

# Management's Responsibility

## **To the Shareholders of Reliable Energy Ltd.**

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgements and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the consolidated financial statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgement is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Board of Directors exercises its responsibilities for financial controls through an Audit Committee. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities and for approving the financial information included in the annual report. The Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board of Directors and management to discuss their audit findings.



**Murray Swanson**

President & Chief Executive Officer

Calgary, Canada

April 7, 2010



**John Newman**

Vice President, Finance & Chief Financial Officer

# Auditors' Report

## **To the Shareholders of Reliable Energy Ltd.**

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

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Meyas Norris Penny LLP*

Chartered Accountants

Calgary, Canada

April 7, 2010

## Consolidated Balance Sheets

As at December 31,	2009	2008
	(\$)	(\$)
<b>Assets</b>		
Current		
Cash and cash equivalents	7,882,336	8,396,051
Accounts receivable	1,208,838	567,376
Prepaid expenses and deposits	329,776	110,955
Demand notes receivable	–	26,308
	<b>9,420,950</b>	9,100,690
Property and equipment <i>(note 7)</i>	<b>17,391,868</b>	2,876,801
	<b>26,812,818</b>	11,977,491
<b>Liabilities</b>		
Current		
Accounts payable and accruals	7,426,933	1,887,527
Convertible debentures <i>(note 9)</i>	1,200,284	1,167,481
Asset retirement obligation <i>(note 10)</i>	727,330	254,243
	<b>9,354,547</b>	3,309,251
<b>Shareholders' equity</b>		
Share capital <i>(note 11(b))</i>	26,399,828	18,516,427
Warrants <i>(note 11(e))</i>	236,000	236,000
Equity portion of convertible debentures <i>(note 9)</i>	88,780	88,780
Contributed surplus <i>(note 12)</i>	1,340,173	459,273
Deficit	<b>(10,606,510)</b>	(10,632,240)
	<b>17,458,271</b>	8,668,240
	<b>26,812,818</b>	11,977,491

Subsequent events *(note 18)*

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors,



**Brian J. Hurl**

Director



**Terry A. Lyons**

Director

## Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit

Years Ended December 31,	2009	2008
	(\$)	(\$)
<b>Revenue</b>		
Petroleum and natural gas	<b>2,459,399</b>	278,283
Royalties	<b>(427,355)</b>	(62,111)
Interest income	<b>38,302</b>	18,560
	<b>2,070,346</b>	234,732
<b>Expenses</b>		
Operations	<b>415,292</b>	225,728
Administration	<b>2,104,692</b>	1,521,500
Interest and financing charges	<b>330,528</b>	334,070
Depletion, depreciation and accretion	<b>873,954</b>	170,406
Stock-based compensation	<b>880,900</b>	47,800
	<b>4,605,366</b>	2,299,504
<b>Loss before income taxes</b>	<b>2,535,020</b>	2,064,772
<b>Income taxes</b>		
Future income tax recovery <i>(note 8)</i>	<b>(2,560,750)</b>	(172,575)
<b>Net income (loss) and comprehensive income (loss) for the year</b>	<b>25,730</b>	(1,892,197)
<b>Deficit – beginning of year</b>	<b>10,632,240</b>	8,740,043
<b>Deficit – end of year</b>	<b>10,606,510</b>	10,632,240
Net income (loss) per share <i>(note 13)</i>		
Basic	<b>0.000</b>	(0.046)
Diluted	<b>0.000</b>	–

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flows

Years Ended December 31,	2009	2008
	(\$)	(\$)
Cash provided by (used in):		
<b>Operating activities</b>		
Net income (loss) for the year	<b>25,730</b>	(1,892,197)
Add back (deduct) from non-cash items:		
Depletion, depreciation and accretion	<b>873,954</b>	170,406
Interest and financing charges	<b>32,803</b>	89,072
Stock-based compensation	<b>880,900</b>	47,800
Future income tax recovery	<b>(2,560,750)</b>	(172,575)
Retirement obligations settled	<b>(8,575)</b>	(1,946)
	<b>(755,938)</b>	(1,759,440)
Changes in non-cash working capital <i>(note 14)</i>	<b>3,378,426</b>	884,915
	<b>2,622,488</b>	(874,525)
<b>Financing activities</b>		
Issuance of common shares – net	<b>8,813,316</b>	8,819,013
Acquisition of Ceres	<b>(25,418)</b>	1,130,473
Changes in non-cash working capital <i>(note 14)</i>	–	(245,496)
	<b>8,787,898</b>	9,703,990
<b>Investing activities</b>		
Capital expenditures	<b>(13,879,796)</b>	(1,810,497)
Cash acquired on the Element acquisition	<b>1,540,277</b>	–
Proceeds on disposal of short-term investments	–	295,381
Changes in non-cash working capital <i>(note 14)</i>	<b>415,418</b>	191,297
	<b>(11,924,101)</b>	(1,323,819)
<b>Change in cash and cash equivalents</b>	<b>(513,715)</b>	7,505,646
<b>Cash and cash equivalents – beginning of year</b>	<b>8,396,051</b>	890,405
<b>Cash and cash equivalents – end of year</b>	<b>7,882,336</b>	8,396,051
<b>Supplemental cash flow information:</b>		
Interest paid	<b>94,500</b>	92,250

See accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

## 1. Nature of Business

Reliable Energy Ltd. ("Reliable" or the "Company") was incorporated under the laws of the province of Alberta on November 15, 2004. On December 24, 2008, Reliable completed a reverse takeover with Ceres Capital Corp. ("Ceres"). On September 30, 2009, Ceres and Reliable amalgamated under the name Reliable Energy Ltd. On October 22, 2009, Reliable acquired 100% of the outstanding shares of Element Energy Canada Ltd. ("Element"). The Company's principal activity is the exploration for and development of crude oil and natural gas properties in Western Canada.

The common shares of the Company are listed for trading on the TSX Venture Exchange under the symbol REL.

## 2. Basis of Presentation and Significant Accounting Policies

The accompanying consolidated financial statements are stated in Canadian dollars, have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the following significant accounting policies.

### ***Basis of Consolidation***

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiary, Element. All intercompany transactions and balances have been eliminated on consolidation. The comparative figures for the year ended December 31, 2008 reflect the assets, liabilities and results of operations of Reliable (see note 4).

### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash in the bank, less outstanding cheques, and short-term deposits with a maturity of less than three months.

### ***Petroleum and Natural Gas Properties***

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, the cost of petroleum and natural gas production equipment and overhead charges related to exploration and development activities.

Proceeds from the disposition of petroleum and natural gas properties are applied against capitalized costs, except for dispositions that would change the rate of depletion and depreciation by 20% or more, in which case a gain or loss would be recorded.

Petroleum and natural gas properties are characterized as long-lived assets held for use, and as such, are tested for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of property and equipment or resource properties may not be recoverable. Impairment losses are recognized when the carrying amount of the property and equipment exceeds the undiscounted cash flows expected from the production of proved reserves, undeveloped land and future development projects. If the carrying value is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the property and equipment exceeds the sum of the discounted cash flows from proved plus probable reserves, undeveloped land and future development projects. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate. Any impairment is included in earnings for the period.

## 2. Basis of Presentation and Significant Accounting Policies (continued)

### ***Depletion and Depreciation***

Capitalized costs, together with estimated future capital costs associated with proved reserves, are depleted and depreciated using the unit-of-production method based on gross estimated proved reserves of petroleum and natural gas as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on relative energy content of six thousand cubic feet of gas to one barrel of oil. Costs of significant unproved properties, net of impairments, are excluded from the depletion and depreciation calculation.

Non-resource property assets, comprised of office equipment and leasehold improvements, are recorded at cost and depreciated over their useful life on a straight-line basis at various rates between 20% and 45%.

### ***Convertible Debentures***

The Company's convertible debentures are segregated into their debt and equity components at the date of issue, based on the relative fair market values of these components in accordance with the substance of the contractual agreements. The debt component of the instruments, net of financing costs, is classified as a liability, and recorded as the present value of the Company's obligation to make future interest payments in cash, and settle the redemption value of the instrument in cash or in a variable number of shares. The carrying value of the debt component is accreted to the original face value of the instruments, over their deemed life, using the effective interest rate method. The conversion option, which makes up the equity component of the instruments, is recorded using the residual value approach. Upon conversion, any gain or loss arising from extinguishment of the debt is recorded in income of the current period.

Where the exercise date of the conversion option is less than one year from balance sheet date, or the conversion has been triggered, convertible debentures are classified as current liabilities.

### ***Income Taxes***

The Company follows the asset and liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using enacted tax rates and laws anticipated to apply in the periods that the temporary differences are expected to reverse. In addition, the future benefits of income tax assets, including unused tax losses, are recognized subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized.

### ***Asset Retirement Obligations***

The Company recognizes the fair value of an Asset Retirement Obligation ("ARO") in the year in which it is incurred, when a reasonable estimate of the fair value can be made. Discounted cash flows are used to measure fair value, using industry guidelines and management estimates on a property-by-property basis. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying value of the related petroleum and natural gas properties. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in the Company's earnings in the period in which the settlement occurs.

### ***Flow-Through Shares***

The Company finances a portion of its exploration activities through the issue of flow-through shares, whereby tax deductions relating to Canadian exploration expenditures are renounced to the investors in accordance with Canadian income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation reduces share capital. Proceeds received on the issue of flow-through shares are credited to share capital.

## 2. Basis of Presentation and Significant Accounting Policies (continued)

### **Joint Operations**

Exploration, development and production activities may be conducted jointly with others, and accordingly, the Company only reflects its proportionate interest in such activities.

### **Revenue Recognition**

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party.

### **Stock-Based Compensation**

The fair value for each stock option granted is estimated on the date of the grant using the Black-Scholes option pricing model. These fair value costs are recognized in current earnings with a corresponding increase to contributed surplus over the vesting period of the grant. As the options are exercised, the consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. In the event that unvested options are cancelled, previously recognized compensation expense associated with such options is reversed.

### **Per Share Amounts**

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on the exercise of options would be used to purchase common shares at the average market price during the year. Where the effect of options and warrants are anti-dilutive, they are not included in the calculation of diluted earnings per share.

### **Financial Instruments**

In accordance with the new Canadian Institute of Chartered Accountants' ("CICA") accounting standards 3855 and 3861, all financial instruments, including embedded derivatives, must initially be recognized at fair value on the balance sheet and classified into the following categories: financial assets and financial liabilities held for trading, held to maturity investments, loans and receivables, available for sale financial assets, and other financial liabilities. Subsequent measurements of the financial instruments are based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings. Unrealized gains and losses on available for sale financial assets are recognized in other comprehensive income and are transferred to income when the instrument is settled. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method. Investment transactions are made on the trade date and any transaction costs with respect to financial instruments are expensed in the period incurred.

The Company's financial instruments are listed as follows, according to their classification: (a) cash is classified as held for trading and is measured at fair value; (b) accounts receivable are classified as loans and receivables and are measured at amortized cost; and (c) accounts payable and accrued liabilities and convertible debentures payable are classified as other financial liabilities and are measured at amortized cost. Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified other than held for trading, which are expensed as incurred, are included in the initial carrying value of such instruments and amortized using the effective interest method.

### **Comprehensive Income**

The components of other comprehensive income include unrealized gains and losses on financial assets classified as available for sale and the effective portion of cash flow hedges, if any. There were no such components to be recognized in comprehensive income upon transition or for the years ended December 31, 2009 and 2008. As the Company has no items of other comprehensive income or loss, the net earnings or loss for the periods are equivalent to comprehensive income.

### **Measurement Uncertainty**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

## 2. Basis of Presentation and Significant Accounting Policies (continued)

### *Measurement Uncertainty (continued)*

The amounts recorded for depletion and depreciation of property and equipment and accretion of the asset retirement obligation are based on estimates. The property and equipment impairment test is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amounts related to the fair value of stock options and warrants are based on estimates of share price volatility, risk-free interest rate and expected lives of options and warrants.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

### *Recent Accounting Pronouncements*

#### *International Financial Reporting Standards*

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that the transition date to International Financial Reporting Standards (“IFRS”) from Canadian GAAP will be January 1, 2011 for publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS starting in 2011, with comparative IFRS information for the 2010 fiscal year.

The Company is progressing with its preparation for the changeover to IFRS. The Company has completed its assessment of IFRS accounting policies and is reviewing its elections with its auditor. The implementation phase, which includes updating its data systems, internal controls over financial reporting and business activities such as financing and compensation arrangements, is planned for the first half of 2010.

#### *Business Combinations*

The CICA Handbook Section 1582 – “Business Combinations” replaces corresponding Section 1581 and establishes new standards for the accounting for business combinations. The new standard requires that the acquisition method (formerly, the purchase method) continue to be applied to business combinations, the acquirer recognize and measure the acquiree as a whole, and the assets and liabilities assumed be recognized and measured at their fair values as of the acquisition date. Section 1582 provides the Canadian equivalent to IFRS 3 business combinations.

This standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company has not yet determined the impact of the adoption of this new standard on its financial statements.

## 3. Changes in Accounting Policies

In February 2008, the AcSB issued amended Section 1000 – “Financial Statement Concepts”, which clarifies the criteria for recognizing assets, intangible assets and internally developed assets. The standard is effective for fiscal years beginning on or after February 1, 2008. The adoption of this standard had no material effect on the financial statements of the Company.

## 4. Business Combinations

Effective October 22, 2009, the Company acquired 100% of the outstanding shares of Element, an unrelated company. As consideration, the Company issued 11,025,000 common shares valued at \$0.15 per share, determined based on the best estimate of the relative value of the assets provided by Element.

The consolidated financial statements include the accounts of the Company and the net assets of Element as detailed below and the results of Element from the date of acquisition.

#### 4. Business Combinations (continued)

	(\$)
<b>Fair value of net assets acquired as at October 22, 2009:</b>	
Cash	1,540,277
Non-cash working capital	(911,587)
Property and equipment	1,050,538
Future income tax liability	(22,975)
Net identifiable assets acquired	1,656,253
<b>Consideration:</b>	
11,025,000 common shares	1,656,253

#### 5. Reverse Takeover Accounting

The acquisition of Reliable was accounted for as a reverse takeover ("RTO") as the control of Ceres was acquired by the former shareholders of Reliable. Although, legally, Ceres was regarded as the parent or continuing company, Reliable, whose shareholders then held the majority of the voting shares of Ceres, was treated as the acquirer under Canadian GAAP. The Transaction has been accounted for as an issuance of shares and options by Reliable for the net monetary assets of Ceres, accompanied by a recapitalization of the Company. The fair value of the net assets acquired is as follows:

	(\$)
Cash	1,347,211
Other receivables	34,778
Current liabilities	(59,600)
Net assets acquired	1,322,389

Pursuant to the RTO, Ceres issued the following to the stakeholders of Reliable:

	(#)
Common shares (6 Ceres shares for each Reliable share outstanding)	116,594,622
Stock options	2,940,000
Broker's warrants	5,857,674
	(\$)
Convertible debentures (replacing an equal amount of Reliable debentures)	1,260,000

All references to share numbers and per share amounts in these financial statements and notes are on the basis of post acquisition numbers.

#### 6. Capital Management

The Company's capital structure is comprised of shareholders' equity, convertible debentures and working capital. The Company's objectives when managing its capital structure are to maintain financial flexibility so as to preserve access to capital markets and its ability to meet its financial obligations, and to finance internally generated growth and potential strategic acquisitions. To manage its capital structure the Company may adjust spending, issue new shares, issue new debt or repay existing debt.

The Company prepares an annual budget, which is updated periodically for any significant acquisitions, changes in economic circumstances and successes or failures of its capital program.

As at December 31, 2009, the Company had working capital of \$1,994,017 (2008 – \$7,213,163), which, when combined with its ongoing cash flows from operations and funds available under the bank facility, will be sufficient to fund operations and the Company's capital expenditures program for the next 12 months.

In December 2009, Reliable entered into a credit facility agreement with a Canadian chartered bank to provide the Company with a \$5,000,000 revolving operating loan, a \$2,000,000 acquisition/development loan and certain related facilities having an aggregate limit of \$150,000. All facilities are payable on demand. The operating line bears interest at the bank's prime rate plus 1.5% p.a. and the acquisition/development loan bears interest at 2.0% p.a. All facilities are secured by, among other things, a debenture over all the Company's assets.

## 7. Property and Equipment

	Cost	Accumulated Depletion and Depreciation	Net Book Value
	(\$)	(\$)	(\$)
<b>December 31, 2009</b>			
Petroleum and natural gas properties	19,203,670	1,871,880	17,331,790
Leasehold and office equipment	359,894	299,816	60,078
	<b>19,563,564</b>	<b>2,171,696</b>	<b>17,391,868</b>
<b>December 31, 2008</b>			
Petroleum and natural gas properties	3,868,715	1,051,760	2,816,955
Leasehold and office equipment	326,490	266,644	59,846
	4,195,205	1,318,404	2,876,801

As at December 31, 2009, the Company excluded \$9,664,509 (2008 – \$2,020,330) of resource properties relating to unproved properties from the depletion calculation. Unproved properties have been separately evaluated by management for impairment.

During 2009, the Company capitalized \$461,000 (2008 – \$39,000) related to the asset retirement obligations of property and equipment. The Company did not capitalize any general and administrative costs during 2009 or 2008 other than to the extent of the Company's working interest in operated capital expenditure programs on which operator's fees have been charged in accordance with standard industry agreements.

As at December 31, 2009, no impairment write-down was required. The impairment test was calculated using the following benchmark reference prices:

	Crude Oil	Natural Gas
	(\$CDN/bbl)	(\$CDN/mcf)
2010	79.05	5.85
2011	81.70	6.55
2012	84.45	6.95
2013	88.11	7.25
2014	91.96	7.60
After 2014 (inflation %)	2%/year	2%/year

## 8. Future Income Taxes

The components of the net future income asset (liability) are as follows:

Years Ended December 31,	2009	2008
	(\$)	(\$)
<b>Future Income Tax Assets (Liabilities)</b>		
Property and equipment	(2,472,044)	140,757
Share issue, RTO and financing costs	372,890	392,549
Asset retirement obligations	213,108	75,002
Non-capital losses	2,399,372	1,894,970
Other	4,865	–
Valuation allowance	(518,191)	(2,503,278)
Net future income tax asset	–	–

## 8. Future Income Taxes (continued)

Due to the uncertainty surrounding realization of the tax assets, they have been recognized only to the extent necessary to offset future tax liabilities.

The income tax expense differs from the amount that would be expected by applying the current tax rates for the following reasons:

Years Ended December 31,	2009	2008
	(\$)	(\$)
Income (loss) before income taxes	<b>(2,535,020)</b>	(2,064,772)
Tax rate	<b>31.30%</b>	29.50%
Expected tax recovery	<b>(793,461)</b>	(609,108)
Increase (decrease) in provision resulting from:		
Effect of change in tax rate	<b>32,632</b>	150,786
Stock-based and deferred compensation	<b>256,100</b>	14,101
Share issue costs	<b>(132,901)</b>	(323,617)
Change in valuation allowance	<b>(1,985,087)</b>	540,972
Other	<b>61,967</b>	54,291
Future tax recovery	<b>(2,560,750)</b>	(172,575)

The change in valuation allowance includes \$23,365 relating to tax pools held by Element on acquisition.

The Company has the following estimated tax pools available for deduction against future taxable income:

Years Ended December 31,	2009	2008
	(\$)	(\$)
Canadian exploration expense	<b>1,946,124</b>	1,937,766
Canadian development expense	<b>334,151</b>	60,765
Canadian oil and gas property expense	<b>4,663,374</b>	888,736
Undepreciated capital cost	<b>1,921,211</b>	466,675
Share issue and deferred financing costs	<b>1,288,035</b>	1,371,065
Non-capital losses	<b>8,050,533</b>	6,423,625
Other	<b>46,856</b>	-
Total estimated tax pools	<b>18,250,284</b>	11,148,632

The non-capital losses will expire in the following years:

	(\$)
2014	87,125
2015	898,677
2026	1,698,816
2027	1,593,867
2028	2,351,247
2029	1,420,801

## 9. Convertible Debentures

In August 2006, Reliable issued \$1,200,000 of Convertible Unsecured Subordinated Debentures (the “Debentures”) maturing July 31, 2011. The Debentures bear interest at 7.5% and are convertible to common shares of the Company at the option of the holder at a conversion price of \$1.40 per common share. The Debentures are redeemable by the Company in whole or in part at the rates indicated below.

July 31, 2010	105.0% of face value
Subsequent to July 31, 2010	102.5% of face value

The terms of the Debentures required Reliable to complete a defined ‘Liquidity Event’ prior to February 15, 2008. The Liquidity Event was not completed, and in 2008, Reliable issued a one-time additional \$60,000 of Debentures for no additional consideration.

As the Debentures are considered to be compound financial instruments, the principal amount has been allocated between liability and equity components, which are then classified separately on the balance sheet. The liability component has been determined using an interest rate for comparable debt instruments having no conversion rights. The difference between the liability component and the principal amount of the Debentures has been allocated to shareholders’ equity.

The following table shows the debenture activities:

Convertible Debentures	Number of Debentures (#)	Debt Component (\$)	Equity Component (\$)
Balance – December 31, 2007	1,200	1,081,198	85,991
Accretion	–	29,072	–
Non-performance penalty issuance	60	57,211	2,789
Balance – December 31, 2008	1,260	1,167,481	88,780
Accretion	–	<b>32,803</b>	–
<b>Balance – December 31, 2009</b>	<b>1,260</b>	<b>1,200,284</b>	<b>88,780</b>

## 10. Asset Retirement Obligations

Years Ended December 31,	2009	2008
Balance – beginning of year	<b>254,243</b>	199,831
Liabilities incurred	<b>450,000</b>	39,000
Liabilities settled	<b>(8,697)</b>	–
Change in estimated cash flows	<b>11,000</b>	–
Accretion	<b>20,784</b>	15,412
Balance – end of year	<b>727,330</b>	254,243

The future estimated undiscounted cash flows required to settle the obligation are \$1,313,530 (2008 – \$467,090), which has been discounted using a credit-adjusted risk free rate of 3.75% (2008 – 5.5%) and inflated at a rate of 3.9% (2008 – 1.7%) per year. Most of these obligations are not expected to be paid for 10 to 12 years in the future and will be funded from general Company resources at that time.

## 11. Share Capital

### (a) Authorized

Unlimited voting common shares without nominal or par value.

### (b) Issued

Common Shares	Number <sup>(i)</sup>	Value
	(#)	(\$)
Balance – January 1, 2008	37,998,528	8,950,416
Effect of future income taxes on renounced resource expenditures <sup>(ii)</sup>	–	(172,575)
Adjust total of converted shares due to rounding	186	–
Non-performance penalty issuance <sup>(iii)</sup>	126,264	–
Private placement <sup>(iv)</sup>	74,119,644	9,739,760
Shares issued as advisory fees <sup>(iv)</sup>	4,350,000	507,500
Ceres shares acquired through RTO <sup>(v)</sup>	10,261,250	1,322,389
Share issue and transaction costs	–	(1,831,063)
Balance – December 31, 2008	126,855,872	18,516,427
Effect of future income taxes on renounced resource expenditures <sup>(vi)</sup>	–	<b>(2,560,750)</b>
Private placement <sup>(vii)</sup>	<b>34,667,334</b>	<b>5,200,100</b>
Acquisition of Element <sup>(viii)</sup>	<b>11,025,000</b>	<b>1,656,253</b>
Options exercised	<b>122,850</b>	<b>20,885</b>
Brokered private placement <sup>(ix)</sup>	<b>9,350,000</b>	<b>4,020,500</b>
Share issue and transaction costs	–	<b>(453,587)</b>
<b>Balance – December 31, 2009</b>	<b>182,021,056</b>	<b>26,399,828</b>

(i) All share numbers are post acquisition (note 5).

(ii) During 2008, the Company renounced \$585,000 of resource expenditures required under the flow-through shares issued in 2007. The future income tax effect reduces the book value of the shares issued.

(iii) Certain of the share subscriptions issued in 2006 required the Company to complete a defined 'Liquidity Event' on or before February 15, 2008. The Liquidity Event did not occur, and as a result, the Company issued 126,264 shares for no additional consideration.

(iv) As part of a private placement, the Company issued 8,571,444 common shares at \$0.1167 per share and 65,548,200 flow-through common shares at \$0.1333 per share for gross proceeds of \$9,739,760. Share issuance costs were \$1,630,993, which included 4,350,000 common shares at a deemed price of \$0.1167 per share and 5,722,224 options issued to the brokers exercisable at \$0.12 per share and having a value of \$210,900, as calculated using the Black-Scholes model (note 11(d)).

(v) Shares deemed to be issued to the existing shareholders of Ceres as part of the RTO.

(vi) During 2009, the Company renounced \$8,739,760 of resource expenditures required under the flow-through shares issued in 2008. The future income tax effect reduces the book value of the shares issued.

(vii) On October 2, 2009, the Company issued 34,667,334 common shares at \$0.15 per share.

(viii) On October 22, 2009, the Company issued 11,025,000 common shares at a deemed value of \$0.15 per share to acquire Element (see note 4).

(ix) The Company issued 9,350,000 flow-through common shares at \$0.43 per share on December 22, 2009.

### (c) Escrowed Shares

As at December 31, 2009, total shares held in escrow were 12,802,916 (2008 – 17,070,548) pursuant to the requirements of the TSX Venture Exchange. Subsequent to the issuance of the final Exchange bulletin on January 29, 2009, 15% of the escrowed securities are being released at the completion of each six-month period.

## 11. Share Capital (continued)

### (d) Stock Options

The Company has a stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. Under the plan, the aggregate number of shares that may be reserved for issuance pursuant to stock options, excluding brokers options, may not exceed 10% of the issued shares of the Company at the time of granting. Options have a maximum term of five years and terminate 90 days following the termination of the optionee's employment or service to the Company. All options currently issued vested 100% at the time of granting.

The Company has also issued stock options to several brokerage firms regarding financing activities of the Company. These options have various terms up to a maximum of two years and vested 100% at the time of granting.

	Number of Options (#)	Weighted Average Exercise Price (\$)	Expiry (year)
<b>Directors, Management and Employees</b>			
Outstanding – December 31, 2007	2,970,000	0.170	2008 – 2012
Granted	870,000	0.180	2013
Ceres options acquired on RTO	1,025,000	0.200	2009 – 2011
Exercised	–	–	–
Expired	(30,000)	0.170	–
Outstanding – December 31, 2008	4,835,000	0.178	2009 – 2013
Granted	<b>6,320,000</b>	<b>0.185</b>	<b>2014</b>
Exercised	–	–	–
Expired	<b>(60,000)</b>	<b>0.170</b>	–
<b>Outstanding – December 31, 2009</b>	<b>11,095,000</b>	<b>0.182</b>	<b>2009 – 2014</b>
<b>Brokers</b>			
Outstanding – December 31, 2007	225,348	1.129	2008
Granted	5,845,074	0.121	2009 – 2010
Exercised	–	–	–
Expired	(225,348)	1.129	–
Outstanding – December 31, 2008	5,845,074	0.121	2009 – 2010
Granted	–	–	–
Exercised	<b>(122,850)</b>	<b>0.170</b>	–
Expired	–	–	–
<b>Outstanding – December 31, 2009</b>	<b>5,722,224</b>	<b>0.120</b>	<b>2010</b>
<b>Total options outstanding</b>	<b>16,817,224</b>	<b>0.161</b>	<b>2009 – 2014</b>

In March 2010, the Company agreed to exchange 5,135,874 broker options into common share purchase warrants on the same terms and conditions as the broker options. Common share purchase warrants are exercisable at \$0.12 per share with 2,435,196 warrants exercisable on or before June 11, 2010 and 2,700,678 warrants exercisable on or before June 23, 2010.

## 11. Share Capital (continued)

### (d) Stock Options (continued)

Exercise Price (\$)	Number Outstanding (#)	Weighted Average Remaining Contractual Life (years)	Number Exercisable (#)
<b>As at December 31, 2009</b>			
<b>0.120</b>	<b>5,722,224</b>	<b>0.46</b>	<b>5,722,224</b>
<b>0.140</b>	<b>575,000</b>	<b>4.52</b>	<b>575,000</b>
<b>0.170</b>	<b>2,880,000</b>	<b>2.91</b>	<b>2,880,000</b>
<b>0.180</b>	<b>870,000</b>	<b>3.98</b>	<b>870,000</b>
<b>0.190</b>	<b>5,745,000</b>	<b>4.70</b>	<b>5,745,000</b>
<b>0.200</b>	<b>1,025,000</b>	<b>0.47</b>	<b>10,025,000</b>
<b>0.161</b>	<b>16,817,224</b>	<b>2.65</b>	<b>16,817,224</b>

#### Stock-Based Compensation

The Company has recorded stock-based compensation for all stock options granted. The compensation expense is calculated based on the fair value of stock options on the date of the grant using the Black-Scholes option pricing model using the following assumptions:

Date of Issue	Risk-Free Interest Rate (%)	Expected Life (years)	Expected Dividend Yield (%)	Expected Volatility (%)
August 12, 2008	2.81	1.0	0.0	0
December 11, 2008	1.30	1.5	0.0	65
December 23, 2008	1.22	1.5	0.0	65
December 24, 2008	1.74	5.0	0.0	65
<b>July 8, 2009</b>	<b>2.28</b>	<b>5.0</b>	<b>0.0</b>	<b>100</b>
<b>September 11, 2009</b>	<b>2.36</b>	<b>5.0</b>	<b>0.0</b>	<b>100</b>

As all stock options issued vest immediately, the full amount of the compensation cost has been recorded. The fair value of granted and vested options during the period was \$880,900 (2008 – \$258,700), of which \$880,900 (2008 – \$47,800) was expensed and an additional \$nil (2008 – \$210,900) for broker options has been charged to share issue costs.

### (e) Common Share Purchase Warrants

As at December 31, 2009, the Company had 505,716 (2008 – 1,362,858) common share purchase warrants outstanding. The warrants entitle the holder to acquire 505,716 common shares of the Company at an exercise price of \$nil per share, expiring December 31, 2013.

### (f) Private Placements

In December 2009, Reliable issued 9,350,000 flow-through common shares at \$0.43 per share for total proceeds of \$4,020,500. Under the terms of the flow-through agreement, the Company is committed to spend \$4,020,500 on qualified exploration and development expenditures by December 31, 2010. These expenditures were renounced to the flow-through share investors effective December 31, 2009. As at December 31, 2009, \$3,869,130 remains to be incurred on eligible expenditures.

On October 2, 2009, the Company completed a private placement for a total of \$5,200,100 that included an investment of \$4,825,000 by Crescent Point Energy Corp. ("Crescent Point"), representing 19.9% of the issued and outstanding shares of Reliable.

On October 23, 2009, the Company completed an acquisition of Element. The Company issued 11,025,000 common shares at a deemed value of \$0.15 per share and received 100% of the issued and outstanding shares of Element.

## 12. Contributed Surplus

Years Ended December 31,	2009	2008
	(\$)	(\$)
Balance – beginning of year	459,273	200,573
Stock-based compensation:		
Options issued to directors and management	880,900	47,800
Broker options	–	210,900
Balance – end of year	1,340,173	459,273

## 13. Per Share Amounts

The weighted average number of shares outstanding was:

Years Ended December 31,	2009	2008
	(\$)	(\$)
Weighted average shares outstanding		
Basic	137,658,594	41,113,427
Diluted	140,518,877	–

The effect of stock options, warrants and convertible debentures have not been included in the calculation of diluted earnings per share for 2008 as the effect is anti-dilutive.

## 14. Supplemental Cash Flow Information

Years Ended December 31,	2009	2008
	(\$)	(\$)
Accounts receivable	(641,462)	(493,406)
Prepaid expenses and deposits	(218,821)	(48,480)
Demand notes receivable	26,308	(26,308)
Accounts payable and accruals	4,627,819	1,398,910
	3,793,844	830,716

The change in non-cash working capital has been allocated to the following activities:

Years Ended December 31,	2009	2008
	(\$)	(\$)
Operating	3,378,426	884,915
Financing	–	(245,496)
Investing	415,418	191,297
	3,793,844	830,716

## 15. Commitments

The Company is committed to payments under an operating lease for office space through April 2011 totaling \$274,000 (2010 – \$205,500; 2011 – \$68,500).

In December 2009, Reliable issued 9,350,000 flow-through common shares at \$0.43 per share for total proceeds of \$4,020,500. Under the terms of the flow-through agreement, the Company is committed to spend \$4,025,000 on qualified exploration and development expenditures by December 31, 2010. These expenditures were renounced to the flow-through share investors effective December 31, 2009. As at December 31, 2009, \$3,869,130 remains to be incurred on eligible expenditures.

In August 2008, Reliable entered into a farm-in agreement to explore 48,000 acres of land in southeastern Saskatchewan/southwestern Manitoba. Under the terms of the agreement, the Company must, on an ongoing basis, spud a well within 75 days from the rig release date of the last preceding well.

## 16. Related Party Transactions

- (a) During 2009, the Company had the following transactions with companies controlled by certain of the Company's directors and officers:

Years Ended December 31,	2009	2008
	(\$)	(\$)
Management consulting fees charged to:		
Administration expense	516,577	715,067
Operating expense	19,800	69,000
Property and equipment	69,120	3,000

As at December 31, 2009, accounts payable and accruals included a balance of \$2,032 (2008 – \$35,210) relating to the above transactions.

Additionally, a provision of \$80,000 (2008 – \$nil) had been provided related to the termination of management consulting contracts.

These transactions were in the normal course of business and valued at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Reliable has retained the law firm of Parlee McLaws LLP ("Parlee") to provide legal services. The Corporate Secretary of Reliable is a partner of Parlee. During the year ended December 31, 2009, Reliable incurred \$134,186 in costs with Parlee (2008 – \$163,860). Services provided related to advice and counsel primarily in the areas of general legal, corporate governance matters, and banking and equity offerings. These services were billed at rates consistent with those charged to third parties.

- (b) During 2006, the Company accepted a promissory note from a related party shareholder in the amount of \$75,000 regarding the purchase of shares. The note bears interest at 6% and is repayable in annual installments of \$25,000 beginning on July 1, 2007. However, the 2008 and the 2009 annual payments were not made as acknowledged by the Board of Directors. The balance of this note as at December 31, 2009 was \$50,000 (2008 – \$50,000). The note is secured by the borrower's shares in the Company.
- (c) The Company has paid certain costs on behalf of related parties. As at December 31, 2009, accounts receivable include a balance of \$10,106 (2008 – \$10,106) relating to these transactions.

## 17. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, demand notes receivable, accounts payable and accruals, commodity contracts and convertible debentures. The main financial risks affecting the Company are discussed below.

### Fair Value

The carrying amount of cash and cash equivalents, accounts receivable, demand notes receivable, and accounts payable and accruals approximates their fair value due to the short-term maturities of these items. The fair value of the convertible debentures as at December 31, 2009 was estimated by discounting future cash flows at a rate that approximated the interest rate that would have been applicable to non-convertible debt. The fair value approximated the carrying value at that time.

### Credit Concentration

Credit risk is the risk of a financial loss occurring as a result of a default of a counterparty on its obligation to the Company. The Company's financial instruments that are exposed to credit risk consist primarily of accounts receivable with customers in the oil and gas industry and are subject to normal industry credit risks. The Company continuously monitors and evaluates credit risk to third parties.

The Company has written off a note receivable from Toggle Networks Inc., an unrelated third party, in the amount of \$26,925, including accrued interest.

The Company does not consider any other receivables to be past due.

## **17. Financial Instruments (continued)**

### ***Commodity Price Risk***

The Company is exposed to fluctuations in commodity prices for natural gas. Commodity prices are affected by many factors, including supply and demand. The Company monitors these risks, and when appropriate, utilizes financial instruments to manage its exposure to these risks.

As at December 31, 2009, the Company had no outstanding derivative contracts.

### ***Interest Rate Risk***

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its short-term deposits.

### ***Liquidity Risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities. The Company's operating cash requirements, including amounts projected to complete the Company's existing capital expenditures program, are continuously monitored and adjusted as input variables change. These variables include, but are not limited to, available credit, production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

## **18. Subsequent Events**

On February 1, 2010, Reliable and its wholly owned subsidiary, Element, amalgamated under the name of Reliable Energy Ltd.

In March 2010, the Company agreed to exchange 5,135,874 broker options for common share purchase warrants on the same terms and conditions as the broker options.

## **19. Comparative Figures**

Certain comparative figures have been reclassified to conform to presentation adopted for the current year.