EQUAL ENERGY LTD.

MESSAGE TO SHAREHOLDERS

Dear Equal Shareholders,

We set out to achieve several key goals in 2011. Among these were:
- Restructuring our convertible debentures;
- Resolving our dispute with our former partner in the US;
- Embark on a strong drilling program, especially in Oklahoma Hunton; and
- Rationalize non-core assets to improve financial flexibility.

I am pleased to report during 2011, Equal successfully executed on these key strategies, putting us in the best financial and operating shape we have seen in years. With a consolidated, high quality asset base, over eight years of identified drilling prospects and a restructured balance sheet that will provide secure, low cost financial flexibility, we are more optimistic than ever that we can effectively deliver on Equal's exciting growth prospects.

Specifically over the course of 2011 our accomplishments include:
- Completion of an acquisition of the working interests from a former joint venture partner adding approximately 3,100 boe/d of liquids-rich natural gas to our production base;
- Consolidation of our land position in the emerging Mississippian light oil play which we plan to begin drilling during 2012;
- Re-financing of $120 million of high cost convertible debentures with $45 million of lower cost convertible debentures and repaying the remainder with proceeds from non-core asset sales and low cost revolving bank debt;
- Reduction of the Company's annual interest burden by approximately $2.5 million;
- The execution of a very successful 26 well drilling program; and
- The sale of non-core assets totaling $40 million during 2011 with another $8.3 sold in early 2012, reducing our debt burden and consolidating our asset base.

In 2011, production volumes averaged 10,142 boe/d, an increase of 11 percent over 2010. We also were successful in increasing our total proved reserves by 35 percent and our proved and probable reserves by approximately 19 percent.

Operationally, we are pleased with our drilling program, which consisted of drilling 26 wells (22.8 net) with over a 96 percent success rate. Thirteen Hunton liquids-rich natural gas wells were drilled in Oklahoma with 12 wells successful in the Hunton and one well producing from the Mississippian. Seven of those wells also preserve additional Mississippian acreage. Three light oil wells were drilled in the Cardium play with very positive results. We increased the number of frac stages when compared to our 2010 wells and experienced consistently stronger results. Nine Viking wells were drilled in 2011 with the ninth Viking well utilizing a new monobore technology and a larger number of frac stages which not only resulted in very encouraging well performance but it was also our lowest cost well to date.

Looking Ahead

We enter 2012 well positioned as a consolidated and focused player with two light oil plays in the Cardium and Viking and our liquids-rich natural gas play in Oklahoma. Equal controls and operates all three resource plays so we can change the pace of drilling and allocate our capital to align with commodity pricing and cash flow. Equal's drilling inventory has expanded to over 200 locations in these three areas.

Two rigs began drilling in the Oklahoma Hunton play in January 2012. The first is drilling a four well vertical program in the K-9/Puppy area in northern Oklahoma where the Company had considerable drilling success in 2011. This program will also preserve or hold three more net sections of Mississippian lands adjacent to existing Mississippian holdings. The second rig is drilling at Twin Cities Central Dolomite which has our best well economics in the Hunton and we expect to drill up to 9 wells in 2012. Cardium light oil drilling will commence in April in the Lochend area with the first of three wells planned for 2012. We plan to continue to complete the Cardium wells with increased density of frac stages and will also employ water based frac completions to lower costs and improve our well economics. Drilling in the light oil Viking play is planned to begin in July 2012 with up to six wells using monobore technology to reduce drilling costs and allow targeted frac spacing which we believe will optimize our economics to a manufacturing style of drilling program.

Equal Energy plans to realize value from our Mississippian lands by farming out up to 50% working interest. Farmout negotiations are currently ongoing with the initial two wells being prepared for drill ready state. If the lands are not farmed out, Equal Energy will move forward without a joint venture partner in Q3 2012 with the drilling rig and associated funds being re-allocated from the Twin Cities Central Dolomite program.

Capital spending in 2012, excluding our new program in the Oklahoma Mississippian play, is projected to be $64 million which approximates our 2012 funds from operations based on our base business plan assumptions. We are committed to keeping our capital spending limited to our funds from operations and we will adjust our spending accordingly based on various factors including production and commodity prices. Investors should note that Equal has significant volumes of oil and natural gas hedged for 2012 which acts as a stabilizing factor on our funds from operations in this volatile commodity price environment.

In summary, Equal Energy is an opportunity rich company with a proven multi-year inventory of drilling locations. With our three identified resource plays and the additional Mississippian oil play, it is our objective to effectively deliver on these exciting growth prospects. It is our intent to continue to grow our reserves base and underlying value just as we did in 2011. The depth and quality of our plays allows us to achieve this under our targeted budget, with the ability to report this year after year.

I would like to thank the Equal employees for their hard work and dedication, the Board of Directors for their guidance and our shareholders for their continued support. I am looking forward to an active 2012 where we will build on the momentum created in 2011 and work towards delivering value to our shareholders.

Sincerely,

Signed "*Don Klapko*"

President and Chief Executive Officer
March 20, 2012

EQUAL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION*: The following is Management's Discussion and Analysis ("MD&A") of Equal Energy Ltd. (the "Company" or "Equal") for the three months and year ended December 31, 2011. 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, 2011 and 2010. All amounts, unless otherwise noted, are stated in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Prior to January 1, 2011, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles. This commentary is based on information available to, and is dated, March 20, 2012.*

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 "working capital" and "cash flow netback", which do not have any standardized meaning as prescribed by IFRS 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 IFRS. 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 IFRS. 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 IFRS. Equal's method of calculating these measures may differ from other entities, and accordingly, may not be comparable to measures used by other companies.

ADDITIONAL GAAP MEASURE*: 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 determined by the Company may not be comparable to that reported 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, expected exchange rates, anticipated borrowing base under the credit facility, maintenance of productive capacity and 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, 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 herein 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, among other things: 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 IFRS 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 the financial status of the Company 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 based in Calgary, Alberta, Canada with its United States operations office located in Oklahoma City, Oklahoma. 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).

The Company's portfolio of oil, NGL and natural gas properties is geographically diversified with producing properties located principally in Alberta and Oklahoma. Production is comprised of approximately 14% crude oil, 35% natural gas liquids ("NGLs") and 51% natural gas.

Financial and Operations Summary *(in thousands except for volumes, percentages and per share and boe amounts)*	Three months ended December 31			Year ended December 30		
	2011	2010	*Change*	**2011**	2010	*Change*
FINANCIAL						
Oil, NGL and natural gas revenues including realized hedging	**42,360**	34,704	22%	**163,714**	143,713	14%
Funds from operations [(1)]	**17,061**	9,338	83%	**62,678**	46,640	34%
Per share – basic and diluted [(2)] [(3)] ($)	**0.49**	0.34	44%	**1.96**	1.90	3%
Net income/(loss)	**(14,428)**	(38,556)	(63%)	**(13,960)**	(42,652)	(67%)
Per share – basic and diluted [(2)] [(3)] ($)	**(0.42)**	(1.39)	(70%)	**(0.44)**	(1.73)	(75%)
Total assets	**466,554**	392,486		**466,554**	392,486	
Working capital including long-term debt [(4)]	**(123,719)**	(36,743)		**(123,719)**	(36,743)	
Convertible debentures	**41,327**	119,902		**41,327**	119,902	
Shareholders' equity	**220,878**	172,222		**220,878**	172,222	
SHARES OUTSTANDING						
Shares outstanding – basic and diluted[(2)] [(3)] (000s)	**34,767**	27,692		**32,040**	24,595	
Shares outstanding at period end [(3)] (000s)	**34,779**	27,710		**34,779**	27,710	
OPERATIONS						
Average daily production						
Oil (bbls per day)	**1,961**	2,501	(22%)	**2,343**	2,481	(6%)
NGL (bbls per day)	**3,581**	2,373	51%	**3,048**	2,491	22%
Natural gas (mcf per day)	**33,669**	22,529	49%	**28,507**	24,878	15%
Total (boe per day)	**11,154**	8,629	29%	**10,142**	9,118	11%
Average sales price						
Oil ($ per bbl)	**85.90**	70.03	23%	**82.59**	70.25	18%
NGL ($ per bbl)	**45.61**	45.00	1%	**48.02**	42.44	13%
Gas ($ per mcf)	**3.82**	4.23	(10%)	**3.81**	4.57	(17%)
Cash flow netback [(1)] ($ per boe)						
Revenue [(5)]	**41.28**	43.71	(6%)	**44.22**	43.18	2%
Royalties	**8.29**	8.77	(5%)	**8.93**	8.81	1%
Production expenses	**10.17**	10.67	(5%)	**11.22**	10.76	4%
Transportation expenses	**0.33**	0.79	(58%)	**0.45**	0.71	(37%)
Operating netback	**22.49**	23.48	(4%)	**23.62**	22.90	3%
General and administrative	**3.13**	7.93	(61%)	**3.49**	5.78	(40%)
Cash interest expense	**2.72**	3.56	(24%)	**3.05**	3.40	(10%)
Other cash costs [(6)]	**0.00**	0.23	(100%)	**0.15**	(0.29)	(148%)
Cash flow netback	**16.64**	11.76	41%	**16.93**	14.01	21%

[(1)] Funds from operations is an additional GAAP measure and cash flow netback is a non-GAAP financial measures. Please refer to "Additional GAAP Measures" and "Non-GAAP Financial Measures".

[(2)] Weighted average shares outstanding. See Note 11 in Notes to Financial Statements.

[(3)] Restated to reflect the three for one exchange of trust units for common shares.

[(4)] Working capital including long-term debt is a non-GAAP term and includes total bank debt, current assets and current liabilities excluding unrealized gains/losses on commodity contracts and deferred revenues.

[(5)] Price received includes realized commodity contract gains or losses and excludes unrealized mark-to-market gain or loss.

[(6)] Other cash costs include current taxes and realized foreign exhange gains and losses.

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

	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues including realized hedging	42,360	44,452	41,824	35,078	34,704	34,267	35,689	39,053
Funds from operations	17,061	17,435	16,602	11,580	9,338	11,402	11,357	14,543
Income/(loss) before taxes	(11,043)	(514)	8,651	(6,205)	(35,510)	(3,846)	(2,967)	2,009
Net income/(loss)	(14,428)	(2,642)	6,492	(3,382)	(38,556)	(3,111)	2,720	(3,705)
Net income/(loss) per share basic[1] ($)	(0.42)	(0.08)	0.21	(0.12)	(1.39)	(0.11)	0.12	(0.17)
Net income/(loss) per share diluted [1] ($)	(0.42)	(0.08)	0.19	(0.12)	(1.39)	(0.11)	0.12	(0.17)

[1] Restated to reflect the three for one exchange of trust units for common shares.

Q4, Q3 and Q2 2011 revenues including realized hedging 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"), higher prices received for oil and NGLs and Equal's focus on light oil resource plays in Alberta and liquids-rich natural gas in Oklahoma. During Q4 2010 funds from operations were lower due to legal fees relating to legal proceedings against a joint venture partner in Oklahoma and the higher loss was due to an impairment in property, plant and equipment. The net losses in Q4 2011 and Q4 2010 are higher than the other quarters due to the impairment charges of $27.5 million and $31.1 million, respectively.

OVERALL PERFORMANCE

Average production in Q4 2011 was 11,154 boe per day, up 29% compared to Q4 2010 production of 8,629 boe per day, primarily due to the acquisition of Oklahoma Hunton assets in Q2 2011, Equal's drilling program and well optimization projects which were partially offset by declines in a mature natural gas pool and heavy oil pool in Saskatchewan, Canada and the disposition of non-core properties in November 2011.

Overall, oil prices received in Q4 2011 increased 23% to $85.90 per barrel compared to $70.03 per barrel in Q4 2010. NGL prices received in Q4 2011 were relatively flat at $45.61 per bbl compared to $45.00 per bbl in Q4 2010. Natural gas prices received in Q4 2011 decreased 10% to $3.82 per mcf from $4.23 per mcf in Q4 2010. Royalties in Q4 2011 decreased 5% to $8.29 per boe compared to $8.77 per boe in Q4 2010 due to lower prices received for natural gas and the increased proportion of natural gas production. Production expenses in Q4 2011 decreased 5% to $10.17 per boe compared to $10.67 per boe in Q4 2010 due to the production from the Hunton acquisition having lower than average operating costs per boe and the disposition of non-core assets in Q4 2011 which had higher than Company average operating costs.

General and administrative ("G&A") expenses in Q4 2011 decreased 61% to $3.13 per boe from $7.93 per boe in Q4 2010 due to higher production volumes and higher Q4 2010 expenses related to court proceedings involving a former joint venture partner that ended in Q2 2011. Cash interest expense decreased 24% to $2.72 per boe in Q4 2011 compared to $3.56 per boe in Q4 2010 due to the increase in production volumes and reasonably stable total debt levels.

The overall result was that funds from operations in Q4 2011 increased 83% to $17.1 million compared to $9.3 million in Q4 2010 and 41% on a cash flow netback basis to $16.64 per boe in Q4 2011 from $11.76 per boe in Q4 2010. The increase in funds from operations is mainly due to the increase in NGL and natural gas revenues from the additional production from the Hunton acquisition and the decrease in G&A expenses which are partially offset by the increase in royalties and production expenses. Q4 2011 included a gain on sale of assets of $16.8 million and an impairment of property, plant and equipment of $27.5 million which contributed to the loss of $14.4 million for the quarter compared to a loss of $38.6 million in Q4 2010 which included an impairment of property, plant and equipment of $31.1 million.

SUMMARY OF OPERATIONS

The following is a summary of Equal's operations and cash flows for the three months and year ended December 31, 2011 and 2010 which are referenced throughout this MD&A.

	Three months ended December 31		Year ended December 31	
(in thousands of Canadian dollars)	**2011**	2010	**2011**	2010
Oil, NGL and natural gas revenues	**41,228**	33,268	**161,494**	137,675
Realized gain on commodity contracts	**1,132**	1,436	**2,220**	6,038
Unrealized gain/(loss) on commodity contracts	**(2,868)**	(3,441)	**5,525**	(1,013)
Royalty expense	**(8,505)**	(6,963)	**(33,054)**	(29,330)
Revenues, net of royalty expense	**30,987**	24,300	**136,185**	113,370
Operating expenses				
Production	**(10,431)**	(8,469)	**(41,557)**	(35,826)
Transportation	**(343)**	(629)	**(1,665)**	(2,370)
General and administrative	**(3,217)**	(6,298)	**(12,914)**	(19,227)
Share-based compensation expense	**(1,234)**	(435)	**(3,968)**	(2,900)
Depletion and depreciation	**(17,046)**	(9,938)	**(53,229)**	(47,252)
Impairment of property, plant and equipment	**(27,486)**	(31,114)	**(27,486)**	(31,114)
	(59,757)	(56,883)	**(140,819)**	(138,689)
Other income/(expenses)				
Interest expense	**(3,002)**	(2,798)	**(12,042)**	(11,226)
Accretion of decommissioning provision	**(199)**	(192)	**(727)**	(769)
Gain on sale of assets	**16,769**	200	**17,595**	2,005
Transaction costs on asset acquisition	**-**	-	**(1,767)**	-
Redemption premium on convertible debentures	**(976)**	-	**(2,880)**	-
Revaluation of convertible debentures	**-**	-	**-**	(5,295)
Amortization of trust unit issue costs	**-**	-	**-**	(1,000)
Realized foreign exchange loss	**(42)**	(82)	**(240)**	1,674
Unrealized foreign exchange gain/(loss)	**5,177**	(55)	**(4,416)**	(384)
	17,727	(2,927)	**(4,477)**	(14,995)
Loss before income taxes	**(11,043)**	(35,510)	**(9,111)**	(40,314)
Income taxes				
Current	**(61)**	(95)	**(391)**	(694)
Future taxes reduction	**(3,324)**	(2,951)	**(4,458)**	(1,644)
	(3,385)	(3,046)	**(4,849)**	(2,338)
Loss	**(14,428)**	(38,556)	**(13,960)**	(42,652)

	Three months ended		Year ended	
	December 31		December 31	
(in thousands of Canadian dollars)	**2011**	2010	**2011**	2010
Cash Flow from Operations				
Loss	**(14,428)**	(38,556)	**(13,960)**	(42,652)
Share-based compensation	**1,234**	435	**3,968**	2,900
Depletion, depreciation and accretion	**17,046**	9,938	**53,229**	47,252
Impairment in property, plant and equipment	**27,486**	31,114	**27,486**	31,114
Non-cash interest expense on convertible debentures	**207**	(32)	**732**	(74)
Accretion of decommissioning provision	**199**	192	**727**	769
Unrealized commodity contracts (gain)/loss	**2,868**	3,441	**(5,525)**	1,013
Gain on sale of assets	**(16,769)**	(200)	**(17,595)**	(2,005)
Transactions costs on asset acquisition	**-**	-	**1,767**	-
Redemption premium on convertible debentures	**1,071**	-	**2,975**	-
Revaluation of convertible debentures	**-**	-	**-**	5,295
Amortization of trust unit issue costs	**-**	-	**-**	1,000
Unrealized foreign exchange(gain)/ loss	**(5,177)**	55	**4,416**	384
Deferred tax reduction	**3,324**	2,951	**4,458**	1,644
Funds from operations	**17,061**	9,338	**62,678**	46,640
Cash paid on decommissioning provision	**(403)**	(299)	**(1,652)**	(1,589)
Transaction costs on asset acquisition	**-**	-	**(1,767)**	-
Changes in non-cash working capital items	**(2,342)**	1,302	**(2,980)**	(10,615)
Cash from operating activities	**14,316**	10,341	**56,279**	34,436

SALES VOLUMES

Production						
	Three months ended			Year ended		
	December 31			December 31		
	2011	2010	*Change*	**2011**	2010	*Change*
Daily sales volumes – average						
Oil (bbls per day)	**1,961**	2,501	(22%)	**2,343**	2,481	(6%)
NGL (bbls per day)	**3,581**	2,373	51%	**3,048**	2,491	22%
Natural gas (mcf per day)	**33,669**	22,529	49%	**28,507**	24,878	15%
Total (boe per day)	**11,154**	8,629	29%	**10,142**	9,118	11%
Sales volumes mix by product						
Oil	**18%**	29%		**23%**	27%	
NGL	**32%**	28%		**30%**	27%	
Natural gas	**50%**	43%		**47%**	46%	
	100%	100%		**100%**	100%	

Average production for Q4 2011 of 11,154 boe per day was 29% higher than the Q4 2010 production of 8,629 boe per day mainly due to the Hunton acquisition on June 1, 2011, wells drilled and a reactivation and workover program which were partially offset by the disposition of non-core assets on November 15, 2011 totaling 1,750 boe per day and declines in a mature natural gas pool and heavy oil pool in Saskatchewan, Canada. Q4 2011 production remained relatively flat compared to Q3 2011 production of 11,263 boe per day due to Q4 2011 production benefitting from the wells drilled both partway through Q3 2011 and Q4 2011 being offset by the asset disposition in November

2011. For the three months ended December 31, 2011, average production consisted of 1,961 boe per day of oil, 3,581 boe per day of NGLs and 33,669 mcf per day of natural gas, resulting in a mix of 18% oil, 32% NGL and 50% natural gas compared to 29% oil, 28% NGL and 43% natural gas in Q4 2010.

For the year ended December 31, 2011, average production increased 11% to 10,142 boe per day compared to 9,118 boe per day in 2010 mainly due to the Hunton acquisition of 3,100 boe per day on June 1, 2011, wells drilled and a reactivation and workover program which were partially offset by the disposition of assets in November 2011 and declines in production in mature properties.

On January 31, 2012, the Company completed the sale of additional non-core assets in Saskatchewan, which produced approximately 300 boe per day, for proceeds of $8.3 million. Taking into account this asset disposition, the Company expects average production between 9,500 and 9,800 boe per day in 2012 and the sales volume mix is expected to be approximately 51% natural gas, 37% NGLs and 12% oil.

For the year ended December 31, 2011, Equal drilled the following 26 (22.8 net) wells with a 96% success rate:

- 9 (7.5 net) Alliance Viking horizontal oil wells in Alberta;
- 6 (5.3 net) Twin Cities / Central Dolomite Hunton liquids-rich natural gas wells in Oklahoma;
- 6 (5.2 net) Big Bird and K-9 Hunton vertical natural gas wells in Oklahoma;
- 3 (3.0 net) Cardium horizontal oil wells in Alberta;
- 1 (0.8 net) Mississippian well in Oklahoma currently awaiting a fracture stimulation; and
- 1 (1.0 net) dry hole located in Saskatchewan.

Production by Geographic Area

	Three months ended December 31, 2011					
	Canada		U.S.		Total	
Daily sales volumes – average						
Oil (bbls per day)	1,694	65%	267	3%	1,961	18%
NGL (bbls per day)	40	2%	3,541	41%	3,581	32%
Natural gas (mcf per day)	5,218	33%	28,451	56%	33,669	50%
Total (boe per day)	2,604	100%	8,550	100%	11,154	100%

Production by Geographic Area

	Year ended December 31, 2011					
	Canada		U.S.		Total	
Daily sales volumes – average						
Oil (bbls per day)	2,079	65%	264	4%	2,343	23%
NGL (bbls per day)	50	1%	2,998	43%	3,048	30%
Natural gas (mcf per day)	6,558	34%	21,949	53%	28,507	47%
Total (boe per day)	3,222	100%	6,920	100%	10,142	100%

Canadian Operations

In Q4 2011, production in Canada of 2,604 boe per day was down 27% compared to 3,557 boe per day during Q4 2010. The decrease is due to the disposition of non-core assets in November 2011 and higher than anticipated declines in a mature dry gas pool and heavy oil pool in Saskatchewan, Canada. Q4 2011 production was 17% lower than Q3 2011 production of 3,152 boe per day due to the disposition of non-core assets on November 15, 2011. The disposition of non-core assets decreased Q4 2011 production by approximately 875 boe per day.

For the year ended December 31, 2011, production in Canada of 3,222 boe per day was down 21% compared to 4,081 boe per day in 2010. The decrease is due to the disposition of non-core assets in November 2011 and higher than anticipated decline rates in mature properties in Saskatchewan. Delays in drilling and completions in Q4 2010 and Q1 2011 also resulted in lower average production than anticipated for the year.

U.S. Operations

In Q4 2011, production in the United States of 8,550 boe per day was 69% higher compared to 5,072 boe per day during Q4 2010. The increase in production is due to the Hunton acquisition on June 1, 2011 of 3,100 boe per day, wells drilled and a reactivation and workover program. Q4 2011 production increased 5% compared to Q3 2011 production of 8,111 boe per day due to the contribution of new wells drilled and completed over the period.

For the year ended December 31, 2011, production in the United States of 6,920 boe per day increased 37% compared to 5,037 boe per day during 2010. The increase in production is due to the Hunton acquisition, wells drilled during 2011 and a reactivation and workover program.

COMMODITY PRICING

Pricing Benchmarks

	Three months ended December 31			Year ended December 31		
	2011	2010	*Change*	**2011**	2010	*Change*
WTI (US$ per bbl)	**94.06**	85.17	10%	**95.12**	79.53	20%
Average exchange rate: US$ to Cdn$1.00	**0.98**	0.99	(1%)	**1.01**	0.97	4%
WTI (Cdn$ per bbl)	**95.94**	86.02	12%	**94.17**	81.92	15%
Edmonton Light	**97.35**	80.33	21%	**94.83**	77.48	22%
Propane, Conway, Kansas (US$/bbl)	**54.32**	51.01	6%	**56.89**	47.24	20%
NYMEX (US$ per mmbtu)	**3.61**	3.81	(5%)	**4.08**	4.42	(8%)
NYMEX (US$ per mcf) [1]	**3.74**	3.94	(5%)	**4.22**	4.57	(8%)
AECO daily index (Cdn$ per GJ)	**3.01**	3.43	(12%)	**3.43**	3.79	(9%)
AECO daily index (Cdn$ per mcf) [2]	**3.07**	3.50	(12%)	**3.50**	3.86	(9%)

(1) Conversion rate of 1.0350 mmbtu per mcf.
(2) Conversion rate of 1.0194 GJ per mcf.

West Texas Intermediate ("WTI") is a standard benchmark for the price of oil and is expressed in U.S. dollars per barrel. The propane price quoted at Conway, Kansas is the closest surrogate benchmark for the blended price Equal receives for its NGL produced in Oklahoma. The price variations at Conway, Kansas mirror Equal's variations in NGL price but cannot be used to estimate Equal's actual NGL mix due to variations in composition. In Western Canada the benchmark for natural gas is the price at the AECO hub (a storage and pricing hub for Canadian natural gas) and is priced in Canadian dollars per gigajoule ("GJ"). For the purposes of financial reporting, Equal expresses its realized prices for oil and gas in Canadian dollars.

Benchmark oil prices for Q4 2011 increased 10% to an average of US$94.06 per bbl WTI from US$85.17 per bbl WTI in Q4 2010. In Canadian dollars, the average price per bbl increased 12% to $95.94 per bbl WTI from $86.02 per bbl WTI. The price increase was partially enhanced by the weakening of the Canadian dollar which averaged US$0.98 per Canadian dollar during Q4 2011 compared to US$0.99 per Canadian dollar during Q4 2010.

Benchmark oil prices for the year ended December 31, 2011 increased 20% to an average of US$95.12 per bbl WTI from US$79.53 per bbl WTI in 2010. In Canadian dollars, the average price per bbl increased 15% to $94.17 per bbl WTI from $81.92 per bbl WTI. The price increase was partially off-set by the strengthening of the Canadian dollar which averaged US$1.01 per Canadian dollar during 2011 compared to US$0.97 per Canadian dollar during 2010.

Benchmark propane prices for Q4 2011 increased 6% to an average of US$54.32 per bbl from US$51.01 per bbl in Q4 2010 which was also partially enhanced, in Canadian dollar terms, by the weakening of the Canadian dollar compared to the U.S. dollar.

Benchmark propane prices for the year ended December 31, 2011 increased 20% to an average of US$56.89 per bbl from US$47.24 per bbl compared to 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 Q4 2011 on the NYMEX decreased 5% to an average of US$3.61 per mmbtu from US$3.81 per mmbtu in Q4 2010. In Canada, AECO pricing decreased 12% to $3.01 per GJ during Q4 2011 compared to $3.43 per GJ during Q4 2010.

Benchmark natural gas prices for the year ended December 31, 2011 on the NYMEX decreased 8% to an average of US$4.08 per mmbtu from US$4.42 per mmbtu compared 2010. In Canada, AECO pricing also decreased 9% to an average of $3.43 per GJ during the year ended December 31, 2011 compared to $3.79 per GJ during 2010.

Average Commodity Prices Received

	Three months ended December 31			Year ended December 31		
	2011	2010	*Change*	**2011**	2010	*Change*
Oil (Cdn$ per bbl)	**87.37**	70.07	25%	**82.89**	68.82	20%
Oil commodity contract settlements (Cdn$ per bbl)	**(1.47)**	(0.04)	1000%	**(0.30)**	1.43	(121%)
Combined oil (Cdn$ per bbl)	**85.90**	70.03	23%	**82.59**	70.25	18%
NGL (Cdn$ per bbl)	**45.61**	45.00	1%	**48.02**	42.44	13%
Natural gas (Cdn$ per mcf)	**3.37**	3.53	(5%)	**3.57**	4.05	(12%)
Natural gas commodity contract settlements (Cdn$ per mcf)	**0.45**	0.70	(36%)	**0.24**	0.52	(54%)
Combined natural gas (Cdn$ per mcf)	**3.82**	4.23	(10%)	**3.81**	4.57	(17%)
Total [(1)] (Cdn$ per boe)	**41.28**	43.71	(6%)	**44.22**	43.18	2%

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

In Q4 2011, the average price received for oil by Equal, net of commodity contract settlements, increased 23% to $85.90 per bbl from $70.03 per bbl in Q4 2010. The average price received for NGLs in Q4 2011 was relatively flat at $45.61 per bbl compared to $45.00 per bbl in Q4 2010. The impact of a significant rise in U.S. dollar denominated WTI crude oil and related NGLs was muted by the strengthening of the Canadian dollar against the U.S. dollar. The average price received for natural gas in Q4 2011, net of commodity contract settlements, decreased 10% to $3.82 per mcf from $4.23 per mcf in Q4 2010.

For the year ended December 31, 2011, the average price received for oil by Equal, net of commodity contract settlements, increased 18% to $82.59 per bbl from $70.25 per bbl during 2010. The average price received for NGLs in 2011, increased 13% to $48.02 per bbl from $42.44 per bbl during 2010. The impact of a significant rise in U.S. dollar denominated WTI crude oil and related NGLs was strongly muted by the strength of the Canadian dollar against the U.S. currency. The average price received for natural gas in 2011, net of commodity contract settlements, decreased 17% to $3.81 per mcf from $4.57 per mcf during 2010.

REVENUES

Revenues *(in thousands of Canadian dollars)*

	Three months ended December 31			Year ended December 31		
	2011	2010	*Change*	**2011**	2010	*Change*
Oil revenues	**15,766**	16,124	(2%)	**70,900**	62,305	14%
NGL revenues	**15,023**	9,827	53%	**53,434**	38,579	39%
Natural gas revenues	**10,439**	7,317	43%	**37,160**	36,790	1%
Realized gain/(loss) on commodity contracts	**1,132**	1,436	(21%)	**2,220**	6,038	(63%)
Revenues including realized hedging	**42,360**	34,704	22%	**163,714**	143,712	14%
Unrealized mark-to-market gain (loss) on commodity contracts	**(2,868)**	(3,441)	(17%)	**5,525**	(1,013)	(645%)
Revenues including commodity contracts	**39,492**	31,263	26%	**169,239**	142,699	19%

Revenues by Geographic Area
(in thousands of Canadian dollars)

	Three months ended December 31, 2011			Year ended December 31, 2011		
	Canada	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**
Oil revenues	13,594	2,172	15,766	62,241	8,659	70,900
NGL revenues	303	14,720	15,023	1,512	51,922	53,434
Natural gas revenues	1,605	8,834	10,439	8,902	28,258	37,160
Realized gain/(loss) on commodity contracts	(266)	1,398	1,132	(155)	2,375	2,220
Revenues including realized hedging	15,236	27,124	42,360	72,500	91,214	163,714
Unrealized mark-to-market gain/(loss) on commodity contracts	(4,782)	1,914	(2,868)	881	4,644	5,525
Revenues including commodity contracts	10,454	29,038	39,492	73,381	95,858	169,239

In Q4 2011, revenues before unrealized mark-to-market gains on commodity contracts increased 22% to $42.4 million from $34.7 million in Q4 2010 due to increased NGL and natural gas revenues which were partially offset by a lower realized gain on commodity contracts and oil revenues.

Oil revenues for Q4 2011 decreased 2% to $15.8 million compared to $16.1 million in Q4 2010 which was the result of a 22% decrease in production volumes which was partially offset by a 25% increase in sales price received for oil. NGL revenues for Q4 2011 increased 53% to $15.0 million from $9.8 million in Q4 2010 which was the result of a 51% increase in production volumes. Natural gas revenues for Q4 2011 increased 43% to $10.4 million from $7.3 million in Q4 2010 which was the result of a 49% increase in production volumes partially offset by a 5% decrease in the sales price received for natural gas.

In Q4 2011, there was a lower realized gain on commodity contracts of $1.1 million compared to a $1.4 million realized gain in Q4 2010 due to higher Q4 2011 oil prices and a lower price hedged for natural gas prices compared to Q4 2010. The unrealized mark-to-market loss on commodity contracts in Q4 2011 was to $2.9 million compared to a loss of $3.4 million during Q4 2010. The unrealized mark-to-market loss on commodity contracts in Q4 2011 was due to the increase in the price for oil at December 31, 2011 compared to September 30, 2011.

For the year ended December 31, 2011, revenues before unrealized mark-to-market losses on commodity contracts increased 14% to $163.7 million from $143.7 million in 2010 as increases in revenues from oil, NGLs and natural gas sales were partially offset by a lower realized gain from commodity contracts.

For the year ended December 31, 2011, oil revenues increased 14% to $70.9 million compared to $62.3 million in 2010 which was the result of a 20% increase in sales price received for oil which was partially offset by a 6% decrease in oil volumes produced. For 2011, NGL revenues increased 39% to $53.4 million from $38.6 million in 2010 which was the result of a 13% increase in sales price received for NGLs and a 22% increase in production volumes. For 2011, natural gas revenues remained relatively flat at $37.2 million compared to $36.8 million in 2010 which was the result of a 15% increase in production volumes offset by a 12% decrease in the sales price received for natural gas.

For the year ended December 31, 2011, the realized gain on commodity contracts was $2.2 million compared to a gain of $6.0 million in 2010 mainly due to higher 2011 oil prices and a lower price hedged for natural gas during 2011 compared to 2010. For 2011, the unrealized mark-to-market gain on commodity contracts was to $5.5 million compared to a loss of $1.0 million in 2010. The unrealized mark-to-market gain on commodity contracts in 2011 is mainly due to the natural gas commodity contracts entered into during Q1 2011 combined with the subsequent decrease in natural gas prices.

For 2012 planning purposes, the Company uses US$90.00 per bbl for WTI, US$4.00 per mmbtu for NYMEX natural gas, $3.50 per mcf for AECO natural gas, an exchange rate of CAD$1.000:US$0.975 and a discount of 47% from US$ WTI for US NGL pricing. The Company constantly monitors actual prices against plan prices and adjusts its operational plans to address variations.

COMMODITY CONTRACTS

The Company has a formal risk management policy which permits management to use specified price risk management strategies for up to 50% of its projected gross crude oil, natural gas and NGL production including 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 24 months beyond the current date. 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. As of the date of this MD&A for 2012, Equal has the equivalent of 800 bbls per day of oil production hedged at an average price CAD$101.50 per bbl and 10,333 mmbtu per day of natural gas at an average price of USD$4.45 per mmbtu. Based on Q4 2011 average production, the Company has 41% of its oil hedged and 31% of its natural gas which is equivalent to 23% of the Company's total production.

The mark-to-market value of the commodity contracts is determined based on the estimated fair value as at December 31, 2011 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, 2011, Equal had the following financial derivatives and fixed price contracts outstanding:

Derivative Instrument	Commodity	Price [(2)]	Volume per day [(2)]	Period
Fixed	Gas	4.50 (US$/mmbtu) (4.66 US$/mcf)	2,000 mmbtu (1,932 mcf)	April 1, 2011 – March 31, 2012
Fixed	Gas	4.83 (US$/mmbtu) (5.00 US$/mcf)	2,000 mmbtu (1,932 mcf)	April 1, 2011 – March 31, 2012
Fixed	Gas	4.95 (US$/mmbtu) (5.12 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2012 – December 31, 2012
Fixed	Gas	5.00 (US$/mmbtu) (5.18 US$/mcf)	5,000 mmbtu (4,831 mcf)	January 1, 2012 – December 31, 2012
Fixed Basis Differential [(1)]	Gas	Differential Fixed @ $0.35 US$/mmbtu ($0.36 US$/mcf)	7,000 mmbtu (6,763 mcf)	January 1, 2012 – December 31, 2012
Fixed	Oil	100.00 ($/bbl)	200 bbl	January 1, 2012 – December 31, 2012
Fixed	Oil	101.05 ($/bbl)	200 bbl	January 1, 2012 – December 31, 2012
Fixed	Oil	101.95 ($/bbl)	200 bbl	January 1, 2012 – December 31, 2012
Fixed	Oil	103.00 ($/bbl)	200 bbl	January 1, 2012 – December 31, 2012

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

As at December 31, 2011 the above commodity contracts had a net mark-to-market asset position of $4.8 million compared to a net liability balance of $0.8 million on December 31, 2010. This mark-to-market asset position at December 31, 2011 relates primarily to the natural gas contracts which have hedged prices higher than the market prices at December 31, 2011.

Subsequent to December 31, 2011, Equal entered into the following commodity contracts:

Derivative Instrument	Commodity	Price [2]	Volume per day [2]	Period
Collar	Gas	Floor: 2.50 (US$/mmbtu) (2.59 US$/mcf) Ceiling: 3.45 (US$/mmbtu) (3.57 US$/mcf)	2,000 mmbtu (1,932 mcf)	April 1, 2012 – October 31, 2012
Fixed	Gas	3.00 (US$/mmbtu) (3.11 US$/mcf)	2,000 mmbtu (1,932 mcf)	April 1, 2012 – October 31, 2012
Fixed Basis Differential [1]	Gas	Differential Fixed @ $0.21 US$/mmbtu ($0.22 US$/mcf)	2,000 mmbtu (1,932 mcf)	April 1, 2012 – October 31, 2012
Fixed	Oil	101.00 ($/bbl)	200 bbl	January 1, 2013 – December 31, 2013
Fixed	Oil	101.50 ($/bbl)	200 bbl	January 1, 2013 – December 31, 2013
Fixed	Oil	102.50 ($/bbl)	200 bbl	January 1, 2013 – December 31, 2013

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

ROYALTIES

Royalties include crown, freehold and overriding royalties, production taxes and wellhead taxes. Royalties vary depending on the jurisdiction, volumes that are produced, total volumes sold and the price received.

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

	Three months ended December 31			Year ended December 31		
	2011	2010	*Change*	**2011**	2010	*Change*
Royalties	**8,505**	6,963	22%	**33,054**	29,330	13%
As a percentage of revenues before commodity contracts	**21%**	21%		**20%**	21%	
Royalties per boe ($)	**8.29**	8.77	(5%)	**8.93**	8.81	1%

Royalties by Geographic Area *(in thousands of Canadian dollars except for percentages and per boe amounts)*

	Three months ended December 31, 2011		Year ended December 31, 2011	
	Canada	**U.S.**	**Canada**	**U.S.**
Royalties	2,028	6,477	11,416	21,638
As a percentage of revenues before commodity contracts	13%	25%	16%	24%
Royalties per boe ($)	8.47	8.23	9.71	8.57

In Q4 2011, royalties increased 22% to $8.5 million from $7.0 million in Q4 2010 primarily due to higher NGL and natural gas production and higher oil prices received. As a percentage of revenues before commodity contracts, royalties in Q4 2011 were consistent with Q4 2010 due to lower royalties on new horizontal oil wells drilled in Alberta being offset by higher royalties in Oklahoma as a result of increased production. Q4 2011 royalties were 7% lower compared to Q3 2011 royalties of $9.1 million due to lower oil and NGL revenues in Q4 2011.

During the year ended December 31, 2011, royalties increased 13% to $33.1 million from $29.3 million from 2010 primarily as a result of higher oil and NGL revenues.

Royalty rates in 2012 are expected to slightly decrease compared to 2011 due to the planned drilling of horizontal wells in Canada which incur a reduced royalty of 5% for up to 36 months and the drilling of horizontal Hunton wells which receive a 6% production tax rebate for the first 48 months resulting in approximately 20% royalties on new wells in Oklahoma.

PRODUCTION EXPENSE

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

	Three months ended December 31			Year ended December 31		
	2011	2010	*Change*	**2011**	2010	*Change*
Production expense	**10,431**	8,469	23%	**41,557**	35,826	16%
Production expense per boe ($)	**10.17**	10.67	(5%)	**11.22**	10.76	4%

In Q4 2011, production expenses increased 23% to $10.4 million from $8.5 million in Q4 2010 due to higher production volumes. Production expense on a per boe basis decreased 5% to $10.17 per boe in Q4 2011 compared to $10.67 per boe in Q4 2010 mainly due to the production from the Hunton acquisition in Q2 2011 having lower than Company average operating costs per boe and the disposition of non-core properties in Canada with higher than Company average production costs which was partially offset by the unexpected production declines in mature natural gas and heavy oil properties in Saskatchewan, Canada with a high proportion of fixed costs. Q4 2011 production costs decreased 8% compared to $11.11 per boe in Q3 2011 primarily due to the disposition of non-core properties in Canada with higher than Company average production costs.

For the year ended December 31, 2011, production costs increased 16% to $41.6 million from $35.8 million in 2010 due to higher production volumes. For 2011, production expense on a per boe basis increased 4% to $11.22 per boe from $10.76 per boe in 2010 mainly due to production declines in mature properties with a high proportion of fixed costs which was partially offset by the production from the Hunton acquisition in Q2 2011 having lower than Company average operating costs per boe and the disposition of non-core properties in Canada with higher than Company average production costs.

Production Expense by Geographic Area *(in thousands except for per boe amounts)*

	Three months ended December 31, 2011		Year ended December 31, 2011	
	Canada	**U.S.**	**Canada**	**U.S.**
Production expenses	5,113	5,318	24,649	16,908
Production expenses per boe ($)	21.34	6.76	20.96	6.69

Canadian Operations

In Canada for Q4 2011, production expenses were $5.1 million which was 11% lower than $5.7 million in Q4 2010. On a per boe basis, production expenses increased 23% to $21.34 per boe in Q4 2011 compared to $17.32 per boe in Q4 2010 due to production declines in mature properties with a high proportion of fixed costs, increased workovers to optimize and maintain production and the increase of the oil weighting of the total production which was partially offset by the disposition of non-core properties in Canada with higher than Company average production costs. Q4 2011 production costs per boe decreased 9% compared to $23.50 per boe in Q3 2011 mainly due to the disposition of non-core properties in Canada with higher than Company average production costs, the downtime in Q3 2011 associated with a third party processor's turnaround and additional power and workover costs incurred in Q3 2011.

In Canada for the year ended December 31, 2011, production expenses decreased to $24.6 million compared to $25.4 million in 2010. On a per boe basis, production expenses increased 23% to $20.96 per boe compared to $17.03 per boe in 2010 mainly due to additional costs from an extremely wet first 6 months of the year (maintenance and labour), production declines in mature properties with a high proportion of fixed costs and the sale of natural gas weighted properties in 2010 having lower production costs per boe which were partially offset by the disposition of non-core properties with higher than Company average production costs.

U.S. Operations

In the U.S. for Q4 2011, overall production expenses increased by 89% to $5.3 million from $2.8 million mainly due to the increased volumes from the Hunton acquisition in Q2 2011 and the addition of new wells drilled during the year. On a per boe basis, production expense increased 13% to $6.76 per boe from $6.00 per boe in Q4 2010 mainly 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. Q4 2011 production expenses per boe increased by 7% compared to Q3 2011 production expenses of $6.30 per boe due to the initial high water volumes from newly completed wells during their early producing phase.

In the U.S. for the year ended December 31, 2011, production expenses increased by 61% to $16.9 million from $10.5 million in 2010 mainly due to the Hunton acquisition in Q2 2011 and the addition of new wells drilled during the year. On a per boe basis, production expense increased by 18% to $6.69 per boe versus $5.69 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.

TRANSPORTATION EXPENSE

Transportation expense is a function of the point of legal transfer of the product and is dependent upon where the product is sold, production split, location of properties as well as industry transportation rates that are driven by supply and demand of available transport capacity.

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

	Three months ended December 31			Year ended December 31		
	2011	2010	*Change*	**2011**	2010	*Change*
Transportation expense	**343**	629	(45%)	**1,665**	2,370	(30%)
Transportation expense per boe ($)	**0.33**	0.79	(58%)	**0.45**	0.71	(37%)

In Q4 2011, transportation costs decreased 58% to $0.33 per boe from $0.79 per boe in Q4 2010 and decreased 15% compared to $0.39 per boe in Q3 2011. The decrease in transportation expense is due to the re-allocation of certain costs against revenues.

For the year ended December 31, 2011, transportation costs decreased 37% to $0.45 per boe from $0.71 per boe in 2010. The decrease in transportation expense is due to the re-allocation of certain costs against revenues.

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expense ("G&A") decreased by 49% in Q4 2011 compared to Q4 2010 on a total dollar basis and decreased by 61% on a per boe basis.

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

	Three months ended December 31			Year ended December 31		
	2011	2010	*Change*	**2011**	2010	*Change*
Gross G&A expense	**4,220**	7,693	(45%)	**17,162**	24,392	(30%)
Capitalized	**(327)**	(95)	244%	**(1,588)**	(1,530)	4%
Recoveries	**(676)**	(1,300)	(48%)	**(2,660)**	(3,635)	(27%)
G&A expense	**3,217**	6,298	(49%)	**12,914**	19,227	(33%)
G&A expense per boe ($)	**3.13**	7.93	(61%)	**3.49**	5.78	(40%)

In Q4 2011, G&A costs were $3.2 million ($3.13 per boe) compared to $6.3 million ($7.93 per boe) in Q4 2010. The decrease in G&A is due to legal fees in Q4 2010 related to court proceedings involving a former joint venture participant that ended in Q2 2011. Q4 2011 G&A costs increased by 14% compared to $2.8 million in Q3 2011.

For the year ended December 31, 2011, G&A costs were $12.9 million ($3.49 per boe) compared to $19.2 million ($5.78 per boe) in 2010. The decrease in G&A is mainly due to higher costs in 2010 for professional fees incurred for the Plan of Arrangement and legal fees related to court proceedings involving a former joint venture participant that ended during Q2 2011.

SHARE-BASED COMPENSATION EXPENSE

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

	Three months ended December 31			Year ended December 31		
	2011	2010	*Change*	**2011**	2010	*Change*
Gross share-based compensation expense	**1,368**	498	175%	**4,284**	3,205	34%
Capitalized	**(134)**	(63)	113%	**(316)**	(305)	4%
Share-based compensation expense	**1,234**	435	184%	**3,968**	2,900	37%
Share-based compensation expense per boe ($)	**1.20**	0.55	118%	**1.07**	0.87	23%

In Q4 2011, non-cash share-based compensation expense was $1.2 million compared to $0.4 million in Q4 2010 and $1.4 million in Q3 2011. The Q4 2011 increase in the share-based compensation expense is due to the higher number of restricted shares and options outstanding during the period that were issued in May 2011 which is in advance of the normal issuance of the last quarter of each year as part of the employee retention initiative.

For the year ended December 31, 2011, non-cash share-based compensation expense was $4.0 million compared to $2.9 million in 2010. The increase in the share-based compensation expense is due to the higher number of restricted shares and options outstanding during the period that were issued in May 2011 which is in advance of the normal issuance of the last quarter of each year as part of the employee retention initiative.

DEPLETION AND DEPRECIATION ("D&D")

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

	Three months ended December 31			Year ended December 31		
	2011	2010	*Change*	**2011**	2010	*Change*
D&D	**17,046**	9,938	72%	**53,229**	47,252	13%
D&D per boe ($)	**16.61**	12.52	33%	**14.38**	14.20	1%

In Q4 2011, D&D expenses increased 72% to $17.0 million ($16.61 per boe) compared to $9.9 million ($12.52 per boe) in Q4 2010. The increase in D&D expenses in Q4 2011 compared to Q4 2010 is mainly due to the 29% increase in production and negative revisions to the December 31, 2011 reserves. Q4 2011 D&D expenses increased 22% compared to $13.9 million in Q3 2011 due to the negative revisions to the December 31, 2011 reserves. The negative reserve revisions were due to the decrease in forecasted prices for natural gas and performance of wells in certain areas.

For the year ended December 31, 2011, D&D expenses increased 13% to $53.2 million ($14.38 per boe) compared to $47.3 million ($14.20 per boe) in 2010. The increase in D&D expenses is mainly due to the 11% increase in production and negative revisions to the December 31, 2011 reserves. The negative reserve revisions were due to the decrease in forecasted prices for natural gas and performance of wells in certain areas.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

For the three and twelve months ended December 31, 2011, the impairment in property, plant and equipment was $27.5 million compared to $31.1 million in the same periods in 2010. The impairment in 2011 is due to cost overruns in certain wells drilled, the decrease in forecasted prices for natural gas, the performance of wells in certain areas and the write-down of certain underperforming assets that were sold in January 2012. The impairment in 2010 was the result of the decrease in forecasted prices for natural gas.

INTEREST EXPENSE

The cash portion of interest expense in Q4 2011 was $2.8 million which was comprised of interest on long-term debt of $1.3 million and interest on convertible debentures of $1.5 million. The non-cash portion of interest expense in Q4 2011 was $0.2 million for the accretion of convertible debentures.

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

	Three months ended December 31			Year ended December 31		
	2011	2010	*Change*	**2011**	2010	*Change*
Cash interest expense on long-term debt	**1,341**	461	191%	**4,250**	2,364	80%
Cash interest expense on convertible debentures	**1,455**	2,398	(39%)	**7,088**	9,684	(27%)
Cash interest income	**(1)**	(29)	(97%)	**(28)**	(748)	(96%)
Subtotal cash interest expense	**2,795**	2,830	(1%)	**11,310**	11,300	0%
Non-cash amortization of premium on convertible debentures	**-**	(32)	(100%)	**(21)**	(74)	(72%)
Non-cash accretion on convertible debentures	**207**	-	100%	**753**	-	100%
Total interest expense	**3,002**	2,798	7%	**12,042**	11,226	7%
Cash interest expense per boe on long-term debt ($)	**1.30**	0.58	124%	**1.15**	0.71	62%
Cash interest expense per boe on convertible debentures ($)	**1.42**	3.02	(53%)	**1.91**	2.91	(34%)
Cash interest income per boe ($)	**-**	(0.04)	(100%)	**(0.01)**	(0.22)	(95%)
Total cash interest expense per boe ($)	**2.72**	3.56	(24%)	**3.05**	3.40	(10%)

In Q4 2011, cash interest expense was relatively flat at $2.8 million compared to Q4 2010 due to the increase in the amount borrowed on the credit facility which was offset by lower interest paid on the convertible debentures. The amount borrowed from the bank credit facility was used for the Hunton acquisition in June 2011 and the lower interest on convertible debentures is due to a lower amount of debentures outstanding and lower interest rates on the remaining convertible debentures. Q4 2011 cash interest expense was consistent with the $2.9 million cash interest expense in Q3 2011.

For the year ended December 31, 2011, cash interest expense was $11.3 million which is 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 and lower interest income.

Equal's long-term debt balance at December 31, 2011 was $138.8 million compared to $24.9 million at December 31, 2010. The increase is due to use of the credit facility to redeem part of the 8.0% convertible debentures in March 2011, the Hunton acquisition in June 2011 and capital spending in excess of cash flows for the year. The average interest rate on long-term debt for 2011 was 3.8% and the rate as of March 20, 2012 is approximately 3.2%.

ACCRETION OF DECOMMISSIONING PROVISION

In Q4 2011 and Q4 2010, the accretion of the decommissioning provision was $0.2 million.

For the years ended December 31, 2011 and 2010, the accretion of the decommissioning provision was $0.7 million.

GAIN/LOSS ON DISPOSAL OF ASSETS

In Q4 2011, there was a gain on disposal of assets of $16.8 million compared to a gain of $0.2 million in Q4 2010. The gain in Q4 2011 was the result of the sale of non-core assets in British Columbia and Alberta which predominately produced natural gas.

For the year ended December 31, 2011, the gain on disposal of assets was $17.6 million compared to a gain of $2.0 million during 2010. The gain in Q4 2011 is mainly due to the sale of non-core assets in British Columbia and Alberta which predominately produced natural gas.

TRANSACTION COSTS FOR ASSET ACQUISITION

In June 2011, transaction costs for the Hunton acquisition related to legal and financial advisory fees were $1.8 million.

REDEMPTION PREMIUM ON CONVERTIBLE DEBENTURES

In Q4 2011, the remaining 8.25% convertible debentures with a face value of $39.2 million were cancelled pursuant to the normal course issuer bid which resulted in a payment of a redemption premium of $1.0 million.

For the year ended December 31, 2011, the redemption premium on convertible debentures was $2.9 million which is mainly the result of Equal's 8% convertible debentures redeemed in Q1 2011 and the 8.25% convertible debentures in Q4 2011.

FOREIGN EXCHANGE

In Q4 2011, there was a foreign exchange gain of $5.1 million compared to a loss of $0.1 million in Q4 2010.

For the year ended December 31, 2011, the foreign exchange loss was $4.7 million compared to a gain of $1.3 million 2010. The foreign exchange gains and losses are mainly a result of the long-term debt balance at each period end being revalued at the closing exchange rate and will fluctuate with the exchange rate until it is settled.

TAXES

In Q4 2011, the deferred income tax expense is $3.3 million compared to the deferred income tax expense of $3.0 million in Q4 2010.

For the year ended December 31, 2011, the deferred income tax expense is $4.5 million compared to a deferred income tax expense of $1.6 million during 2010.

NET INCOME

Q4 2011 had a loss of $14.4 million (loss of $0.42 per share) compared to a loss of $38.6 million (loss of $1.39 per share) in Q4 2010. The decrease in the loss in Q4 2011 compared to Q4 2010 was mainly the result of increased revenues from NGLs and natural gas, a $16.8 million gain on sale of assets, a $5.2 million unrealized gain on foreign exchange and lower G&A expenses which were partially offset by higher royalties, production expenses, share-based compensation, depletion and impairment of property, plant and equipment.

For the year ended December 31, 2011, there was a loss of $14.0 million (loss of $0.44 per share) compared to a loss of $42.7 million (loss of $1.73 per share) during 2010. The decrease in loss was mainly the result of increased revenues from oil and NGLs, a $17.6 million gain on sale of assets, an unrealized gain on commodity contracts of $5.5 million and lower G&A expenses which were partially offset by a lower realized gain on commodity contracts, higher royalties, production expenses, foreign exchange loss and impairment of property, plant and equipment.

ADDITIONAL GAAP MEASURES

Equal uses certain additional GAAP measures that are not defined terms under IFRS to assess performance. Management believes these measures provide useful supplemental information to investors. The following are the measures Equal uses in assessing performance.

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 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)*

	Three months ended December 31		Year ended December 31	
	2011	2010	**2011**	2010
Cash provided by operating activities	**14,316**	10,341	**56,279**	34,436
Changes in non-cash working capital items	**2,342**	(1,302)	**2,980**	10,615
Decommissioning provision costs incurred	**403**	299	**1,652**	1,589
Transaction costs for asset acquisition	**-**	-	**1,767**	-
Funds from operations	**17,061**	9,338	**62,678**	46,640

In Q4 2011, funds from operations increased by 83% to $17.1 million from $9.3 million in Q4 2010. The increase in funds from operations is mainly due to the increase in commodity prices for oil, the increase in production of NGLs and natural gas and the decrease in G&A expenses which were partially offset by the increase in production expenses and royalties.

For the year ended December 31, 2011, funds from operations increased 34% to $62.7 million from $46.6 million in 2010 primarily due to the increase in commodity prices for oil and NGLs, the increase in production of NGLs and natural gas and the decrease in G&A expenses which were partially offset by the lower realized gain on commodity contracts, higher production expenses and higher royalties.

NON-GAAP FINANCIAL MEASURES

Management uses certain key performance indicators ("KPIs") and industry benchmarks such as cash flow netback, funds from operations 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 IFRS and previous Canadian GAAP and therefore may not be comparable with the calculation of similar measures presented by other entities.

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 thousand of Canadian dollars, except for per share and per boe amounts)*

	Three months ended December 31		Year ended December 31	
	2011	2010	**2011**	2010
Net income/(loss)	**(14,428)**	(38,556)	**(13,960)**	(42,652)
Share-based compensation	**1,234**	435	**3,968**	2,900
Depletion and depreciation	**17,046**	9,938	**53,229**	47,252
Impairment in property, plant and equipment	**27,486**	31,114	**27,486**	31,114
Non-cash interest on convertible debentures	**207**	(32)	**732**	(74)
Accretion of decommissioning provision	**199**	192	**727**	769
Unrealized commodity contracts (gain)/loss	**2,868**	3,441	**(5,525)**	1,013
Gain on sale of assets	**(16,769)**	(200)	**(17,595)**	(2,005)
Transaction costs on asset acquisition	**-**	-	**1,767**	-
Redemption premium on convertible debentures	**1,071**	-	**2,975**	-
Revaluation of convertible debentures	**-**	-	**-**	5,295
Amortization of trust unit issue costs	**-**	-	**-**	1,000
Unrealized foreign exchange (gain)/loss	**(5,177)**	55	**4,416**	384
Deferred tax (reduction)/expense	**3,324**	2,951	**4,458**	1,644
Funds from operations	**17,061**	9,338	**62,678**	46,640
Total volume (mboe)	**1,025**	794	**3,702**	3,328
Cash flow netback (non-GAAP) ($ per boe)	**16.64**	11.76	**16.93**	14.01

CAPITAL EXPENDITURES

Capital Expenditures *(in thousands of Canadian dollars except for percentages)*

	Three months ended December 31			Year ended December 31		
	2011	2010	*Change*	**2011**	2010	*Change*
Property, plant and equipment expenditures	**7,969**	14,406	(45%)	**69,800**	60,053	16%
Exploration and evaluation expenditures	**320**	11,047	(97%)	**11,791**	17,625	(33%)
Hunton asset acquisition [(1)]	**-**	-	0%	**91,656**	-	100%
Amounts recovered under agreement	**-**	-	0%	**-**	(3,503)	(100%)
Dispositions	**(38,939)**	(40)	1000%	**(41,144)**	(26,272)	57%
Total	**(30,650)**	25,413	(221%)	**132,103**	47,903	176%

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

During the year ended December 31, 2011, Equal's net capital expenditures were $132.1 million, of which Equal spent $173.2 million in total capital expenditures and received $41.1 million from dispositions of non-core properties.

Expenditures in Canada for the year ended December 31, 2011, totaled $47.3 million and dispositions totaled $41.1 million. The major components of these expenditures include:

- $33.1 million on wells, drilling and workovers;
- $10.0 million on facilities and other equipment maintenance;
- $3.0 million on land and seismic acquisition; and

- $1.2 million related to the capitalization of certain G&A costs attributable to exploration and development activities.

Expenditures in the U.S. for the year ended December 31, 2011, totaled $125.9 million. The major components of these expenditures include:

- $91.7 million to acquire the working interests in shared wells from a former joint venture participant (US$95.0 million at $0.965 CAD/USD);
- $23.5 million related to wells, drilling and workovers;
- $2.6 million on acquisitions of land for future development in Oklahoma;
- $7.6 million on capital enhancements; and
- $0.5 million related to the capitalization of certain G&A costs attributable to exploration and development activities.

During 2011, the Company drilled 13 wells in Canada and 13 wells in Oklahoma. The wells drilled in Canada focused on the light oil plays in the Alberta-based Cardium and Viking resources plays. The wells drilled in Oklahoma focused on the liquids-rich natural gas Hunton play while at the same time preserving rights in the Mississippian play.

Equal's near term drilling will continue to be focused on light oil targets and liquids-rich gas targets. The Alberta-based Cardium and Viking resource plays have operating margins significantly higher than the Company's current average Canadian production and will be pursued throughout 2012. In Oklahoma, management expects a minimum ten well drilling program in the Hunton in 2012. With this focus on light oil and liquids-rich natural gas, Equal expects its cash flow netback to improve over time.

Equal operates all of its drilling and can dictate the pace and targets of its drilling programs; therefore, the Company can adjust quickly to the changes in commodity prices if necessary. Equal has an extensive drilling inventory so it can increase capital spending in a higher commodity price environment and has the financial flexibility to do so with its credit facility.

The Company plans in 2012 include up to six light oil Viking wells at Alliance (Alberta), three Cardium light oil wells at Lochend (Alberta), four liquids-rich natural gas wells at K-9 (Oklahoma) and up to nine liquids-rich natural gas wells at Twin Cities Central Dolomite (Oklahoma).

BUSINESS RISKS

The disclosures under this heading should be read in conjunction with Note 12 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 commodity prices, credit risk, financing risk, reserve estimates, foreign currency rates, acquisitions and environmental risk. 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.

Commodity Prices

Commodity price fluctuations are among Equal's most significant exposures. Crude oil prices are influenced by worldwide factors such as supply and demand fundamentals, OPEC actions and political events. Natural gas prices are influenced by oil prices, North American natural gas supply and demand factors including weather, storage levels and LNG imports. NGL prices are dictated by a combination of supply versus demand related to industrial activity, oil prices and heating requirements. In accordance with policies approved by the Board of Directors, Equal, from time to time, manages these risks through the use of fixed physical contracts, swaps, collars or other commodity contracts. For a summary of outstanding oil and natural gas contracts, please refer to "Commodity Contracts" in this MD&A and in Note 12 to the consolidated financial statements.

Credit Risk

Credit risk is the risk of loss if purchasers or counterparties do not fulfill their contractual obligations. The receivables are principally with customers in the oil and gas industry and are subject to normal industry credit risk. The Company continues to assess the strength of its counterparties and tries to do business with high quality companies with substantial assets. The counterparties on the commodity contracts are large well financed entities. Management continuously monitors credit risk and credit policies to ensure exposures to customers are limited.

Financing Risk

Equal currently maintains a portion of its debt in floating-rate bank facilities which results in exposure to fluctuations in short-term interest rates which have, for a number of years, been lower than longer-term rates. In June 2011, Equal's Bank Syndicate completed a borrowing base review and increased the borrowing base to $200.0 million. The borrowing base was set based on Equal's oil, NGL and natural gas reserves using the Bank Syndicate's future commodity price deck at the time of review.

The next review of the bank credit facility is expected to be completed in May 2012.

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

Equal's U.S. operations accounted for 77% of Equal's total 2011 production; therefore, fluctuations in the U.S. dollar to Canadian dollar exchange rate will impact the Company's revenues due to the Company translating the revenues from the U.S. operations into Canadian dollars. The Company also has commodity contracts denominated and settled in U.S. dollars.

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

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of Equal or its working interests. Such legislation may be changed to impose higher standards and potentially more costly obligations on Equal. There is uncertainty regarding the Federal Government's Regulatory Framework for Air Emissions ("Framework"), as issued under the Canadian Environmental Protection Act. Additionally, the potential impact on the Company's operations and business of the Framework, with respect to instituting reductions of greenhouse gases, is not possible to quantify at this time as specific measures for meeting Canada's commitments have not been developed.

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 12 to the consolidated financial statements.

As of December 31, 2011, Equal has commitments for the following payments over the next five years:

Commitments					
(in thousands of Canadian dollars)	2012	2013	2014	2015 – 2016	Total
Long-term debt [1]	-	138,820	-	-	138,820
Interest on long-term debt [2]	4,539	2,176	-	-	6,715
Convertible debentures [3]	-	-	-	45,000	45,000
Interest on convertible debentures [3]	3,038	3,038	3,038	3,798	12,912
Accounts payable & accrued liabilities	24,239	-	-	-	24,239
Decommissioning provision	557	-	-	-	557
Office leases [4]	1,211	1,169	1,178	1,472	5,030
Vehicle and other operating leases	168	101	76	-	345
Total obligations	**33,752**	**145,304**	**4,292**	**50,270**	**233,618**

[1] Assumes the credit facilities are not renewed on June 24, 2012. As at December 31, 2011, the long-term debt balance consisted of US$136.5 million converted at the closing exchange rate of CDN$1.017 per US$1.00.
[2] Assumes an interest rate of 3.27% (the rate on December 31, 2011).
[3] The 6.75% convertible debentures with an outstanding face value of $45.0 million mature on March 31, 2016.
[4] Future office lease commitments may be reduced by sublease recoveries totaling $0.1 million.

LIQUIDITY & CAPITAL RESOURCES

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 December 31 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.

Also on February 9, 2011, Equal issued a redemption notice to fully redeem its outstanding 8% convertible debentures whereby the outstanding principal amount $79.9 million was redeemed on March 14, 2011. The proceeds from the 6.75% convertible debentures, in addition to the credit facility, were used to redeem the outstanding 8% convertible debentures. The issue of new 5-year convertible debentures and the redemption of the 8% convertible debentures which was due December 31, 2011 significantly extended the overall term of the Company's outstanding debt and reduced borrowing costs.

On May 19, 2011, Equal completed a $50.3 million bought deal financing of 6,850,000 common shares at a price of $7.35 per common share. Proceeds from the bought deal were used to acquire Petroflow's interests in assets developed pursuant to the now terminated farmout agreement between the Company and Petroflow/NAPCUS, and settle all outstanding legal matters and other claims between the Company and Petroflow, Compass and Texas Capital.

On November 16, 2011, Equal issued a redemption notice to fully redeem its outstanding 8.25% convertible debentures whereby the outstanding principal amount $39.1 million was redeemed on December 15, 2011. The proceeds from the November 15, 2011 asset sale were used to redeem the outstanding 8.25% convertible debentures. The redemption of the 8.25% convertible debentures significantly decreases the Company's outstanding debt and reduces borrowing costs.

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 amount of equity Equal may raise through the issuance of shares depends on many factors including projected cash needs, availability of funding through other sources, share price and the state of the capital markets. 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 2012. 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 2012 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, 2011 is as follows:

	December 31, 2011		December 31, 2010	
Capitalization *(in thousand of Canadian dollars except percentages)*	**Amount**	**%**	Amount	%
Long-term debt [1]	**138,820**	**43%**	24,865	8%
Working capital deficit (surplus)[2] excluding long-term debt	**(15,101)**	**(5%)**	11,878	3%
Working capital deficit (surplus)[2] including long-term debt	**123,719**	**38%**	36,743	11%
Convertible debentures	**41,327**	**13%**	119,902	37%
Shares issued, at market [3]	**159,638**	**49%**	169,584	52%
Total capitalization	**324,684**	**100%**	326,229	100%

[1] As at December 31, 2011, the long-term debt balance consisted of US$136.5 million converted at the closing exchange rate of CDN$1.017 per US$1.00.

[2] Working capital excludes deferred revenues and unrealized gains and losses on commodity contracts.

[3] The market price of Equal's shares on December 31, 2011 was $4.59 per share (December 31, 2010 – $6.12 per share).

Long-term Debt

Long-term debt is represented by the amounts drawn on the bank credit facility. At December 31, 2011, Equal's long-term debt consisted of US$136.5 million which was the equivalent of CDN$138.8 million converted at the closing exchange rate of CDN$1.017 per US$1.00. This increase of $113.9 million from $24.9 million at December 31, 2010 is mainly due to the use of the credit facility for a portion of the early redemption of the 8% convertible debentures and the Hunton acquisition in Oklahoma. Equal has credit facilities with its banking syndicate that includes revolving and operating credit facilities which have a borrowing capacity of $200.0 million.

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 December 31	
(in thousands of Canadian dollars except for ratios)	**2011**	2010
Interest coverage [1]:		
Cash flow over the prior four quarters	**69,246**	58,688
Interest expenses over the prior four quarters	**11,338**	12,048
Interest coverage ratio	**6.11 : 1.00**	4.87 : 1.00

[1] These amounts are defined terms within the credit agreements.

Working Capital

The working capital at December 31, 2011 was $15.1 million compared to a working capital deficit at December 31, 2010 of $11.9 million due to the assets and associated liabilities held for sale of $8.3 million (net), an increase of $10.0 million in working capital from a settlement agreement with JV Participant, an increase in cash of $3.0 million, an increase in accounts receivable of $0.3 million and a decrease in accounts payable of $7.1 million partially offset with a decrease in prepaid expenses of $1.2 million and an increase of $0.6 million for the current portion of decommissioning provision.

Working Capital (*in thousands of Canadian dollars*)	As at December 31 2011	2010
Cash	**5,553**	2,505
Accounts receivable	**25,174**	24,891
Prepaid expenses, deposits and other	**870**	2,093
Assets held for sale	**9,678**	-
Accounts payable and accrued liabilities	**(24,239)**	(31,321)
Liabilities associated with assets held for sale	**(1,378)**	-
Current portion of decommissioning provision	**(557)**	-
Due to JV Participant	**-**	(10,046)
Working capital (deficit)	**15,101**	(11,878)
Long-term debt	**(138,820)**	(24,865)
Working capital (deficit) including long-term debt	**(123,719)**	(36,743)

Convertible Debentures

As at December 31, 2011, Equal had $41.3 million of 6.75% convertible debentures (EQU.DB.B) outstanding with a face value of $45.0 million. 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.

During 2011, Equal redeemed its 8% and 8.25% convertible debentures pursuant to normal course issuer bid and issued early redemption notices for the remaining 8% and 8.25% convertible debentures.

SUBSEQUENT EVENT

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

RESERVES AND PRESENT VALUE SUMMARY

Equal complies with the National Instrument 51-101, issued by the Canadian Securities Administrators, in all its reserves related disclosures. The purpose of NI 51-101 is to enhance the quality, consistency, timeliness and comparability of oil and gas activities by reporting issuers and elevate reserves reporting to a higher level of accountability.

Proved Reserves (P90) - For reported reserves this means there must be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves.

Proved plus Probable (P50) - For reported reserves there must be at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the proved plus probable reserves.

Reserve volumes and values at December 31, 2011 and 2010 are based on the interest in total proved and probable reserves prior to royalties as defined in NI 51-101. Under NI 51-101 reserves definitions, estimates are prepared such that the full proved and probable reserves are estimated to be recoverable (proved plus probable reserves are effectively a "most likely case"). As such, the probable reserves reported are already "risked."

The reserves have been evaluated by independent engineers each year. McDaniel and Associates Consultants Ltd. ("McDaniel") independently evaluated the Canadian reserves as at December 31, 2011 and 2010 and Haas Petroleum Engineering Services, Inc. ("Haas") evaluated the Oklahoma reserves as at December 31, 2011 and 2010. The reserve engineers evaluated 100% of the Company's December 31, 2011 reserves. The independent engineers used the following future price forecasts in order to evaluate Equal's reserves as of December 31, 2011.

Year	WTI Oil ($U.S./bbl)	Edmonton Light Crude Oil ($Cdn/bbl)	AECO Gas ($Cdn/MMBtu)	Henry Hub ($U.S./Mmbtu)	Foreign Exchange Rate (US$/CAD)
2012	97.50	99.00	3.50	3.75	0.975
2013	97.50	99.00	4.20	4.50	0.975
2014	100.00	101.50	4.70	5.05	0.975
2015	100.80	102.30	5.10	5.50	0.975
2016	101.70	103.20	5.55	5.95	0.975
2017	102.70	104.20	5.90	6.35	0.975
Escalate Thereafter	Average 2% per year	Average 2% per year	Average 2% per year	Average 2% per year	0.975

Reserve Continuity – Oil, NGLs and Natural Gas (mboe)

	Proved	Probable	Total
December 31, 2009	22,338	8,908	31,246
Discoveries and extensions	2,166	1,002	3,168
Acquisitions	682	243	925
Dispositions	(803)	(623)	(1,426)
Production	(3,328)	-	(3,328)
Revision of prior estimates	4,802	(3,467)	1,335
December 31, 2010	25,857	6,063	31,920
Discoveries and extensions	**5,409**	**1,246**	**6,655**
Acquisitions	**8,409**	**1,177**	**9,586**
Dispositions	**(1,695)**	**(1,790)**	**(3,485)**
Production	**(3,702)**	**-**	**(3,702)**
Revision of prior estimates	**576**	**(3,386)**	**(2,810)**
December 31, 2011	**34,854**	**3,310**	**38,164**

During 2011, proved reserves and total reserves increased by 35% and 20%, respectively. Proved reserves increased from 25,857 mboe to 34,854 mboe and total reserves increased from 31,920 mboe to 38,164 mboe. The increase in the reserves is mainly due to the Hunton acquisition and the new wells drilled in the Oklahoma, Lochend and Viking resource plays which were partially offset by dispositions in non-core properties, production and revisions to prior estimates. The revisions were the result of higher than anticipated declines in mature properties in Saskatchewan and revised reserve estimates for wells drilled in Alberta and Oklahoma in 2010 and 2011.

Finding and development ("F&D") costs incurred over the last three years are highlighted below, along with the recycle ratios for each year. Management uses the recycle ratio as a performance measure. It is calculated by dividing the operating netback per boe of production by the cost per boe of finding and developing reserves. A recycle ratio of one is considered a "break-even point", indicating that the cash flow from a unit of production is equal to the cost of finding and developing a unit of reserves.

Under NI 51-101, the methodology to be used to calculate F&D costs, includes incorporating changes in future development costs ("FDC") required to bring the proved undeveloped and probable reserves to production. For continuity the Company has presented F&D costs calculated both excluding and including changes in FDC.

The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.

Finding & Development Costs and Recycle Ratio

(in thousands of Canadian dollars except for ratios and amounts in $/boe)	Years Ended December 31			3-Year
	2011	**2010**	**2009**	**Total**
Capital expenditures [1]	**81,591**	54,522	16,445	152,558
Future Development Costs				
Proved	**97,720**	63,094	64,811	225,625
Proved plus probable	**109,114**	87,762	100,678	297,554
Reserves [2]				
Proved reserves added in the year (mboe)	**5,985**	6,963	5,447	18,395
Probable reserves added in the year (mboe)	**(2,139)**	(2,465)	1,599	(3,005)
Proved plus probable reserves added in the year (mboe)	**3,846**	4,498	7,046	15,390
F&D costs (excluding changes in FDC)				
Proved reserves ($/boe)	**13.63**	7.83	3.02	8.29
Proved plus probable reserves ($/boe)	**21.21**	12.12	2.33	9.91
F&D costs (including changes in FDC)				
Proved reserves ($/boe)	**19.29**	8.03	9.17	10.18
Proved plus probable reserves ($/boe) [5]	**29.46**	10.19	10.21	12.79
Recycle ratios				
Operating netbacks ($/boe) [3]	**23.62**	22.90	20.02	22.17
Operating recycle ratio (based on proved reserves including FDC) [5]	**1.2**	2.9	2.2	2.2
Operating recycle ratio (based on proved plus probable reserves including FDC) [5]	**0.8**	2.2	2.0	1.7
Corporate netbacks ($/boe) [4]	**16.93**	14.01	12.94	14.66
Corporate recycle ratio (based on proved reserves including FDC) [5]	**0.9**	1.7	1.4	1.4
Corporate recycle ratio (based on proved plus probable reserves including FDC) [5]	**0.6**	1.4	1.3	1.1

[1] Excludes acquisitions.
[2] Includes revisions and excludes acquisitions.
[3] Operating netbacks are production revenue less royalties and operating expenses.
[4] Corporate netbacks are production revenue less royalties, operating expenses, G&A, interest expense and other cash costs.
[5] Canadian 2011 change in FDC adjusted by $11.2 million to reflect disposition of assets on November 15, 2011.

Finding and development costs and recycle ratios are non-GAAP financial measures that may not be comparable to similar measures presented by other entities.

The operating and corporate recycle ratios decreased below 1.0 during 2011 due to the negative reserve revisions from the decrease in forecasted prices for natural gas and the performance of wells in certain areas.

During 2011, the Company acquired the working interest from a former joint venture partner in Oklahoma for proceeds of $91.7 million and disposed non-core assets in Canada for proceeds of $41.1 million. Taking into account these transactions, the Company's F&D costs and recycle ratios are summarized in the following table.

Finding & Development Costs and Recycle Ratio including Acquisitions and Dispositions

(in thousands of Canadian dollars except for ratios and amounts in $/boe)	**For the year ended December 31, 2011**
Capital expenditures including acquisitions and dispositions	132,103
Change in FDC	
Proved	34,625
Proved plus probable	21,353
Reserves (mboe)	
Proved reserves – additions, revisions and A&D	12,699
Probable reserves – additions, revisions and A&D	(2,752)
Proved plus probable reserves (mboe)	9,947
F&D costs (excluding changes in FDC)	
Proved reserves ($/boe)	10.40
Proved plus probable reserves ($/boe)	13.28
F&D costs (including changes in FDC)	
Proved reserves ($/boe)	13.13
Proved plus probable reserves ($/boe)	15.43
Recycle ratios	
Operating netbacks ($/boe) [(1)]	23.62
Operating recycle ratio (based on proved reserves including FDC)	1.8
Operating recycle ratio (based on proved plus probable reserves including FDC)	1.5
Corporate netbacks ($/boe) [(2)]	16.93
Corporate recycle ratio (based on proved reserves including FDC)	1.3
Corporate recycle ratio (based on proved plus probable reserves including FDC)	1.1

(1) Operating netbacks are production revenue less royalties and operating expenses.
(2) Corporate netbacks are production revenue less royalties, operating expenses, G&A, interest expense and other cash costs.

Equal Energy - Estimated Petroleum and Natural Gas Reserves and Net Present Value
December 31, 2011 *(NPV in thousands of Canadian dollars)*

	Light/ Medium Oil (mbbl)	**Heavy Oil (mbbl)**	**NGL (mbbl)**	**Natural Gas (mmcf)**	**Total (mboe)**	**Net Present Value Before Income Tax ($) 0%**	**5%**	**10%**
Canadian Assets								
Proved Producing	1,551	357	53	3,022	2,465	98,823	81,786	70,460
Proved Non-Producing	-	-	4	203	38	(3,031)	(2,573)	(2,221)
Proved Undeveloped	1,011	120	33	1,613	1,433	28,137	16,789	9,386
Total Proved	2,562	477	90	4,838	3,935	123,929	96,002	77,625
Total Probable	1,105	297	40	2,218	1,812	75,197	44,729	30,280
Total Proved & Probable	3,667	774	130	7,056	5,747	199,126	140,731	107,905
United States Assets								
Proved Producing	498	-	9,820	75,097	22,834	602,074	432,976	333,895
Proved Non-Producing	-	-	-	-	-	-	-	-
Proved Undeveloped	-	-	3,506	27,467	8,084	166,948	87,075	45,116
Total Proved	498	-	13,326	102,564	30,918	769,022	520,051	379,011
Total Probable	1	-	603	5,367	1,499	36,144	23,384	16,368
Total Proved & Probable	499	-	13,929	107,931	32,417	805,166	543,435	395,379

Consolidated Assets								
Proved Producing	2,049	357	9,873	78,119	25,299	700,897	514,762	404,355
Proved Non-Producing	-	-	4	203	38	(3,031)	(2,573)	(2,221)
Proved Undeveloped	1,011	120	3,539	29,080	9,517	195,085	103,864	54,502
Total Proved	3,060	477	13,416	107,402	34,854	892,951	616,053	456,636
Total Probable	1,106	297	643	7,585	3,310	111,341	68,113	46,648
Total Proved & Probable	4,166	774	14,059	114,987	38,164	1,004,292	684,166	503,284

(1) The U.S. reserve report was converted to Canadian dollars using the Bank of Canada close rate on December 31, 2011 of CAD$1.017 per US$1.00.

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 20, 2012**	December 31, 2011	December 31, 2010
Shares	**34,989,069**	34,779,435	27,709,859
Share options	**1,257,312**	1,303,495	1,058,152
Restricted shares	**1,523,665**	946,285	507,759
6.75% Convertible debentures ($1,000 per debenture)	**45,000**	45,000	-
8.0% Convertible debentures ($1,000 per debenture)	**-**	-	80,127
8.25% Convertible debentures ($1,000 per debenture)	**-**	-	39,648

OUTLOOK

In 2011, Equal took many important steps to improve the financial position and operating structure of the Company. Convertible debt in the amount of $120 million, with maturities at the end of 2011 and June 30, 2012, were refinanced with lower cost and longer term debt or repaid with the proceeds of asset sales. The completion of the financially accretive June 1, 2011 acquisition of the former JV participant's working interests in Oklahoma has imparted numerous benefits on the Company including the elimination of financially burdensome legal proceedings and management distraction and financial position improvement by eliminating pending financial settlements with the former JV participant. A common share issue which funded a portion of the acquisition also improved the Company's financial position. Non-core Canadian asset dispositions near the end of 2011 and in early 2012 totaling $49 million repaid expensive convertible debt with a near term maturity and further consolidated and improved the Company's asset base.

The Company enters 2012 with a consolidated, high working interest and Company operated asset base with approximately eight years of drilling inventory on low risk, oil and liquids rich resource plays based on spending funds from operations. The debt structure is low cost with no large immediate repayment obligations and there remains significant borrowing capacity available in the Company's bank credit facility.

Two rigs began drilling in the Oklahoma Hunton play in January 2012. The first is drilling a four well program in the K-9/Puppy area in northern Oklahoma where the Company had considerable drilling success in 2011. This program will also add approximately three more net sections of Mississippian lands adjacent to existing Mississippian holdings. The second rig is drilling at Twin Cities Central Dolomite and is expected to drill up to nine wells on a continuous basis. Cardium light oil drilling commenced in early March 2012 in the Lochend area with the first of three wells planned for 2012. Drilling in the light oil Viking play is planned to begin in July 2012 up to a six well program using monobore technology to reduce drilling costs.

Equal Energy plans to realize value from our Mississippian lands by farming out up to 50% working interest. Farmout negotiations are currently ongoing with the initial two wells being prepared for drill ready state. If the lands are not farmed out, Equal Energy will move forward without a joint venture partner in Q3 2012 with the drilling rig and associated funds being re-allocated from the Twin Cities Central Dolomite program.

Capital spending in 2012, excluding our new program in the Oklahoma Mississippian play, is projected to be $64 million which approximates our 2012 funds from operations based on our base business plan assumptions. We are committed to keeping our capital spending limited to our funds from operations and we will adjust our spending accordingly based on various factors including production and commodity prices. Investors should note that Equal has significant volumes of oil and natural gas hedged for 2012 which acts as a stabilizing factor on our funds from operations in this volatile commodity price environment.

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, 2011, 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, 2011. The effectiveness of Equal's internal control over financial reporting as of December 31, 2011 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, 2011, that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2011, Equal adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using a transition date of January 1, 2010. The financial statements for the year ended December 31, 2011, including required comparative information, have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its interim and annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles. Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS.

The adoption of IFRS has not affected the Company's operations, strategic decisions and cash flow. Further information on the IFRS changes are provided in Note 21 in the Notes to the Financial Statements.

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 depletion and depreciation that are based on estimates of oil, NGL and natural gas reserves and useful lives of equipment;
- property, plant and equipment is aggregated into cash-generating units based on management's judgment of their ability to generate largely independent cash flows;
- 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 future recoverable value of assets that are transferred from E&E to property, plant and equipment based on oil, NGL and natural gas reserves;
- estimated value of decommissioning provision 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	mcf	thousand cubic feet of natural gas
bbl or bbls	barrels of oil	mcf per day	thousands of cubic feet of natural gas per day
bbls per day	barrels of oil per day	mmbtu	millions of British Thermal Units
boe	barrels of oil equivalent (6 mcf equivalent to 1 bbl)	mmbtu per day	millions of British Thermal Units per day
boe per day	barrels of oil equivalent per day	mmcf	millions of cubic feet of natural gas
Cdn$	Canadian dollars	Mwh	megawatt-hour
FD&A	Finding Development & Acquisition Costs	NGL	natural gas liquids (ethane, propane, butane and condensate)
FDC	Future Development Costs	NI 51-101	National Instrument 51-101
GAAP	Canadian Generally Accepted Accounting Principles	NYMEX	New York Mercantile Exchange
GJ	Gigajoule	Q1	first quarter of the year - January 1 to March 31
GORR	Gross overriding royalty	Q2	second quarter of the year - April 1 to June 30
IFRS	International Financial Reporting Standards	Q4	third quarter of the year - July 1 to September 30
LNG	Liquefied Natural Gas	Q4	fourth quarter of the year - October 1 to December 31
mbbl	thousand barrels of oil	US$	United States dollars
mboe	thousands of barrels of oil equivalent	WTI	West Texas Intermediate (oil reference price)

Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of Equal Energy Ltd. (the ''Company'') are the responsibility of management and are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Since a precise determination of many assets and liabilities is dependent on future events, the preparation of consolidated financial statements necessarily involves the use of management's best estimates and approximations. Management is responsible for all information in the annual report and for the consistency, therewith, of all other financial and operating data presented in this report.

To meet its responsibility for reliable and accurate financial statements, management has established and monitors systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization.

The consolidated financial statements have been examined by KPMG LLP, independent auditors of the Company. Their responsibility is to express a professional opinion on the fair presentation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles. The Independent Auditors' Report of Registered Public Accounting Firm outlines the scope of their examination and sets forth their opinion.

The Audit Committee, consisting exclusively of independent directors, has reviewed these statements with management and the independent auditors and has recommended their approval to the Board of Directors. The Board of Directors has approved the consolidated financial statements of the Company.

Signed "*Don Klapko*"	Signed "*Wendell Chapman*"
President and Chief Executive Officer	Senior Vice President, Finance and Chief Financial Officer

Calgary, Alberta
March 20, 2011

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated financial statements of Equal Energy Ltd. ("the Company"), which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 20, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Signed "*KPMG LLP*"

Chartered Accountants
Calgary, Alberta
March 20, 2012

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Equal Energy Ltd.'s (the "Company") internal control over financial reporting as of December 31, 2011, 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 management discussion and analysis titled "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, 2011, 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 Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of the Company as of December 31, 2011, December 31, 2010 and January 1, 2010, and the related consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and our report dated March 20, 2012 expressed an unqualified opinion on those consolidated financial statements.

Signed "*KPMG LLP*"

Chartered Accountants
Calgary, Canada
March 20, 2012

EQUAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)	**December 31, 2011**	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash and cash equivalents	**5,553**	2,505	19,680
Accounts receivable	**25,174**	24,891	23,677
Prepaid expenses, deposits and other	**870**	2,093	1,998
Assets held for sale (notes 5 and 20)	**9,678**	-	-
Due from JV Participant (note 4)	**-**	-	11,196
Commodity contracts (note 12)	**4,813**	-	993
	46,088	29,489	57,544
Long-term receivable (note 4)	**-**	-	5,491
Property, plant and equipment (note 5)	**404,995**	337,251	350,802
Exploration and evaluation assets (note 6)	**6,429**	15,094	4,762
Deferred income tax asset (note 10)	**9,042**	10,652	9,690
	466,554	392,486	428,289
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**24,239**	31,321	27,997
Liabilities associated with assets held for sale (notes 9 and 20)	**1,378**	-	-
Current portion of decommissioning provision (note 9)	**557**	-	-
Due to JV Participant (note 4)	**-**	10,046	-
Deferred revenues (note 4)	**-**	1,926	-
Commodity contracts (note 12)	**-**	763	755
	26,174	44,056	28,752
Long-term debt (note 7)	**138,820**	24,865	70,000
Convertible debentures (note 8)	**41,327**	119,902	114,764
Decommissioning provision (note 9)	**31,178**	26,084	25,774
Deferred income tax liability (note 10)	**8,177**	5,357	2,921
Unit-based liability	**-**	-	1,904
Unitholders' capital (note 1)	**-**	-	682,906
	245,676	220,264	927,021
Shareholders' equity (notes 1 and 11)			
Common shares	**273,108**	223,664	-
Contributed surplus	**5,859**	2,727	-
Equity component of convertible debentures (note 8)	**1,588**	-	-
Accumulated other comprehensive loss	**(3,172)**	(11,624)	-
Deficit (note 1)	**(56,505)**	(42,545)	(498,732)
	220,878	172,222	(498,732)
	466,554	392,486	428,289

Commitments and contingencies (notes 14 and 15)
Subsequent event (note 20)
See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

Signed *"Peter Carpenter"*
Director

Signed *"Victor Dusik"*
Director

EQUAL ENERGY LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of Canadian dollars except shares and units)

	Number of common shares	Share capital	Contributed surplus	Equity component of convertible debentures	Number of trust units (pre-consolidation)	Unitholders' capital	Accumulated other comprehensive income/(loss)	Deficit	Shareholders' equity
Balances, January 1, 2010	-	$ -	$ -	$ -	65,102,689	$ 682,906	$ -	$ (498,732)	$ 184,174
Issue of trust units under restricted unit plan	-	-	-	-	605,337	1,277	-	-	1,277
Amortization of deferred trust unit issue costs	-	-	-	-	-	1,000	-	-	1,000
Comprehensive loss and loss for the period	-	-	-	-	-	-	(806)	(107)	(913)
Balances, May 31, 2010 – immediately prior to the Plan of Arrangement	-	$ -	$ -	$ -	65,708,026	$ 685,183	$ (806)	$ (498,839)	$ 185,538
Conversion – effected through Plan of Arrangement	21,902,530	685,183	2,659	-	(65,708,026)	(685,183)	-	-	2,659
Reduction in share capital for deficit	-	(498,839)	-	-	-	-	-	498,839	-
Balances, May 31, 2010 – immediately after the Plan of Arrangement	21,902,530	$ 186,344	$ 2,659	$ -	-	$ -	$ (806)	$ -	$ 188,197
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	-	-	1,173	-	-	-	-	-	1,173
Comprehensive loss and loss for the period	-	-	-	-	-	-	(10,818)	(42,545)	(53,363)
Balances, December 31, 2010	27,709,859	$ 223,664	$ 2,727	$ -	-	$ -	$ (11,624)	$ (42,545)	$ 172,222
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	-	-	4,284	-	-	-	-	-	4,284
Issue of convertible debentures	-	-	-	1,588	-	-	-	-	1,588
Comprehensive income and loss for the year	-	-	-	-	-	-	8,452	(13,960)	(5,508)
Balances, December 31, 2011	**34,779,435**	**$ 273,108**	**$ 5,859**	**$ 1,588**	**-**	**$ -**	**$ (3,172)**	**$ (56,505)**	**$ 220,878**

See accompanying notes to the consolidated financial statements.

EQUAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the year ended December 31	
(in thousands of Canadian dollars except per share amounts)	**2011**	2010
Oil, NGL and natural gas revenues	**161,494**	137,675
Realized gain on commodity contracts (note 12)	**2,220**	6,038
Unrealized gain/(loss) on commodity contracts (note 12)	**5,525**	(1,013)
Royalty expense	**(33,054)**	(29,330)
Revenues, net of royalty expense	**136,185**	113,370
Operating expenses		
Production	**(41,557)**	(35,826)
Transportation	**(1,665)**	(2,370)
General and administrative	**(12,914)**	(19,227)
Share-based compensation expense (note 11)	**(3,968)**	(2,900)
Depletion and depreciation (note 5)	**(53,229)**	(47,252)
Impairment in property, plant and equipment (note 5)	**(27,486)**	(31,114)
	(140,819)	(138,689)
Other income/(expenses)		
Interest expense (note 13)	**(12,042)**	(11,226)
Accretion of decommissioning provision (note 9)	**(727)**	(769)
Gain on sale of assets	**17,595**	2,005
Transaction costs on asset acquisition (note 5)	**(1,767)**	-
Redemption premium on convertible debentures (note 8)	**(2,880)**	-
Revaluation of convertible debentures (note 8)	**-**	(5,295)
Amortization of trust unit issue costs	**-**	(1,000)
Realized foreign exchange gain/(loss)	**(240)**	1,674
Unrealized foreign exchange loss	**(4,416)**	(384)
	(4,477)	(14,995)
Loss before taxes	**(9,111)**	(40,314)
Taxes (note 10)		
Current tax expense	**(391)**	(694)
Deferred tax expense	**(4,458)**	(1,644)
	(4,849)	(2,338)
Loss	**(13,960)**	(42,652)
Other comprehensive income/(loss)		
Foreign currency translation adjustment	**8,452**	(11,624)
Comprehensive loss	**(5,508)**	(54,276)
Loss per share (note 11)		
– Basic and diluted	**(0.44)**	(1.73)

See accompanying notes to the consolidated financial statements.

EQUAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	Year ended December 31 **2011**	 2010
Cash provided by (used in):		
Operating		
Loss	**(13,960)**	(42,652)
Share-based compensation (note 11)	**3,968**	2,900
Depletion and depreciation (note 5)	**53,229**	47,252
Impairment in property, plant and equipment (note 5)	**27,486**	31,114
Non-cash interest on convertible debenture (note 8)	**732**	(74)
Accretion of decommissioning provision (note 9)	**727**	769
Unrealized commodity contracts (gain)/loss (note 12)	**(5,525)**	1,013
Gain on sale of assets (note 5)	**(17,595)**	(2,005)
Transactions costs on asset acquisition (note 5)	**1,767**	-
Redemption premium on convertible debentures (note 8)	**2,975**	-
Revaluation of convertible debentures (note 8)	**-**	5,295
Amortization of trust unit issue costs	**-**	1,000
Unrealized foreign exchange loss	**4,416**	384
Deferred tax expense	**4,458**	1,644
Funds from operations	**62,678**	46,640
Cash paid on decommissioning provision (note 9)	**(1,652)**	(1,589)
Transaction costs on asset acquisition (note 5)	**(1,767)**	-
Changes in non-cash working capital items (note 16)	**(2,980)**	(10,615)
	56,279	34,436
Financing		
Increase/(decrease) in long-term debt (note 7)	**109,047**	(43,630)
Issue of shares, net of issuance costs	**47,417**	35,641
Issuance of convertible debentures, net of costs (note 8)	**42,741**	-
Redemption of convertible debentures (note 8)	**(119,618)**	(82)
Redemption fee on convertible debentures (notes 8)	**(2,975)**	-
	76,612	(8,071)
Investing		
Property, plant and equipment additions (note 5)	**(81,591)**	(77,678)
Asset acquisition (note 5)	**(86,098)**	-
Repayment of long-term receivable (note 4)	**-**	3,503
Proceeds on disposal of property, plant and equipment (note 5)	**41,144**	26,272
Changes in non-cash working capital items (note 16)	**(3,360)**	5,189
	(129,905)	(42,714)
Foreign exchange on financial balances	**62**	(826)
Change in cash and cash equivalents	**3,048**	(17,175)
Cash and cash equivalents, beginning of year	**2,505**	19,680
Cash and cash equivalents, end of year	**5,553**	2,505
Supplementary cash flow information		
Cash interest paid	**10,945**	12,048
Cash income taxes paid	**391**	693

See accompanying notes to the consolidated financial statements.

1. Reporting entity

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 Canada and 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 and are for the year ended and as at December 31, 2011 and the comparative period. The consolidated financial statements of the Company include the accounts of Equal Energy Ltd. and its wholly-owned subsidiaries. The following are the Company's significant subsidiaries:

- Equal Energy Production Partnership
- Equal Energy US Holdings Inc.

Equal is domiciled in Canada and the address of the Company's corporate office and principal place of business is 2700, 500 - 4th Ave SW, Calgary, Canada.

On May 31, 2010, Equal completed its previously announced arrangement to convert from an income trust to a corporation through a business combination pursuant to an arrangement under the *Business Corporations Act (Alberta)* and related transactions (the "Arrangement"). Unitholders of Enterra Energy Trust ("Enterra" or the "Trust") received one Equal common share for every three trust units held. Enterra's Board of Directors and management team continued as Equal's Board of Directors and management team. Immediately subsequent to the Arrangement, former Enterra unitholders held 100 percent of the equity in Equal and Equal effected an internal reorganization whereby, among other things, the Trust was dissolved and the Company received all of the assets and assumed all of the liabilities of the Trust.

In connection with the Arrangement, Equal assumed all of the obligations of the Trust in respect of outstanding equity incentive rights. The Arrangement did not result in the acceleration of vesting of any outstanding equity incentive rights. Upon exercise of any outstanding trust unit option, restricted unit and performance unit, the holders will receive one-third of one Equal share for each pre-consolidation trust unit they would have otherwise been entitled to receive in accordance with the Trust Unit Option Plan and the Restricted Unit and Performance Unit Plan. Option exercise prices were increased by three times to reflect the unit consolidation which took place at the time of the Arrangement.

Pursuant to the Arrangement, shareholders' capital was reduced by the amount of the deficit of the Trust on May 31, 2010 of $498.8 million.

The Arrangement has been accounted for on a continuity of interest basis and accordingly, the consolidated financial statements for periods prior to the effective date of the Arrangement reflect the financial position, results of operations and cash flows as if the Company had always carried on the business formerly carried on by the Trust. Information herein with respect to Equal includes information in respect of the Trust prior to completion of the Arrangement to the extent applicable unless the context otherwise requires.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

This is the first year for which the Company has adopted IFRS and therefore the consolidated financial statements include a reconciliation of the Company's annual consolidated financial statements for the year ending December 31, 2010 which were prepared in accordance with the previous Canadian Generally Accepted Accounting Principles to the consolidated financial statements prepared in accordance with IFRS. An explanation of how the transition to IFRS affected the reported financial position, financial performance and cash flows of the Company is provided in Note 21.

These consolidated financial statements were authorized by the Company's Board of Directors on March 20, 2012.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

The current and comparative figures presented in these consolidated financial statement are in accordance with IFRS.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the parent entity and its Canadian subsidiaries. The U.S. subsidiaries of Equal 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.

(d) Significant accounting estimates and judgments

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

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

Amounts recorded for depreciation and depletion and amounts used for impairment calculations are based on estimates of oil, NGL and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the changes in the consolidated financial statements of future periods could be material.

Property, plant and equipment is aggregated into cash-generating units based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's cash-generating units is subject to management's judgment.

The decision to transfer assets from exploration and evaluation to property, plant and equipment is based in part on the estimated proved reserves used in the determination of an area's technical feasibility and commercial viability.

Amounts recorded for decommissioning provision costs and obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of asset retirements, site remediation and related cash flows. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

The estimated fair value of derivative instruments resulting in financial assets and liabilities is impacted by, but not limited to, forward commodity price curves, interest rates, volatility in commodity prices and is estimated using various pricing models; and therefore is subject to measurement uncertainty.

Compensation costs accrued for long-term stock-based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by Management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and have been applied consistently by Equal and its subsidiaries.

(a) Basis of consolidation

The consolidated financial statements include the accounts of Equal and its subsidiaries. Intercompany balances and transactions are eliminated on consolidation.

Interests in jointly controlled assets are accounted for using the proportionate consolidation method, whereby Equal's proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

(b) Foreign currency

For the accounts of foreign operations, assets and liabilities are translated at period end exchange rates, while revenues and expenses are translated using average rates over the period. Translation gains and losses relating to the foreign operations are included in accumulated other comprehensive income as a separate component of shareholders' equity. The Company's accumulated other comprehensive income/loss is composed solely of foreign currency translation adjustments.

Monetary assets and liabilities in the Company's Canadian entities that are denominated in foreign currencies are translated into their Canadian functional currency at the rates of exchange in effect at the period end date. Any gains or losses are recorded in the consolidated statement of earnings.

(c) Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or "financial liabilities measured at amortized cost“.

Financial assets and financial liabilities at “fair value through profit or loss” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets classified as “loans and receivables”, “held-to-maturity”, and "financial liabilities measured at amortized cost" are measured at amortized cost using the effective interest method of amortization. Financial assets classified as “available-for-sale” are measured at fair value, with changes in fair value recognized in other comprehensive income.

Financial assets, excluding derivative instruments, are classified as "loans and receivables". Financial liabilities, excluding derivative instruments, are classified as "financial liabilities measured at amortized cost". All derivative instruments are classified as "fair value through profit or loss".

Commodity contracts

Commodity contract assets and liabilities are derivative financial instruments classified as “fair value through profit or loss” unless designated for hedge accounting. Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded at fair value. Instruments are recorded in the Consolidated Statements of Financial Position as either an asset or liability with changes in fair value recognized in net earnings. Realized gains or losses from financial derivatives related to natural gas and crude oil commodity prices are recognized in net earnings as the contracts are settled. Unrealized gains and losses are recognized in net earnings at the end of each respective reporting period based on the changes in fair value of the contracts. The estimated fair value of all derivative instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts.

Commodity contracts are used by Equal to manage economic exposure to market risks relating to commodity prices and foreign currency exchange rates. The Company's policy is not to utilize derivative financial instruments for speculative purposes.

Convertible debentures

The convertible debentures are considered a compound instrument as they can be converted to a fixed number of common shares at the option of the holder. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method.

Prior to conversion to a corporation, the Company recorded the convertible debentures at fair value with changes in fair value included in earnings.

(d) Property, plant & equipment and exploration & evaluation assets

Exploration and evaluation ("E&E") assets

All costs directly associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include unproved property acquisition costs, geological and geophysical costs, exploration and evaluation drilling, sampling and appraisals. Interest is not capitalized on E&E assets. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net earnings.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are tested for impairment and then transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are tested for impairment.

Property, plant and equipment ("PP&E")

All costs directly associated with the development of oil, NGL and natural gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure costs and transfers of exploration and evaluation assets.

Costs accumulated within each area are depleted using the unit-of-production method based on proved plus probable reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved and probable reserves.

For divestitures of properties, a gain or loss is recognized in net earnings. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value can not be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in net earnings.

Depletion and depreciation

The net carrying value of the Company's developed or producing fields or groups of fields are depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. In accordance with National Instrument 51-101, Equal's total proved plus probable reserves are estimated by independent reserve evaluators and represent the "best estimate" of quantities of oil, NGLs and natural gas to be commercially recoverable from known accumulations, from a given date forward, based on geological and engineering data. It is equally likely that the actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves.

For other assets, depreciation is recognized in profit or loss using either a straight line or declining balance basis over the estimated useful lives of each part of an item of PP&E. The estimated useful lives for other assets for the current and comparative periods are as follows:

Office and computer equipment	20% declining balance
Turnarounds	24 months

Depreciation methods, useful lives and residual values are reviewed annually.

(e) Business acquisitions

The acquisition method is used to account for acquisitions of subsidiaries and assets that meet the definition of a business. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the income statement. An acquisition is recorded on date on which the Company obtains control of the acquired subsidiary or business.

(f) Impairment

The carrying values of long-term assets, except deferred tax assets, are reviewed quarterly for indicators that the carrying value of an asset or cash generating unit may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or cash generating unit is estimated. If the carrying value of the asset or cash-generating unit exceeds the recoverable amount, the asset or cash generating unit is written down with an impairment recognized in net earnings.

Property, plant and equipment are aggregated into cash generating units based on their ability to generate largely independent cash flows.

The recoverable amount of an asset or cash generating unit is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction.

For cash generating units, fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or cash-generating unit.

E&E assets in cash generating units are tested for impairment using recent land sales in the same region and formation to assess their fair value. The Company also assesses undeveloped land for near term expirations. For those costs included in E&E assets, where commercial viability and technical feasibility have not yet been determined, the Company uses reserve estimates (if available) to assess the fair value of E&E assets.

Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or cash generating unit is increased to its revised recoverable amount with an impairment reversal recognized in net earnings. The recoverable amount is limited to the original carrying amount less depreciation, depletion and amortization as if no impairment had been recognized for the asset or cash generating unit for prior periods.

(g) Share-based compensation expense

The grant date fair values of options and restricted shares granted to employees are recognized as share-based compensation expense, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options and restricted shares that vest.

Prior to the conversion to a corporation, the share-based compensation plans were accounted as liability-settled due to the redemption feature in the Company’s trust units. Vested share-based compensation awards were presented as a liability and recorded at fair value each period with changed in fair value included in earnings.

(h) Provisions and contingencies

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required and a reliable estimate can be made of the amount of the obligation. Provisions are measured based on the discounted expected future cash outflows.

Decommissioning provision

Decommissioning provisions include present obligations where the Company will be required to retire tangible long-lived assets such as producing well sites. The decommissioning provision is measured at the present value of the expenditure expected to be incurred. The associated decommissioning cost is capitalized as part of the cost of the related long-lived asset. Changes in the estimated provision resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning provision obligation and the related decommissioning provision cost.

The depletion of decommissioning costs is included in depletion and depreciation in the Consolidated Statement of Earnings. Increases in the decommissioning provision resulting from the passage of time are recorded as accretion of decommissioning provision in the Consolidated Statement of Earnings.

Actual expenditures incurred are charged against the accumulated decommissioning provision to the extent provided.

Contingencies

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

(i) Revenues

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.

(j) Income tax

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

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

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(k) Assets held for sale

Non-current assets, or disposal groups consisting of assets and liabilities, are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in net earnings in the period measured. Non-current assets and disposal groups held for sale are presented in current assets and liabilities within the Consolidated Statements of Financial Position. Assets held for sale are not depreciated, depleted or amortized.

(l) Earnings per share

Basic earnings per share is calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options and restricted shares granted to employees.

(m) Standards and interpretations not yet effective

As of January 1, 2013, the following standards and amendments issued by the IASB become effective:

- IFRS 10, "Consolidated Financial Statements", which is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.
- IFRS 11, "Joint Arrangements", which is the result of the IASB's project to replace IAS 31, "Interests in Joint Ventures". The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately consolidated.
- IFRS 12, "Disclosure of Interests in Other Entities", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.
- IFRS 13, "Fair Value Measurement", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

As of January 1, 2015, the following standard issued by the IASB becomes effective:

- IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

4. JV Participant (also see Note 5)

In January 2011, Equal and JV Participant agreed that the farm-out agreement was terminated prior to JV Participant filing for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. The termination of the farm-out agreement allowed Equal to pursue drilling in the Hunton resource play which was previously restricted by a bankruptcy court.

In March 2011, the bankruptcy court concluded that Equal retained ownership and control of the salt water disposal infrastructure and that Equal had the right to charge JV Participant for all salt water processed from the inception of each facility. Equal was also required to reimburse JV Participant for certain amounts received as fees for access to the facilities. As a result of the bankruptcy court ruling in March 2011; at December 31, 2010, property, plant and equipment was increased by $30.3 million which was offset by the eliminations of the long-term receivable of $12.5

million and joint interest billing receivable from JV Participant of $5.9 million and the recognition of deferred revenues of $1.9 million and a payable of $10.0 million due to JV Participant.

On April 26, 2011, Equal announced that it entered into a purchase and sale agreement with Petroflow Energy Ltd. and its subsidiaries, North American Petroleum Corporation USA ("NAPCUS") and Prize Petroleum LLC (collectively "Petroflow") and a settlement agreement with Petroflow, Compass Bank and Texas Capital Bank, N.A. pursuant to which Equal acquired Petroflow's interests in assets developed pursuant to the now terminated farmout agreement between the Company and Petroflow/NAPCUS, and settled all outstanding legal matters and other claims between the Company and Petroflow, Compass Bank and Texas Capital Bank (collectively the "Agreements"). The Agreements were approved by the U.S. Bankruptcy Court in Delaware on May 17, 2011 and as a result, the amounts related to the joint interest billing receivable from JV Participant, deferred revenues and payable to JV Participant were reversed in March 2011.

On June 1, 2011, Equal closed the acquisition related to the purchase and sale agreement announced on April 26, 2011 and settled all outstanding legal matters and other claims among the Company, Petroflow and Petroflow's banks.

5. Property, plant and equipment ("PP&E")

Cost or deemed cost *(in thousands of Canadian dollars)*	Canadian Operations	U.S. Operations	**Total**
Balance at January 1, 2010	146,003	204,799	**350,802**
Capital expenditures	30,953	5,811	**36,764**
Transfers from exploration and evaluation	3,043	4,261	**7,304**
Acquisitions	17,804	5,485	**23,289**
Divestures	(24,374)	(22)	**(24,396)**
Reclassification of long-term receivable	-	12,519	**12,519**
JV Participant court ruling	-	18,198	**18,198**
Non-cash additions	911	391	**1,302**
Foreign currency translation and other	-	(11,052)	**(11,052)**
Balance at December 31, 2010	174,340	240,390	**414,730**
Capital expenditures	35,577	34,223	**69,800**
Transfers from exploration and evaluation	20,311	242	**20,553**
Divestures	(61,411)	-	**(61,411)**
JV Participant court ruling	-	(17,259)	**(17,259)**
Acquisition of working interests from Petroflow [(1)]	-	92,378	**92,378**
Non-cash additions	12,687	6,686	**19,373**
Foreign currency translation adjustment	-	8,891	**8,891**
Balance at December 31, 2011	181,504	365,551	**547,055**

(1) The acquisition of working interests from Petroflow included the non-cash assumption of decommissioning liabilities of $0.7 million.

Depletion, depreciation and impairment losses *(in thousands of Canadian dollars)*	Canadian Operations	U.S. Operations	**Total**
Balance at January 1, 2010	-	-	**-**
Depletion and depreciation	25,000	22,252	**47,252**
Impairments	31,114	-	**31,114**
Divestures	(129)	-	**(129)**
Foreign currency translation adjustment	-	(758)	**(758)**
Balance at December 31, 2010	55,985	21,494	**77,479**
Depletion and depreciation	24,115	29,114	**53,229**
Impairments	27,486	-	**27,486**
Divestitures	(27,002)	-	**(27,002)**
Foreign currency translation adjustment	-	1,190	**1,190**
Balance at December 31, 2011	80,584	51,798	**132,382**

Net book value *(in thousands of Canadian dollars)*	Canadian Operations	U.S. Operations	**Total**
At January 1, 2010	146,003	204,799	**350,802**
At December 31, 2010	118,355	218,896	**337,251**
Property, plant and equipment	91,242	313,753	**404,995**
Assets held for sale	9,678	-	**9,678**
At December 31, 2011	100,920	313,753	**414,673**

During 2010, property, plant and equipment increased by $12.5 million due to a long-term receivable re-classification as the JV Participant filed for bankruptcy protection under Chapter 11 in the United States Bankruptcy Code. Also, during 2010, property, plant and equipment increased by $18.2 million as the result of the bankruptcy court ruling involving the JV Participant. (see Note 4)

On April 26, 2011, Equal announced that it entered into a purchase and sale agreement with the JV Participant (see Note 4) under which Equal will acquire the JV Participant's interests in assets developed pursuant to the terminated farmout agreement between Equal and the JV Participant. As a result, property, plant and equipment was reduced by $17.3 million and the due to JV participant and the deferred revenue amounts were eliminated which pertained to the March 2011 ruling of the bankruptcy court concerning certain infrastructure assets. The March 2011 ruling was reversed as a result of the Agreements reached in April 2011.

On June 1, 2011, Equal closed the acquisition related to the purchase and sale agreement announced on April 26, 2011 (the "Hunton acquisition") 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 $0.7 million (US$0.7 million). Total transaction costs for the Hunton acquisition was $1.8 million for legal and financial advisory fees.

Revenues and net income increased by $21.9 million and $6.3 million, respectively, since close of the Hunton acquisition on June 1, 2011. Had the acquisition closed on January 1, 2011, the revenues from oil, NGLs and natural gas would have been $179.0 million and the loss would have been $11.2 million for 2011.

At December 31, 2010, Equal recognized $31.1 million in impairments relating to two Canadian CGUs in southwest Saskatchewan ($18.8 million) and northeast British Columbia ($12.3 million) as a result of a decline in the forecasted price for natural gas. The impairments were based on the differences between the December 31, 2010 net book values of the assets and the recoverable amounts. The recoverable amounts were determined using fair value less costs to sell based on future cash flows of proved and probable reserves using forecasted prices and costs which were discounted at 11%. The reserves, forecasted prices and costs used in the impairment test were determined by independent reserve engineers.

At December 31, 2011, Equal recognized $27.5 million in impairments relating to four Canadian CGUs. The four Canadian CGUs which recognized impairments are in southeast Alberta ($12.1 million), southwest Alberta ($7.5 million) and two in southwest Saskatchewan ($4.5 million and $3.4 million). The $12.1 million impairment in southeast Alberta is the result of the decrease in forecasted prices for natural gas, higher than anticipated costs for wells drilled, negative revisions of reserves due to well performance and the increase to PP&E from management's change in estimate relating to the decommissioning provision. The $7.5 million impairment in southwest Alberta is the result of higher than anticipated costs for wells drilled. The $4.5 million impairment in one of the CGUs in southwest Saskatchewan is the difference between the net book value of the assets held for sale and their recoverable amount which is deemed to be the sale price plus decommissioning liabilities associated with the assets. The $3.4 million impairment in the other southwest Saskatchewan CGU is a result of negative revisions of reserves due to well performance.

The impairments were based on the difference between the December 31, 2011 net book value of the assets and the recoverable amount. The recoverable amount was determined using fair value less costs to sell based on future cash flows of proved and probable reserves using forecasted prices and costs discounted at 11% or sale proceeds plus decommissioning liabilities associated with the assets. The reserves, forecasted prices and costs used in the impairment test were determined by independent reserve engineers.

The following table summarizes the benchmark prices used in the testing of impairment in the property, plant and equipment. The petroleum and natural gas prices are based on the December 31, 2011 commodity price forecast of Equal's independent reserve engineers.

Year	WTI Oil ($U.S./bbl)	Edmonton Light Crude Oil ($Cdn/bbl)	AECO Gas ($Cdn/MMbtu)	Henry Hub ($U.S./MMbtu)	Foreign Exchange Rate (US$/CAD)
2012	97.50	99.00	3.50	3.75	0.975
2013	97.50	99.00	4.20	4.50	0.975
2014	100.00	101.50	4.70	5.05	0.975
2015	100.80	102.30	5.10	5.50	0.975
2016	101.70	103.20	5.55	5.95	0.975
2017	102.70	104.20	5.90	6.35	0.975
Escalate Thereafter	Average 2% per year	Average 2% per year	Average 2% per year	Average 2% per year	0.975

6. Exploration and evaluation assets

(in thousands of Canadian dollars)	**Canadian Operations**	**U.S. Operations**	**Total**
As at January 1, 2010	2,603	2,159	**4,762**
Capital expenditures	15,247	2,378	**17,625**
Transfers to property, plant and equipment	(3,043)	(4,261)	**(7,304)**
Non-cash additions	102	24	**126**
Foreign currency translation and other	-	(115)	**(115)**
Balance, December 31, 2010	14,909	185	**15,094**
Capital expenditures	11,744	47	**11,791**
Transfers to property, plant and equipment	(20,311)	(242)	**(20,553)**
Non-cash additions	87	-	**87**
Foreign currency translation and other	-	10	**10**
Balance at December 31, 2011	6,429	-	**6,429**

During 2011, the Company determined certain properties within the Canadian operation's Lochend oil resource play ($20.3 million) and Circus oil resource play ($0.2 million) were considered technically feasible and commercially viable and accordingly, $20.6 million was transferred to property, plant and equipment.

During 2010, the Company determined certain properties within the Oklahoma operation's Circus oil resource play ($4.3 million (US$4.3 million)) and within the Canadian operation's Lochend oil resource play ($3.0 million) were considered technically feasible and commercially viable. Accordingly, $7.3 million of E&E assets were transferred to property, plant and equipment.

7. Long-term debt

(in thousands of Canadian dollars)	**December 31, 2011**	December 31, 2010
Long-term debt	**138,820**	24,865

Effective July 18, 2011, the Company increased its syndicated bank credit facility to $200.0 million from $125.0 million and is comprised of a $180.0 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 2012. 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 24, 2012 and should the lenders decide not to renew the facility, the debt must be repaid by June 24, 2013.

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, 2011, the marginal interest rate and standby fee were 3.00% and 0.75%, respectively.

As at December 31, 2011, the $138.8 million drawn under the credit facility consisted of US$136.5 million which was converted at the closing rate of CDN$1.017 per US$1.00 and interest was being accrued at a rate of 3.27% per annum (December 31, 2010 – US$25.0 million drawn at a closing rate of CDN$0.9946 per US$1.00).

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 year ended December 31, 2011, the interest coverage ratio was 6.11 (December 31, 2010 – 4.87). Equal is in compliance with the terms and covenants of the credit facilities as at December 31, 2011.

8. Convertible debentures

(in thousands of Canadian dollars)	**EQU.DB 8% Series**	**EQU.DB.A 8.25% Series**	**EQU.DB.B 6.75% Series**	**Total**	**Equity Component**
Balance, January 1, 2010	76,999	37,765	-	114,764	-
Revaluation	3,412	1,883	-	5,295	-
Amortization of premium	(74)	-	-	(74)	-
Redeemed	(83)	-	-	(83)	-
Balance, December 31, 2010	80,254	39,648	-	119,902	-
Issuance, net of costs	**-**	**-**	**40,574**	**40,574**	**2,167**
Deferred tax	**-**	**-**	**-**	**-**	**(579)**
Accretion and amortization	**(21)**	**-**	**753**	**732**	**-**
Redeemed	**(80,233)**	**(39,648)**	**-**	**(119,881)**	**-**
Balance at December 31, 2011	**-**	**-**	**41,327**	**41,327**	**1,588**

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, 2011, the Company had $45.0 million in face value of 6.75% convertible debentures outstanding with an estimated fair value of $44.8 million.

9. Decommissioning provision

The decommissioning provision is estimated by management based on Equal's working interests in its wells and facilities, estimated costs to remediate, abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred. At December 31, 2011, the decommissioning provision is estimated to be $33.1 million (December 31, 2010 – $26.1 million), based on a total future liability of $50.5 million (December 31, 2010 - $39.4 million). These obligations will be settled at the end of the useful lives of the underlying assets, which currently average thirteen years, but extends up to 50 years into the future. This amount has been calculated using an inflation rate of 2.0% and discounted using a risk free rate of 2.4% as at December 31, 2011 (December 31, 2010 – 4.1%).

The following table reconciles the decommissioning provision:

(in thousands of Canadian dollars)	**December 31, 2011**	December 31, 2010
Balance, beginning of year	**26,084**	25,774
Additions	**771**	413
Accretion expense	**727**	769
Acquisitions	**722**	232
Dispositions	**(11,230)**	(17)
Costs incurred	**(1,652)**	(1,590)
Change in estimate	**17,564**	710
Foreign exchange	**127**	(207)
Balance, end of year	**33,113**	26,084
Liabilities associated with assets held for sale	**1,378**	-
Current decommissioning provision	**557**	-
Non-current decommissioning provision	**31,178**	26,084
Balance, end of year	**33,113**	26,084

As part of a disposition which closed November 15, 2011, the associated decommissioning liability of $11.2 million associated with the assets sold was removed from the Company's decommissioning provision.

The $17.6 million change in estimate during the year ended December 31, 2011 was comprised of the change in the risk free rate and management's change in estimates to remediate, abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred.

As part of a disposition which closed January 31, 2012, $1.4 million in decommissioning provision was associated with the assets that were sold.

10. Income taxes

A reconciliation of tax expense calculated based on the before taxes at the statutory tax rate to the actual provision for income taxes is as follows:

(in thousands of Canadian dollars)	**2011**	2010
Loss before income taxes	**(9,111)**	(40,314)
Combined Canadian federal and provincial income tax rate	**26.7%**	28.2%
Computed income tax expense (reduction)	**(2,433)**	(11,369)
Increase (decrease) resulting from:		
Other non-deductible items	**1,828**	832
Difference between U.S. and Canadian tax rates and foreign exchange	**915**	801
Change in tax rates	**477**	5,606
Capital tax	**391**	694
Other	**3,671**	5,774
	4,849	2,338

The deferred tax charged (credited) to the Statement of Income/(Loss) and the net deferred income tax liability consists of the following:

	Recognized in earnings		Financial position as at December 31	
(in thousands of Canadian dollars)	**2011**	2010	**2011**	2010
Assets				
Provision for reclamation	**2,933**	94	**10,127**	7,135
Share issue costs	**276**	(1,076)	**1,478**	450
Income tax losses	**14,728**	(7,430)	**35,152**	20,281
Deferred tax assets	**17,937**	(8,412)	**46,757**	27,866
Liabilities				
Property, plant and equipment	**(18,928)**	7,537	**(36,431)**	(17,171)
Partnership	**(2,097)**	261	**(1,907)**	206
Risk Management	**(351)**	1,315	**(918)**	11
Debentures	**(1,379)**	(650)	**(6,678)**	(5,298)
Other	**360**	(1,695)	**42**	(319)
Deferred tax liabilities	**(22,395)**	6,768	**(45,892)**	(22,571)
Net deferred tax asset (liability)	**(4,458)**	(1,644)	**865**	5,295
Deferred tax allocated as				
Deferred tax assets			**9,042**	10,652
Deferred tax liabilities			**(8,177)**	(5,357)
Net deferred tax asset (liability)			**865**	5,295

Movement in Net Deferred Tax Assets and Liabilities

(in thousands of Canadian dollars)	**2011**	2010
Deferred tax asset, beginning of year	**5,295**	6,769
Expense for the year in net earnings	**(4,458)**	(1,644)
Foreign exchange	**28**	170
Balance, end of year	**865**	5,295

The approximate amounts of tax pools available are summarized below. Included in the tax pools are $81.6 million (2010 – $55.5 million) related to non-capital losses available for carry forward to reduce taxable income in future years. The non-capital losses expire from 2014 – 2030.

Tax Pools by Country

	As at December 31	
(in thousands of Canadian dollars)	**2011**	2010
Canada	**174,277**	140,895
United States	**258,056**	167,452
	432,333	308,347

11. Shareholders' equity

Common shares

An unlimited number of common shares may be issued.

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 4 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 options have been granted:

(in Canadian dollars, except for number of options)	**Number of options**[(1)]	**Weighted-average exercise price** [(1)]
Options outstanding at December 31, 2009	235,331	$ 19.80
Options granted	986,708	5.91
Options forfeited	(163,887)	12.86
Options outstanding at December 31, 2010	1,058,152	$ 7.92
Options exercised	**(25,000)**	**4.95**
Options granted	**568,713**	**7.16**
Options forfeited	**(298,370)**	**13.03**
Options outstanding at December 31, 2011	**1,303,495**	**$ 6.47**
Options exercisable at December 31, 2011	**184,945**	**$ 6.56**

(1) Restated to reflect the three for one exchange of trust units for common shares.

(in Canadian dollars, except for number of options)

Exercise price range [(1)]	Number of options	Weighted average exercise price	Weighted average remaining contract life in years	Number of options exercisable	Weighted average price of exercisable options
$4.65 to $5.90	251,850	$ 4.85	2.77	32,334	$ 4.94
$6.15 to $6.75	476,764	6.25	1.97	99,444	6.23
$7.13 to $7.26	501,215	7.25	3.02	8,000	7,13
$8.19 to $8.43	73,666	8.29	1.32	45,167	8.36
Balance at December 31, 2011	1,303,495	$ 6.47	2.49	184,945	$ 6.56

(1) Restated to reflect the three for one exchange of trust units for common shares.

Estimated fair value of stock options

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

	2011	2010
Weighted-average fair value of options granted ($/option)	**2.92**	2.30
Risk-free interest rate (%)	**2.00**	1.71
Estimated hold period prior to exercise (years)	**4.0**	4.0
Expected volatility (%)	**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 shares granted are the product of the number of restricted shares times a multiplier. The multiplier starts at 1.0 and is adjusted each month based on the monthly dividend of the Company divided by the five-day weighted average price of the shares based on the New York Stock Exchange for the period preceding the dividend date. Equal has not paid or declared any dividends to change the multiplier from 1.0. The forfeiture rate is estimated to be 16%.

The following restricted shares have been granted:

	Number of restricted shares [1]	Weighted-average grant date fair value[1]
Shares outstanding at December 31, 2009	534,730	$ 10.41
Granted	438,279	5.24
Forfeited	(69,354)	11.09
Vested	(395,896)	8.91
Shares outstanding at December 31, 2010	507,759	$ 7.03
Granted	**740,105**	**7.17**
Forfeited	**(107,003)**	**5.67**
Vested	**(194,576)**	**10.52**
Shares outstanding at December 31, 2011	**946,285**	**$ 6.57**

[1] Restated to reflect the three for one exchange of trust units for common shares.

The estimated value of the restricted shares is based on the trading price of the shares on the grant date.

Reconciliation of earnings per share calculations

For the year ended December 31, 2011			
(in thousands of Canadian dollars except shares and per share amounts)	Loss	Weighted Average Shares Outstanding	Per Share
Basic and diluted	**(13,960)**	**32,039,817**	**$ (0.44)**

For the year ended December 31, 2010			
(in thousands of Canadian dollars except shares and per share amounts)	Loss	Weighted Average Shares Outstanding [1]	Per Share [1]
Basic and diluted	(42,652)	24,594,866	$ (1.73)

[1] Restated to reflect the three for one exchange of trust units for common shares.

For the calculation of the weighted average number of diluted shares outstanding for the ended December 31, 2011 and 2010, all options, restricted shares and convertible debentures were excluded, as they were anti-dilutive to the calculation.

12. Risk management

Equal's financial instruments are recognized in cash and cash equivalents, accounts receivable, prepaid expenses, assets and associated liabilities held for sale, accounts payable and accrued liabilities, commodity contracts, long-term debt and convertible debentures. Commodity contracts assets and liabilities arise from the use of derivative financial instruments. Fair values of financial instruments, summarized information related to commodity contracts and discussion of risks associated with financial instruments are presented as follows:

(a) Fair value of financial instruments

Equal classifies the fair value measurements of its financial instruments recognized at fair value in the Consolidated Statements of Financial Position 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, prepaid expenses and accounts payable and accrued liabilities approximated fair value at December 31, 2011 and 2010 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 8. The fair value of the assets held for sale is based on the sale price as the sale closed in January 2012. These assets and liabilities are not presented in the following tables.

As at December 31, 2011 and 2010, 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, 2011 and 2010.

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	-
Commodity contracts liability	-	-	-	-	-
Commodity contracts (net)	4,813	4,813	-	4,813	-

As at December 31, 2010

			Fair Value Measurements Using:		
(in thousands of Canadian dollars)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Commodity contracts asset	-	-	-	-	-
Commodity contracts liability	(763)	(763)	-	(763)	-
Commodity contracts (net)	(763)	(763)	-	(763)	-

(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 Canadian and 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.

Oil and natural gas commodity price risks

Equal has a formal risk management policy which permits management to use specified price risk management strategies for up to 50% of its projected gross crude oil, natural gas and NGL production including 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 24 months beyond the current date. 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, 2011, the following financial derivative contracts were outstanding:

Derivative Instrument	Commodity	Price [2]	Volume per day [2]	Period
Fixed	Gas	4.50 (US$/mmbtu) (4.66 US$/mcf)	2,000 mmbtu (1,932 mcf)	April 1, 2011 – March 31, 2012
Fixed	Gas	4.83 (US$/mmbtu) (5.00 US$/mcf)	2,000 mmbtu (1,932 mcf)	April 1, 2011 – March 31, 2012
Fixed	Gas	4.95 (US$/mmbtu) (5.12 US$/mcf)	2,000 mmbtu (1,932 mcf)	January 1, 2012 – December 31, 2012
Fixed	Gas	5.00 (US$/mmbtu) (5.18 US$/mcf)	5,000 mmbtu (4,831 mcf)	January 1, 2012 – December 31, 2012
Fixed Basis Differential [1]	Gas	Differential Fixed @ $0.35 US$/mmbtu ($0.36 US$/mcf)	7,000 mmbtu (6,763 mcf)	January 1, 2012 – December 31, 2012
Fixed	Oil	100.00 ($/bbl)	200 bbl	January 1, 2012 – December 31, 2012
Fixed	Oil	101.05 ($/bbl)	200 bbl	January 1, 2012 – December 31, 2012
Fixed	Oil	101.95 ($/bbl)	200 bbl	January 1, 2012 – December 31, 2012
Fixed	Oil	103.00 ($/bbl)	200 bbl	January 1, 2012 – December 31, 2012

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

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

(in thousands of Canadian dollars)	**2011**	2010
Realized commodity contracts gain	**2,220**	6,038
Unrealized commodity contracts (loss)	**5,525**	(1,013)
Net gain on commodity contracts	**7,745**	5,025

The following sensitivities show the result to pre-tax net income for year ended December 31, 2011 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	293	(293)
Natural gas derivative contracts	1,463	(1,463)
	Decrease in differential price ($0.02 per mcf)	Increase in differential price ($0.02 per mcf)
Fixed basis differential contracts	(51)	51

Credit risk

Credit risk is the risk of loss if purchasers or counterparties do not fulfill their contractual obligations. The receivables are principally with customers in the oil and natural gas industry and are subject to normal industry credit risk. The Company continues to assess the strength of its counterparties and tries to do business with high quality companies with substantial assets. The counterparties on the commodity contracts are large well financed entities. Management continuously monitors credit risk and credit policies to ensure exposures to customers are limited. As at December 31, 2011, the Company has a general allowance for doubtful accounts of $0.4 million (December 31, 2010 - $0.4 million).

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 contracts to increase the predictability of cash flow from operating activities.

Foreign exchange currency risks

Equal is exposed to foreign currency risk as approximately 77% of its production is from the U.S. division and holds debt denominated in U.S. dollars (see Note 7). Equal has not entered into any foreign exchange derivative contracts to mitigate its currency risks as at December 31, 2011.

Changes in the U.S. to Canadian foreign exchange rates with respect to the U.S. division affect other comprehensive income as the division has a U.S. functional currency. The following financial instruments were denominated in U.S. dollars as at December 31, 2011:

(in thousands of dollars) **As at December 31, 2011**	Canadian division (in U.S. dollars)	U.S. division (in U.S. dollars)
Cash and cash equivalents	3,050	720
Accounts receivable	-	19,412
Commodity contracts	-	4,597
Accounts payable	(252)	(12,581)
Long-term debt	(136,500)	-
Net exposure	(133,702)	12,148
Effect of a $0.02 increase in U.S. to Cdn exchange rate:		
Change to pre-tax net income	(2,674)	-
Change to other comprehensive income	-	243
Effect of a $0.02 decrease in U.S. to Cdn exchange rate:		
Change to pre-tax net income	2,674	-
Change to other comprehensive income	-	(243)

Interest rate risk

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 (see Note 7) and fixed interest rate for its convertible debentures (see Note 8).

Equal has not entered into any derivative contracts to mitigate the risks related to fluctuations in interest rates as at December 31, 2011 and 2010. The following sensitivities show the result to pre-tax income for the year ended December 31, 2011 of the respective changes in market interest rates (increase / (decrease)).

	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	1,011	(1,011)

13. Interest expense

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

(in thousands of Canadian dollars)	**2011**	2010
Interest on long-term debt	**4,250**	2,364
Interest on convertible debentures	**7,820**	9,610
Interest income [1]	**(28)**	(748)
	12,042	11,226

[1] Included in interest income in 2010 is $0.7 million pertaining to the long-term receivable from the JV Participant (Note 4).

14. Commitments

Equal has firm commitments for the following payments over the next five years:

(in thousands of Canadian dollars)	2012	2013	2014	2015 – 2016	Total
Office leases [1]	1,211	1,169	1,178	1,472	5,030
Vehicle and other operating leases	168	101	76	-	345
Total obligations	1,379	1,270	1,254	1,472	5,375

[1] Future office lease commitments may be reduced by sublease recoveries totaling $0.1 million in 2012.

15. 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.

16. Changes in non-cash working capital

(in thousands of Canadian dollars)	**December 31, 2011**	December 31, 2010
Accounts receivable	**(283)**	(3,819)
Prepaid expenses, deposits and other	**1,223**	(95)
Accounts payable and accrued liabilities	**(7,082)**	3,324
Foreign exchange on working capital	**(198)**	(4,836)
Changes in non-cash working capital	**(6,340)**	(5,426)
Changes in non-cash operating working capital	**(2,980)**	(10,615)
Changes in non-cash investing working capital	**(3,360)**	5,189

During the year ended December 31, 2011, Equal paid interest of $10.9 million (2010 - $12.0 million) and $0.4 million in taxes (2010 – $0.7 million).

17. Capital disclosures

The capital structure of Equal consists of shareholders' equity, convertible debentures, long-term debt and cash and cash equivalents as noted below.

(in thousands of Canadian dollars)	**December 31, 2011**	December 31, 2010
Components of capital:		
Shareholders' equity	**220,878**	172,222
Convertible debentures	**41,327**	119,902
Long-term debt	**138,820**	24,865
Less:		
Cash and cash equivalents	**(5,553)**	(2,505)
	395,472	314,484

The objectives of Equal when managing capital are:

- to reduce debt, with the long term goal to improve the financial position based on a ratio of total debt to annual funds from operations;
- to manage capital in a manner which balances the interest of equity and debt holders;
- to manage capital in a manner that will maintain compliance with its financial covenants; and
- to maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future exploration and development.

Equal manages its capital structure as determined by management and approved by the board of directors. Adjustments are made to the capital structure based on changes in economic conditions and planned requirements. Equal has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt or balance equity and making adjustments to its capital expenditures program.

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:

(in thousands of Canadian dollars except for ratios)	**December 31, 2011**	December 31, 2010
Interest coverage [(1)]:		
Cash flow over the prior four quarters	**69,246**	58,688
Interest expenses over the prior four quarters	**11,338**	12,048
	6.11 : 1.00	4.87 : 1.00

(1) Note these amounts are defined terms within the credit agreements.

As at December 31, 2011 and 2010, the Company was in compliance with the terms of its credit facilities.

18. Personnel expenses

The statement of operations is presented pre-dominantly by nature with the exception that personnel expenses are reported in production expenses, general and administrative and share-based compensation costs. The aggregate personnel expense of employees, executive management and directors was as follows.

(in thousands of Canadian dollars)	**2011**	2010
Wages and salaries	**14,703**	15,513
Benefits and other personnel costs	**2,314**	2,486
Share-based payments	**4,284**	3,205
Employee remuneration	**21,301**	21,204
Capitalized portion of employee remuneration	**(1,490)**	(1,604)
	19,811	19,600
Personnel expenses included in:		
Production expenses	**6,750**	6,568
General and administrative expenses	**9,093**	10,132
Share-based compensation	**3,968**	2,900
	19,811	19,600

Personnel expenses directly attributed to capital activities have been capitalized and included in property, plant and equipment and intangible exploration assets.

Key management personnel compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors. Key management personnel compensation comprised the following.

(in thousands of Canadian dollars)	**2011**	2010
Salaries, benefits and director fees	**2,252**	2,368
Share-based payments	**1,930**	1,500
	4,183	3,868

19. Segmented information

The Company's reportable segments are organized by geographical areas and consist of Canada, the United States and Corporate. The following are the statement of operations for each segment for the years ended December 31, 2011 and 2010.

For the year ended December 31, 2011

(*in thousands of Canadian dollars)*	Canada	United States	Corporate	Total
Oil, NGL and natural gas revenues	72,655	88,839	-	161,494
Realized gain on commodity contracts	-	-	2,220	2,220
Unrealized gain on commodity contracts	-	-	5,525	5,525
Royalty expense	(11,416)	(21,638)	-	(33,054)
Revenues, net of royalty expense	61,239	67,201	7,745	136,185
Operating expenses				
Production	(24,649)	(16,908)	-	(41,557)
Transportation	(1,665)	-	-	(1,665)
General and administrative	(6,009)	(3,319)	(3,586)	(12,914)
Share-based compensation expense	(1,708)	(330)	(1,930)	(3,968)
Depletion and depreciation	(24,115)	(29,114)	-	(53,229)
Impairment of property, plant and equipment	(27,486)	-	-	(27,486)
	(85,632)	(49,671)	(5,516)	(140,819)
Other income/(expenses)				
Interest expense	-	-	(12,042)	(12,042)
Accretion of decommissioning provision	(568)	(159)	-	(727)
Gain/(loss) on sale of assets	17,772	(177)	-	17,595
Transaction costs on asset acquisition	-	-	(1,767)	(1,767)
Redemption premium on convertible debentures	-	-	(2,880)	(2,880)
Realized foreign exchange loss	-	-	(240)	(240)
Unrealized foreign exchange loss	-	-	(4,416)	(4,416)
	17,204	(336)	(21,345)	(4,477)
Income/(loss) before taxes	(7,189)	17,194	(19,116)	(9,111)
Taxes				
Current tax expense	(391)	-	-	(391)
Deferred tax expense	(1,783)	(2,675)	-	(4,458)
	(2,174)	(2,675)	-	(4,849)
Net income/(loss)	(9,363)	14,519	(19,116)	(13,960)

For the year ended December 31, 2010

(in thousands of Canadian dollars)	Canada	United States	Corporate	Total
Oil, NGL and natural gas revenues	73,667	64,008	-	137,675
Realized gain on commodity contracts	-	-	6,038	6,038
Unrealized loss on commodity contracts	-	-	(1,013)	(1,013)
Royalty expense	(13,890)	(15,440)	-	(29,330)
Revenues, net of royalty expense	59,777	48,568	5,025	113,370
Operating expenses				
Production	(25,365)	(10,461)	-	(35,826)
Transportation	(2,370)	-	-	(2,370)
General and administrative	(5,631)	(8,524)	(5,072)	(19,227)
Share-based compensation expense	(1,173)	(227)	(1,500)	(2,900)
Depletion and depreciation	(24,976)	(22,276)	-	(47,252)
Impairment of property, plant and equipment	(31,114)	-	-	(31,114)
	(90,629)	(41,488)	(6,572)	(138,689)
Other income/(expenses)				
Interest expense	-	-	(11,226)	(11,226)
Accretion of decommissioning provision	(652)	(117)	-	(769)
Gain on sale of assets	2,005	-	-	2,005
Revaluation of convertible debentures	-	-	(5,295)	(5,295)
Amortization of trust unit issue costs	-	-	(1,000)	(1,000)
Realized foreign exchange gain	-	-	1,674	1,674
Unrealized foreign exchange loss	-	-	(384)	(384)
	1,353	(117)	(16,231)	(14,995)
Income/(loss) before taxes	(29,499)	6,963	(17,778)	(40,314)
Taxes				
Current tax expense	(399)	(295)	-	(694)
Deferred tax expense	388	(2,032)	-	(1,644)
	(11)	(2,327)	-	(2,338)
Net income/(loss)	(29,510)	4,636	(17,778)	(42,652)

The following are the total assets and liabilities for each segment as at December 31, 2011 and 2010.

As at December 31, 2011

(in thousands of Canadian dollars)	Canada	United States	Corporate	Total
Total assets	126,865	334,876	4,813	466,554
Total liabilities	33,717	31,814	180,145	245,676

As at December 31, 2010

(in thousands of Canadian dollars)	Canada	United States	Corporate	Total
Total assets	157,525	234,961	-	392,486
Total liabilities	43,524	31,211	145,529	220,264

20. Subsequent event

On January 31, 2012, Equal closed the sale of assets located in southwest Saskatchewan for proceeds of $8.3 million.

21. First time adoption of IFRS

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1 "First time adoption of International Financial Reporting Standards", IFRS is applied retrospectively at the transition date with the offsetting adjustments to assets and liabilities generally included in the deficit.

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in significant changes to the reported financial position and results of operations of the Company.

The following reconciliations present the adjustments made to the Company's previous GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Company's Consolidated Statements of Financial Position as at January 1, 2010 and December 31, 2010 and Consolidated Statement of Operations and Comprehensive Loss and Cash Flows for the year ended December 31, 2010.

21.1 Reconciliation of Consolidated Statement in Financial Position

Presented below is the reconciliation to IFRS of the Consolidated Statements of Financial Position of the Company from the amounts reported under previous Canadian GAAP.

(in thousands of Canadian dollars)	Previous Canadian GAAP January 1, 2010					Notes					IFRS January 1, 2010
		A	B	C	D	E	F	G	H	I	
Assets											
Current assets	57,544										57,544
Long-term receivable	5,491										5,491
Property, plant and equipment	399,237	(4,762)	(43,673)								350,802
Exploration and evaluation assets	-	4,762									4,762
Deferred income tax asset	-									9,690	9,690
	462,272										428,289
Liabilities											
Current liabilities	28,821									(69)	28,752
Long-term debt	70,000										70,000
Convertible debentures	114,863			(99)							114,764
Decommissioning provision	21,055				4,719						25,774
Deferred income tax liability	8,487									(5,566)	2,921
Unit-based liability	-						1,904				1,904
Unitholders' capital	-					674,106		8,800			682,906
	243,226										927,021
Shareholders' equity											
Unitholders' capital	674,106					(674,106)					-
Equity component of convertible debentures	3,951			(3,951)							-
Contributed surplus	11,064						(11,064)				-
Accumulated other comprehensive loss	(22,474)								22,474		-
Deficit	(447,601)		(43,673)	4,050	(4,719)		9,160	(8,800)	(22,474)	15,325	(498,732)
	219,046										(498,732)
	462,272										428,289

(in thousands of Canadian dollars)	Previous Canadian GAAP December 31, 2010					Notes						IFRS December 31, 2010
		A	B	C	D	E	F	G	H	I	J	
Assets												
Current assets	29,757									(187)	(81)	29,489
Property, plant and equipment	397,997	(15,094)	(45,652)									337,251
Exploration and evaluation assets	-	15,094										15,094
Deferred income tax asset	-									10,652		10,652
	427,754											392,486
Liabilities												
Current liabilities	44,036										20	44,056
Long-term debt	24,865											24,865
Convertible debentures	117,019			2,883								119,902
Decommissioning provision	21,221				4,863							26,084
Deferred income tax liability	7,101									(1,744)		5,357
	214,242											220,264
Shareholders' equity												
Common shares	259,055					(45,191)		9,800				223,664
Equity component of convertible debentures	3,949			(3,949)								-
Contributed surplus	12,321						(9,594)					2,727
Accumulated other comprehensive loss	(33,624)								22,000			(11,624)
Deficit	(28,189)		(45,652)	1,066	(4,863)	45,191	9,594	(9,800)	(22,000)	12,209	(101)	(42,545)
	213,512											172,222
	427,754											392,486

21.2 Reconciliation of Consolidated Statement of Operations and Comprehensive Loss

Presented below is the reconciliation to IFRS of the consolidated statement of operations and comprehensive income/(loss) of the Company from the amounts reported under previous Canadian GAAP.

(in thousands of Canadian dollars)	Previous Canadian GAAP Year ended December 31, 2010	Notes								IFRS Year ended December 31, 2010
		B	C	D	E	F	H	I	J	
Oil, NGL and natural gas revenues	137,675									137,675
Realized gain on commodity contracts	6,038									6,038
Unrealized gain/(loss) on commodity contracts	(912)								(101)	(1,013)
Royalty expense	(29,330)									(29,330)
Revenues, net of royalty expense	113,471									113,370
Operating expenses										
Production	(35,826)									(35,826)
Transportation	(2,370)									(2,370)
General and administrative	(19,227)									(19,227)
Share-based compensation expense	(3,636)					736				(2,900)
Depletion and depreciation	(73,676)	26,424								(47,252)
Impairment of property, plant and equipment	-	(31,114)								(31,114)
	(134,735)									(138,689)
Other income/(expenses)										
Interest expense	(11,300)									(11,300)
Amortization of convertible debentures	(2,238)		2,312							74
Accretion of decommissioning provision	(1,610)			841						(769)
Gain/(loss) on sale of disposal of assets	-	2,005								2,005
Revaluation of convertible debentures	-		(5,295)							(5,295)
Amortization of trust unit issue costs	-				(1,000)					(1,000)
Foreign exchange gain/(loss)	1,290									1,290
	(13,858)									(14,995)
Loss before taxes	(35,121)									(40,314)
Taxes										
Current tax (expense)	(694)									(694)
Deferred tax (expense)	1,279							(2,923)		(1,644)
	585									(2,338)
Loss	(34,536)									(42,652)
Other comprehensive loss										
Foreign currency translation adjustment	(11,150)						(474)			(11,624)
Comprehensive loss	(45,686)									(54,276)
Loss per share - basic and diluted	(1.40)									(1.73)

21.3 Reconciliation of Consolidated Statement of Cash Flows

The adoption of IFRS did not affect the amounts reported as the operating, financing and investing cash flows in the consolidated statement of cash flows.

21.4 Notes to the IFRS Reconciliation

The following discussion explains the significant differences between Equal's previous GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters. The descriptive note captions below correspond to the adjustments presented in the preceding reconciliations.

A. Exploration and evaluation (E&E) assets

E&E assets consist of the Company's exploration projects which are pending the determination of proven and/or probable reserves. Under Canadian GAAP these costs were grouped with property, plant and equipment. Under IFRS, E&E assets are classified as a separate line in the Consolidated Statement of Financial Position.

Exploration and evaluation assets at January 1, 2010 were deemed to be $4.8 million, representing the unproved properties balance under previous GAAP. This resulted in a reclassification of $4.8 million from property, plant and equipment to exploration and evaluation assets on the Company's Consolidated Statement in Financial Position at January 1, 2010. As at December 31, 2010, the Company's exploration and evaluation assets reclassified from property, plant and equipment were $15.1 million.

B. Property, plant and equipment, impairment and depletion

Under previous Canadian GAAP, the Company followed the Canadian Institute of Chartered Accountants ("CICA") guideline on full cost accounting in which all costs directly associated with the acquisition of, the exploration for, and the development of oil, NGLs and natural gas reserves were capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre were depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs. Upon transition to IFRS, the Company was required to adopt new accounting policies for exploration and evaluation costs and development costs.

The Company adopted the IFRS 1 exemption whereby the Company deemed its January 1, 2010 IFRS property, plant and equipment costs to be equal to its previous Canadian GAAP historical property, plant and equipment net book value. Accordingly, exploration and evaluation costs were deemed equal to the unproved properties balance and the property, plant and equipment costs were deemed equal to the full cost pool balance. The full cost pool balance was allocated to the Cash Generating Units ("CGUs") pro rata using reserve volumes.

IFRS uses a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use. Under IFRS, impairment of PP&E must be calculated at a CGU level and any impairment was based on the difference between the net book value of the assets and the recoverable amount. The recoverable amount was determined using fair value less costs to sell based on discounted future cash flow of proved and probable reserves using forecasted prices and costs. The reserves used in the impairment test were determined by the independent reserve engineer.

At January 1, 2010, Equal recognized $43.7 million in impairments relating to three Canadian CGUs in southwest Saskatchewan ($4.1 million), southwest Alberta ($14.1 million) and northeast British Columbia ($25.5 million) as a result of a decline in the forecasted price for natural gas. The impairments were based on the differences between the January 1, 2010 net book values of the assets and the recoverable amounts. The recoverable amounts were determined using fair value less costs to sell based on future cash flows of proved and probable reserves using forecasted prices and costs which were discounted at 11%. The reserves, forecasted prices and costs used in the impairment test were determined by independent reserve engineers.

At December 31, 2010, Equal recognized $31.1 million in impairments relating to two Canadian CGUs in southwest Saskatchewan ($18.8 million) and northeast British Columbia ($12.3 million) as a result of a decline in the forecasted price for natural gas. The impairments were based on the differences between the December 31, 2010 net book values of the assets and the recoverable amounts. The recoverable amounts were determined using fair value less costs to sell based on future cash flows of proved and probable reserves using forecasted prices and costs which were discounted at 11%. The reserves, forecasted prices and costs used in the impairment test were determined by independent reserve engineers.

Under IFRS, Equal has chosen to calculate depletion on proved and probable oil and gas reserves as opposed to only proved reserves as done under previous Canadian GAAP. This resulted in a decrease in depletion expense. In addition, gains and losses on the sale of oil and gas assets were only recorded under previous Canadian GAAP if they significantly altered the depletion rate. Under IFRS, gains and losses are calculated on all dispositions.

For the year ended December 31, 2010, depletion expense was decreased by $26.4 million due to the difference in calculating depletion and the impairment in property, plant and equipment.

For the year ended December 31, 2010, the gain from dispositions of property, plant and equipment under IFRS was $2.0 million.

C. Convertible debentures

Under IFRS, since Equal's former trust indenture required it to record its unitholders' capital as a long-term liability, it was required to revalue the convertible debentures at each reporting date to their fair value. After conversion to a corporation, Equal was no longer required to fair value the convertible debentures. The equity conversion feature was reclassified to equity, however, the estimated value of the conversion feature was considered to be insignificant at the time.

At January 1, 2010, the fair market value of the convertible debentures was $0.1 million lower than the previous Canadian GAAP book value and the conversion feature was decreased by $4.0 million. The offset of these adjustments was the Company's deficit.

At December 31, 2010, the liability of the convertible debentures was deemed to be $2.9 million higher than the previous Canadian GAAP book value and the value of their conversion features were decreased $3.9 million due to their fair values upon conversion to a corporation. The offset of these adjustments was the Company's deficit.

On the date of conversion from a trust to a corporation, the revaluation of the convertible debentures increased their liability by $5.3 million which was recognized through the statement of operations. The revaluation of the convertible debentures also resulted in the decrease in expense from amortization of convertible debentures for the year ended December 31, 2010 by $2.3 million.

D. Decommissioning provision

Under IFRS, Equal is required to revalue its entire liability for decommissioning provision at each reporting date using a current liability-specific discount rate, which can generally be interpreted to mean the current risk-free rate of interest.

At January 1, 2010, as a result in the change in discount rate for the Company's decommissioning provision from 8.0%-10.0% to 4.1%, the decommissioning provision was increased by $4.7 million with the offset to the Company's deficit.

At December 31, 2010, as a result in the change in discount rate for the Company's decommissioning provision from 8%-10% to 3.5%, the decommissioning provision was increased by $4.9 million with the offset to the Company's deficit.

As a result in the change in discount rate for calculating the Company's decommissioning provision, the accretion of decommissioning provision decreased for the year ended December 31, 2010 by $0.8 million.

E. Equal's former trust indenture and shareholders'/unitholders' equity

Under IFRS, prior to Equal converting to a corporate structure from a trust structure, Equal's former trust indenture required that its unitholders' capital be classified as long-term debt on the Statement of Financial Position.

At January 1, 2010, the unitholders' capital was reclassed from the equity section to the liability section on the statement of financial position resulting in an increase in liabilities of $674.1 million and a corresponding decrease in equity.

At December 31, 2010, shareholders' capital was decreased by $45.2 million with a corresponding change in deficit as a result of the difference in reduction in share capital for deficit under previous Canadian GAAP and under IFRS which occurred when the Company converted from a trust structure to a corporation.

For the year ended December 31, 2010, due to the Company converting from a trust structure to a corporation, $1.0 million in costs related to the issue of trust units was recognized on the statement of operations.

F. Equity-based compensation

Under IFRS, as a result of the trust structure, the Company is required to record its equity-based compensation plans as if they were liability-settled. As such, under IFRS, the liability is re-valued at each reporting date. Upon conversion to a corporate entity, the liability was transferred to contributed surplus and the Company commenced accounting for stock-based compensation plans as equity-settled awards.

At January 1, 2010, the share-based liability was $1.9 million and the contributed surplus was decreased by $11.1 million with the corresponding offset to deficit.

At December 31, 2010, the contributed surplus was decreased by $9.6 million, with the corresponding offset to deficit, due to the fair value of the share-based liability on conversion from a trust structure to a corporation being lower than the previous Canadian GAAP book value for contributed surplus.

For the year ended December 31, 2010, the share-based compensation expense decreased $0.7 million due to the reversal of share-based compensation under IFRS which was not the Company's policy under previous Canadian GAAP.

G. Trust unit issue costs

Under IFRS, the units are classified as a long-term liability, therefore the share issue costs are amortized to earnings.

At January 1, 2010, unitholders' capital was increased by $8.8 million, with the corresponding offset to deficit, to account for the amortization of trust unit issue costs.

At December 31, 2010, unitholders' capital was increased by $9.8 million, with the corresponding offset to deficit, to account for the amortization of trust unit issue costs.

H. Accumulated other comprehensive income/loss

IFRS provides an optional exemption to the requirement to retroactively restate cumulative translation adjustment ("CTA") and allows entities to set CTA to zero at the date of transition.

At January 1, 2010, the Company elected to set CTA to zero at the date of transition which resulted in a $22.5 million increase in the accumulated other comprehensive loss with the corresponding offset to the deficit.

At December 31, 2010, the accumulated other comprehensive loss was increased by $22.0 million, with the corresponding offset to the deficit, which was the result of the CTA being set to zero at the date of transition ($22.5 million) and the difference in foreign currency translation adjustment under IFRS compared to previous Canadian GAAP balances ($0.5 million).

For the year ended December 31, 2010, the foreign currency translation adjustment decreased $0.5 million due to the difference in IFRS balances compared to previous Canadian GAAP.

I. Deferred income taxes

Under IFRS, entities that are subject to different tax rates on distributed and undistributed income must calculate deferred taxes using the undistributed profits rate. This resulted in an increase in the deferred tax asset on transition to IFRS that was reversed upon conversion to a corporation. In addition, deferred taxes have been adjusted as a result of the above changes to the financial position and earnings under IFRS.

At January 1, 2010, due to the difference in accounting under IFRS compared to previous Canadian GAAP, the deferred income tax asset was increased by $9.7 million and the deferred income tax liability was decreased $5.6 million with the corresponding offset to the deficit.

At December 31, 2010, due to the difference in accounting under IFRS compared to previous Canadian GAAP, the deferred income tax asset was increased by $10.5 million and the deferred income tax liability was decreased $1.7 million with the corresponding offset to the deficit.

For the year ended December 31, 2010, the deferred income tax expense increased by $2.9 million on the statement of operations.

J. Commodity contracts

Under IFRS, physical hedges are excluded from mark-to-market calculations as a financial derivative.

At December 31, 2010, under the previous Canadian GAAP, the Company had a physical hedge with a value of $0.1 million which was excluded from the IFRS Consolidated Statement of Financial Position. The associated deferred income tax liability of $20 thousand was also excluded from the IFRS Consolidated Statement of Financial Position. The offset to these adjustments were to the deficit.

For the year ended December 31, 2010, the unrealized gain on commodity contracts was decreased by $0.1 million for the difference in accounting for physical hedges between IFRS and the previous Canadian GAAP.

Key Personnel
Don Klapko
President and Chief Executive Officer

Dell Chapman
Senior Vice President, Finance and
Chief Financial Officer

John Reader
Senior Vice President, Corporate Development and
Chief Operating Officer

Terry Fullerton
Senior Vice President, Exploration

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

Board of Directors

Daniel Botterill [4]

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

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Bank of Nova Scotia
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Haas Petroleum Engineering Services Inc.
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Shares: EQU
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