retirement obligations discounted at the Company's credit-adjusted risk-free interest rate. Accretion expense is recognized over time as the discounted liabilities are accreted to their expected settlement value, while the asset retirement cost is amortized over the estimated productive life of the related assets. The accretion of the asset retirement obligation and amortization of the asset retirement cost are included in DD&A. If estimated future costs of asset retirement obligations change, an adjustment is recorded to both the asset retirement obligation and oil and gas properties. Revisions to the estimated asset retirement obligation can result from changes in retirement cost estimates, revisions to estimated inflation rates and changes in the estimated timing of abandonment.

Revenue recognition

Revenues associated with the sale of crude oil, NGLs and natural gas is recognized when title passes from Equal to its customers based on contracts which establish the price of products sold and when collection is reasonably assured.

Share-based compensation

Equal has multiple share based compensation plans, which are described in Note 8. Compensation expense associated with each share based compensation plan is recognized in earnings over the vesting period of the plan with a corresponding increase in contributed surplus. Any consideration received upon the exercise of the share based compensation together with the amount of non-cash compensation expense recognized in contributed surplus is recorded as an increase in shareholders' capital. Compensation expense is based on the estimated fair value of the share based compensation at the date of grant.

Foreign currency transactions

Transactions completed in foreign currencies are reflected in Canadian dollars at the foreign currency exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are reflected in the financial statements at the Canadian equivalent at the rate of exchange prevailing at the balance sheet date. Gains and losses are included in earnings.

The U.S. subsidiaries of Equal are considered to be "self-sustaining operations" and have a U.S. dollar functional currency. As a result, the revenues and expenses are translated to Canadian dollars using average exchange rates for the period. Assets and liabilities are translated at the period-end exchange rate. Gains or losses resulting from the translation are included in accumulated other comprehensive income (loss) in shareholders' equity.

Per share amounts

Per share amounts are calculated using the weighted average number of shares outstanding. Equal follows the treasury stock method to determine dilutive effect of options, warrants and other dilutive instruments. Under the treasury stock method, only "in-the-money" dilutive instruments impact the diluted calculations. Convertible debentures are included in the calculation of diluted income per share based on the number of shares that would be issued on conversion of the convertible debentures at the end of the year and an add-back of the associated interest expense for the year as long as the conversion results in dilution to Equal shareholders.

Financial instruments

Equal has policies and procedures in place with respect to the required documentation and approvals for the use of derivative financial instruments and their use is limited to mitigating market price risk associated with expected cash flows.

Financial instruments are measured at fair value on the balance sheet upon initial recognition of the instrument. Measurement in subsequent years depends on whether the financial instrument has been classified in one of the following categories: held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Subsequent measurement and changes in fair value will depend on initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in Other Comprehensive Income ("OCI") until the instrument or a portion thereof is derecognized or impaired at which time the amounts would be recorded in net income; and held to maturity financial assets, loans and receivables and other financial liabilities are measured at amortized cost. Equal currently has no held to maturity or available-for-sale financial assets.

Cash and cash equivalents are designated as held-for-trading and are measured at cost, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities, the liability component of convertible debentures and long-term debt are designated as other financial liabilities. All commodity contract assets and liabilities are derivative financial instruments designated as held-for-trading.

3. Accounts Receivable

The components of account receivable include the following:

(in thousands of Canadian dollars)	**December 31, 2012**	December 31, 2011
Accounts receivable – trade	**10,677**	12,841
Accounts receivable – other	**5,019**	6,936
Allowance for doubtful accounts	**(172)**	(35)
	15,524	19,742

4. Property, Plant and Equipment ("PP&E")

Property, Plant and Equipment	As at December 31, 2012		
(in thousands of Canadian dollars)	Cost	Accumulated DD&A	Net Book Value
Oil and natural gas properties			
Proved	498,686	(353,244)	145,442
Unproved	2,080	-	2,080
	500,766	(353,244)	147,522
Other capital assets	1,150	(665)	485
Total Property, Plant and Equipment	501,916	(353,909)	148,007

Property, Plant and Equipment	As at December 31, 2011		
(in thousands of Canadian dollars)	Cost	Accumulated DD&A	Net Book Value
Oil and natural gas properties			
Proved	527,784	(354,367)	173,417
Unproved	4,627	-	4,627
	532,411	(354,367)	178,044

Other capital assets	1,415	(498)	917
Total Property, Plant and Equipment	533,826	(354,865)	178,961

On January 31, 2012, the Company completed the sale of non-core assets in Saskatchewan for proceeds of $8.3 million.

On April 26, 2012, the Company closed the sale of 50% of its interest in approximately 14,500 net undeveloped acres prospective for Mississippian light oil for total cash consideration of US$18.1 million. Concurrent with the sale, Equal entered into a joint venture agreement with the counterparty of the sale to develop those assets.

On May 3, 2012, Equal announced that its Board of Directors initiated a strategic review process to identify, examine and consider alternatives with the view to enhancing shareholder value. As a result of the strategic review process, the Company completed the following asset sales from which the proceeds were used to pay down the Company's outstanding bank debt:

- on September 24, 2012, the Northern Oklahoma assets were sold for total cash consideration of US$40.0 million to its Mississippian joint venture partner;
- on October 15, 2012, the assets in the Halkirk, Wainwright, Alliance and Clair areas of Alberta sold for $15.4 million in addition with the transfer of substantially all of its non-producing, suspended and abandoned wells in Alberta;
- on November 2, 2012, the assets in the Lochend Cardium were sold for $62.1 million; and
- on December 13, 2012, the royalty and fee title lands in Western Canada were sold for $12.1 million.

The sale of the Northern Oklahoma assets resulted in a gain on sale of $36.0 million and the three Canadian asset sales in Q4 2012 resulted in a gain on sale of $56.8 million ($42.6 million net of income tax) which is included in the discontinued operations (Note 13).

On June 1, 2011, Equal closed the Hunton acquisition from a former joint venture participant and settled all outstanding legal matters and other claims among the Company, Petroflow and Petroflow's banks. The Hunton acquisition increased production, resolved all matters outstanding between Petroflow, its lenders and the Company and expanded operations in Oklahoma. The consideration for the Hunton acquisition of $92.4 million (US$95.7 million), which was allocated to property, plant and equipment, was composed of $83.7 million (US$86.7 million) in cash, settlement of $5.6 million (US$5.8 million) in accounts receivable, operating income from the assets for June 2011 of $2.4 million (US$2.5 million) and the non-cash assumption of decommissioning liabilities of $0.5 million (US$0.7 million). Total transaction costs for the Hunton acquisition was $1.8 million for legal and financial advisory fees. Had the acquisition closed on January 1, 2011, proforma revenues from oil, NGLs and natural gas would have been $83.3 million (unaudited) and proforma net income would have been $11.9 million (unaudited) for 2011. The fair value of the Hunton acquisition was determined using a reserve report based on forecasted commodity prices for proved and probable reserves from an external oil and gas reserve engineer.

Equal completed ceiling test calculations at December 31, 2012 and 2011 to assess the recoverability of costs recorded in respect of the petroleum and natural gas properties. The ceiling test calculations did not result in an impairment at December 31, 2012 and 2011.

5. Long-term Debt

(in thousands of Canadian dollars)	**December 31, 2012**	December 31, 2011
Long-term debt	**-**	138,820

Effective November 2, 2012, the Company's syndicated bank credit facility was $125.0 million and is comprised of a $105.0 million revolving credit facility and a $20.0 million operating credit facility. The next scheduled review of the borrowing base is anticipated to be completed in June 2013. Changes to the amount of credit available may be made after this review is completed. The revolving and operating credit facilities are secured with a first priority charge over the assets of Equal. The maturity date of the revolving and operating credit facilities is June 2013 and should the lenders decide not to renew the facility, the debt must be repaid by June 2014.

Interest rates and standby fees for the credit facilities are set quarterly according to a grid based on the ratio of bank debt to cash flow with the interest rates based on Canadian dollar BA ("Bankers Acceptance") or U.S. dollar LIBOR

rate plus 2.0% to 4.0% depending on the ratio of bank debt to cash flow. For any unused balance of the credit facility, between 0.50% to 1.00% is charged as a standby fee which is recorded in interest expense. As at December 31, 2012, the marginal interest rate and standby fee were 2.50% and 0.625%, respectively.

As at December 31, 2012, the credit facility was undrawn due to proceeds from asset dispositions during 2012 which were used to fully repay the outstanding amount on the credit facility (see Note 4). As at December 31, 2012, letters of credit totaling $0.7 million (December 31, 2011 – $0.5 million) reduced the amount that can be drawn under the bank credit facility.

Equal is required to maintain several financial and non-financial covenants. The primary financial covenant is an interest coverage ratio of 3.0:1.0 as calculated pursuant to the terms of the credit agreement. For the twelve months ended December 31, 2012, the interest coverage ratio was 5.32 (December 31, 2011 – 6.11). Equal is in compliance with the terms and covenants of the credit facilities as at December 31, 2012.

6. Convertible Debentures

(in thousands of Canadian dollars)	**EQU.DB 8% Series**	**EQU.DB.A 8.25% Series**	**EQU.DB.B 6.75% Series**	**Total**
Balance, January 1, 2011	80,128	39,649	-	119,777
Issuance			45,000	45,000
Redeemed	(80,128)	(39,649)	-	(119,777)
Balance, December 31, 2011	-	-	45,000	45,000
Balance at December 31, 2012	**-**	**-**	**45,000**	**45,000**

On February 9, 2011, Equal issued $45.0 million of convertible unsecured junior subordinated debentures with a face value of $1,000 per debenture that mature on March 31, 2016 and bear interest at 6.75% per annum paid semi-annually on March 31 and September 30 of each year. The 6.75% convertible debentures are convertible at the option of the holder into shares at any time prior to the maturity date at a conversion price of $9.00 per share.

On March 14, 2011, the outstanding $79.9 million in face value of 8.00% convertible unsecured debentures were redeemed for $83.2 million which included the early redemption premium of $1.9 million and interest of $1.3 million. The redemption was funded by the issuance of the 6.75% convertible unsecured junior subordinated debentures and Equal's credit facility.

On December 15, 2011, the outstanding $39.1 million in face value of 8.25% convertible unsecured debentures were redeemed for $41.5 million which included the early redemption premium of $1.0 million and interest of $1.5 million. The redemption was funded by the sale of non-core assets in November 2011.

At December 31, 2012, the Company had $45.0 million (December 31, 2011 - $45.0 million) of 6.75% convertible debentures outstanding with an estimated fair value of $45.0 million (December 31, 2011 - $44.8 million).

7. Asset Retirement Obligation

At December 31, 2012, the asset retirement obligation is estimated to be $4.7 million (December 31, 2011 – $5.3 million). These obligations will be settled at the end of the useful lives of the underlying assets, which currently averages thirteen years, but extends up to 30 years into the future. This amount has been calculated using an inflation rate of 2.0% and discounted using a credit-adjusted risk free rate of 8.0% to 10.0%.

The following table reconciles the asset retirement obligation:

(in thousands of Canadian dollars)	**December 31, 2012**	December 31, 2011
Balance, beginning of year	**5,270**	2,710
Additions	**79**	38
Accretion expense	**405**	248
Acquired	**-**	495

Dispositions	**(833)**	-
Costs incurred	**(46)**	-
Change in estimate	**(21)**	1,689
Foreign exchange	**(132)**	90
Balance, end of year	**4,722**	5,270

8. Shareholders' Equity and Share-based Compensation

Common shares

An unlimited number of common shares may be issued.

As part of the Strategic Review, the Company has initiated a US$0.20 per share annual dividend, starting January 1, 2013, to be paid quarterly.

Trust units

On May 31, 2010, Enterra Energy Trust ("Enterra" or the "Trust") completed its conversion from an income trust to a corporation. Pursuant to the Plan of Arrangement (the "Arrangement"), all outstanding trust units were exchanged for common shares of Equal. Under U.S. GAAP this exchange was recorded at the carrying value of the trust units outstanding at May 31, 2010, which was $136.7 million. On conversion, the liability associated with the unit-based compensation had a fair value of $3.1 million and the temporary equity adjustment was a loss of $1.2 million.

Share options

Equal has a Share Option Plan where the Company may grant share options to its directors, officers and employees. Each share option permits the holder to purchase one share at the stated exercise price. All options vest over a 1 to 3 year period and have a term of 3 to 5 years. The exercise price is equal to the market price at the time of the grant. The forfeiture rate is estimated to be 16%. The following table is a continuity of the options:

(in Canadian dollars, except for number of options)	**Number of Options[1]**	**Weighted Average Exercise Price[1]**	**Number of Nonvested Options[1]**	**Weighted Average Grant Date Fair Value[1]**
Options outstanding at December 31, 2009	235,331	$ 19.80	10,000	$ 2.10
Options granted	986,708	5.91	986,708	2.30
Options vested	-	-	(26,667)	2.31
Options forfeited	(163,887)	12.86	(94,887)	2.32
Options outstanding at December 31, 2010	1,058,152	$ 7.92	875,154	$ 2.30
Options exercised	(25,000)	4.95	-	-
Options granted	568,713	7.16	568,713	2.93
Options vested	-	-	(166,056)	2.43
Options forfeited	(298,370)	13.03	(159,261)	2.32
Options outstanding at December 31, 2011	1,303,495	$ 6.47	1,118,550	$ 2.59
Options granted	**50,000**	**2.95**	**50,000**	**1.02**
Options vested	**-**	**-**	**(482,950)**	**2.57**
Options forfeited	**(618,957)**	**6.21**	**(382,041)**	**2.38**
Options outstanding at December 31, 2012	**734,538**	**$ 6.45**	**303,559**	**$ 2.63**
Options exercisable at December 31, 2012	**430,979**	**$ 6.46**		

(1) Restated to reflect the three for one exchange of trust units for common shares on May 31, 2010.

(in Canadian dollars, except for number of options)

Exercise price range	Number of options	Weighted average exercise price	Weighted average remaining contract life in years	Number of options exercisable	Weighted average price of exercisable options
$4.66 to $4.90	134,150	$ 4.78	1.74	51,067	$ 4.87
$6.15 to $6.67	263,733	6.21	0.85	234,866	6.19
$7.16 to $7.26	306,322	7.26	2.03	114,713	7.26
$8.19 to $8.40	30,333	8.21	1.13	30,333	8.21
Balance at December 31, 2012	734,538	$ 6.45	1.52	430,979	$ 6.46

For the year ended December 31, 2012, there were no common shares issued upon the exercise of any share options (year ended December 31, 2011 – 25,000; year ended December 31, 2010 – nil).

The weighted average grant date fair value for options granted in 2012 was $1.02 (2011 – $2.93; 2010 – $2.30). The weighted average grant date fair value for non-vested options at December 31, 2012 was $2.63 (December 31, 2011 - $2.59). The weighted average grant date fair value for options vested in 2012 was $2.57 (2011 – $2.43; 2010 – $2.31). The total fair value of options vested during 2012 was $1.2 million (2011 – $0.4 million; 2010 – $0.1 million).

The aggregate intrinsic value of options outstanding at December 31, 2012 is nil (December 31, 2011 – nil) based on the Company's closing stock price of $3.08 at December 31, 2012 (December 31, 2011 – $4.59). There were no options exercised in 2012, therefore, the intrinsic value was nil (2011 – $10 thousand; 2010 – nil).

In 2012, the expense from options was $1.1 million (2011 – $2.0 million; 2010 – $1.4 million) of which $1.0 million (2011 – $1.8 million; 2010 – $1.2 million) was recorded as share-based compensation and $0.1 million (2011 – $0.2 million; 2010 – $0.2 million) was capitalized as part of exploration and development costs.

At December 31, 2012, there was $0.6 million (2011 – $2.6 million; 2010 – $3.3 million) of unrecognized share-based compensation expense from options expected to be recognized over the next two years.

The estimated grant date fair value of options was determined using the Black-Scholes model under the following assumptions:

	2012	2011	2010
Weighted-average fair value of options granted ($/option)	**1.02**	2.93	2.30
Risk-free interest rate (%)	**1.13**	2.00	1.71
Estimated hold period prior to exercise (years)	**3.0**	4.0	4.0
Expected volatility (%)	**50**	50	50
Expected cash distribution yield (%)	**-**	-	-

Restricted shares

Equal has granted restricted shares to directors, officers, and employees. Restricted shares vest over a contracted period ranging from vesting on grant to 3 years and provide the holder with shares on the vesting dates of the restricted shares. The estimated value of the restricted shares is based on the trading price of the shares on the grant date. Upon vesting of the restricted shares, the plan administrator automatically sells a portion of the common shares on a public stock exchange for the estimated income tax. The forfeiture rate is estimated to be 16%.

The following table is a continuity of the restricted shares:

(in thousands of Canadian dollars, except for number of restricted shares and grant date values)	**Number of Restricted Shares[1]**	**Weighted Average Grant Date Fair Value[1]**	**Vest Date Intrinsic Value**
Restricted shares outstanding at December 31, 2009	534,730	$ 10.41	
Restricted shares granted	438,279	5.24	
Restricted shares vested and exercised	(395,896)	8.91	$ 2,382

Restricted shares forfeited	(69,354)	11.09	
Restricted shares outstanding at December 31, 2010	507,759	$ 7.03	
Restricted shares granted	740,105	7.17	
Restricted shares vested and exercised	(194,576)	10.52	$ 1,142
Restricted shares forfeited	(107,003)	5.67	
Restricted shares outstanding at December 31, 2011	946,285	$ 6.57	
Restricted shares granted	**1,063,082**	**3.82**	
Restricted shares vested and exercised	**(447,091)**	**6.35**	**$ 1,805**
Restricted shares forfeited	**(341,787)**	**4.75**	
Restricted shares outstanding at December 31, 2012	**1,220,489**	**$ 4.77**	

(1) Restated to reflect the three for one exchange of trust units for common shares on May 31, 2010.

For the year ended December 31, 2012, there were 447,091 common shares issued upon the vesting and exercise of restricted shares (year ended December 31, 2011 – 194,576; year ended December 31, 2010 – 395,896). The total fair value of restricted shares vested during 2012 was $1.8 million (2011 – $1.1 million; 2010 – $2.4 million). As part of discontinuing operations in Canada, subsequent to the yearend, 272,993 restricted shares were vested and exercised which had a fair value of $0.8 million.

The weighted average grant date fair value for restricted shares granted in 2012 was $3.82 (2011 – $7.17; 2010 – $5.24). The weighted average grant date fair value for non-vested options at December 31, 2012 is $4.77 (December 31, 2011 - $6.57). The weighted average grant date fair value for restricted shares vested in 2012 was $6.35 (2011 – $10.52; 2010 – $8.91).

The aggregate intrinsic value of options outstanding at December 31, 2012 is $3.8 million (December 31, 2011 – $4.3 million) based on the Company's closing stock price of $3.08 at December 31, 2012 (December 31, 2011 – $4.59). The intrinsic value of restricted shares vested and exercised in 2012 was $1.8 million (2011 – $1.1 million; 2010 – $2.4 million).

In 2012, the expense from restricted shares was $3.5 million (2011 – $2.1 million; 2010 – $2.3 million) of which $3.3 million (2011 – $1.9 million; 2010 – $2.1 million) was recorded as share-based compensation and $0.2 million (2011 – $0.2 million; 2010 – $0.2 million) was capitalized as part of exploration and development costs.

At December 31, 2012, there was $3.2 million (2011 – $4.1 million; 2010 – $1.7 million) of unrecognized share-based compensation expense from restricted shares expected to be recognized over the next three years.

9. Net Income per Share

For the year ended December 31, 2012			
(in thousands of Canadian dollars except shares and per share amounts)	Net Income	Weighted Average Shares Outstanding	Per Share
Basic – from continuing operations	**31,111**	**35,062,257**	**$ 0.89**
Basic – from discontinued operations	**30,716**	**35,062,257**	**0.87**
Basic – combined continuing and discontinued operations	**61,827**	**35,062,257**	**$ 1.76**
Diluted – from continuing operations	**33,754**	**41,125,104**	**$ 0.82**
Diluted – from discontinued operations	**31,111**	**41,125,104**	**0.76**
Diluted – combined continuing and discontinued operations	**64,865**	**41,125,104**	**$ 1.58**

For the calculation of the weighted average number of diluted shares outstanding for the year ended December 31, 2012, the convertible debentures and restricted shares were included as they were dilutive to the calculation. All

options were excluded from the calculation as their exercise prices were higher than the average share price during 2012.

For the year ended December 31, 2011			
(in thousands of Canadian dollars except shares and per share amounts)	Net Income	Weighted Average Shares Outstanding	Per Share
Basic – from continuing operations	**2**	**32,039,817**	**$ 0.00**
Basic – from discontinued operations	**5,371**	**32,039,817**	**0.17**
Basic – combined continuing and discontinued operations	**5,373**	**32,039,817**	**$ 0.17**
Diluted – from continuing operations	**2**	**32,768,049**	**$ 0.00**
Diluted – from discontinued operations	**5,371**	**32,768,049**	**0.16**
Diluted – combined continuing and discontinued operations	**5,373**	**32,768,049**	**$ 0.16**

For the calculation of the weighted average number of diluted shares outstanding for the year ended December 31, 2011, all restricted shares and 51,236 options were included as they were dilutive to the calculation. The convertible debentures were excluded as they were anti-dilutive and 1,051,645 options were excluded as their exercise prices were higher than the average share price during 2011.

For the year ended December 31, 2010			
(in thousands of Canadian dollars except shares and per share amounts)	Net Income / (Loss)	Weighted Average Shares Outstanding	Per Share
Basic – from continuing operations	**3,615**	**24,594,866**	**$ 0.14**
Basic – from discontinued operations	**(12,957)**	**24,594,866**	**(0.52)**
Basic – combined continuing and discontinued operations	**(9,342)**	**24,594,866**	**($ 0.38)**
Diluted– from continuing operations	**3,615**	**24,896,067**	**$ 0.14**
Diluted – from discontinued operations	**(12,957)**	**24,594,866**	**(0.52)**
Diluted– combined continuing and discontinued operations	**(9,342)**	**24,594,866**	**($ 0.38)**

For the calculation of the weighted average number of diluted shares outstanding for the year ended December 31, 2010, all restricted shares were dilutive for the continuing operations and all options and the convertible debentures were excluded as they were anti-dilutive to the calculation.

Weighted Average Shares Outstanding			
	Year ended December 31		
(in thousands of Canadian dollars except shares and per share amounts)	**2012**	2011	2010
Weighted average number of shares outstanding	**35,062,257**	32,039,817	24,594,866
Shares issuable pursuant to options	**-**	51,236	-
Shares issuable pursuant to restricted shares	**1,062,847**	676,996	301,201
Shares issuable pursuant to convertible debentures[(1)]	**5,000,000**	-	-
Weighted average number of diluted shares outstanding	**41,125,104**	32,768,049	24,896,067

(1) In 2012, the conversion of the convertible debentures would result in an interest reduction of $3.0 million.

10. Risk Management

(a) Fair value of financial instruments

Equal classifies the fair value measurements of its financial instruments recognized at fair value in the balance sheet according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximated fair value at December 31, 2012 and 2011 as the amounts were short term in nature or bore interest at floating rates. The long-term debt approximates fair value as interest rates and margins are reflective of current market rates. The fair value of the convertible debentures is disclosed in Note 6 and is based on the trading price of the debentures at the reporting date (Level 1). These assets and liabilities are not presented in the following tables.

As at December 31, 2012 and 2011, the only asset or liability measured at fair value on a recurring basis are the commodity contracts. The following tables provide fair value measurement information for such assets and liabilities as of December 31, 2012 and 2011.

As at December 31, 2012					
			Fair Value Measurements Using:		
(in thousands of Canadian dollars)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Commodity contracts asset	1,605	1,605	-	1,605	-

As at December 31, 2011					
			Fair Value Measurements Using:		
(in thousands of Canadian dollars)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Commodity contracts asset	4,813	4,813	-	4,813	-

(b) Financial risk management

In the normal course of operations, Equal is exposed to various market risks such as liquidity, credit, interest rate, foreign exchange and commodity risk. To manage these risks, management determines what activities must be undertaken to minimize potential exposure to risks. The objectives of Equal to managing risk are as follows:

Objectives:

- maintaining sound financial condition;
- financing operations; and
- ensuring liquidity in the U.S. operations.

In order to satisfy the objectives above, Equal has adopted the following policies:

- prepare budget documents at prevailing market rates to ensure clear, corporate alignment to performance management and achievement of targets;
- recognize and observe the extent of operating risk within the business;
- identify the magnitude of the impact of market risk factors on the overall risk of the business and take advantage of natural risk reductions that arise from these relationships; and
- utilize financial instruments, including derivatives to manage the remaining residual risk to levels that are within the risk tolerance of the Company.

The objective with respect to the utilization of derivative financial instruments is to selectively mitigate the impact of fluctuations in commodity prices. The use of any derivative instruments is carried out in accordance with approved limits as authorized by the board of directors and imposed by external financial covenants. It is not the intent of Equal to use financial derivatives or commodity instruments for trading or speculative purposes and no financial derivatives have been designated as accounting hedges.

(i) Market risks

Oil and gas commodity price risks

The Company has a risk management policy which is in line with the terms of its bank credit facility that permits management to use specified price risk management strategies for up to 65% of its estimated net oil and gas production which includes fixed price contracts, costless collars and the purchase of floor price options and other derivative instruments to reduce the impact of price volatility and ensure minimum prices for a maximum of 36 months. The program is designed to provide price protection on a portion of Equal's future production in the event of adverse commodity price movement, while retaining exposure to upside price movements. By doing this, Equal seeks to provide a measure of stability and predictability of cash inflows to enable it to carry out its planned capital spending programs.

Equal has entered into commodity contracts to minimize the exposure to fluctuations in crude oil and natural gas prices. At December 31, 2012, the following financial derivative contracts were outstanding:

Derivative Instrument	Commodity	Price (2)	Volume per day (2)	Period
Fixed	Gas	3.45 (US$/mmbtu) (3.57 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	3.60 (US$/mmbtu) (3.73 US$/mcf)	3,000 mmbtu (2,899 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	3.61 (US$/mmbtu) (3.74 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	3.65 (US$/mmbtu) (3.78 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	3.70 (US$/mmbtu) (3.83 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	4.05 (US$/mmbtu) (4.19 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	3.99 (US$/mmbtu) (4.13 US$/mcf)	1,000 mmbtu (966 mcf)	January 1, 2013 – December 31, 2013
Fixed	Gas	4.25 (US$/mmbtu) (4.40 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2014 – December 31, 2014
Fixed Basis Differential (1)	Gas	Differential Fixed @ $0.20 US$/mmbtu ($0.21 US$/mcf)	7,000 mmbtu (6,763 mcf)	January 1, 2013 – December 31, 2013
Fixed Basis Differential (1)	Gas	Differential Fixed @ $0.205 US$/mmbtu ($0.212 US$/mcf)	5,000 mmbtu (4,831 mcf)	January 1, 2013 – December 31, 2013
Fixed	Oil	101.50 ($/bbl)	200 bbl	January 1, 2013 – December 31, 2013

(1) NYMEX / Southern Star (Oklahoma) basis differential.
(2) Conversion rate of 1.0350 mmbtu per mcf.

The gains (losses) during the periods from the commodity contracts are summarized in the table below.

For the year ended December 31 *(in thousands of Canadian dollars)*	**2012**	2011	2010
Realized gain on commodity contracts	**6,063**	2,375	4,121
Unrealized gain/(loss) on commodity contracts	**(3,148)**	5,424	(912)
Net gain on commodity contracts	**2,915**	7,799	3,209

The following sensitivities show the result to pre-tax net income for year ended December 31, 2012 related to commodity contracts of the respective changes in crude oil, natural gas and fixed basis differential.

	Increase (decrease) to pre-tax net income	
(in thousands of Canadian dollars)	Decrease in market price ($1.00 per bbl and $0.50 per mcf)	Increase in market price ($1.00 per bbl and $0.50 per mcf)
Crude oil derivative contracts	73	(73)
Natural gas derivative contracts	2,920	(2,920)
	Decrease in differential price ($0.02 per mcf)	Increase in differential price ($0.02 per mcf)
Fixed basis differential contracts	(88)	88

Foreign exchange currency risks

Equal is exposed to foreign currency risk from its U.S. division and U.S. denominated working capital. Equal has not entered into any foreign exchange derivative contracts to mitigate its currency risks as at December 31, 2012 and 2011.

Changes in the U.S. to Canadian foreign exchange rates affect other comprehensive income as the U.S. division is considered a self-sustaining foreign operation. The following financial instruments were denominated in U.S. dollars as at December 31, 2012:

(in thousands of dollars) **As at December 31, 2012**	Canadian division (in U.S. dollars)	U.S. division (in U.S. dollars)
Cash and cash equivalents	9,319	5,810
Accounts receivable	-	14,458
Prepaid expenses, deposits and other	-	558
Commodity contracts	-	896
Accounts payable	(4)	(7,534)
Long-term debt	-	-
Net exposure	9,315	14,188
Effect of a $0.02 increase in U.S. to Cdn exchange rate:		
Change to pre-tax net income	186	-
Change to other comprehensive income	-	284
Effect of a $0.02 decrease in U.S. to Cdn exchange rate:		
Change to pre-tax net income	(186)	-
Change to other comprehensive income	-	(284)

Interest rate risk

Interest rate risk arises on the outstanding long-term debt that bears interest at floating rates.

Equal has not entered into any derivative contracts to mitigate the risks related to fluctuations in interest rates as at December 31, 2012 and 2011. The following sensitivities show the impact to pre-tax net income for the year ended December 31, 2012 of the respective changes in market interest rates (increase / (decrease)) based on the average debt balance outstanding during the year.

	Change to pre-tax net income	
(in thousands of Canadian dollars)	1% decrease in market interest rates	1% increase in market interest rates
Interest on long-term debt	402	(402)

The convertible debentures bear interest at fixed rates.

(ii) Credit risk

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations and arises principally from trade, joint venture receivables, long-term receivables as well as any derivative financial instruments in a receivable position. Equal does not hold any collateral from counterparties. The maximum exposure to credit risk is the carrying amount of the related amounts receivable.

Should Equal determine that the ultimate collection of a receivable is in doubt based on the processes for managing credit risk, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If Equal subsequently determines an account is uncollectible, the account is written off with a corresponding decrease in the allowance for doubtful accounts.

The credit quality of financial assets has been assessed and adequately evaluated for impairment based on historical information about the nature of the counterparties.

Purchasers of the natural gas, crude oil and natural gas liquids comprise a substantial portion of accounts receivable. A portion of accounts receivable are with joint venture partners in the oil and gas industry. Equal takes the following precautions to reduce credit risk:

- the financial strength of the counterparties is assessed;
- the total exposure is reviewed regularly and extension of credit is limited; and
- collateral may be required from some counterparties.

(iii) Liquidity risks

Liquidity risk is the risk that Equal will not be able to meet its financial obligations as they are due. Equal mitigates this risk through actively managing its capital, which it defines as shareholders' equity, convertible debentures and long-term debt less cash and cash equivalents. Management of liquidity risk over the short and longer term, includes continual monitoring of forecasted and actual cash flows to ensure sufficient liquidity to meet financial obligations when due and maintaining a flexible capital management structure. Equal strives to balance the proportion of debt and equity in its capital structure given its current oil and gas assets and planned investment opportunities.

All financial liabilities have short-term maturities with the exception of the long-term debt (Note 5), the 6.75% convertible debentures (Note 6) and the liabilities from discontinued operations, as set out below:

Commitments & Obligations *(in thousands of Canadian dollars)*

	2013	2014	2015	2016	2017 and past	Total
Long-term debt (1)	-	-	-	-	-	-
Interest on long-term debt (2)	625	313	-	-	-	938
Convertible debentures (3)	-	-	-	45,000	-	45,000
Interest on convertible debentures (3)	3,038	3,038	3,038	759	-	9,873
Accounts payable & accrued liabilities	8,600	-	-	-	-	8,600
Office leases	985	995	1,007	763	-	3,750
Vehicle leases	150	133	72	44	-	399
Liabilities from discontinued operations	5,840	-	-	-	783	6,623
Total	19,238	4,479	4,117	46,566	783	75,183

(1) The bank credit facility was undrawn as of December 31, 2012. If the bank credit facility is not renewed in June 2013, any outstanding balance is to be paid by June 2014.
(2) Interest is based on the standby-charge of 0.5% for the unused balance of the bank credit facility.
(3) The convertible debentures bear interest at 6.75% per annum and mature March 31, 2016.

11. Taxes

Income Tax Benefit Expense

The (loss) earnings from continuing operations before income taxes and the components of income tax (benefit) expense for the years 2012, 2011 and 2010 were as follows:

(in thousands of Canadian dollars)	**2012**	2011	2010
Current income tax expense			
U.S. federal and state	**-**	391	295
Deferred income tax expense			
U.S. federal and state	**6,834**	10,441	6,814
Total income tax expense	**6,834**	10,832	7,109

The taxes on the results of discontinued operations presented in the accompanying consolidated statements of operations were all related to Equal's Canadian operations.

The income tax provision differs from the amount of tax expense calculated by applying the U.S. federal income tax rate to earnings (loss) from continuing operations before income taxes as a result of the following:

(in thousands of Canadian dollars)	**2012**	2011	2010
Earnings from continuing operations before income taxes:	**37,945**	10,834	10,724
Combined federal and state income tax rate	**37.96%**	37.96%	37.96%
Computed income tax expense	**14,404**	4,113	4,071
Increase (decrease) resulting from:			
Other non-deductible items	**1,355**	1,883	842
Difference between U.S. and Canadian tax rates, foreign exchange and change in tax rates	**(4,784)**	4,104	4,365
Other	**(4,141)**	732	(2,169)
	6,834	10,832	7,109

Deferred Tax Assets and Liabilities

The components of the net deferred income tax assets at December 31 were as follows:

(in thousands of Canadian dollars)	**2012**	2011
Deferred income tax assets:		
Non-capital loss carry-forwards and other	**11,949**	13,399
Asset retirement obligations	**1,792**	2,001
Property, plant and equipment	**20,197**	27,668
	33,938	43,068
Deferred income tax liabilities:		
Commodity contracts	**(337)**	(1,775)
Net deferred income tax assets	**33,601**	41,293

Non-capital loss carry-forwards amongst Canadian and U.S. subsidiaries, totaled $67.2 million (2011 – $85.3 million) and expire from 2014 to 2028.

As shown in the above table, Equal has recognized $33.9 million of deferred tax assets as of December 31, 2012. Included in total deferred tax assets is $11.9 million related to various carry-forwards available to offset future income taxes. The carry-forwards consist of $11.9 million net operating loss carry-forwards, which expire primarily between 2013 and 2034. The tax benefits of carry-forwards are recorded as an asset to the extent that management assesses the utilization of such carry-forwards to be "more likely than not." When the future utilization of some portion of the carry-forwards is determined not to be "more likely than not," a valuation allowance is provided to reduce the recorded tax benefits from such assets.

Equal expects the tax benefits from the net operating loss carry-forwards to be utilized between 2013 and 2015. Such expectation is based upon current estimates of taxable income during this period, considering limitations on the annual utilization of these benefits as set forth by tax regulations. Significant changes in such estimates caused by variables such as future oil and gas prices or capital expenditures could alter the timing of the eventual utilization of such carry-forwards. There can be no assurance that Equal will generate any specific level of continuing taxable earnings. However, management believes that Equal's future taxable income will more likely than not be sufficient to utilize substantially all its tax carry-forwards prior to their expiration.

For the U.S. tax returns, the open taxation years range from 2010 to 2012. The U.S. federal statute of limitations for assessment of income tax is generally closed for the tax years ending on or prior to 2005. In certain circumstances, the U.S. federal statute of limitations can reach beyond the standard three year period. U.S. state statutes of limitations for income tax assessment vary from state to state. Tax authorities of U.S. have not audited any of Equal's, or its subsidiaries', income tax returns for the open taxation years noted above.

Equal recognizes interest and penalties related to uncertain tax positions in tax expense. During the years ended December 31, 2012 and 2011, there were no charges for interest or penalties, nor a provision for uncertain tax positions.

12. Interest Expense

Equal's interest expense was comprised of the following below.

Interest Expense *(in thousands of Canadian)*

	Year ended December 31		
	2012	2011	2010
Interest expense on long-term debt	**3,757**	4,222	1,616
Interest expense on convertible debentures	**3,038**	7,088	9,684
Interest expense before allocation to discontinued operations	**6,795**	11,310	11,300
Interest expense allocated to discontinued operations[(1)]	**(883)**	(1,470)	(1,469)
Total interest expense of continuing operations	**5,912**	9,840	9,831

(1) Interest expense allocated to discontinued operations was 13% of the total interest expense.

13. Discontinued Operations

On May 3, 2012, Equal announced that its Board of Directors initiated a strategic review process to identify, examine and consider alternatives with the view to enhancing shareholder value. As a result of the strategic review process, the Company completed the following asset sales from which the proceeds were used to pay down the Company's outstanding bank debt:

- on September 24, 2012, the Northern Oklahoma assets were sold for total cash consideration of US$40.0 million to its Mississippian joint venture partner;
- on October 15, 2012, the assets in the Halkirk, Wainwright, Alliance and Clair areas of Alberta sold for $15.4 million in addition with the transfer of substantially all of its non-producing, suspended and abandoned wells in Alberta;
- on November 2, 2012, the assets in the Lochend Cardium were sold for $62.1 million; and
- on December 13, 2012, the royalty and fee title lands in Western Canada were sold for $12.1 million.

The three Canadian asset sales in Q4 2012 for total proceeds of $89.6 million resulted in the discontinuation of operations in Canada. Prior to the initiation of the Strategic Review, there was a Canadian asset sale for proceeds of $8.3 million which included heavy oil properties in Saskatchewan.

Prior to the discontinued operations, Equal had two reportable segments consisting of Canada and the U.S. The operations and balance sheets of the Canadian segment are summarized in this note and the U.S. segment's operations and consolidated balance sheet are on the consolidated balance sheets and statements of operations.

Summarized results from discontinued operations were as follows:

Discontinued Operations	For the year ended December 31		
(in thousands of Canadian dollars)	**2012**	2011	2010
Revenues	**27,465**	61,085	61,694
Income from discontinued operations	**53,380**	9,718	9,252
Tax expense	**(22,664)**	(4,347)	(22,209)
Discontinued operations, net of taxes	**30,716**	5,371	(12,957)

Included in the 2012 income from discontinued operations is a $56.8 million gain on sale of assets ($42.6 million net of tax) and direct costs related to the disposal of the Canadian operations totaling $6.6 million which include costs paid for advisory fees, legal fees, severance and termination of contracts.

The carrying amounts of the major classes of assets and liabilities of discontinued operations in the consolidated balance sheets were as follows:

Discontinued Operations	As at December 31	
(in thousands of Canadian dollars)	**2012**	2011
Accounts receivable	**1,463**	5,432
Prepaid expenses, deposits and other	**130**	318
Capital assets to be disposed	**575**	-
Total current assets	**2,168**	5,750
Oil and natural gas properties, full cost method of accounting:		
Proved	**-**	27,191
Unproved	**-**	13,818
Total oil and natural gas properties	**-**	41,009
Other capital assets	**-**	867
Total property, plant and equipment	**-**	41,876
Deferred income tax asset	**-**	22,695
Total assets of discontinued operations	**2,168**	70,321
Accounts payable and accrued liabilities	**5,810**	9,566
Liabilities associated with assets held for sale	**-**	764
Current portion of asset retirement obligation	**30**	557
Total current liabilities	**5,840**	10,887
Asset retirement obligation	**783**	8,564
Total liabilities of discontinued operations	**6,623**	19,451

The asset retirement obligation in Canada of $0.8 million is under dispute as it is the Company's position that this obligation should be the responsibility of two different entities as part of asset sales.

14. Contingencies

Certain claims have been brought against Equal in the ordinary course of business. In the opinion of management, all such claims are adequately covered by insurance, or if not so covered, are not expected to materially affect the Company's financial position or results of operations.

15. Accumulated Other Comprehensive Income/(Loss)

(in thousands of Canadian dollars)	
Balance, December 31, 2009	(19,394)
Cumulative translation of self-sustaining operations	(6,552)
Balance, December 31, 2010	(25,946)
Cumulative translation of self-sustaining operations	4,829
Balance, December 31, 2011	(21,117)
Cumulative translation of self-sustaining operations	**(5,101)**
Balance at December 31, 2012	**(26,218)**

Accumulated other comprehensive income/(loss) is comprised entirely of currency translation adjustments on the U.S. operations.

16. Supplemental Information on Oil and Natural Gas Producing Activities (Unaudited)

The supplemental information includes capitalized costs related to oil and natural gas producing activities; costs incurred in oil and natural gas property acquisition, exploration and development; and the results of operations for oil and natural gas producing activities. Supplemental information is also provided for oil and natural gas production and average sales prices; the estimated quantities of proved oil and natural gas reserves; the standardized measure of discounted future net cash flows associated with proved oil and natural gas reserves; and a summary of the changes in the standardized measure of discounted future net cash flows associated with proved oil and natural gas reserves. All historical Canadian reserves information has been excluded from this supplemental information because all Canadian assets were sold during 2012 and the results of the Canadian operations have been recorded as discontinued operations in the Company's financial statements.

Capitalized Costs Related to Oil and Natural Gas Producing Activities

The Company's capitalized costs for oil and natural gas activities consisted of the following (in thousands):

	December 31,		
	2012	2011	2010
Oil and natural gas properties			
Proved	$ 498,686	$ 527,784	$ 411,498
Unproved	2,080	4,627	4,374
Total oil and natural gas properties	500,766	532,411	415,872
Less accumulated depreciation, depletion and impairment	(353,244)	(354,367)	(336,430)
Net oil and natural gas properties capitalized costs	$ 147,522	$ 178,044	$ 76,442

Costs Incurred in Oil and Natural Gas Property Acquisition, Exploration and Development

Costs incurred in oil and natural gas property acquisition, exploration and development activities which have been capitalized are summarized as follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Acquisitions of properties			
Proved	$ -	$ 91,675	$ 5,485
Exploration	2,395	2,980	1,808
Development	22,085	31,245	5,914

Total cost incurred	$ 24,480	$ 125,900	$ 13,207

Results of Operations for Oil and Natural Gas Producing Activities
The Company's results of operations from oil and natural gas producing activities for each of the years 2012, 2011 and 2010 are shown in the following table (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Revenues (1)	$ 61,478	$ 70,512	$ 51,206
Expenses			
Production costs	20,457	16,908	10,462
Production taxes	3,754	3,312	2,639
Depreciation and depletion	22,888	14,936	4,262
Accretion of asset retirement obligations	405	248	175
Total expenses	47,504	35,404	17,718
Income before income taxes	13,974	35,108	33,488
Income taxes(2)	(5,305)	(13,327)	(12,712)
Results of operations for oil and natural gas producing activities (excluding corporate overhead and interest costs)	$ 8,669	$ 21,781	$ 20,776
Depletion and depreciation rate ($ per boe)	$8.70	$7.41	$2.90

(1) Excludes realized gains (losses) on commodity contracts
(2) Reflects the Company's effective tax rate.

Oil and Natural Gas Reserve Quantities
Proved oil and natural gas reserves are those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible, based on prices used to estimate reserves, from a given date forward from known reservoirs, and under existing economic conditions, operating methods, and government regulation prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain.
The term "reasonable certainty" implies a high degree of confidence that the quantities of oil and/ or natural gas actually recovered will equal or exceed the estimate. To achieve reasonable certainty, the Company's engineers and independent petroleum consultants relied on technologies that have been demonstrated to yield results with consistency and repeatability. The technologies and economic data used to estimate the Company's proved reserves include, but are not limited to, well logs, geologic maps, seismic data, well test data, production data, historical price and cost information and property ownership interests. The accuracy of the reserve estimates is dependent on many factors, including the following:

- the quality and quantity of available data and the engineering and geological interpretation of that data;
- estimates regarding the amount and timing of future costs, which could vary considerably from actual costs;
- the accuracy of mandated economic assumptions such as the future prices of oil and natural gas; and
- the judgment of the personnel preparing the estimates.

Proved developed reserves are proved reserves expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the cost of a new well. Proved undeveloped reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively large major expenditure is required for recompletion.
The table below represents the Company's estimate of proved oil and natural gas reserves attributable to the Company's net interest in oil and natural gas properties, all of which are located in the continental United States, based upon the evaluation by the Company and its independent petroleum engineers of pertinent geoscience and engineering data in accordance with the SEC's regulations. Estimates of all of the Company's proved reserves have been prepared by independent reservoir engineers and geoscience professionals and are reviewed by members of

the Company's senior management with professional training in petroleum engineering to ensure that the Company consistently applies rigorous professional standards and the reserve definitions prescribed by the SEC.

Haas Petroleum Engineering Services, Inc., independent oil and natural gas consultants, prepared the estimates of proved reserves of oil and natural gas attributable to all of the Company's net interest in oil and natural gas properties as of the end of 2012, 2011 and 2010. Haas is an independent petroleum engineering, geological, geophysical and petrophysical organization.

The Company believes the geoscience and engineering data examined provides reasonable assurance that the proved reserves are economically producible in future years from known reservoirs, and under existing economic conditions, operating methods and governmental regulations. Estimates of proved reserves are subject to change, either positively or negatively, as additional information is available and contractual and economic conditions change.

2010 Activity. During 2010, the Company recognized additional proved reserves of 3.46 MMBbls, which were primarily attributable to the positive revisions based on well performance and improved liquids yield recognition. Continuing well performance that exceeded prior years' engineering assumptions and improved geological mapping of the Hunton field resulted in per well booking of reserves for proved, undeveloped locations. Three wells (1.6 net) were drilled during 2010, adding 69 mboe of new reserves. One well (0.8 net) was drilled in the liquids rich natural gas Hunton play and two (0.8 net) Circus oil wells were drilled. All wells were successful.

Sales of proved reserves during 2010 totaled 81.8 MBbls of oil, 661.7 MBbls of NGL, and 4,363.2 MMcf of natural gas.

2011 Activity. During 2011 the Company recognized additional proved reserves of 8.82 mboe. The primary event that affected reserves was the Hunton acquisition that was completed in June of 2011 for a total of US$91.7 million adding approximately 6.70 mboe of proved reserves. Positive technical revisions of proved reserves were experienced in 2011 in the amount of 0.83 mboe as producing wells continued to perform above prior years' expectations. A total of 13 wells (11.3 net) were drilled in 2011 targeting liquids rich Hunton natural gas and to preserve rights in the emerging Mississippian oil play. The drilling program added 3.30 mboe of reserves during 2011.

Sales of proved reserves during 2011 totaled 77.4 MBbls of oil, 876.4 MBbls of NGL, and 6,373.3 MMcf of natural gas.

2012 Activity. During 2012 the Company recognized a reduction of proved reserves of 4.91 mboe. Equal drilled three (2.7 net) wells in the Twin Cities Central Dolomite area of its central Oklahoma Hunton play, adding a total of 2.75 mboe of proved reserves. Negative revisions of proved reserves was experienced in 2012 for 3.30 mboe, primarily in the booking of proven undeveloped reserves relating to reduced working interests in the PUD's booked and an overall reduction in future development capital recorded. Dispositions of Hunton reserves in northern Oklahoma removed 1.96 mboe of reserves.
Sales of proved reserves during 2012 totaled 62.8 MBbls of oil, 1,181.5 MBbls of NGL, and 8,296.0 MMcf of natural gas.

The summary below presents changes in the Company's estimated reserves for 2010, 2011 and 2012.

	Oil (MBbls)	Natural Gas Liquids (MBbls)	Natural Gas (MMcf)
Proved developed and undeveloped reserves			
As of December 31, 2009	512	5,662	37,099
Revisions of previous estimates	18	1,660	16,234
Acquisitions of new reserves	81	199	961
Extensions and discoveries	-	44	367
Sales of reserves in place	-	-	-
Production	(82)	(662)	(4,363)
As of December 31, 2010	529	6,903	50,298
Revisions of previous estimates	(257)	804	1,543
Acquisitions of new reserves	210	2,522	23,972

Extensions and discoveries	1	1,276	12,170
Sales of reserves in place	-	-	-
Production	(77)	(877)	(6,373)
As of December 31, 2011	406	10,628	81,610
Revisions of previous estimates	(9)	(1,137)	(12,395)
Acquisitions of new reserves	-	-	-
Extensions and discoveries	43	947	10,260
Sales of reserves in place	(109)	(360)	(7,807)
Production	(63)	(1,185)	(8,295)
As of December 31, 2012	268	8,893	63,373

	Oil (MBbls)	NGLs (MBbls)	Natural Gas (MMcf)
Proved developed reserves of December 31, 2012	268	7,410	52,263
Proved undeveloped reserves of December 31, 2012	-	1,483	11,110

	Oil (MBbls)	NGL (MBbls)	Natural Gas (MMcf))
Proved developed reserves			
As of December 31, 2009	508	4,342	26,325
As of December 31, 2010	529	4,543	31,063
As of December 31, 2011	406	7,824	59,649
Proved undeveloped reserves			
As of December 31, 2009	4	1,320	10,744
As of December 31, 2010	-	2,360	19,235
As of December 31, 2011	-	2,804	21,961

Standardized Measure of Discounted Future Net Cash Flows (Unaudited)
The standardized measure of discounted cash flows and summary of the changes in the standardized measure computation from year to year are prepared in accordance with Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas ("ASC Topic 932"). The assumptions underlying the computation of the standardized measure of discounted cash flows may be summarized as follows:

- the standardized measure includes the Company's estimate of proved oil, natural gas and natural gas liquids reserves and projected future production volumes based upon economic conditions;
- pricing is applied based upon 12-month average market prices at December 31, 2012, 2011 and 2010. The calculated weighted average per unit prices for the Company's proved reserves and future net revenues were as follows:

	At December 31,		
	2012	2011	2010
Oil (US$ per Bbl)	$ 94.71	$ 96.19	$ 79.43
Natural gas (US$ per mmbtu)	$ 2.76	$ 4.18	$ 4.39
Natural gas liquids (% of WTI)	37%	$ 53%	$ 51%

- future development and production costs are determined based upon actual cost at year-end;
- the standardized measure includes projections of future abandonment costs based upon actual costs at

year-end; and

- a discount factor of 10% per year is applied annually to the future net cash flows.

The summary below presents the Company's future net cash flows relating to proved oil and natural gas reserves based on the standardized measure in ASC Topic 932 (in thousands).

	At December 31,		
	2012	2011	2010
Future cash inflows from production	$ 453,905	$ 848,555	$ 492,322
Future production costs	(158,169)	(201,328)	(105,066)
Future development costs(1)	(28,075)	(57,393)	(36,997)
Future income tax expenses	-	(11,349)	-
Undiscounted future net cash flows	267,661	578,485	350,259
10% annual discount	(114,847)	(273,239)	(153,165)
Standardized measure of discounted future net cash flows	$ 152,814	$ 305,246	$ 197,093

(1) Includes abandonment costs.

The following table represents the Company's estimate of changes in the standardized measure of discounted future net cash flows from proved reserves (in thousands):

Present value as of December 31, 2009	$ 83,770
Changes during the year	
Revenues less production and other costs	(38,015)
Net changes in prices, production and other costs	60,675
Development costs incurred	16,759
Net changes in future development costs	7,215
Extensions and discoveries	2,575
Revisions of previous quantity estimates	47,274
Accretion of discount	8,377
Net change in income taxes	2,720
Purchases of reserves in-place	10,778
Sales of reserves in-place	-
Other(1)	(4,945)
Net change for the year	11,323
Present value as of December 31, 2010	197,093
Changes during the year	
Revenues less production and other costs	(50,292)
Net changes in prices, production and other costs	17,717
Development costs incurred	21,155
Net changes in future development costs	(40,588)
Extensions and discoveries	39,304
Revisions of previous quantity estimates	20,971
Accretion of discount	19,709
Net change in income taxes	(5,976)
Purchases of reserves in-place	81,297
Sales of reserves in-place	-
Other(1)	4,856

Net change for the year	108,153
Present value as of December 31, 2011	305,246
Changes during the year	
Revenues less production and other costs	(37,267)
Net changes in prices, production and other costs	(137,972)
Development costs incurred	7,705
Net changes in future development costs	20,238
Extensions and discoveries	40,484
Revisions of previous quantity estimates	(48,158)
Accretion of discount	30,525
Net change in income taxes	5,976
Purchases of reserves in-place	-
Sales of reserves in-place	(26,542)
Other(1)	(7,421)
Net change for the year	(152,432)
Present value as of December 31, 2012(2)	$ 152,814

(1) Primarily related to currency conversions.

17. Summarized Quarterly Financial Information (unaudited)

(in thousands of Canadian dollars except per share amounts)

	Full Year	2012				Full Year	2011			
	2012	Q4	Q3	Q2	Q1	2011	Q4	Q3	Q2	Q1
Revenues	64,393	14,960	11,793	19,034	18,606	78,311	18,727	27,018	23,393	9,173
Income/(loss) before taxes from continuing operations	37,945	(1,245)	34,873	290	4,027	10,834	5,036	1,959	9,239	(5,400)
Net income/(loss) from continuing operations	31,111	(5,153)	38,615	(5,429)	3,078	2	92	(1,885)	8,007	(6,212)
Net income/(loss) from discontinued operations	30,716	28,057	3,346	(1,566)	879	5,371	(1,192)	810	1,131	4,622
Net income/(loss)	61,827	22,904	41,961	(6,995)	3,957	5,373	(1,100)	(1,075)	9,138	(1,590)
Basic net income/(loss) per share ($)										
Continuing operations	0.89	(0.15)	1.10	(0.16)	0.09	0.00	0.00	(0.05)	0.26	(0.22)
Discontinued operations	0.87	0.80	0.10	(0.04)	0.02	0.17	(0.03)	0.02	0.04	0.16
Net income/(loss)	1.76	0.65	1.20	(0.20)	0.11	0.17	(0.03)	(0.03)	0.30	(0.06)
Diluted net income/(loss) per share ($ per share)										
Continuing operations	0.82	(0.15)	0.94	(0.16)	0.09	0.00	0.00	(0.05)	0.22	(0.22)
Discontinued operations	0.76	0.68	0.08	(0.04)	0.02	0.16	(0.03)	0.02	0.04	0.14
Net income/(loss)	1.58	0.57	1.03	(0.20)	0.11	0.16	(0.03)	(0.03)	0.26	(0.06)

Key Personnel
Don Klapko
President and Chief Executive Officer

Dell Chapman
Senior Vice President, Finance

John Chimahusky
Senior Vice President and Chief Operating Officer U.S. Operations

Scott Smalling
Vice President, and
Chief Financial Officer

Board of Directors

Daniel Botterill [(4) (5)]

Peter Carpenter [(4)]

Michael Doyle [(1) (2) (3)]

Victor Dusik [(1) (2) (3)]

Roger Giovanetto [(2) (3) (4)]

Don Klapko

Robert Wilkinson [(1)]

(1) Audit Committee member
(2) Compensation Committee member
(3) Governance and Nominating Committee member
(4) Reserves & HSE Committee member
(5) Chairman of the Board

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Vancouver, British Columbia

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Calgary, Alberta

Bankers
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Independent Reservoir Engineers
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