



**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED
DECEMBER 31, 2009**



This Management's Discussion and Analysis ("MD&A"), dated March 31, 2010, of the consolidated financial position and results of operations of Storm Ventures International Inc. (the "Company" or "SVI") is for the three-month period and years ended December 31, 2009 and 2008. The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009.

The consolidated financial position and results of operations include the accounts of the Company's wholly-owned subsidiaries, which include:

- Storm Ventures International (BVI) Limited – a private company that holds the Company's interests in the two following companies:
 - Silverstone Energy Limited ("Silverstone") – a private United Kingdom company that holds the Company's interests in the North Sea
 - Storm Ventures International (Barbados) Limited – a private company that holds the Company's interests in Tunisia
 - Storm Ventures International (Cosmos) Limited – a private company that holds the Company's interests in the Cosmos offshore property
- Chinook Energy Limited – a private company that was established to hold the Company's interests in the Canadian properties

The financial information contained herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All comparative percentages are between the years and quarters ended December 31, 2009 and 2008 and all amounts are expressed in thousands of Canadian dollars except per share and per unit amounts, unless otherwise noted.

Statements throughout this report that are not historical facts may be considered "forward-looking statements". Investors should read the special note regarding forward-looking statements found in Section 15.

1. SVI Business Overview

SVI is a private Canadian oil and natural gas exploration and production company with current operations focused in North Africa and the North Sea, UK managed from offices in Calgary, Tunisia and Aberdeen. The Company is headquartered in Calgary, Alberta, Canada.

SVI's operating and reportable segments are as follows:

- **Tunisia** – includes the Company's exploration for and development and production of oil and natural gas and other related activities within the Tunisian cost centre.
- **North Sea, UK** – includes the Company's exploration for and development of natural gas and NGL's and other related activities within the UKCS cost centre.
- **Corporate** – mainly includes general and administrative costs in Canada and assets held corporately.

All of the Company's production is sold to third-party customers. Segmented financial information is presented on an after elimination basis.

The current economic environment is challenging and uncertain amidst a global recession with low commodity prices, a volatile financial market, and limited access to capital markets. The operational and financial risk factors that may impact the Company are included in Section 5 of this MD&A.



2. Financial Summary

2.1. Financial and Operating Results

(\$ thousands)	Three Months Ended December 31			Year Ended December 31		
	2009	2008	% change	2009	2008	% change
Sales and Prices						
Oil sales (Bbl/d)	92.6	-	100	67.7	-	100
Natural gas & NGL sales (Mmcfd)	8.0	4.8	68	9.6	1.5	528
Average daily sales 6:1 (Boe/d)	1,423.6	793.7	79	1,665.2	254.3	555
Average oil price (\$/Bbl)	62.71	-	100	70.23	-	100
Average natural gas & NGL price (\$/Mmcfd)	4.22	10.54	(60)	5.47	10.78	(49)
Financial operations (\$ thousands)						
Oil, gas & NGL revenue, net of royalties	3,718	4,620	(20)	20,869	6,003	248
Cash flow ⁽¹⁾	2,856	2,871	(1)	19,522	4,411	343
Per share-basic and diluted ⁽¹⁾	\$ 0.04	\$ 0.04	(1)	\$ 0.26	\$ 0.06	333
Net income/(loss)	(16,327)	(10,499)	56	(19,617)	1,324	(1,582)
Per share-basic and diluted	\$ (0.23)	\$ (0.14)	55	\$ (0.27)	\$ 0.04	(1,550)
Capital expenditures ⁽²⁾	4,990	315,089	(98)	18,417	379,220	(95)
Working capital	13,332	2,872	364	13,332	2,872	364
Total assets	394,200	469,553	(16)	394,200	469,553	(16)
Common Shares (thousands)						
Weighted average during period						
- basic	73,839	41,512	78	73,681	36,305	103
- diluted	73,839	44,384	66	73,681	38,795	90
Outstanding at period end						
- basic	75,224	73,599	2	75,224	73,599	2
- diluted	79,164	77,689	2	79,164	77,689	2

⁽¹⁾ Cash flow is a non-GAAP measurement and is defined under the Non-GAAP Measures section of this MD&A.

⁽²⁾ Excludes capitalized costs relating to foreign currency translation and asset retirement obligations incurred during the period.

2.2. Financial Performance

Capital spending may be funded by the excess of cash flows from operating activities, through additional debt, the issuance of equity, or property dispositions.

Cash and cash equivalents at December 31, 2009 totaled \$8.0 million compared with \$24.4 million at the beginning of the year.

As at December 31, 2009, the Company had combined current and long-term bank debt of \$19.3 million compared with \$37.6 million at December 31, 2008. Bank debt at December 31 was as follows:

(\$ thousands)	2009	2008
Royal Bank of Scotland – current portion	8,170	21,475
Royal Bank of Scotland	11,166	16,107
Total	19,336	37,582

The Royal Bank of Scotland loan represents a secured facility obtained for the purpose of developing the Victoria gas field in the North Sea.



2.3. Operational Performance

- Annual production for the year ended December 31, 2009 of 1,665 Boe/day, a 555% increase over the same period in 2008, reflected a full year of production in the UK and a successful drilling program in Tunisia.
- Production revenue, net of royalties of \$20.9 million for the year ended December 31, 2009 represents a 248% increase over the same period in 2008 due to increased sales volumes in the UK and strong oil prices and sales volumes in Tunisia.
- Cash flow of \$19.5 million (\$0.26 per share) for the year ended December 31, 2009, represents a 343% increase over the same period in 2008.

2.4. Growth Highlights

To achieve corporate strategic objectives the Company focused on the following projects in 2009:

North Sea, UK

Victoria – This field remained the primary cash generator for the UK business and averaged production of 1,598 boe/d for the year, despite a production curtailment in the third quarter as a result of a third party shut-in to replace a pipeline.

Vulcan East – There was not much progress on the Vulcan East field during 2009 due to the low gas prices and sluggish commercial negotiations. A successful appraisal well was drilled at Vulcan NW in the first quarter of 2009 where the Company took an 11% operating interest.

Cobra Acquisition – In May 2009, the Company, through its wholly-owned subsidiary, acquired a 25% interest in the Cobra natural gas discovery and the adjoining exploration lands on which the Company has identified two prospects. A detailed review of the seismic interpretation and depth conversion has also commenced.

Tunisia

Sud Remada – Initial production commenced during the second quarter of the year on the TT2 Ordovician discovery well. The well is producing light sweet oil at a steady rate since commencement and has successfully completed two pressure buildups with no sign of depletion. During the year, the Company completed the acquisition of a 140 square kilometer 3D survey over the discovery with encouraging preliminary results. Discussions with industry partners to acquire additional interests were initiated in 2009 and closed in 2010 resulting in the Company acquiring an additional 15% interest in the block.

Jenein – During 2009, the Company received the formal award of the Jenein permit and initiated the rig selection process with ETAP, the Tunisian state oil company, with the hope of drilling the well in the first half of 2010. The JC1 well, a planned 4400m well, will test an estimated 25 million barrel prospect at an estimated completion cost of USD\$11 million. A partner has confirmed their commitment to funding 70% of the well cost with SVI retaining a 65% operated interest.

Fushia – During 2009, the Company completed the tender process and initiated negotiating a rig contract for a well that expected to be spud in early 2010. During the year, SVI entered into an agreement with a partner to fund 62% of the estimated USD\$14 million well cost with SVI retaining a 65% operating interest. Late in 2009, SVI negotiated a second agreement whereby it farmed out 30% of its interest to another partner in order to manage capital costs and risk.

Canada

Late in the fourth quarter, the Company entered into an agreement with a major producer to purchase certain oil and natural gas assets in West Central Alberta for a total purchase price of \$190 million. The assets produce approximately 5,000 boe/d from low-decline, liquids-rich natural gas assets. The relatively low-risk cash flow from the Canadian assets will be re-invested in the Canadian assets as well as provide stable financing to fund the high-growth international assets. The purchase closed March 1, 2010.



3. Capabilities to Deliver Results

3.1. Leadership

The Company is lead by a team of professionals who have demonstrated a successful track record of corporate and project initiation, growth and value crystallization in Western Canada over the last 25 years. Specifically, the group has been materially involved in the founding, building and sale of companies with combined production of over 70,000 Boe/d. This domestic experience has been augmented with partners possessing strong "hands on" production, project management and business development skills that have been focused on international oil operations in North Africa and the North Sea, UK. The Company aligns itself with local or joint venture partners who will be the catalysts to a successful operation or are capable of effectively providing strategic technical skills.

3.2. Governance

Board Role

The principal role of SVI's Board of Directors is to act as stewards of the Company. Their primary objective is the protection and enhancement of shareholder value and, by consequence, the value of the Company's assets. The Board of Directors of SVI has the ultimate responsibility with respect to the business and affairs of the Company. The Board oversees the conduct of the business and the Company's management develops and executes the long term strategy and conduct the Company's day-to-day business.

The Board also ensures that processes and systems are in place to manage risk and, in partnership with the Company's management, ensures transparency and conformity in the areas of regulatory compliance, environmental, health and safety policies and financial practices and reporting.

Board and Committee Independence

The Board of Directors discharges some of its responsibilities through one committee - Audit Committee. The Audit Committees is composed entirely of independent directors. The mandate and responsibilities of the Board of Directors are reviewed on an annual basis to reflect changes in the business environment and new legislation.

3.3. Liquidity

It is not possible to predict, with any degree of confidence, future commodity prices given the economic environment and uncertainties relating to the existing global recession and its impact on the demand for natural gas and crude oil. Should current conditions continue cash flow will be affected and will impact our ability and timing to develop proved and probable undeveloped reserves necessary to maintain or achieve production growth.

The following table shows how the Company financed its business activities:

<i>(\$ thousands)</i>	2009	2008
Net Cash from (used in)		
Operating activities	18,457	4,319
Financing activities	(9,960)	43,418
Investing activities	(20,880)	(73,496)
Foreign exchange, cash and cash equivalents	(3,955)	993
Increase (decrease) in cash and cash equivalents	(16,338)	(24,766)

At December 31, 2009, the Company had cash and cash equivalents of \$8.0 million, held in current accounts predominately located in Canada.



As at December 31, 2009, the Company had a \$13.3 million working capital surplus. As is typical in the oil and gas industry, there is a timing difference between cash receipts from sales transactions and partners share of capital costs and payments of trade payables. SVI anticipates that it will continue to meet the payment terms of its suppliers.

At December 31, 2009, outstanding long-term debt totalled \$19.3 million including amounts due within one year, compared with \$37.6 million at December 31, 2008. Silverstone has a £30.0 million borrowing base agreement in place, of which £11.4 million has been drawn down and £21.0 million represents the maximum base accessible. On February 24, 2010, SVI completed a bank financing to facilitate closing the acquisition of the Canadian oil and natural gas properties in the first quarter of 2010 and for general corporate purposes. The total credit facility available is \$55.0 million, consisting of a \$50.0 million revolving credit facility and a \$5.0 million operating facility. SVI anticipates it will have adequate liquidity to fund its financial liabilities as repayments come due.

SVI has a bias toward conservatively financing operations under normal industry conditions, by utilizing equity financing and internally generated cash flow, to offset the inherent risks of domestic and international oil and gas activities. From time to time, the Company may access the capital markets for new equity to supplement internally generated cash flow to finance its growth plans. Periodically, these markets may not be receptive to offerings of new equity from treasury, whether by way of private placement or public offerings. This may be further complicated by the limited market liquidity for shares of smaller companies, restricting access to some institutional investors. In January 2010, the Company completed a private placement of common shares for aggregate proceeds of \$18 million and in February 2010, in conjunction with the acquisition of the Canadian oil and natural gas properties, the Company completed another private placement for gross proceeds of \$150.0 million.

The Company will fund its future obligations associated with general commitments and future development costs on the oil and natural gas properties from the cash flow generated from the UK operations with respect to the debt component and cash flow from the Tunisian operations and the new credit facility as to the capital program and general operations.

Contractual Obligations

In the normal course of business, SVI is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancellable.

<i>(\$ thousands)</i>	2010	2011-12	2013-14	Thereafter	Total
Long-term debt and interest	\$ 8,374	\$ 11,445	\$ -	\$ -	\$ 19,819
Operating leases	612	1,244	581	761	3,198
Engineering and construction commitments	1,164	-	-	-	1,164
Total	\$ 10,150	\$ 12,689	\$ 581	\$ 761	\$ 24,181

4. Strategic Plan and Outlook

4.1. 2010 Guidance

In light of current economic uncertainty, resulting from instability in capital markets and volatility in commodity prices, SVI's focus will be on financial discipline, maintaining a conservative capital structure, production growth from low risk development opportunities, and pursuit of high-impact exploration activity through promoted partner participation.

SVI's capital program during 2010 will be funded primarily by cash generated from operating activities, funding from private equity placements in 2010 and bank financing. SVI's operations have a relatively high degree of fixed costs and relatively low royalty and tax rates. This provides the Company with a high netback per barrel for incremental production, and makes the cash from operating activities sensitive to variations in commodity prices. Management has reviewed the Company's financial prospects under numerous market conditions, commodity price scenarios and drilling success rates. This review has enabled SVI to prioritize capital expenditures. The Company's current strategic direction by business segment is as follows:



North Sea, UK

The Company has continued to struggle with furthering the UK business as a result of the concentration of cash flow being generated from only one well and field performance being below management expectations. The Company sought alternatives to farm down, swap or dispose of certain interests in the business segment in 2009 without success. On March 31, 2010, the Company announced that its wholly-owned subsidiary, Silverstone, combined with Bridge Energy Norge AS whereby each of the companies became subsidiaries of a holding company, Bridge Energy ASA ("Bridge Energy"). SVI, through its subsidiary SVI (BVI), formerly owned all of the shares of Silverstone which contained the Company's North Sea business. After the combination, SVI (BVI) will own 80% of the issued and outstanding shares of Bridge Energy.

Tunisia

So far in 2010, the Company has closed two acquisitions in Tunisia: (a) the acquisition of a 15% interest in the Sud Remada block from a partner resulting in the Company now holding an 86% interest in the block and (b) the acquisition from a major producer of a 5% interest in the Adam concession, a producing oil concession with exposure analogous to the Jenein play.

For the rest of 2010, on the Sud Remada block, the Company intends to drill two appraisal wells and one exploration well, as included in the Plan of Development submitted to the Tunisian authorities. In the second quarter of 2010, the Company plans to spud both the JC1 well and the Fushia well. Economic review of the Cosmos and Yasmin concessions will continue in 2010 as the Company considers its time and funding constraints.

Canadian Acquisition

In December 2009 the Company entered into an agreement to acquire oil and natural gas properties located in West Central Alberta. This acquisition closed in early March 2010 and has repositioned the Company to include a growth platform in Western Canada. The Company is reviewing the exploitation potential associated with the assets through the application of new technology in order to expose untapped potential. While approximately 50% of the assets are operated and the remainder is non-operated with industry partners, the Company is optimistic it can work with its partners to realize the available potential.

Associated with the acquisition, the Company also completed two private placements in early 2010 for gross proceeds of \$168 million and negotiated a credit facility with a syndicate of banks for \$55 million.



4.2. 2009 Actual Results

	2009 Actual Results
<i>(all amounts expressed in \$Cdn unless otherwise noted and volume amounts)</i>	
Pricing	
Crude Oil – Brent (\$US/Bbl)	66.72
Natural Gas – International (\$US/Mcf)	5.47
\$US/\$Cdn Exchange Rate	0.95
Capital Expenditures ⁽¹⁾ (\$Cdn '000s)	
Tunisia (%)	42
North Sea, UK (%)	57
Canada (%)	-
Corporate (%)	1
Production	
Oil (Bbl/d)	67.7
Natural Gas & NGL (Mmcf/d)	9.6
Total (Boe/d)	1,665.2
Financial Metrics (\$Cdn)	
Operating Netback per Boe ⁽²⁾ (\$)	16.70
Cash Flow ⁽²⁾ (\$Cdn '000s)	19,522
Cash Flow per share ⁽²⁾ (\$)	0.26

⁽¹⁾ Excludes capitalized costs relating to foreign currency translation incurred during the period.

⁽²⁾ Operating Netback and Cash flow are non-GAAP measurement defined in the Non-GAAP Measures section of this MD&A.

5. Business Environment Analysis

5.1. Risk Factors

SVI is exposed to certain risks and uncertainties inherent in the oil and gas industry which include but are not limited to the following:

- Commodity price fluctuations for both crude oil and natural gas, which are subject to a myriad of factors, are outside of the Company's control;
- Risks arising from exploration and development activities;
- Production risks associated with the depletion and deliverability of reservoirs and the ability to market production;
- The availability and cost of labor, materials and equipment to efficiently, effectively and safely undertake capital projects;
- Environmental and safety concerns;
- Availability of incremental reserves of oil and natural gas, whether sourced from exploration, development or acquisitions.

SVI operates in various foreign countries and is exposed to other risks including:

- Exchange rate between the Canadian and the US dollar and Great British Pound for not only commodity prices but also capital spending and expenses;
- Changes to government fiscal, monetary and other financial policies;
- Evolution of changing domestic and international climate and environmental policies;
- Terrorism or militant targeted protests directed at international operations;
- Political risk;
- Price controls and varying forms of fiscal regimes or changes thereto.



SVI is exposed to financing risks such as:

- The cost and availability of capital, which is dependent upon a number of factors including the general economic and market conditions that are beyond the Company's control;
- Interest rate risk;
- Credit risk.

All, but not limited to, the above risks may impair SVI's ability to: conduct profitable operations; realize on its assets; or capitalize on opportunities which might become available to it. The success of the Company's capital programs, as embodied in its productivity and reserve base, could also impact its prospective liquidity and pace of future activities. Control of finding, development, operating and overhead costs on a per unit basis are important criteria in determining Company growth, success and access to new capital sources.

The Company attempts to mitigate its business and operational risk exposures by: maintaining comprehensive insurance coverage on its assets and operations; employing or contracting competent technicians and professionals; instituting and maintaining operational health, safety and environmental standards and procedures; employing a commodity hedging program with the goal of minimizing significant downward commodity price movements; and maintaining a prudent approach to exploration and development activities. SVI attempts to minimize risks associated with exploration by generating exploration prospects internally, targeting high quality projects and attempting to operate the projects. The Company also addresses and regularly reports to its shareholders on the impact of risks and writing down the carrying values of assets that may not be recoverable.

Being part of the oil and natural gas industry and operating in various foreign countries, the Company is subject to various governmental regulations which change from time to time and which are quite extensive. The Company is committed to operating as a good corporate citizen in a responsible manner. The Company is committed to a continual program of exploration and development, guided by a very experienced and qualified team.

5.2. Commodity Prices

SVI produces natural gas primarily from its Victoria field in the North Sea, UK benchmarked against Britain NBP.

The Company's oil production is from the Sud Remada permit in the Ghadames Basin of Southern Tunisia. The price paid for oil in Tunisia is based on the average price for Brent oil sold in the Mediterranean.

While hedging activities may have opportunity costs when realized prices exceed hedged pricing, such transactions are not meant to be speculative and are considered within the broader framework of financial stability and flexibility. Management continuously reviews the need to utilize such financing techniques. At year end, the Company had one forward commodity price contract in place on natural gas production from the Victoria field in the North Sea, UK for calendar year 2010. In January 2010, Silverstone entered into a second forward commodity price contract for the term October 1, 2010 to December 31, 2011 on natural gas production from the Victoria field.

	Gas Production	Floor	Ceiling	Term
Contract 1	1,191 Mcf	45p/therm	55p/therm	2010
Contract 2	1,191 Mcf	40p/therm	47p/therm	2010/11

5.3. Fourth Quarter 2009 Sensitivities

SVI's financial performance is affected by factors such as changes in commodity prices, exchange rates and interest rates. The estimated impact of these factors on the Company's financial performance for the fourth quarter of 2009 is summarized in the following table, based on an approximate Brent oil price of Cdn \$72.71/bbl, a Britain NBP natural gas price of Cdn \$4.22/mcf and an exchange rate of \$US = \$Cdn 1 = 0.95.



	Three Months Ended December 31, 2009
	Net Income
<i>(\$ thousands, except per unit amounts)</i>	
Price Changes	
Oil Increased \$1.00/Bbl	9
Natural Gas Increased \$0.10/Mcf	49
Exchange Rate Changes	
\$US/\$Cdn Decreased By \$US \$0.01	91
Interest Rate Changes	
Rate Increased By 1%	13

6. Reserves

6.1. Boe Conversions

Barrels of oil equivalent (Boe) amounts have been calculated using the energy equivalent conversion method, using a conversion rate of 6,000 cubic feet (Mcf) of natural gas to one barrel of oil and natural gas liquids (6 Mcf = 1 Bbl). Boe may be misleading, particularly if used in isolation. A Boe conversion rate of 6 Mcf = 1 Bbl is based on an energy equivalent conversion method primarily applicable at the burner tip and does not necessarily represent a valid equivalence at the wellhead.

6.2. Reserves Summary

The statement of reserves data set forth below is dated March 19, 2010. The effective date of the information is December 31, 2009. The reserves data is based upon evaluations prepared by Paddock Lindstrom & Associates Ltd. ("Paddock") and Sproule International Limited ("Sproule"). The evaluations were conducted as follow:

- Paddock report dated February 18, 2010 evaluated the Sud Remada Pool in Tunisia;
- Paddock report dated February 18, 2010 evaluated the Yasmin Concession in Tunisia;
- Sproule report dated January 26, 2010 evaluated the Cosmos South Field, offshore northeastern Tunisia in the Gulf of Hammamet;
- Sproule report dated February 22, 2010 evaluated the Vulcan East Field located in the UK North Sea; and
- Sproule report dated February 5, 2010 evaluated the Victoria and B Blocks located in the UK North Sea.

The evaluation reports by both Paddock and Sproule were prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in NI 51-101. The reserves data summarizes, the oil, liquids and natural gas reserves of the Company and the net present values of future net revenue for these reserves using forecast prices and costs.

Total proved reserves decreased by 36% to 5,206 Mboe at December 31, 2009, a decrease of 37% per share from the year earlier, using basic shares outstanding at the end of each year. The per share decrease can be attributed to both the decrease in the proved reserves as well as the increase in the number of shares outstanding between the periods after the private placement that occurred in 2009.

Total proved plus probable reserves increased by 3% to 35,596 Mboe at December 31, 2009. Proved plus probable reserves per share remained the same between 2008 and 2009 at 0.47 as a result of both the increase in the reserves volumes and an increase in the number of shares outstanding after the private placement in 2009.

The total proved finding and development cost, as per NI 51-101 requirements, was \$nil per Boe as there were no additions to proved reserves during the year, only negative revisions; total proved plus probable finding and development cost, as per NI 51-101 requirements, was \$nil per Boe as there were no additions to the proved plus probable reserves for during the period. Changes to future development costs ("FDC") of properties were included in the calculation and the effect of acquisitions, divestitures, and revisions was



excluded. Comparable amounts for the prior year are not available as NI 51-101 compliant reserves were not prepared as a result of the Company still being in a pre-production stage of business.

The all-in cost for adding proved reserves was \$(1.55) per Boe, and for adding proved plus probable reserves was \$(63.00) per Boe. The all-in calculation reflects the result of SVI's entire capital investment program as it takes into account the effect of acquisitions, dispositions, and revisions, as well as the large negative changes in FDC. Comparable amounts for the prior year are not available as NI 51-101 compliant reserves were not prepared as a result of the Company still being in a pre-production stage of business.

The net present value of total proved plus probable reserves, discounted at 10% before tax, amounted to \$657 million. The net present value of total proved reserves amounted to \$72 million, or 11% of the net present value of total proved plus probable reserves.

Future development costs were \$135.9 million on a proved basis and \$494 million on a total proved plus probable basis.

6.3. Future Development Costs

<i>(\$ millions)</i>	Total Proved	Total Proved plus Probable
Development of Cosmos discovery	104.7	104.7
Development of Yasmin discovery	-	95.8
Development of Sud Remada discovery	31.2	51.8
Development of Victoria discovery	-	80.1
Development of Vulcan discovery	-	161.7
	135.9	494.0

Future Development Costs – Total Proved

<i>(\$ millions)</i>	Cosmos Discovery	Yasmin Discovery	Sud Remada Discovery	Victoria Discovery	Vulcan Discovery	Total
2010	15.4	-	7.2	-	-	22.7
2011	89.2	-	24.0	-	-	113.2
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
Remaining	-	-	-	-	-	-
Total	104.7	-	31.2	-	-	135.9

Future Development Costs – Total Proved Plus Probable

<i>(\$ millions)</i>	Cosmos Discovery	Yasmin Discovery	Sud Remada Discovery	Victoria Discovery	Vulcan Discovery	Total
2010	15.4	-	7.2	-	96.2	118.9
2011	89.2	95.8	44.6	42.2	-	271.8
2012	-	-	-	37.9	65.5	103.4
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
Remaining	-	-	-	-	-	-
Total	104.7	95.8	51.8	80.1	161.7	494.0



6.4. 2009 Reserves and Valuation

Net Present Value Summary (before tax) as at December 31, 2009

Benchmark oil and NGL prices used are adjusted for quality of oil or NGL produced and for transportation costs. The calculated NPVs include a deduction for estimated future well abandonment costs.

Reserves Category	Net Present Values of Future Net Revenue Before Income Taxes Discounted at (%/year)					Unit Value Before Income Taxes Discounted at 10%	
	0% (\$000s)	5% (\$000s)	10% (\$000s)	15% (\$000s)	20% (\$000s)	(\$/Boe)	(\$/Mcfe)
Tunisia							
Proved:							
Developed producing	2,244	2,245	2,222	2,185	2,139	24.16	4.03
Developed non-producing	-	-	-	-	-	-	-
Undeveloped	71,862	54,702	40,813	29,493	20,210	11.87	1.98
Total proved	74,105	56,948	43,035	31,678	22,349	12.19	2.03
Probable additional	441,429	357,035	291,500	239,969	198,989	38.17	6.36
Total proved plus probable	515,534	413,893	334,535	271,647	221,338	29.96	4.99
North Sea, UK							
Proved:							
Developed producing	31,744	30,575	29,318	28,053	26,824	21.14	3.52
Developed non-producing	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-
Total proved	31,744	30,575	29,318	28,053	26,824	21.14	3.52
Probable additional	560,018	402,918	293,395	215,338	158,473	13.48	2.25
Total proved plus probable	591,762	433,493	322,713	243,391	185,297	13.94	2.32
Total Company							
Proved:							
Developed producing	33,988	32,820	31,541	30,238	28,963	21.33	3.55
Developed non-producing	-	-	-	-	-	-	-
Undeveloped	71,862	54,702	40,813	29,493	20,210	11.87	1.98
Total proved	105,849	87,523	72,354	59,731	49,173	14.71	2.45
Probable additional	1,001,447	759,953	584,895	455,307	357,462	19.89	3.31
Total proved plus probable	1,107,296	847,476	657,248	515,039	406,635	19.15	3.19

Net Present Value Summary (after tax) as at December 31, 2009

Benchmark oil and NGL prices used are adjusted for quality of oil or NGL produced and for transportation costs. The calculated NPVs include a deduction for estimated future well abandonment costs.

Reserves Category	Net Present Values of Future Net Revenue After Income Taxes Discounted at (%/year)					Unit Value After Income Taxes Discounted at 10%	
	0% (\$000s)	5% (\$000s)	10% (\$000s)	15% (\$000s)	20% (\$000s)	(\$/Boe)	(\$/Mcfe)
Tunisia							
Proved:							
Developed producing	2,244	2,245	2,222	2,185	2,139	24.16	4.03
Developed non-producing	-	-	-	-	-	-	-
Undeveloped	54,902	39,992	27,969	18,212	10,245	8.13	1.36
Total proved	57,145	42,237	30,192	20,397	12,384	8.55	1.43
Probable additional	227,577	179,272	142,282	113,598	91,104	18.63	3.11
Total proved plus probable	284,722	221,509	172,474	133,995	103,488	15.45	2.57
North Sea, UK							
Proved:							
Developed producing	31,743	30,575	29,318	28,053	26,824	21.14	3.52
Developed non-producing	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-
Total proved	31,743	30,575	29,318	28,053	26,824	21.14	3.52
Probable additional	343,045	255,752	189,827	140,161	102,459	8.72	1.45
Total proved plus probable	374,788	286,327	219,145	168,214	129,283	9.46	1.45
Total Company							
Proved:							
Developed producing	33,987	32,820	31,541	30,238	28,963	21.33	3.55
Developed non-producing	-	-	-	-	-	-	-
Undeveloped	54,902	39,992	27,969	18,212	10,245	8.13	1.36
Total proved	88,889	72,812	59,510	48,450	39,208	12.10	2.02
Probable additional	570,622	433,025	332,110	253,759	193,563	11.29	1.88
Total proved plus probable	659,511	507,837	391,620	302,210	232,771	11.41	1.90

Escalating Price and Cost Assumption Forecast as at December 31, 2009

The forecast price and cost assumptions take into account inflation with respect to future operating and capital costs. Crude oil and natural gas benchmark reference pricing, inflation and exchange rates utilized in the Sproule and Paddock evaluations are as follows:

	Inflation rate (%)	Exchange rate (\$US/GBP)	Exchange rate (\$US/\$Cdn)	Brent		
				WTI Crude Oil (\$US/Bbl)	Light Crude Oil (\$US/Bbl)	Britain NBP Natural Gas (\$US/Mmbtu)
2010	2.0	1.60	0.92	79.17	77.92	4.96
2011	2.0	1.60	0.92	84.46	83.19	7.55
2012	2.0	1.60	0.92	86.89	85.59	8.27
2013	2.0	1.60	0.92	90.20	88.88	7.32
2014	2.0	1.70	0.92	92.01	90.65	8.00



Gross and Net Company Interest Reserves as at December 31, 2009

(Before deduction of royalties payable, not including royalties receivable)

Reserves Category	Light & Medium Oil		Associated & Non-Associated Natural Gas		Natural Gas Liquids		Oil Equivalent (6:1)	
	Gross (M bb l)	Net (M bb l)	Gross (MMcf)	Net (MMcf)	Gross (M bb l)	Net (M bb l)	Gross (MBoe)	Net (MBoe)
Tunisia								
Proved:								
Developed producing	92	92	-	-	-	-	92	92
Developed non-producing	-	-	-	-	-	-	-	-
Undeveloped	3,727	3,439	-	-	-	-	3,727	3,439
Total proved	3,819	3,531	-	-	-	-	3,819	3,531
Probable additional	8,619	7,636	-	-	-	-	8,619	7,636
Total proved plus probable	12,438	11,167	-	-	-	-	12,438	11,167
North Sea, UK								
Proved:								
Developed producing	-	-	8,226	8,226	16	16	1,387	1,387
Developed non-producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-
Total proved	-	-	8,226	8,226	16	16	1,387	1,387
Probable additional	-	-	129,073	129,073	259	259	21,771	21,771
Total proved plus probable	-	-	137,299	137,299	275	275	23,158	23,158
Total Company								
Proved:								
Developed producing	92	92	8,226	8,226	16	16	1,479	1,479
Developed non-producing	-	-	-	-	-	-	-	-
Undeveloped	3,727	3,439	-	-	-	-	3,727	3,439
Total proved	3,819	3,531	8,226	8,226	16	16	5,206	4,918
Probable additional	8,619	7,636	129,073	129,073	259	259	30,390	29,407
Total proved plus probable	12,438	11,167	137,299	137,299	275	275	35,596	34,325

Gross Company Reserve Reconciliation for 2009

(Gross company interest reserves before deduction of royalties payable)

	6:1 Oil Equivalent (MBoe)		
	Total Proved	Probable	Proved plus Probable
December 31, 2008 – opening balance	8,118	26,578	34,696
Acquisitions	-	4,351	4,351
Discoveries	-	-	-
Extensions	-	-	-
Dispositions	-	-	-
Technical revisions	(2,304)	(539)	(2,843)
Production	(608)	-	(608)
December 31, 2009 – closing balance	5,206	30,390	35,596



6.5. Reserves Replacement and Reserves Life Index

	Reserves Replacement		Reserves Life Index	
	Proved Reserves	Proved + Probable	Proved Reserves	Proved + Probable Reserves
	(%)	(%)	(years)	(years)
North Sea, UK	27	65	3.0	41.8
Tunisia	73	35	64.6	210.3
Consolidated	100	100	9.9	58.0

6.6. Finding, Development and Acquisition Costs ("FD&A")

N1 51-101 Finding and Development Costs

Comparable amounts for the prior year are not available as NI 51-101 compliant reserves were not prepared as a result of the Company still being in a pre-production stage of business.

Total Proved Finding and Development Cost

	2009
<i>(\$ thousands except per unit amounts)</i>	
Capital expenditures excluding acquisitions and dispositions	18,307
Net change from previously allocated future development capital	(14,724)
Total capital including the net change in future capital	3,582
Reserve additions excluding acquisitions, dispositions and revisions (<i>Mboe</i>)	-
Total proved finding and development costs (<i>per Boe</i>)	\$ -

Total Proved Plus Probable Finding and Development Cost

	2009
<i>(\$ thousands except per unit amounts)</i>	
Capital expenditures excluding acquisitions and dispositions	18,307
Net change from previously allocated future development capital	(113,309)
Total capital including the net change in future capital	(95,003)
Reserve additions excluding acquisitions, dispositions and revisions (<i>Mboe</i>)	-
Total proved plus probable finding and development costs (<i>per Boe</i>)	\$ -

All-In Finding, Development and Acquisition Costs

Total Proved All-In Finding, Development and Acquisition Cost – including FDC, Acquisitions, Dispositions, Revisions

	2009
<i>(\$ thousands except per unit amounts)</i>	
Capital expenditures including acquisitions and dispositions	18,307
Net change from previously allocated future development capital	(14,724)
Total capital including the net change in future capital	3,582
Reserve additions including acquisitions, dispositions and revisions (<i>Mboe</i>)	(2,304)
All-in total proved finding and development costs (<i>per Boe</i>)	\$ (1.55)



Total Proved Plus Probable All-in Finding, Development and Acquisition Cost - including FDC, Acquisitions, Dispositions, Revisions

<i>(\$ thousands except per unit amounts)</i>	2009
Capital expenditures including acquisitions and dispositions	18,307
Net change from previously allocated future development capital	(113,309)
Total capital including the net change in future capital	(95,003)
Reserve additions including acquisitions, dispositions and revisions (<i>Mboe</i>)	1,508
All-in total proved plus probable finding and development costs (<i>per Boe</i>)	\$ (63.00)

7. Results of Operations**7.1. Cash Flow****Year Ended December 31, 2009 vs 2008**

Cash flow increased to \$19.5 million for the year ended December 31, 2009, compared to \$4.4 million for the comparable period of 2008. Primarily, the increase is a result of:

- a \$14.9 million increase in total revenue, net of royalties. Despite natural gas prices plummeting to almost half of the value as seen in 2008, production volumes increased as result of a full year of natural gas production in the North Sea and initial production from the Sud Remada permit in Tunisia commencing in the second quarter of 2009 thereby driving the increase in revenue;
- a realized derivative gain of \$9.9 million compared to a realized derivative gain of only \$1.1 million in the prior year.

This was offset by:

- \$4.6 million increase in operating expense, primarily related to a full year's operating costs in the UK and the commencement of production in Tunisia;
- \$2.4 million increase in general and administrative costs, net of non-cash stock based compensation costs, arising from a change in accounting policy whereby pre-production costs were capitalized in 2008 and charged to expense in 2009.

Three Months Ended December 31, 2009 vs 2008

Cash flow was relatively constant between the three months ended December 31, 2009, when compared to the same period in 2008. The comparability was as a result of:

- a gain on the sale of investment in Storm Gas Resources contributed \$1.9 million to the cash flow for the fourth quarter of 2009;
- general and administrative expenses were lower by \$1.5 million for the fourth quarter of 2009 when compared to the same period of 2008.

This was offset by:

- lower production revenue due to the overall price received falling by 56%;
- higher production expenses incurred with both the existing and new production when compared to the fourth quarter of 2008;
- higher interest costs in the fourth quarter of 2009 than the same period in 2008 were associated with the long term debt held with the Royal Bank of Scotland.



7.2. Production

Year Ended December 31	2009			2008		
	Oil (Bbl/d)	Gas & NGL (Mmcf/d)	Total (Boe/d)	Oil (Bbl/d)	Gas & NGL (Mmcf/d)	Total (Boe/d)
North Sea, UK	-	9.6	1,597.5	-	1.5	254.3
Tunisia	67.7	-	67.7	-	-	-
Total	67.7	9.6	1,665.2	-	1.5	254.3

Year Ended December 31, 2009 vs 2008

Average production for the year was 555% higher than the annual average production for 2008 as a result of:

- a full year of natural gas and NGL production (528% increase) in the North Sea,UK;
- commencement of initial production at Sud Remada, Tunisia as a result of successful drilling activity.

Three Months Ended December 31	2009			2008		
	Oil (Bbl/d)	Gas & NGL (Mmcf/d)	Total (Boe/d)	Oil (Bbl/d)	Gas & NGL (Mmcf/d)	Total (Boe/d)
North Sea, UK	-	8.0	1,331.0	-	4.8	793.7
Tunisia	92.6	-	92.6	-	-	-
Total	92.6	8.0	1,423.6	-	4.8	793.7

Three Months Ended December 31, 2009 vs 2008

Production in the fourth quarter of 2009 increased 79% when compared to the fourth quarter of 2008, as a result of:

- natural gas production increase of 68% in the North Sea;
- initial oil production beginning at Sud Remada, Tunisia as a result of successful drilling.

Production

	Three Months Ended December 31			Year Ended December 31		
	2009	2008	% Change	2009	2008	% Change
Production (Boe)	130,968	73,023	79	607,782	92,807	555
- Boe/d	1,423.6	793.7	79	1,665.2	254.3	555



7.3. Operating Netbacks

The following tables outline the operating netbacks by country for the twelve and three month periods ended December 31, 2009 and 2008:

Year Ended December 31	2009			2008		
	Tunisia	North Sea	Total	Tunisia	North Sea	Total
Sales Volumes						
Oil Sales (Bbls)	24,698	-	24,698	-	-	-
Gas & NGL Sales (Mmcf)	-	3,499	3,499	-	557	557
Total Sales (Boe)	24,698	583,084	607,782	-	92,807	92,807
- Boe/d	67.7	1,597.5	1,665.2	-	254.3	254.3
Per Sales Boe						
Realized Sales Price	\$ 70.23	\$ 35.26	\$ 36.68	\$ -	\$ 69.35	\$ 69.35
Royalties	-	(2.45)	(2.35)	-	(4.66)	(4.66)
Operating Expense	(29.70)	(10.60)	(11.38)	-	(18.65)	(18.65)
General and Administration ⁽¹⁾	(29.31)	(1.20)	(6.26)	-	(22.34)	(35.21)
Current Tax Expense	-	-	-	-	(0.20)	(0.20)
Operating Netback	\$ 11.22	\$ 21.02	\$ 16.70	\$ -	\$ 23.50	\$ 10.63

⁽¹⁾ General and administration expenses by country are net of \$2.4 million and \$1.4 million of corporate costs, for the years 2009 and 2008, respectively, which are included in the total column and exclude all non-cash stock-based compensation.

Three Months Ended December 31	2009			2008		
	Tunisia	North Sea	Total	Tunisia	North Sea	Total
Sales Volumes						
Oil Sales (Bbls)	8,520	-	8,520	-	-	-
Gas & NGL Sales (Mmcf)	-	735	735	-	438	438
Total Sales (Boe)	8,520	122,448	130,968	-	73,023	73,023
- Boe/d	92.6	1,331.0	1,423.6	-	793.7	793.7
Per Sales Boe						
Realized Sales Price	\$ 72.71	\$ 27.78	\$ 30.70	\$ -	\$ 69.09	\$ 69.09
Royalties	-	(2.47)	(2.31)	-	(5.83)	(5.83)
Operating Expense	(29.11)	(16.51)	(17.33)	-	(20.24)	(20.24)
General and Administration ⁽¹⁾	(13.85)	3.58	(1.76)	-	(28.39)	(38.80)
Current Tax Expense	-	-	-	-	(0.26)	(0.26)
Operating Netback	\$ 29.75	\$ 12.37	\$ 9.30	\$ -	\$ 14.37	\$ 3.96

⁽¹⁾ General and administration expenses by country are net of \$0.5 million and \$0.9 million of corporate costs, for the 2009 and 2008 three month periods respectively, which are included in the total column and exclude all non-cash stock-based compensation.

Gross Revenue

(\$ thousands except per unit amounts)	Three Months Ended December 31			Year Ended December 31		
	2009	2008	% Change	2009	2008	% Change
Oil Sales	620	-	100	1,734	-	100
Per Bbl	\$ 72.71	\$ -	100	\$ 70.23	\$ -	100
Natural Gas & NGL Sales	3,401	5,045	(33)	20,562	6,436	219
Per Mcf	\$ 4.63	\$ 11.52	(60)	\$ 5.88	\$ 11.56	(49)
Total Oil and Gas Revenue	4,021	5,045	(20)	22,296	6,436	246
Per Boe	\$ 30.70	\$ 69.09	(56)	\$ 36.68	\$ 69.35	(47)



Year Ended December 31, 2009 vs 2008

Total annual oil and gas revenue increased 246% for 2009 when compared to the annual sales of 2008 as a result of:

- nine months of oil sales volumes related to the initial production commencement in Tunisia;
- 219% increase in gas and NGL sales volumes in the North Sea due to twelve months of production being captured in 2009 compared to only three months being included in the results for 2008.

This was offset by:

- 49% decrease in realized natural gas prices.

Three Months Ended December 31, 2009 vs 2008

Total oil and gas revenue decreased by 20% in the fourth quarter of 2009 compared to the same period in 2008 due to:

- increase of 68% in gas sales volume in the North Sea;
- oil sales volumes in Tunisia.

This was offset by:

- 60% decrease in realized natural gas prices.

Royalties

(\$ thousands except per unit amounts)	Three Months Ended December 31			Year Ended December 31		
	2009	2008	% Change	2009	2008	% Change
Total	303	426	(29)	1,428	433	230
Percent of Revenue	7.5	8.4	(11)	6.4	6.7	(5)

There are no royalties reported in the Tunisian operations as the operations are governed by a production sharing contract with ETAP, the Tunisian national oil company. Under the contract, the Company receives 62.625% of the production with ETAP receiving the remaining 37.375% of the production. The share that is received by ETAP is then used to pay the royalties and taxes on behalf of the Company.

Within the UK operations, there is an overriding royalty paid on the production from the Victoria well.

Year Ended December 31, 2009 vs 2008

During the year ended December 31, 2009 royalties as a percentage of revenues were 6.4% compared with 6.7% during 2008.

Three Months Ended December 31, 2009 vs 2008

During the quarter ended December 31, 2009, royalties as a percentage of revenues decreased to 7.5% from 8.4% during the comparable period of 2008.

Operating Expense

(\$ thousands except per unit amounts)	Three Months Ended December 31			Year Ended December 31		
	2009	2008	% Change	2009	2008	% Change
Total	2,270	1,478	54	6,916	1,731	299
Per Sales Boe	\$ 17.33	\$ 20.24	(14)	\$ 11.38	\$ 18.65	(39)



Year Ended December 31, 2009 vs 2008

Operating costs of \$6.9 million (\$11.38 per sales Boe), were recorded in 2009, an increase from \$1.7 million (\$18.65 per sales Boe) recorded in 2008. The increase in operating costs was due to a full year's production in the UK compared to only one quarter of reported production in 2008 and the commencement of production activities in Tunisia in the second quarter of 2009.

Three Months Ended December 31, 2009 vs 2008

During the fourth quarter of 2009, operating expenses decreased by 14% on a per unit basis compared to 2008. The 14% decrease per sales boe was due primarily to a 79% increase in sales volumes for the three months ended December 31, 2009 over the same period in 2008 as 2008 only had production at Victoria in the UK.

General Administration Expenses ("G&A")

(\$ thousands except per unit amounts)	Three Months Ended December 31			Year Ended December 31		
	2009	2008	% Change	2009	2008	% Change
Stock-based compensation	1,089	-	100	2,999	-	100
Rent and general office costs	291	1,419	(79)	1,773	1,677	6
Staffing – net	902	1,161	(22)	4,104	1,166	252
Legal expenses	50	85	(41)	481	118	307
Travel and entertainment	2	56	(97)	414	80	420
Accounting and audit costs	349	121	189	745	181	311
Corporate expenses	131	157	(17)	447	211	112
G&A recoveries	(1,495)	(166)	797	(4,159)	(166)	2397
Total G&A	1,319	2,833	(53)	6,804	3,267	108
Per Sales Boe	\$ 10.07	\$ 38.79	(74)	\$ 11.19	\$ 35.21	(68)
Non-cash G&A	1,089	-	100	2,999	-	100
Per Sales Boe	\$ 8.32	-	100	\$ 4.94	-	100

Year Ended December 31, 2009 vs 2008

G&A expenses for the 2009 year were 108% higher than 2008 due to:

- a change in accounting policy such that in 2008 a significant portion of cost were capitalized as part of the pre-production activities. In 2009, the full cost method of accounting for oil and gas activities was followed where only direct costs associated with the acquisition and exploration for oil and gas reserves were capitalized;
- the acquisition of Silverstone Exploration Limited closed on December 24, 2008, thereby resulting in a full year of G&A costs being reported in 2009;
- on a Boe basis, G&A expenses have decreased by 68% compared to 2008 as a result of increased year-over-year production volumes.

Three Months Ended December 21, 2009 vs 2008

G&A expenses were 53% lower during the fourth quarter of 2009 when compared against the same period in 2008 primarily due to G&A recoveries.

Tax Expense

(\$ thousands)	Three Months Ended December 31			Year Ended December 31		
	2009	2008	% Change	2009	2008	% Change
Current Tax Expense/ (Recovery)	-	19	(100)	(2)	19	(111)
Future Tax Expense/(Recovery)	(10,228)	(2,091)	389	(17,863)	(2,091)	754
Total	(10,228)	(2,072)	394	(17,865)	(2,072)	762



Year Ended December 31, 2009 vs 2008

For the year ended December 31, 2009 the Company recorded a future tax recovery of \$17.9 million for loss carry forwards on future tax assets in the UK.

Three Months Ended December 31, 2009 vs 2008

A future tax recovery of \$10.2 million was recorded for loss carry forwards on future tax assets in the UK.

7.4. Non-Cash Items**Depletion and Depreciation (“DD&A”)**

(\$ thousands except per unit amounts)	Three Months Ended December 31			Year Ended December 31		
	2009	2008	% Change	2009	2008	% Change
North Sea, UK	29,564	2,334	1,167	55,296	2,348	2,255
Tunisia	1,459	15	9,627	1,828	15	12,087
Corporate	11	13	(15)	40	13	208
Total	31,063	2,362	1,215	57,164	2,376	2,306
Per Sales Boe	\$ 237.18	\$ 32.34	633	\$ 94.05	\$ 25.60	267

Year Ended December 31, 2009 vs 2008

The year end independent reserve report resulted in the Victoria reserves being revised downward as a result of disappointing reservoir performance after the well was shut in due to third party repairs. As such, the proved reserve base decreased by approximately 2,942 mboe. Such a downward revision in the proved reserve base with relatively constant production and a high depletable base associated with the fair value costs recorded on the Silverstone acquisition resulted in a significantly higher depletion charge for the year ended December 31, 2009 when compared to 2008.

Three Months Ended December 31, 2009 vs 2008

The depletion charge for the three months ended December 31, 2009 increased significantly as a result of the downward proved reserves evaluation from the independent engineers on the Victoria area.

Impairment on Assets

During the fourth quarter of 2008, the Company recorded an impairment of \$13.2 million on long-lived assets acquired in 2008 in the North Sea, UK operation.

Release of Decommissioning Provision

In the fourth quarter of 2009, the decommissioning liability associated with the assets acquired in 2008 in the North Sea, UK operation was reduced as a result of signing an agreement with certain third parties who agreed to fund a larger pro rata portion of the future abandonment costs. Therefore, \$3.8 million was recorded as a recovery on the consolidated statement of income.

Dilution Gains

During 2008, the Company recorded a dilution gain of \$8.7 million as a result of investments in private companies being diluted when shares were issued at a price greater than the initial investment made by the Company.

7.5. Net Income/Loss

Year Ended December 31, 2009 vs 2008

For the year period ending December 31, 2009, the Company recorded a net loss of \$19.6 million compared to net income for the comparable period in 2008 of \$1.3 million. Primarily, the decrease from the comparable period related to the following:

- \$55 million increase in depletion and amortization;
- \$16 million increase in income tax recovery;
- \$10 million increase in gains on commodity price derivatives.

Three Months Ended December 31, 2009 vs 2008

During the fourth quarter of 2009, the Company recorded a net loss of \$16.3 million compared to a net loss for the comparable period in 2008 of \$10.5 million. Primarily, the decrease from the comparable period related to the following:

- \$28 million increase in depletion and amortization;
- \$8 million increase in income tax recovery
- \$4 million increase in decommissioning provisions.

7.6. Capital Expenditures

(\$ thousands except per unit amounts) ⁽¹⁾	Three Months Ended December 31			Year Ended December 31		
	2009	2008	% Change	2009	2008	% Change
Tunisia	3,672	8,741	(58)	7,822	24,422	(68)
North Sea, UK ⁽²⁾	1,298	306,269	(100)	10,434	354,670	(97)
Corporate	20	78	(74)	161	128	26
Total	4,990	315,088	(98)	18,417	379,220	(95)

⁽¹⁾ Excludes capitalized costs relating to foreign currency translation incurred during the period.

⁽²⁾ 2008 includes assets acquired through a corporate acquisition.

Year Ended December 31, 2009 vs 2008

During 2009, the Company incurred \$18.4 million of capital additions. The major projects were as follows:

- in Tunisia, \$8 million was spent on geological and geophysical activities, drilling and general and administrative costs;
- in the North Sea, UK \$2 million was spent on property and equipment related to a corporate acquisition, \$3 million for a 25% share of the Vulcan East license, \$3 million for the Company's share of drilling an exploration well at NW Vulcan and \$1 million was spent on capital costs at Victoria.

Three Months Ended December 31, 2009 vs 2008

During the quarter ended December 31, 2009, the Company recorded \$5.0 million of capital additions primarily related to the following activities:

- in Tunisia, \$3 million was spent on geological and geophysical activities, drilling and general and administrative costs;
- in the North Sea, UK \$2 million was spent for an increased share of the Vulcan East license.



8. Quarterly Information

8.1. Selected Quarterly Information

Summarized information by quarter for the two years ended December 31, 2009 appears below:

	Dec. 31 2009	Sept. 30 2009	June 30 2009	Mar. 31 2009	Dec. 31 2008	Sept. 30 2008	June 30 2008	Mar. 31 2008
Production revenue								
net of royalties (\$000's)	3,718	2,659	5,217	9,275	4,620	553	830	-
Cash Flow ⁽¹⁾ (\$000's)	2,856	3,139	8,010	5,517	2,871	333	919	287
Per Share								
Basic (\$)	0.04	0.04	0.11	0.07	0.04	0.01	0.03	0.01
Diluted (\$)	0.04	0.04	0.10	0.07	0.04	0.01	0.03	0.01
Net Income (loss) (\$000's)	(16,327)	(2,303)	1,987	(2,975)	(10,499)	6,311	4,175	1,336
Per Share								
Basic (\$)	(0.23)	(0.03)	0.03	(0.04)	(0.14)	0.16	0.12	0.04
Diluted (\$)	(0.23)	(0.03)	0.03	(0.04)	(0.14)	0.15	0.12	0.04
Average daily production (Boe)	1,424	1,173	1,905	2,174	794	85	132	-
Capital expenditures ⁽²⁾⁽³⁾ (\$000's)	4,990	2,141	4,892	6,394	315,089	34,841	23,288	6,002

⁽¹⁾ Cash flow is a non-GAAP measurement.

⁽²⁾ Excludes capitalized costs relating to foreign currency translation incurred during the period.

⁽³⁾ December 2008 includes assets acquired through a corporate acquisition.

During the second quarter of 2008, production in the North Sea, UK commenced and continued to build throughout 2008. The Company completed the consolidation of the North Sea business operations on December 24, 2008 with the acquisition of the remaining 66.85% of the company, resulting in SVI consolidating 100% of the revenue, costs and production in 2009. Production from the North Sea, UK in the third quarter of 2009 was curtailed for approximately 30 days to allow a third party the time needed to replace a pipeline. Production in Tunisia commenced in the second quarter of 2009 resulting in an increase to both revenue and cash flows. Natural gas prices were at their peak, for the periods presented above, during the first quarter of 2009. With the Company's 100% in Silverstone fully included in the results for the first quarter of 2009, that period's net production revenue was the highest presented. Natural gas prices have slumped in the intervening period resulting in lower net production revenue. A significant increase in the depletion charge in the fourth quarter of 2009 resulted in that period's large net loss. The Company's proved reserves relating to the North Sea, UK business were independently evaluated and revised downward resulting in a material charge for the period when compared to the prior periods presented.

9. Outstanding Share Data

Authorized:

- Unlimited number of common shares;
- Unlimited number of first preferred shares.

Details of share capital and options outstanding at December 31 are as follows:

	2009	2008
Common shares outstanding	75,224,490	73,598,690
Share options	4,089,800	4,090,000
Fully diluted common shares	79,314,290	77,688,690
Weighted average common shares - basic	73,680,985	36,304,693
Weighted average common shares - diluted	73,680,985	38,794,693



At December 31, 2009, the Company had 77.7 million shares and 4.1 million options outstanding. As at March 31, 2010, there were 122.9 million shares outstanding as a result of two private placements and the issuance of shares upon the exercise of stock options. At March 31, 2010, there were 6.6 million options outstanding.

10. Contractual Obligations and Commitments

Other than those commitments associated with office premises, debt repayment and construction commitments as disclosed in section 3 of this MD&A, the Company does not have any other contractual obligations.

11. Application of Critical Accounting Policies and Estimates

The Company's financial statements were prepared in accordance with Canadian GAAP. A summary of the significant accounting policies can be found in Note 1 to the Consolidated Financial Statements. Certain accounting policies require management to make decisions with respect to the formulation of estimates and assumptions that affect: (i) the reported amounts of assets and liabilities; (ii) the disclosure of any contingent assets and liabilities at the date of the consolidated financial statements; and (iii) revenues and expenses during the period. SVI's management reviews its estimates, including those related to accruals, environmental and asset retirement obligations, recoverability of assets, income taxes, fair values of derivative assets and liabilities, capital adequacy, and the estimation of reserves on an ongoing basis. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. SVI attempts to mitigate this risk by employing individuals with appropriate skill set and knowledge to make reasonable estimates; developing internal reporting systems, and comparing past estimates to actual results.

The Company's financial and operating results include critical accounting estimates in the following areas:

- Determination of reserves – the process of estimating reserves requires complex judgments and decision-making based on available geological, geophysical, engineering and economic data;
- Depletion and depreciation based on estimates of oil and natural gas reserves – such estimates use the unit-of-production method based on estimated proved reserves and such estimates can have a significant impact on earnings;
- Estimated recoverability of long-lived assets in performing impairment tests – cash flow estimates for impairment assessments require assumptions about future prices and costs, reserves and discount rates, such elements require judgment about highly uncertain future events;
- Estimated operating expenses and royalties for which actual costs have not been received;
- Estimated capital expenditures on projects that are in progress;
- Estimated amount of the asset retirement obligation - the total amount is based on an estimate of the Company's net ownership in wells and facilities, estimated costs and timing to abandon and reclaim the wells and facilities, and changes in environmental regulations;
- Determination of fair value of stock options – the calculation of the fair value requires management to assess such variables as volatility in the stock price, potential forfeiture rates and risk-free interest rates with such estimates affecting the stock-based compensation reported and an impact on earnings;
- Legal and other contingent matters;
- Income tax accounting – requires the interpretation of complex laws and regulations involving multiple jurisdictions, which are subject to audit and potential reassessments.

12. New and Pending Accounting Standards

Accounting Changes

On January 1, 2009, the Company adopted "Goodwill and Intangible Assets" section 3064 of the Canadian Institute of Chartered Accountants ("CICA") handbook. The new standard replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, presentation and disclosure of intangible assets. The adoption of this standard had no impact on SVI's consolidated financial statements.



In May 2009, new standards for “Financial Instruments – Disclosures,” include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments outline a hierarchy of methods used to determine the fair value of financial instruments at the balance sheet date. Level 1 inputs are based on quoted prices in active markets that can be accessed at the measurement date. Level 2 inputs are based on quoted prices in the markets that are not active or based on prices that are observable for the asset or liability. Level 3 inputs are based on unobservable inputs for the asset or liability. These additional disclosures are effective December 31, 2009 and did not impact the earnings of the Company on the consolidated financial statements.

Future Changes in Accounting Policies

In January 2009, the CICA issued section 1582, “Business Combinations”, which will replace CICA section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. The new guidance will require all costs of the acquisition to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the enterprise. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. Section 1582 is effective on January 1, 2011 with prospective application and early adoption is permitted.

In January 2009, the CICA issued section 1601, “Consolidated Financial Statements”, which will replace CICA section 1600 of the same name. This guidance requires consistent application of accounting policies throughout all consolidated entities. Section 1601 is effective on January 1, 2011. The adoption of this standard will have no impact on SVI’s consolidated financial statements.

In January 2009, the CICA issued section 1602, “Non-controlling Interests”, which will replace CICA section 1600 Consolidated Financial Statements. This standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. Section 1602 is effective on January 1, 2011. The adoption of this standard should have no impact on SVI’s consolidated financial statements.

13. Conversion to International Financial Reporting Standards

In February 2008, the AcSB confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace current Canadian GAAP for those enterprises. Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies as well as increased disclosure requirements under IFRS. As a result, the transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company’s reported financial position and results of operations. The Company has chosen to adopt IFRS, which will be effective for interim and annual periods commencing January 1, 2011, including the preparation and reporting of one year of comparative figures.

The Company has completed the diagnostic assessment phase by performing comparisons between Canadian GAAP and IFRS and is currently assessing the effects of adoption and implications from its conversion to IFRS. The project is being managed by an in-house team of accounting professionals who have engaged in IFRS educational programs and continue to develop the Company’s adoption to IFRS. The Company’s auditors will be involved throughout the process to ensure SVI’s policies are in accordance with the new standards. Initial assessments of impacts completed to date include accounting for property plant and equipment, foreign operations and the recognition of foreign exchange, provisions, asset retirement obligations and income taxes. The Company has started to make progress in the implementation phase and will continue over the period to 2011 to focus on analyzing and developing implementation strategies and processes for presentation and disclosure under IFRS.

The Company has reviewed first time adoption exemptions and elections available upon initial transition that provide relief from retrospective application in the January 1, 2010 opening Balance Sheet. The Company intends to utilize exemptions including those available for past business combinations, the



allocation of oil and gas asset balances based on full cost accounting rules to IFRS categories of exploration and evaluation assets and development and producing properties, resetting cumulative translation differences for all foreign operations to zero and specific exemptions for share based payments.

Management has not yet finalized its accounting policies, and as such, it is currently not possible to fully determine the impact to the financial statements and any potential business impacts, as accounting standards and related interpretations are changing. The Company will continue to monitor any changes in the adoption of IFRS, it will implement those policies determined to be the most appropriate for the Company and will update its plan as necessary.

14. Internal Controls and Procedures

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Company to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial year-end of the Company and has concluded that these control systems over financial reporting, subject to the limitations noted below, are effective for the foregoing purpose and provide reasonable, but not absolute, assurance that financial information is accurate and complete in all material respects at the financial year-end of the Company.

Management recognizes that all internal control systems, no matter how well designed, have inherent limitations. Any control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives of the control system are met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Management is aware that in-house expertise to deal with complex taxation may not be sufficient. There is a risk that the reporting of these transactions may not be correctly recorded which could lead to a potential misstatement of the consolidated financial statements. The Company addresses this by consulting with third party expert advisors, where required, with the recording of these types of transactions.

There have been no significant changes to the Company's internal control over financial reporting that occurred during the most recent period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

15. Other Information

15.1. Forward-Looking Statements

In the interest of providing SVI's shareholders with information regarding SVI, including management's assessment of SVI's future plans and operations, certain statements in this MD&A are "forward-looking statements". In some cases, forward-looking statements can be identified by terminology such as "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "intend", "may", "objective", "ongoing", "outlook", "potential", "project", "plan", "should", "target", "would", "will" or similar words suggesting future outcomes, events or performance. The forward-looking statements contained in this MD&A speak only as of the date of this document and are expressly qualified by this cautionary statement.

Specifically, this MD&A contains forward-looking statements relating to: the volumes and estimated value of our oil and natural gas reserves; the value of our undeveloped land holdings; the volume of our oil and natural gas production; future results from operations; future costs and expenses; future exploration and development activities (including drilling plans) and related capital expenditures; our liquidity and financial capacity; and funding sources for our capital program.

These forward-looking statements are based on certain key assumptions regarding, among other things: our ability to obtain equity and debt financing on satisfactory terms; oil and natural gas prices; well production rates and reserve volumes; our ability to add commercially viable and economic production and reserves through our exploration and development activities; capital expenditure levels; the availability and cost of labour and other industry services; and interest and foreign exchange rates. The reader is cautioned that such assumptions, although considered reasonable by SVI at the time of preparation, may prove to be incorrect.



Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; industry capacity; fluctuations in market prices for oil and natural gas; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; fluctuations in foreign exchange or interest rates; stock market volatility and market valuations; geological, technical, drilling and processing problems and other difficulties in producing petroleum reserves; delays resulting from or inability to obtain required regulatory approvals; ability to access sufficient capital from internal and external sources; and other factors, many of which are beyond the control of SVI.

There is no representation by SVI that actual results achieved during the forecast period will be the same in whole or in part as those forecast and SVI does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise.

15.2. Non-GAAP Measures

Throughout this MD&A, the Company uses terms “cash flow”, “cash flow per share”, “operating netback”. These terms do not have any standardized meaning as prescribed by Canadian GAAP and, therefore, may not be comparable with the calculation of similar measures presented by other companies.

Cash flow is calculated based on cash flow from operating activities before changes in non-cash working capital. Cash flow per share is calculated based on cash flow from operating activities before changes in non-cash working capital. Management believes that cash flow is a supplemental measure and utilizes it as a key measure to assess the ability of the Company to finance operating activities, capital expenditures and debt repayments. Cash flow as presented is not intended to represent cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP and should not be construed as an alternative to cash flow from operations. The following table shows the reconciliation from cash flow from operating activities to cash flow:

	Three Months		Year	
	Ended December 31		Ended December 31	
<i>(\$ thousands)</i>	2009	2008	2009	2008
Cash flow – operating activities	5,497	1,642	18,457	4,319
Change in non-cash working capital	(2,640)	1,229	1,065	91
Cash Flow	2,857	2,871	19,522	4,410

Operating netback is calculated as production revenue less royalties and production expenses. Operating netback is considered important to management as a measure of the Company's profitability relative to current commodity prices and it provides an analysis tool to better measure performance against prior periods on a comparable basis.

15.3. Related Party Transactions

The Company did not enter into any related-party transactions during the reporting period.

15.4. Off Balance Sheet Arrangements

The Company did not enter into any off balance sheet arrangements during the reporting period.

