

CALVALLEY PETROLEUM INC.

2010 ANNUAL REPORT



MOMENTUM

AN INTERNATIONAL ENERGY PRODUCER ON THE RISE

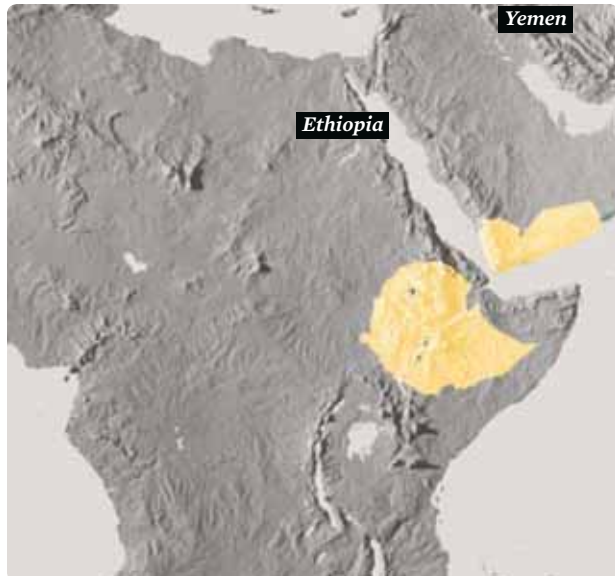
YEMEN

ETHIOPIA

Calvalley Petroleum Inc. (“the Company”) has established a strong record of reserves growth from its initial Exploration and Production Project, at Block 9 in the Masila Basin of the Republic of Yemen. The Project is based on a Production Sharing Agreement (“PSA”) which was signed with the Government of Yemen. Since initiating commercial production in 2006, the Company has had consistently positive cash flows without the requirement for any debt financing which has provided a growth momentum that continues to carry Calvalley forward as a corporation.

Calvalley’s ongoing Block 9 exploration success has led to the successive development of the Hiswah, Al Roidhat, Auqban and, most recently, Ras Nowmah Fields. During 2010, the Company completed appraisal activities at Ras Nowmah which led to the acquisition of 340 kilometers of 2D seismic data. Interpretation of that data has produced two additional prospects for the Company’s rich exploration asset inventory. The development of these fields has enabled the Company to continue investing in future growth activities.

Since 2006, Calvalley has exported its production via truck transport through the Safer Petroleum export transit facility at Block 18, to the Red Sea port of Ras Isa. However, completion of the Company’s new Block 51 Truck Offloading Facility (“TOF”) will allow Calvalley to access the higher value export market afforded by the Masila Export Pipeline System (“MEPS”) to the Arabian Gulf port of Ash Shihr at Mukalla, Yemen. The near-term commissioning of the TOF will further enable the Company to pursue mid and long-term growth and to enhance shareholder value.



04	Selected Highlights	40	Management’s Report
06	Chairman and Chief Executive Officer’s Letter	41	Independent Auditor’s Report
08	Exploration and Operations Review	42	Consolidated Financial Statements
17	Operations Statistical Review	45	Notes to the Consolidated Financial Statements
18	Management’s Discussion and Analysis	IBC	Corporate Information

Note: All currency references are in United States dollars unless otherwise indicated.

During 2010, Calvalley successfully achieved a number of key accomplishments which are setting the stage for significant growth potential:

1) Construction completion of the TOF at Block 51, which will be commissioned in the second quarter of 2011, will allow the Company to produce and sell a blend of all Block 9 crude oil production at the high value Masila Blend price.

2010 HAS BEEN A MILESTONE YEAR IN BUILDING *A PLATFORM FOR GROWTH*

2) The Ras Nowmah-2 appraisal well confirmed the quality and highly productive nature of the field by producing 30° API crude oil at a stabilized rate of 3,000 bbls/day with only a 9.5% pressure drawdown and no formation water present.

3) Due to both the discovery success at Ras Nowmah and to the successful implementation of the pressure maintenance program at the Hiswah Field, the Company's reserves grew at impressive rates. Proved plus Probable ("2P") reserves increased to 31.8 mmbbls at December 31, 2010 compared to 26.5 mmbbls at December 31, 2009 representing a 20% increase.

CALVALLEY IS POSITIONED

Since initiating commercial production in 2006, Calvalley has established a strong foundation for growth with effective long-range planning which prioritized exploration success, focused on significant reserves additions and established key scalable infrastructure. This enabled the Company to maintain limited but stable production which has funded all capital activities without the need for debt financing.

CATALYSTS



FOR GROWTH

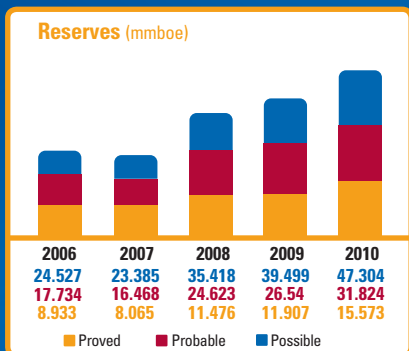
As Calvalley begins operation of the TOF, it is initiating an active program of development and appraisal drilling that will unlock the full production and reserves potential of Block 9 in the Masila Basin. And, with the Company having established an improved export outlet via the Masila Export Pipeline System, the TOF will enable the Company to market its blend of crude oil production at an improved price, equivalent to the traditional 26° API Masila Blend.

Combined with the recent exploration success at Ras Nowmah, the acquisition and analysis of 340 kilometers of 2D seismic data has yielded two additional exploration prospects for a total of six. Additionally, the 31.8 mmbbls of 2P reserves, as verified in Calvalley's Reserves Report as at December 31, 2010, has confirmed the Company's position for continued production growth which will translate into increased shareholder value.

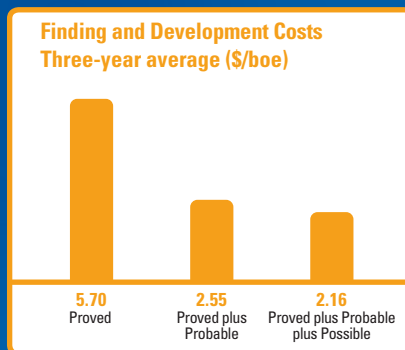
SELECTED HIGHLIGHTS

Years ended December 31,	2010	2009	change
	\$	\$	%
Sales revenues, net of royalties (\$000s)	39,494	31,354	26.0
Funds flow from operations (\$000s)	21,915	13,600	61.1
Cash flow from operating activities (\$000s)	21,592	13,971	54.5
Net income (\$000s)	10,941	2,951	370.8
Shares outstanding (millions) at December 31	97.7	98.2	(0.5)
Weighted average shares outstanding (millions)	97.9	98.9	(1.0)
Per common share (basic)			
Funds flow (\$/share)	0.22	0.14	57.1
Cash flow (\$/share)	0.22	0.14	57.1
Net income (\$/share)	0.11	0.03	366.7
Production (bbls/share)	0.008	0.008	–
Proved + probable reserves (bbls/share)	0.32	0.27	18.5
Cash and GICs (\$000s)	73,020	70,426	3.7
Total assets at year-end (\$000s)	190,710	172,991	10.2
Long-term debt	–	–	–
Oil production (bopd)	2,256	2,160	4.4
Exploration and development spending (\$000s)	21,077	11,803	78.6
Year-end proved + probable reserves (mbbls)	31,824	26,540	19.9
Reserve replacement ratio (proved + probable)	740%	343%	215.7
Wells drilled (number)	7	3	233.3
Realized oil price (\$/bbl)	85.44	57.08	49.7
Dated Brent oil price (\$/bbl)	86.48	61.67	40.2

Note: All currency references are in United States dollars unless otherwise indicated.



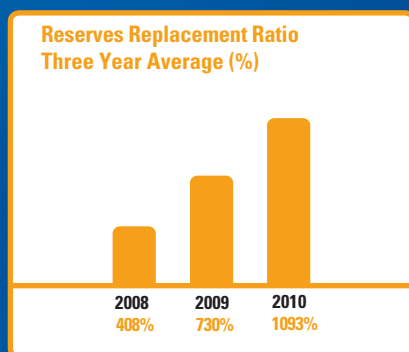
Over the past five years, Calvalley has demonstrated a strong and consistent record of reserves growth. During 2010, the Company realized year-over-year growth of 31% for proved reserves, 20% for proved plus probable reserves, and 21% for proved plus probable plus possible reserves. Over the past five years, 1P reserves have increased by 174%, 2P reserves have increased by 179%, and 3P reserves have increased by 194%.



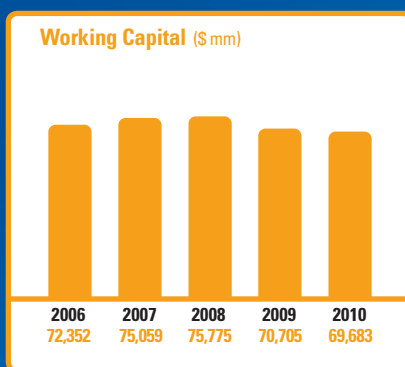
The Company has efficiently realized its strong reserves growth. Attractive three-year average finding and development costs of \$5.70/bbl for 1P reserves, \$2.55/bbl for 2P reserves, and \$2.16/bbl for 3P reserves.

\$0 Debt

Calvalley continues to execute its growth strategies while incurring no debt.



While continuing to fund its capital development program through the production and sale of crude oil from Block 9, the Company has maintained strong three-year average reserve replacement ratios of 408% for proved reserves, 730% for proved plus probable reserves, and 1,093% for proved plus probable plus possible reserves.



The Company has consistently funded the majority of exploration and development activities through operating cash flows. As a result, Calvalley has maintained strong working capital ranging between \$69.7 million and \$75.8 million over the past five years.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S LETTER

I am pleased to report to you the Company's financial and operating results for the 2010 fiscal year. Our strong team of experienced personnel in both Yemen and in Calgary has contributed to continued efficient reserve growth along with the establishment of key infrastructure projects and ongoing enhancement of exploration potential. These important developments clear the way for significant near-term production growth which will lead to enhanced shareholder value.

The Company continued its strong record of consistent reserve growth during 2010. Proved plus probable reserves rose to 31.8 mmbbls at December 31, 2010, representing a 20% increase over the 26.5 mmbbls reported at December 31, 2009. An equally important component of our achievements in exploring for and successfully appraising and developing new discoveries is the efficiency with which we have realized success. Finding & Development ("F&D") costs for 2010 amounted to \$3.22/bbl for proved ("1P") reserves, \$0.64/bbl for proved plus probable ("2P") reserves, and \$0.80/bbl for proved plus probable and possible ("3P") reserves. In addition to cost containment in the short-term, we have demonstrated industry-leading exploration cost efficiency over the longer term. On a three-year average basis, our F&D costs were \$5.70/bbl for 1P reserves, \$2.55/bbl for 2P reserves, and \$2.16/bbl for 3P reserves.

Our exploration success resulted in part from the successful appraisal well at Ras Nowmah-2 which flowed at a stabilized rate of 3,000 bbls/day of 30° API crude oil with no formation water and with only a 9.5% pressure drawdown during production tests. We have also made significant progress in implementing our pressure maintenance program at the Hiswah Field.





During the first quarter of 2011, the Company also completed drilling of the Qarn Qaymah-3 ("QQ-3") appraisal well which is currently undergoing a pressure build-up in preparation for full field assessment.

The Company has also focused significant energy and resources to relieve transportation and marketing bottlenecks by constructing a new TOF at Block 51. As Calvalley nears completion of the TOF, the Company begins an active program of development and appraisal drilling that will unlock the full potentiality of Block 9 in the Masila Basin. And with the Company having established an improved export outlet, via the Masila Export Pipeline System, the TOF will enable the Company to market its blend of better than 26° API crude at a price equivalent to the traditional Masila Blend.

With regard to Calvalley's project in Ethiopia, surface geological work at the Metema and Gimbi Blocks was completed and fully evaluated. Based on the surface geological work, Calvalley undertook the acquisition of aeromagnetic survey data over a region covering an area of approximately 26,000 square kilometers. The Company is currently interpreting and mapping the coverage area based on the results of this aeromagnetic survey.

Looking to the future, your management will continue to focus on its strategy of continued exploration success along with a marked increase in production from the Block 9 project in Yemen.

I would like to thank the Calvalley team and the Board of Directors for their outstanding efforts and achievements during 2010 and their continuing efforts to maximize shareholder value.

Sincerely,

A handwritten signature in black ink, appearing to read "Edmund Shimoon". The signature is stylized and includes a long horizontal line extending to the right.

Edmund Shimoon
Chairman and Chief Executive Officer
March 31, 2011

EXPLORATION AND OPERATIONS REVIEW



Yemen Strategies

- Continue to expand the infrastructure and production capacity to markedly increase production of all crude reserves on Block 9
- Realize production growth
- Pursue exploration activities on Block 9 to increase the Company's reserve base
- Fund Block 9 operating, exploration and development activities through internally-generated cash flows

Execution and Outlook

- Commission the Truck Offloading Facility at Block 51 and expand production and deliveries of oil reserves from the Hiswah, Al-Roidhat, and Ras Nowmah Fields
- Continue pressure maintenance program at the Hiswah Field
- Pursue exploratory program at Block 9

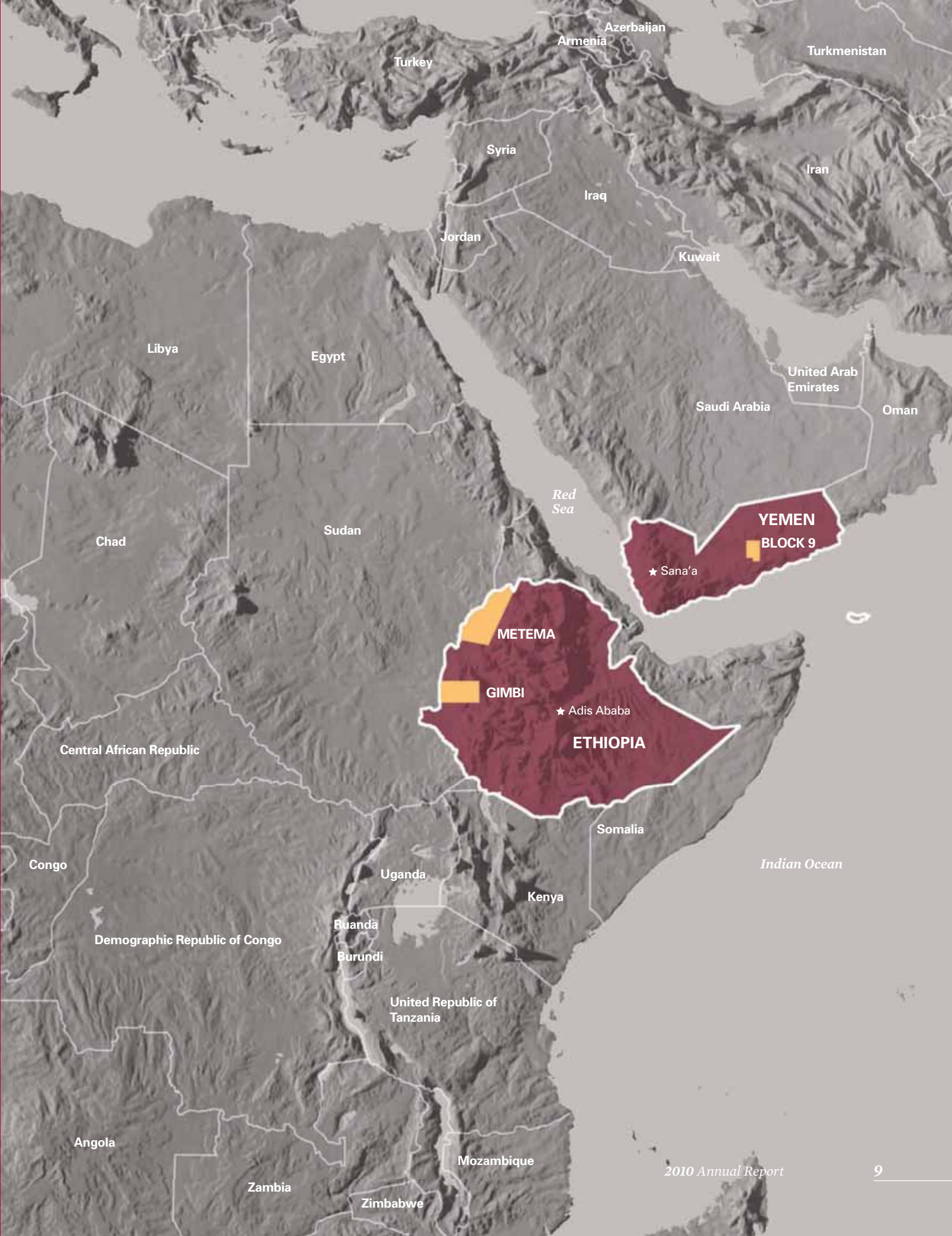


Ethiopia Strategies

- Interpret and map the coverage area based on the results of the aeromagnetic survey completed during 2010
- Pursue further exploration activities as warranted by the Company's geological and geophysical team

Execution and Outlook

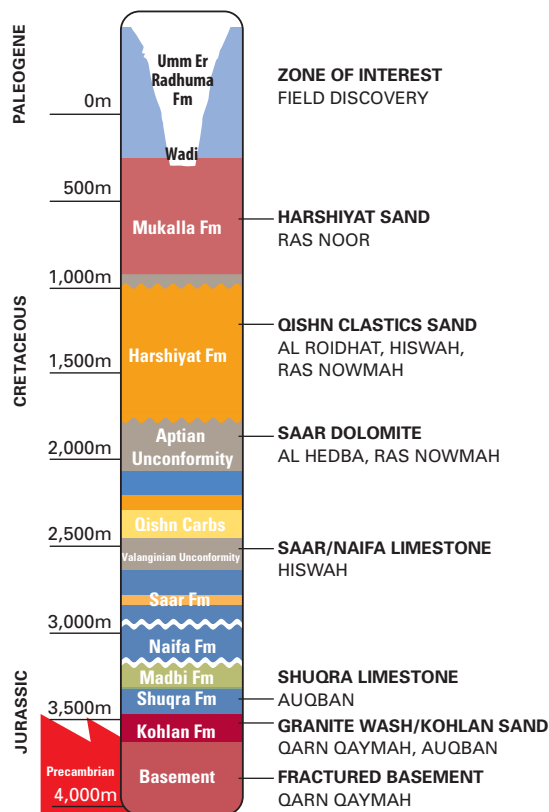
- Depending on the results of the aeromagnetic survey, the Company may pursue additional acquisition of technical data with the objective of identifying leads and prospects



Yemen Block 9

Stratigraphic Column for Block 9

SAYUN - MASILA BASIN

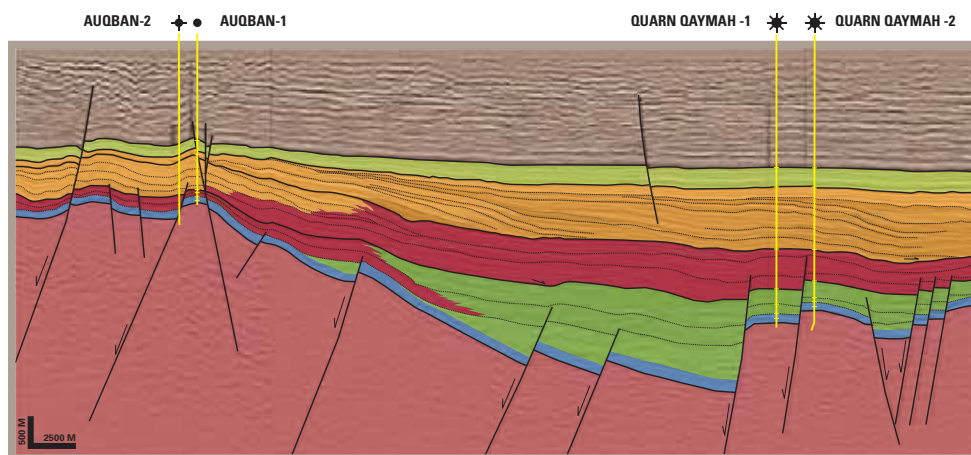


Block 9 occupies the western part of the Sayun-Masila Basin. The Sayun-Masila Basin is an important extensional basin initiated in the middle Jurassic. Prior to the rifting event, the Arabian craton was exposed and sandstones of the Kohlan Formation were deposited in a dominantly fluvial environment. Subsidence in the early to middle Jurassic resulted in a regional marine transgression, during which time the Kohlan sandstones were re-worked and carbonate deposition of the Shuqra Formation was initiated. The basal Kohlan sandstones and overlying Shuqra carbonates both contain reservoir quality rock and are sealed by tight carbonates and shales. Both reservoirs are oil-charged at Auqban and the Kohlan is one of the primary reservoirs at Qarn Qaymah.

Onset of rifting began in Oxfordian-Kimmeridgian time. The Jurassic rifting event was responsible for the creation of restricted marine embayments where the Madbi Formation source-rock shale was deposited. Continued extensional rift tectonics and basin subsidence resulted in the dramatic thickening of sediments within the rift basins. Both grabens and half-grabens are developed within the Sayun-Masila Basin. Basin-margin faults are often viewed as growth-faults and the basal sediments appear to on lap pre-existing basement horst blocks.

The rifting phase was followed in the Cretaceous by structural sagging. Development of the sag basin was the result of both continued subsidence and differential compaction. These processes resulted in the draping of sediments over pre-existing basement horst blocks. The structural draping results in positive structural closures that are the primary targets for oil exploration in Block 9.

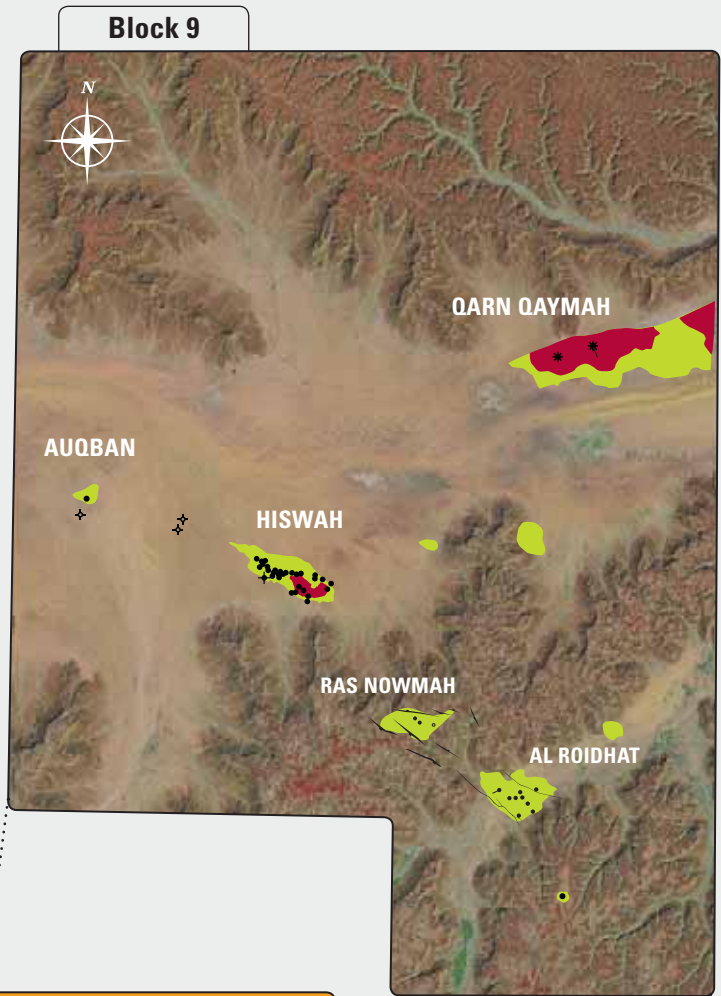
Composite Seismic Line 06CV-45 to CY9-91-W9



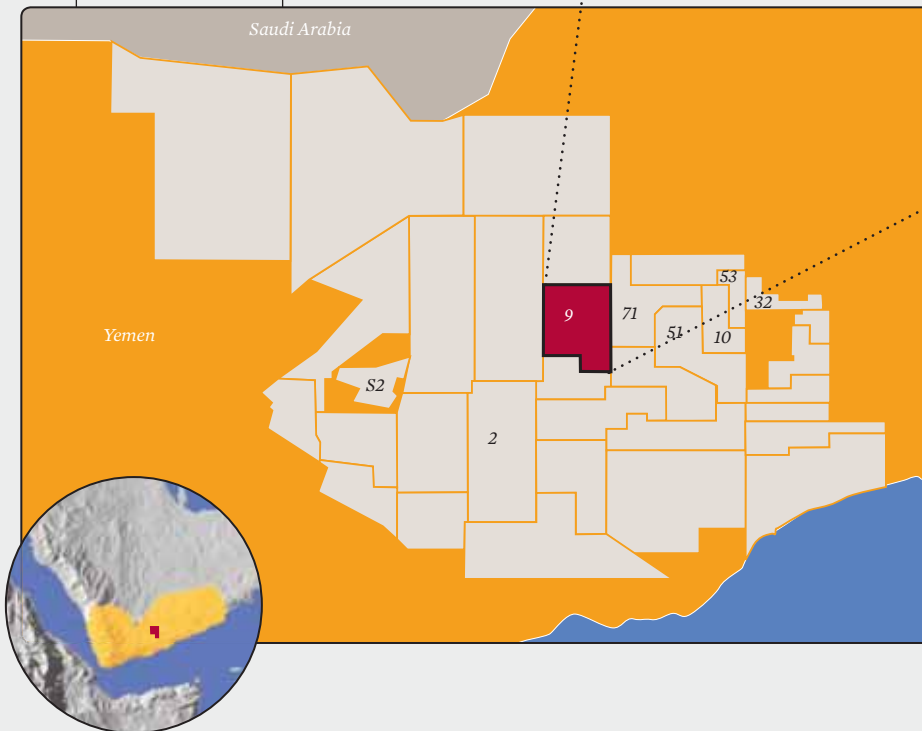
The Sayun-Masila Basin has attractive source-reservoir-seal combinations. Oil that has been generated from the Madbi source rock is responsible for charging all reservoirs in Block 9.

Oil migrating out of the source-rock basins can charge prospective reservoirs both laterally and vertically via faults.

- Gas cap
- Oil pool



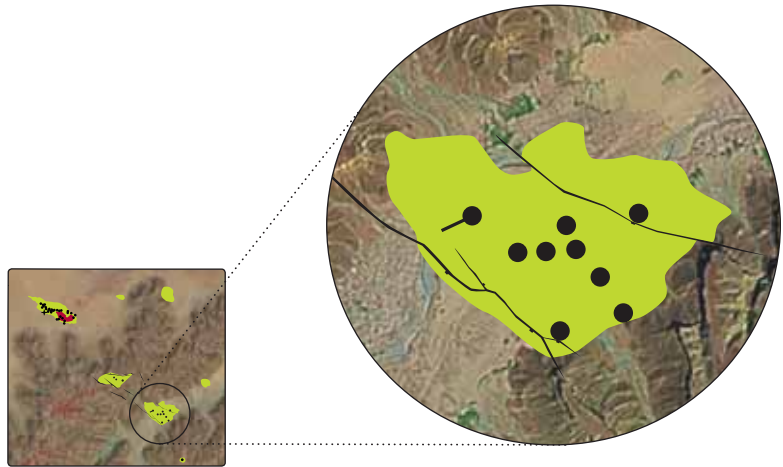
Concessions



- 2 OMV
- 9 CALVALLEY**
- 10 TOTAL
- 32 DNO
- 51 CDN NEXEN
- 53 DOVE ENERGY
- 71 SINOPEC
- S2 OMV

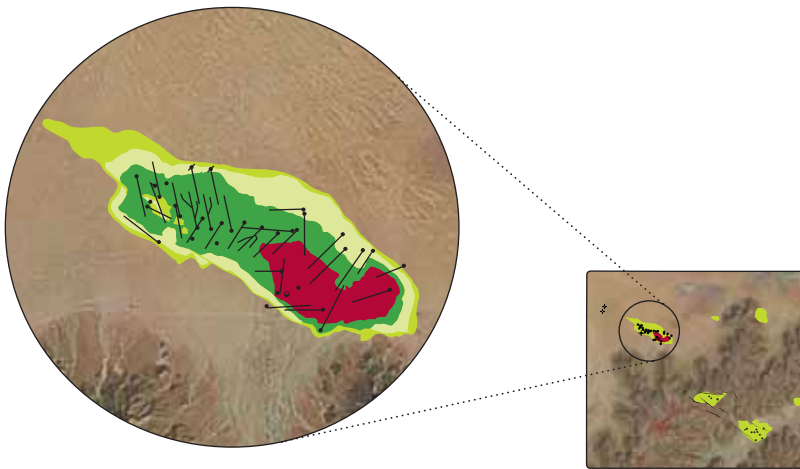
Yemen Block 9 **Al Roidhat**

Development of Al Roidhat continued during 2010. Calvalley worked over the four wells which had previously been completed and tested and completed three additional wells. Extended production tests were conducted to better understand the sustainable production capability of the wells and the field. Currently six wells are fully equipped and ready to commence production as soon as the TOF is completed at Block 51. Production from these wells will be accumulated at the field storage tanks from which oil will be transported by tanker truck to the CPF for blending with lighter oil produced by other fields. The wells are ready to produce.



Yemen Block 9 **Hiswah**

During 2010, Calvalley successfully completed the drilling of five horizontal producers at Hiswah. The first three wells were placed on production at an initial flow rate of approximately 250-400 bbls/day with no water. The remaining two wells are currently shut-in awaiting delivery of downhole pumps (ESPs). The wells produced at rates better than modelled production rates as a result of our improved reservoir modeling and completion techniques. The successful development of these wells resulted in an upward revision of recoverable reserves in both Proved and Proved plus Probable categories from the field by the independent reserve engineers.

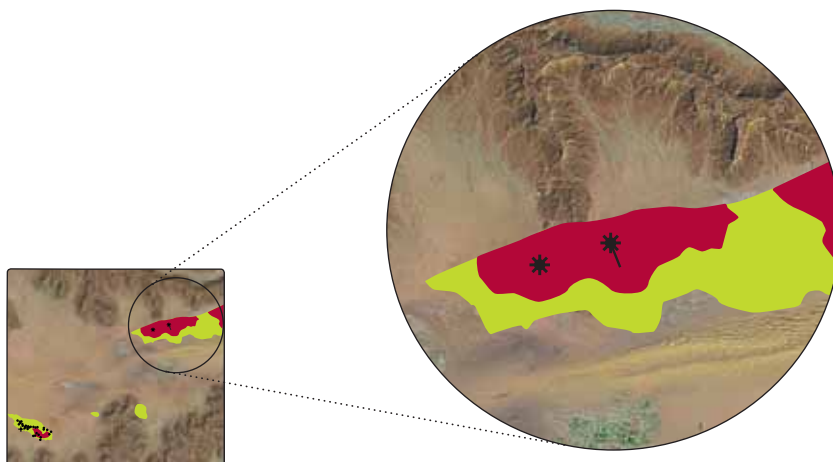


The Company is also continuing its pressure maintenance and production optimization program for the Hiswah Field. The pressure maintenance program at Hiswah involves the reinjection of produced gas to reduce flaring and increase oil recoveries.

During 2010, Calvalley commenced Hiswah water injection at 6,500 bbls/day with a single horizontal well, H-26, which has been performing better than expected. The Company also commissioned a second water injector (H-25) which is also performing better than expected. The Company will continue to monitor long-term performance of water injection as a means of pressure maintenance to optimize the ongoing development of the field and to extend the life of plateau production. Up to five more water injectors are included in the 2011 drilling program. The Company plans to drill two of these wells in the first half of 2011. Management expects a total water injection volume greater than 25,000 bbls/day by the end of 2011.

With the recent installation of gas compression facilities, the Company is currently injecting more than 2 mmcf/day of produced gas into the Hiswah Field. An additional injection well is currently being tied-in in an attempt to increase gas injection up to the compression facility's capacity of approximately 5 mmcf/day. The pressure maintenance scheme is expected to reduce the natural field production decline and to improve the recovery percentage.

Yemen Block 9 Qarn Qaymah

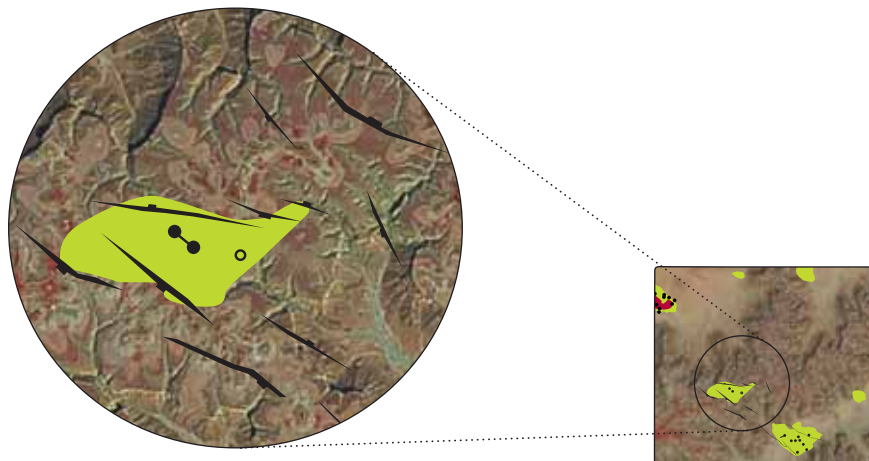


Drilling of the Qarn Qaymah-3 appraisal well was completed on March 8, 2011 to a total depth of 4,460 meters, including an openhole section of approximately 1,000 meters in the Fractured Granitic Basement (“FGB”). The wellbore image logs and electrical logs indicate that the openhole section encountered a number of fractured sections in the FGB. On March 9, 2011, Calvalley began testing of QQ-3. The well is currently undergoing pressure build up. Due to the complicated nature of the FGB reservoirs, the testing program is usually a lengthy process and is

expected to be completed in the second quarter of 2011. Calvalley has retained the services of two reputable reservoir consulting firms in Calgary to analyze the wellbore image logs and electrical logs in order to better define and model the reservoir.

Yemen Block 9 Ras Nowmah

The Company successfully drilled the Ras Nowmah-2 appraisal well in record time with a total gross hydrocarbon column of 57 meters including 41 meters in the Qishn and 16 meters in the Saar Formations. The initial test results have significant implications for the future exploration and development of Block 9. The first implication is lighter oil – contrary to previous belief that Qishn structures in Block 9 contain only heavy oil, the Ras Nowmah discovery has proven that the Block 9 Qishn structures are similar to those in the Masila block. The success of Ras Nowmah has added a

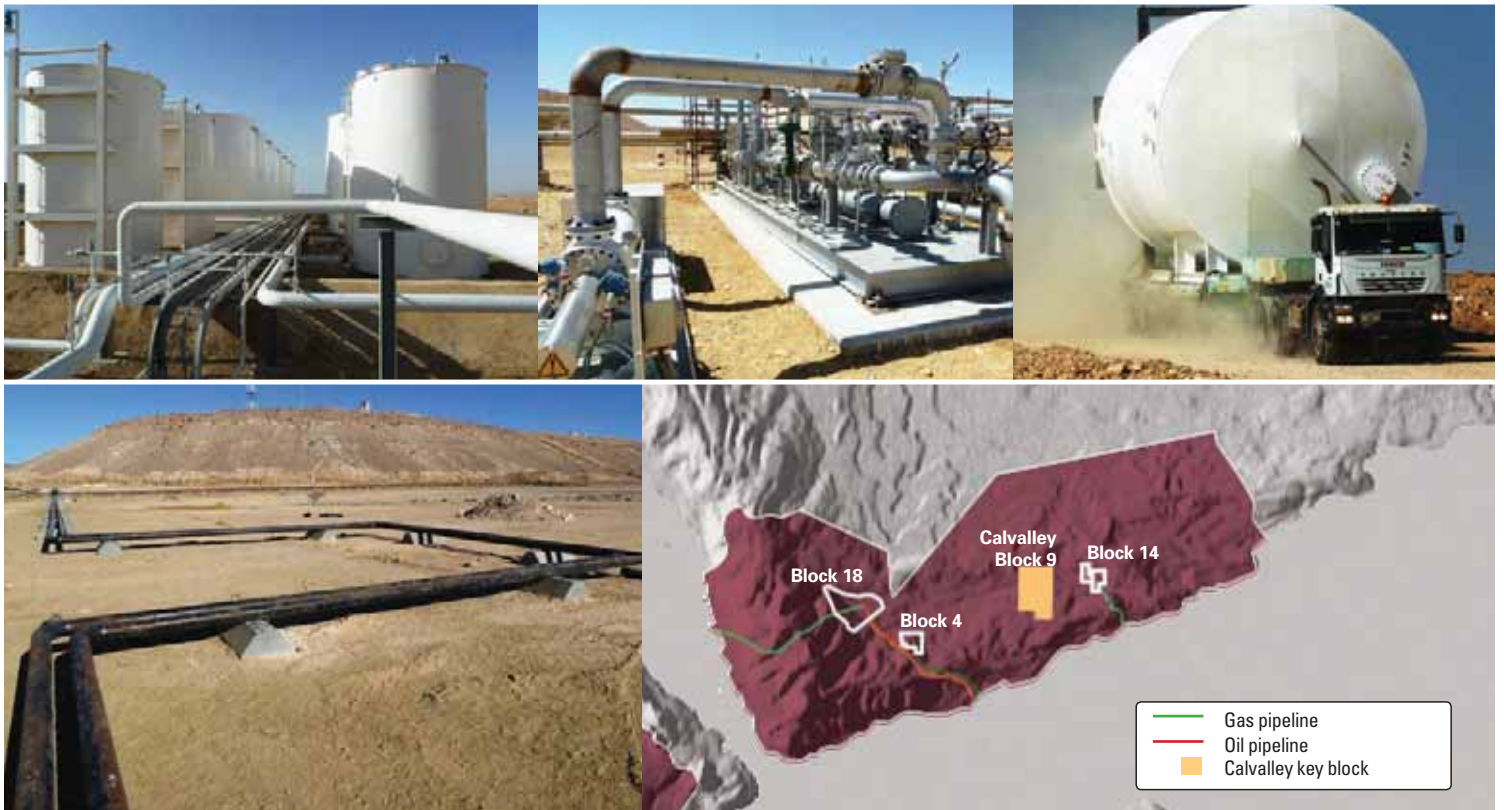


new and exciting exploration dimension to Calvalley’s already rich portfolio of prospect inventory. As a result, both of the near-term and long-term exploration programs are expected to expand significantly. Ras Nowmah is situated along a prospective fairway where Calvalley has already identified several other Qishn structures based on new seismic interpretation. The success of Ras Nowmah-2 has reduced the geological risk of exploration drilling on these structures.

Calvalley has recently commenced drilling of the Ras Nowmah East-1 (“RNE-1”) exploration well. The well is targeting both Qishn and Saar Formations similar to those of the Ras Nowmah wells. The well is expected to reach total depth by mid-April 2011, at which time the drilling rig will be mobilized to the Ras Nowmah Field to drill two successive development wells (RN-4 and RN-5).

Oil Transportation and Marketing

A critical component of Calvalley's future success is the ability to market different qualities of crude without delivery restrictions which limit production to reservoirs containing light, sweet crude. During 2010, Calvalley management focused on negotiating transportation agreements which would allow the Company to commence production from all existing and future discoveries on Block 9.



These efforts were rewarded in February 2010 with the execution of agreements which will enable Calvalley to activate shut-in Al Roidhat wells and transport blended crude of 26° API or higher from Block 9 through the Masila System. Immediate production growth is expected to be realized upon completion of the TOF which is pictured above.

Exploration Upside: Yemen

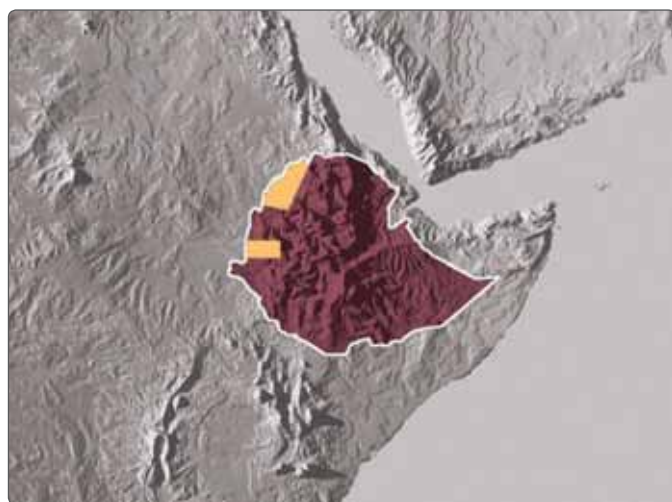


Calvalley has successfully completed a 340 kilometer 2D seismic program over the Plateau area which covers the Ras Nowmah discovery and nearby structures such as Sueda, East Ras Nowmah, North Ras Nowmah, South Ras Nowmah, Al Hedba, Al Gadafir and Malik. The final processing of the 2D seismic indicates that good quality data have been acquired. The final interpretation suggests better than expected prospectivity over the coverage area. To date, two additional prospects have been identified for a total of six in the Qishn Formation.

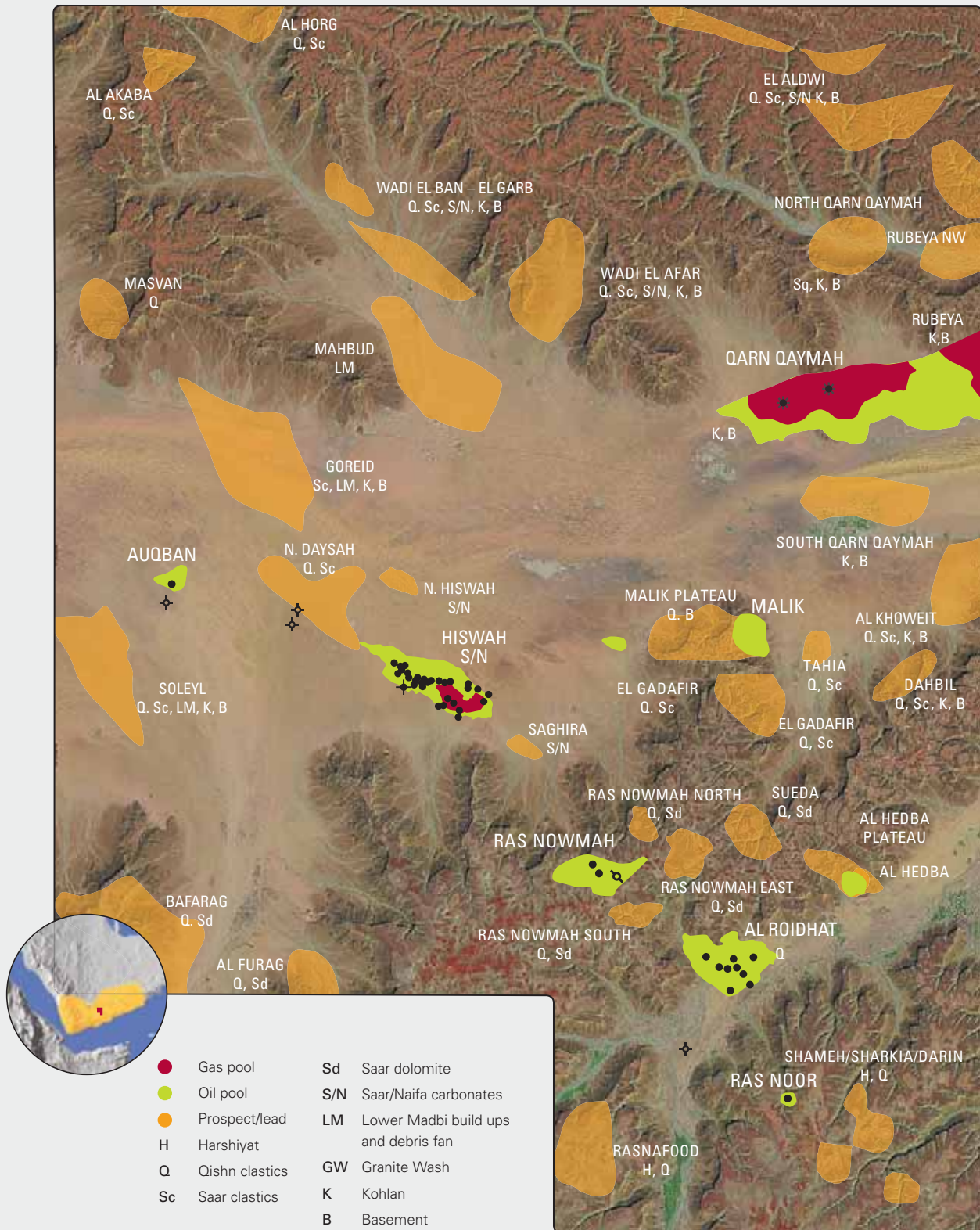
Ethiopia: Exploration

Ethiopia represents an opportunity for Calvalley to diversify its operations outside Yemen.

Surface geological work at the Metema and Gimbi Blocks in Ethiopia has been completed and fully evaluated. Based on the surface geological work, Calvalley has completed the acquisition of aeromagnetic survey data over a region covering an area of approximately 26,000 square kilometers. The Company is currently interpreting and mapping the coverage area based on the results of this aeromagnetic survey.



Yemen – Pools, Prospects and Leads



OPERATIONS STATISTICAL REVIEW

Drilling Activity

The Company drilled one exploration well, two appraisal wells and five development wells during 2010. As a result of the production testing activity at Ras Nowmah and field optimization work at the Hiswah Field, the Company's proved and probable reserves increased to 31.8 million bbls at December 31, 2010, representing a 20% increase (23% including reserves produced in 2010) over the 26.5 million bbls at December 31, 2009.

Production

	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	2010	2010	2010	2010	2009	2009	2009	2009
Oil and NGL (Block 9 gross boe/day)	4,334	4,512	4,606	4,597	4,404	4,184	4,164	4,532
Oil and NGL (Calvalley working interest boe/day)	2,167	2,256	2,303	2,299	2,202	2,092	2,082	2,266

Production rates during 2010 were generally stable. While four development wells were drilled at Hiswah, the production increase has been offset by the fact that as of year-end, twelve producing wells remained shut-in due to delays in delivery of production equipment.

Reserves and NPV

	Reserves		NPV (10% After Tax)	NPV (8% After Tax)
	Gross (WI) (MMbbls)	Net (after royalty & tax) (MMbbls)	(\$ million)	(\$ million)
Proved				
Developed producing	3.8	2.3	75.7	78.5
Developed non-producing	4.7	2.6	89.1	92.3
Undeveloped	10.9	4.9	125.3	135.5
Total Proved	15.7	7.5	214.4	227.8
Probable	16.3	6.9	180.2	199.6
Total Proved + Probable	31.8	14.4	394.7	427.3
Possible	15.8	6.0	165.0	188.2
Total Proved + Probable + Possible	47.6	20.3	559.7	615.5

* Based on McDaniel forecast prices (Jan 2011 Forecast)

MANAGEMENT'S DISCUSSION AND ANALYSIS

References to "Calvalley" or the "Company" refer to Calvalley Petroleum Inc. and its share of consolidated subsidiaries and joint ventures unless the context indicates otherwise. All currency references are to United States dollars unless otherwise specifically indicated. References to "C\$" are to Canadian dollars.

The purpose of this Management's Discussion and Analysis (MD&A) is to provide readers the ability to view Calvalley in much the same way as Company management. The following combination of historical and prospective information and financial and business analyses, together with the consolidated financial statements, are intended to impart useful knowledge to investors and other readers. This MD&A should be read in conjunction with the Company's unaudited consolidated financial statements and related notes for the year ended December 31, 2010. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com or on the Company's website at www.calvalleypetroleum.com.

References in text or tables throughout this document to "2010", "2009", and "2008" refer to the years ended December 31, 2010, 2009 and 2008, respectively. References in text or tables labelled "Q4", "Q3", "Q2" and "Q1" refer to the periods ended December 31, September 30, June 30 and March 31, respectively, of the year indicated.

This MD&A contains information current to March 22, 2010.

NON-GAAP MEASURES

Funds Flow From Operations

Funds flow from operations is a measure not recognized under Canadian generally accepted accounting principles (GAAP) that represents funds generated from operating activities before changes in non-cash working capital. Funds flow from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities. Management believes that funds flow from operations is a useful supplemental measure to analyze the Company's ability to generate cash flow to fund capital investment and working capital requirements. Funds flow from operations may not be comparable to similar measures used by other companies.

EBITDA and Operating Income

Earnings before interest, taxes, depreciation and amortization (EBITDA) and operating income are non-GAAP measures. The Company calculates EBITDA as revenue net of royalties, operating expenses, taxes, and general and administrative expenses. The Company calculates operating income by deducting depletion, depreciation and amortization expense from EBITDA. Management believes that EBITDA and operating income are useful supplemental measures to analyze operating performance and to provide an indication of the results generated by the Company's principal business activities prior to the consideration of other income and expenses. EBITDA and operating income may not be comparable to similar measures used by other companies.

Netback

Netback is a non-GAAP measure that represents oil and natural gas revenue net of royalties, operating expenses and current taxes. Management believes that netback is a useful supplemental measure to analyze operating performance and provides an indication of the results generated by the Company's principal business activities prior to the consideration of other income and expenses. Netback may not be comparable to similar measures used by other companies.

Finding and Development Costs

Finding and development costs refers to all current year capital expenditures excluding property acquisitions, property dispositions and corporate office expenditures and including changes in future development capital on a proved and proved plus probable basis (as applicable). "Finding and development costs per barrel of oil equivalent" ("F&D \$/boe") is calculated by dividing finding and development costs by the current year's reserve extensions, discoveries and revisions on a proved or proved plus probable reserve basis (as applicable).

SELECTED QUARTERLY INFORMATION

(\$000s unless otherwise noted)	2010					2009				
	Full Year	Q4	Q3	Q2	Q1	Full Year	Q4	Q3	Q2	Q1
Avg. production volume – Calvalley share (bopd)	2,256	2,167	2,256	2,303	2,299	2,160	2,202	2,092	2,082	2,266
Average sales volume (bopd)	2,186	2,804	2,839	973	2,115	2,440	2,081	2,020	3,695	1,967
Average realized price (\$/bbl)	80.03	85.44	76.10	84.70	75.91	57.08	73.83	67.74	51.30	38.75
Oil sales	63,867	22,042	19,877	7,499	14,449	50,839	14,136	12,591	17,252	6,860
Oil sales, net ⁽¹⁾	39,494	13,681	12,328	4,564	8,921	31,354	8,742	7,766	10,686	4,160
Cash flow from operating activities	21,592	11,863	1,150	3,457	5,122	13,971	9,271	3,587	3,325	(962)
Funds flow from operations ⁽¹⁾	21,915	7,976	6,744	1,926	5,269	13,600	4,652	4,453	4,644	(149)
Funds flow from operations per share (\$/share) ⁽¹⁾										
Basic and diluted	0.22	0.08	0.07	0.02	0.05	0.14	0.05	0.04	0.05	0.00
Net income (loss)	10,941	4,987	2,744	485	2,725	2,951	2,109	2,122	765	(2,045)
Net income (loss) per share (\$/share)										
Basic and diluted	0.11	0.05	0.03	0.01	0.03	0.03	0.02	0.02	0.01	(0.02)
Working Capital	69,683	69,683	73,293	72,650	72,182	70,705	70,705	71,278	72,059	72,599
Total assets	190,710	190,710	176,970	172,390	172,378	172,991	172,991	165,178	164,193	165,683
Long-term debt	–	–	–	–	–	–	–	–	–	–

(1) Revenue net of royalties and government share of profit oil

(2) See “Non-GAAP Measures”. See “Operating Activities” in “Consolidated Cash Flow” section for reconciliation between Funds flow from operations and Cash provided by (used in) operations.

OVERALL PERFORMANCE

Net income for the year ended December 31, 2010 was \$10.9 million versus \$3.0 million for 2009. Working capital at December 31, 2010 decreased to 69.7 million from \$70.7 million at December 31, 2009. Funds flow from operations for the year ended December 31, 2010 improved to \$21.9 million from \$13.6 million for the year ended December 31, 2009.

During the year ended December 31, 2010, the Company’s ability to generate positive funds flow from operations enabled it to finance its capital program and to buy back 718,662 shares at a cost of \$2.2 million representing an average cost of C\$3.13/share. The Company continues to generate cash flow from its operations at Block 9 in the Republic of Yemen.

BUSINESS ENVIRONMENT

Calvalley produces high quality crude oil sold at world prices. As such, the Company's financial results are significantly influenced by fluctuations in commodity prices. The following table shows selected market benchmark prices as well as the Company's realized selling price of oil for the five most recent quarters:

	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4
Dated Brent average oil price (\$/bbl)	86.48	76.86	78.24	76.37	74.53
Calvalley realized price (\$/bbl)	85.44	76.10	84.70	75.91	73.83
Premium/(discount) to Dated Brent	(1.04)	(0.76)	6.46	(0.45)	(0.70)

The price of Dated Brent oil averaged \$86.48/bbl in Q4 2010, an increase of 16% from the Q4 2009 price of \$74.53/bbl. The price of Dated Brent oil reached a record high of \$144.23/bbl. However, financial market instability and a worldwide recession resulted in a steep decline in the price of Dated Brent oil from August to December 2008. During 2009 and into 2010, the price of oil recovered some of this decline. The price of Dated Brent oil at December 31, 2010 was \$92.55/bbl.

OUTLOOK

As Calvalley nears completion of the Truck Offloading Facilities ("TOF") at Block 51, the Company is entering an active phase of the development and appraisal drilling program to unlock the production and reserves potential of Block 9. As well, with the Company having established an improved export outlet, via the Masila Export Pipeline System ("MEPS"), the TOF will enable the Company to market its blend of better than 26° API crude at a price equivalent to the traditional Masila Blend.

At the field level, Calvalley has positioned itself to gradually increase its production of blended crude to 10,000 bopd (5,000 bopd net). In that regard, the Company continues to add new development wells at its Hiswah and Ras Nowmah fields in preparation for the production increase. As well, the shut-in Al Roidhat wells are set to begin production which will be trucked for storage at the CPF until the TOF is commissioned. During Q4 2010, Calvalley successfully drilled a development well at the Al Roidhat field encountering 22 meters (72 feet) of net oil pay with average porosity of 23.5%. The well is now completed and is currently being production tested.

Drilling of the Qarn Qaymah-3 ("QQ-3") appraisal well was completed on March 8, 2011 to a total depth of 4,460 meters including an openhole section of approximately 1,000 meters in the Fractured Granitic Basement ("FGB"). The wellbore image logs and electrical logs indicate that the openhole section encountered a number of fractured sections in the FGB. On March 9, 2011, Calvalley began testing of QQ-3. The well is currently undergoing pressure build up. Calvalley has retained services of two reputable reservoir consulting firms in Calgary to analyze the well bore image logs and electrical logs in order to better define the reservoir.

Calvalley has recently commenced drilling of the Ras Nowmah East-1 ("RNE-1") exploration well. The well is targeting both Qishn and Saar Formation similar to those of the Ras Nowmah wells. The well is expected to reach total depth by mid-April 2011, at which time the drilling rig will be mobilized to the Ras Nowmah Field to drill two successive development wells (RN-4 and RN-5).

We have successfully completed a 2D seismic program of 340 km over the Plateau area which covers the Ras Nowmah discovery and nearby prospects such as Sueda, Ras Nowmah East, Al Hedba, Al Gadafir, and the Malik Plateau. The recent mapping and interpretation of the seismic program data indicates a better than expected prospectivity of the coverage area. Two new prospects over the Plateau have also been identified.

With regard to Block 9 infrastructure developments, Calvalley has recently commenced technical work associated with an inter-field pipeline connecting the Al Roidhat and Ras Nowmah fields to the Hiswah CPF.

During 2010, Calvalley commenced Hiswah water injection at 6,500 barrels a day with a single horizontal well, H-26, which has been performing better than expected. The Company also commissioned a second water injector (H-25) and is monitoring the well performance. Up to five more water injectors are included in the 2011 drilling program. Two of these wells will be drilled in the first half of 2011. We expect a total water injection volume greater than 25,000 bbl/d by the end of 2011.

As well, with the recent installation of gas compression facilities, we are currently injecting more than 2 MMcf/d of produced gas into the Hiswah Field. An additional injection well is currently being tied-in in an attempt to increase gas injection up to the compression facility's capacity of approximately 5MMcf/d. The pressure maintenance scheme is expected to reduce the natural field production decline and to improve the recovery percentage.

Surface geological work at the Metema and Gimbi Blocks in Ethiopia has been completed and fully evaluated. Based on the surface geological work, Calvalley has completed the acquisition of aeromagnetic survey data over a region covering an area of approximately 26,000 square km. The company is currently interpreting and mapping the coverage area based on the results of this aeromagnetic survey.

EXPLORATION AND DEVELOPMENT PROGRAM

Block 9 – Republic of Yemen

Joint Operating Agreement (JOA)

Substantially all of Calvalley's operations and assets are related to its 50% working interest in the Block 9 Production Sharing Agreement (PSA) with the Government of Yemen. Calvalley is the operator of the Block 9 Joint Venture (JV) pursuant to the JOA among Calvalley, HoodOil Ltd. ("HoodOil"), Reliance Industries Limited ("Reliance") and a subsidiary of the Yemen Oil and Gas General Corporation ("Yemen Co."), an entity owned by the Government of Yemen. Yemen Co.'s interest under the JOA consists of a 15% overriding royalty on the JV's allocation of profit oil under the PSA.

Production Sharing Agreement

Oil and natural gas production from Block 9 is allocated between the JV and agencies of the Government of Yemen pursuant to the terms of the PSA. The Government of Yemen receives a 10% royalty in kind from all Block 9 production, after which the remaining oil production is shared between the JV and the Government of Yemen. The JV is first allocated up to 45% of gross production to recover capital and operating costs incurred in order to operate Block 9. To the extent that recoverable costs exceed 45% of the

fair value of gross production, any excess costs are carried forward for recovery against future production. After deducting cost oil, the remaining profit oil is allocated between the Government of Yemen and the JV as follows:

- 39.23% of total profit oil to the JV (before deducting 35% income tax on JV's share of profit oil and after deducting 15% override to Yemen Co.); and
- 60.77% to the Government of Yemen (including Yemen Co.'s override and before including income tax on JV's share of profit oil).

Provided that total recoverable costs do not exceed 45% of gross production, the JV may recover operating costs during the year in which they are incurred and may deduct 50% of capital costs incurred during the year of expenditure and 50% during the following year.

As at December 31, 2010, the Company's share of capital costs to be carried forward for recovery against future production was approximately \$51.4 million. Until these costs have been recovered, together with future operating and capital costs that become eligible for recovery during that time period, the Company's net oil production will equal 31.33% of gross oil production (22.5% from cost oil and 8.83% from profit oil). Following full recovery of past operating costs, the Company's net oil production will range between 17.65% and 31.33% of gross oil production, which will vary depending upon prevailing crude oil selling prices and the capital and operating costs incurred by the JV. The Company's share of profit oil is subject to 35% income tax to the Government of Yemen which is paid by the Government of Yemen out of its share of profit oil.

Ethiopia

Production Sharing Contract

In 2008, Calvalley entered into its first Production Sharing Contract with the Ethiopian Government for the exploration, development and production of petroleum substances in the Gimbi and Metema blocks under a single contract covering a total area of over 46,470 km² (11.5 million acres).

Calvalley has a 100% operated working interest in both blocks for an exploration period of eight years, consisting of an initial period of four years followed by two subsequent option periods consisting of two years each. The option period will be activated at the discretion of Calvalley. Furthermore, subject to hydrocarbon discovery during the total eight year period, the PSC provides for an additional 25 year development period with a 10-year optional extension. The PSC gives Calvalley the rights to explore, develop, and produce hydrocarbons including oil, condensate, natural gas, and associated liquids.

Total initial work obligations under the PSC, to be incurred during the initial 4-year exploration program amount to approximately \$8.5 million and consist of the acquisition and processing of 400 km of 2D seismic and the drilling of one exploration well. As at December 31, 2010, the Company has incurred \$1.2 million in exploration expenditures in fulfillment of these obligations.

KEY PERFORMANCE INDICATORS

Calvalley uses key financial indicators to help assess its business performance and manage its operations. These financial indicators measure business growth (revenue and capital expenditures), cash generation (EBITDA and funds flow from operations) and profitability (operating income and net income). These key financial indicators are discussed in more detail in the following sections.

Production and Sales Information

	2010					2009	
	Year Total	Q4	Q3	Q2	Q1	Year Total	Q4
Block 9 oil production (bopd)	4,512	4,334	4,512	4,606	4,597	4,320	4,404
Company working interest share (bopd)	2,256	2,167	2,256	2,303	2,299	2,160	2,202

Production

Substantially all of Calvalley's crude oil production in 2010 and 2009 came from the Hiswah oil field, which produces high-quality, lighter crude oil that is sold at prices comparable to the Dated Brent crude oil reference price. All of the Company's crude oil production was trucked more than 250 kilometers to the Safer Exploration and Production Operations Co. processing facility on Block 18, where the crude oil was processed and shipped via pipeline to the Ras Isa marine terminal facility for export. During the year ended December 2010, the Company's working interest oil production averaged 2,256 barrels of oil per day (bopd) (2009 – 2,160 bopd).

Production rates during the year ended December 2010 improved in comparison to rates during the year ended December 2009.

During the fourth quarter of 2010, the Company conducted a detailed review of its Hiswah field development plan and material requirements. Delays in receiving delivery of certain materials had resulted in the shutting in of 12 producing wells and 2 new development wells. As a result of the review, the Company has selected a new supplier with superior downhole production equipment that will result in long-term optimization of production rates. The Company ordered 23 electric submersible pumps, 4 of which have been delivered to Block 9. This will allow the Company to bring all shut-in wells into production in 2011.

During 2010 the Company finalized transportation agreements which will provide for the Company's use of export facilities at Block 51 and Block 14. Once shipments to Block 51 commence, the Company will begin production from the Al Roidhat and Ras Nowmah fields.

Finding and Development Costs (F&D Costs)

The following table summarizes finding and development costs for 2010, 2009, and 2008.

	Three Years	2010	2009	2008
Reserve Additions (000 boe)				
Proved	9,947	4,492	1,219	4,236
Probable	17,795	6,111	2,704	8,980
F&D Costs – Proved (\$000)				
Change in future development costs	(794)	(3,963)	11,110	(7,941)
Capital expenditures ⁽¹⁾	57,455	18,406	13,456	25,593
Total F&D costs – proved	56,661	14,443	24,566	17,652
F&D Costs – Proved Plus Probable (\$000)				
Change in future development costs	(12,148)	(14,467)	25,850	(23,531)
Capital expenditures ⁽¹⁾	57,455	18,406	13,456	25,593
Total F&D costs – proved	45,307	3,939	39,306	2,062
Finding and Development Costs Per Barrel (\$/boe)				
Proved (F&D costs/reserve additions)	5.70	3.22	20.15	4.17
Proved plus probable (F&D costs/reserve additions)	2.55	0.64	14.53	0.23

(1) Capital expenditures exclude capitalized general and administrative expenditures (2010 – \$2.0 million; 2009 – \$1.2 million; 2008 – \$2.4 million) as well as expenditures associated with the Company's activities in Ethiopia (2010 – \$0.6 million; 2009 – \$0.3 million; 2008 – \$0.3 million).

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

(3) BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency. Note however, that the Company reserves are comprised of in excess of 98% oil.

Selected Operating Information

The following table sets forth key indicators for the periods indicated:

(\$000)	2010					2009	
	Year Total	Q4	Q3	Q2	Q1	Year Total ⁽¹⁾	Q4
Oil sales	63,867	22,042	19,877	7,499	14,449	50,839	14,136
Royalties (including government share of profit oil)	(24,373)	(8,361)	(7,549)	(2,935)	(5,528)	(19,485)	(5,394)
Operating expenses	(10,157)	(3,588)	(3,487)	(1,194)	(1,888)	(10,313)	(2,321)
Current taxes	(3,940)	(1,362)	(1,229)	(463)	(886)	(3,143)	(880)
Netback ⁽²⁾	25,397	8,731	7,612	2,907	6,147	17,898	5,541
Management fees	466	146	125	94	101	389	107
Facility usage fee ⁽¹⁾	-	-	-	-	-	(1,025)	-
General and administrative expenses	(4,349)	(1,027)	(1,090)	(1,169)	(1,063)	(4,413)	(1,095)
Taxes	3,940	1,362	1,229	463	886	3,143	880
EBITDA ⁽²⁾	25,454	9,212	7,876	2,295	6,071	15,992	5,433
Depletion, depreciation and amortization	(9,437)	(2,690)	(3,235)	(1,178)	(2,334)	(9,850)	(2,433)
Operating income (loss) ⁽²⁾	16,017	6,522	4,641	1,117	3,737	6,142	3,000
Net income (loss)	10,941	4,987	2,744	485	2,725	2,951	2,109
Capital expenditures	21,077	10,302	4,734	2,842	3,199	11,803	4,813
Funds flow from operations ⁽²⁾	21,915	7,976	6,744	1,926	5,269	13,600	4,652
Cash flow (deficiency) from operating activities	21,592	11,863	1,150	3,457	5,122	13,971	9,271

⁽¹⁾ For the purpose of calculating netback, operating expenses for the year total of 2009 were adjusted to exclude the portion of the facility usage fee (FUF) which relates to deliveries of crude oil prior to January 1, 2009 in the amount of \$1,025. See discussion on operating expenses for further details.

⁽²⁾ See "Non-GAAP Measures".

Netbacks are calculated on barrels sold as sales revenue less government royalties, taxes and operating expenses and are recognized when the underlying oil is sold. Government royalties and taxes taken in kind are attributed value at the price received by Calvalley for its production as follows:

Netbacks

(\$/bbl)	2010					2009	
	Year Total	Q4	Q3	Q2	Q1	Year Total ⁽¹⁾	Q4
Oil sales	80.03	85.44	76.10	84.70	75.91	57.08	73.83
Royalties (including government share of profit oil)	(30.59)	(32.43)	(28.96)	(33.25)	(29.09)	(21.92)	(28.28)
Operating expenses	(12.73)	(13.91)	(13.35)	(13.49)	(9.92)	(11.58)	(12.12)
Current taxes	(4.94)	(5.28)	(4.70)	(5.23)	(4.69)	(3.53)	(4.56)
Netback ⁽²⁾	31.77	33.82	29.09	32.73	32.21	20.05	28.87

⁽¹⁾ For the purpose of calculating netback, operating expenses for the first quarter and year total of 2009 were adjusted to exclude the portion of the FUF which relates to deliveries of crude oil prior to January 1, 2009 in the amount of \$5.79/bbl. See "Operating Expenses".

⁽²⁾ See "Non-GAAP Measures".

Netbacks for the quarter ended December 2010 were \$33.82/bbl compared to \$28.87/bbl for the quarter ended December 2009. Netbacks for the year ended December 31, 2010 were \$31.77/bbl in comparison to \$20.05/bbl for the comparable period in 2009. Fluctuations in netbacks are primarily attributable to changes in the prevailing price of crude oil. Netbacks are also impacted by fluctuations in operating costs as discussed below.

Revenue

During the fourth quarter of 2010, Calvalley recorded oil revenue of \$22.0 million as compared to \$14.1 million for the three months ended December 31, 2009. The significant increase in revenue is attributable to a 34.8% increase in sales volume and a 15.7% increase in selling price. The Company recognized revenue on the sale of 258,004 barrels during the quarter ended December 31, 2010 compared with 191,456 barrels during the three-month period ended December 31, 2009. The average selling price realized during three months ended December 31, 2010 was \$85.44/bbl in comparison to \$73.83/bbl during the fourth quarter of 2009. The increase in sales volume is attributable to the timing of lifts and is not directly correlated with production, which was 398,717 bbls in 2010 versus 405,160 bbls in 2009.

For the year ended December 31, 2010 oil revenues totalled \$63.9 million compared to \$50.8 million for the year ended December 31, 2009. The directional variance for the twelve-month period is attributable to the same factors as for the three-month period. The decrease in sales volume from 890,636 barrels during the year ended December 31, 2009 to 798,066 barrels during the year ended December 31, 2010 accounted for a 10.4% decline in revenue. The decrease was offset by a 40.2% increase in the average selling price which improved from \$57.08/bbl in 2009 to \$80.03/bbl in 2010.

Other Revenue

Other revenue amounted to \$0.3 million for the quarter ended December 31, 2010 (2009 – \$0.2 million) and \$0.9 million for the year ended December 31, 2010 (2009 – \$1.2 million). Interest revenue resulted from maintaining significant cash reserves and guaranteed investment certificates (GICs) throughout the period. Interest income has declined from 2009 due to reduced interest rates throughout the year. Interest rates on interest-bearing deposits declined throughout 2008 and 2009, and have remained depressed during 2010 as central banks attempt to stimulate their economies by reducing borrowing rates.

Operating Expenses

Operating expenses during the fourth quarter of 2010 were \$3.6 million (\$13.91/bbl) as compared to \$2.3 million (12.12/bbl) in the year ended December 31, 2009. Operating expenses for the year ended December 31, 2010 were \$10.2 million (\$12.73/bbl) compared to \$11.3 million (\$11.58/bbl) for the year ended December 31, 2009.

Total operating expenses were higher in the quarter ended December 31, 2010 than during the comparable period during 2009 as a result a \$0.3 million charge (\$1.01/bbl) taken by the Company in respect of processing fees associated with the sulphur content of certain oil deliveries. Total operating expenses were higher for the year ended December 31, 2010 in comparison to the year ended December 31, 2009 as a result a \$0.6 million charge (\$0.75/bbl) taken by the Company in respect the processing fee issue noted above. In addition, the Company conducted certain non-recurring maintenance projects.

During the first quarter of 2009, the Government of Yemen charged Calvalley \$1.1 million for facilities usage. All producers of crude oil in Yemen are subject to the FUF. The charge was applied retroactively from the commencement of production at Block 9. The portion of the charge related to deliveries that occurred prior to January 1, 2009 amounted to \$1.0 million and has been excluded from operating expenses for the purpose of this MD&A to maintain comparability of operating expenses. The balance of the charge in the amount of \$81,000 (\$0.40/bbl) related to oil that was delivered to the government facility during the first quarter of 2009. The FUF is recoverable from the Company's share of cost oil in accordance with the terms of the PSA.

Operating expenses include \$5.47 (2009 – \$5.06) per gross barrel for trucking costs, third-party processing costs, and tariffs for use of pipeline and marine terminal facilities. The increase in costs relates to the sulphur processing fees discussed above.

General and Administrative Expenses (G&A)

G&A, net of \$0.7 million that was capitalized into resource development costs, totalled \$1.0 million for the quarter ended December 31, 2010 as compared to \$1.1 million for the quarter ended December 31, 2009. For the year ended December 31, 2010 G&A costs were \$4.3 million compared to \$4.4 million during the year ended December 31, 2009. G&A costs directly associated with Block 9 operations become recoverable costs and will be recovered from revenue associated with cost oil under the terms of the PSA.

EBITDA

During 2010, the Company generated EBITDA of \$25.5 million compared with \$16.0 million during 2009. For the fourth quarter EBITDA was \$9.2 million compared to \$5.4 million for the corresponding period in 2009. The fluctuation in EBITDA is primarily attributable to changes in the prevailing price of crude oil. The FUF referred to above in the discussion on operating expenses was a significant contributor to the decrease in EBITDA recognized for the twelve and three months ended December 31, 2009. EBITDA is also impacted by the timing of lifts by the purchaser of the Company's crude oil.

Depletion, Depreciation and Amortization (DD&A) Expenses

	Year Total	2010				2009	
		Q4	Q3	Q2	Q1	Year Total	Q4
DD&A (\$000)	9,437	2,690	3,235	1,178	2,334	9,850	2,433
DD&A (\$/bbl)	11.82	10.43	12.39	13.31	12.26	11.06	12.71

Calvalley recorded DD&A expenses of \$2.7 million for the quarter ended December 31, 2010 as compared to \$2.4 million for the fourth quarter of 2009. For the year ended December 31, 2010, DD&A expenses of \$9.4 million were recorded in comparison to \$9.9 million for the year ended December 31, 2009. The changes in the 2010 versus 2009 annual DD&A rates per barrel are primarily related to adjustments as reflected in the Company's December 31, 2010 reserve report. The DD&A provision is also impacted by the build up of inventory at each period end.

Operating Income

During the fourth quarter of 2010, the Company generated operating income of \$6.5 million compared with \$3.0 million during the three months ended December 31, 2009. During the year ended December 31, 2010 the Company generated operating income of \$16.0 million in comparison with \$6.1 million for the corresponding period during 2009. Operating income was impacted by the same factors as those affecting netbacks and EBITDA.

Income Taxes

Current income tax expense amounted to \$1.4 million (2009 – \$0.9 million) for the fourth quarter of 2010 and 3.9 million (2009 – \$3.1 million) for the year ended December 31, 2010. The charge represents income taxes incurred and paid under the laws of Yemen pursuant to the PSA. The income tax is calculated as 35% of the Company's profit oil revenue in Yemen, and is paid by the Government of Yemen out of its share of profit oil.

CONSOLIDATED CASH FLOW

Operating Activities

(\$000)	Year Total	2010				2009	
		Q4	Q3	Q2	Q1	Year Total	Q4
Funds flow from operations	21,915	7,976	6,744	1,926	5,269	13,600	4,652
Change in non-cash working capital	(323)	3,887	(5,594)	1,531	(147)	371	3,369
Cash provided by (used in) operations	21,592	11,863	1,150	3,457	5,122	13,971	8,021

As at December 31, 2010, the Company held cash and cash equivalents of \$19.5 million compared with \$20.0 million at the end of 2009. Additionally, the Company held GICs with an initial term greater than 90 days in the amount of \$53.4 million (December 31, 2009 – \$50.4 million). The Company invests its cash reserves in GICs issued by an Alberta credit union in which deposits are guaranteed by the Province of Alberta.

Funds flow from operations of \$8.0 million during the fourth quarter of 2010 was sufficient to fund the majority of additions to property, plant and equipment in the amount of \$10.3 million. During the fourth quarter of 2009, funds flow from operations of \$4.7 million. Funds flow from operations was 21.9 million during the year ended December 31, 2010 compared to 13.6 million for the year ended December 31, 2009.

Investing Activities

(\$000)	Year Total	2010				2009	
		Q4	Q3	Q2	Q1	Year Total	Q4
Additions to property, plant and equipment	(21,077)	(10,302)	(4,734)	(2,842)	(3,199)	(11,803)	(4,811)
Change in non-cash working capital	3,843	6,731	(2,538)	(69)	(281)	6,960	5,608
Net investment in GICs	(3,064)	(168)	4,327	1,286	(8,509)	(7,637)	(6,359)
Cash provided by (used in) investing activities	(20,298)	(3,739)	(2,945)	(1,625)	(11,989)	(12,480)	(5,562)

During 2010, the Company made capital expenditures of \$21.1 million compared with \$11.8 million during 2009. The Company invested in the construction of additional facilities for water and gas injection, and the blending of crude oil. The Company also continues to invest resources to construct the truck offloading facility at Block 51 in anticipation of delivering oil to this location in accordance with the terms of the agreements described in detail in the Outlook section of this MD&A. Expenditures were incurred to prepare and complete the Al Roidhat wells for production, to drill development wells in the Hiswah area, and to drill exploration and appraisal wells in the Ras Nomah and Salmin areas. Finally, the Company conducted a seismic acquisition program during the fourth quarter of 2010. The Company's funding of expenditures on behalf of its partners exceeded payments received from the Company's partners in the amount of \$1.7 million during 2010. Capital expenditures related to the shortfall amounted to \$2.7 million. The Company also invested in GICs during the year ended December 31, 2010.

Financing Activities

(\$000)	Year Total	2010				2009	
		Q4	Q3	Q2	Q1	Year Total	Q4
Issuance of common shares	393	183	41	55	114	776	19
Common share repurchase	(2,189)	(720)	(626)	–	(843)	(3,342)	(521)
	(1,796)	(537)	(585)	55	(729)	(2,566)	(502)

During 2010 the Company repurchased 718,662 Class A Common Voting Shares on the open market pursuant to its normal course issuer bids at a cost of \$2.2 million representing an average cost of \$3.04/share (C\$3.13/share). Proceeds from the issuance of Class A Common Voting Shares during the year were related solely to the exercise of stock options and totalled \$0.4 million.

CONSOLIDATED FINANCIAL POSITION

	2010				2009	
	Q4	Q3	Q2	Q1	Q4	Q3
Assets (\$000)						
As at period-end						
Cash and cash equivalents	19,573	11,937	14,316	12,437	20,043	17,997
GICs	53,447	53,279	57,606	58,892	50,383	44,024
Accounts receivable	4,611	3,910	33	3,007	2,821	2,707
Due from joint venture partners	10,825	12,052	5,825	6,607	9,112	12,143
Oil inventory	120	1,804	2,947	428	225	266
Prepaid expenses	371	608	549	201	341	373
Property and equipment	101,763	93,380	91,114	90,806	90,066	87,668
Total assets	190,710	176,970	172,390	172,378	172,991	165,178

As at December 31, 2010, the Company's total assets were \$190.8 million, an increase of \$17.7 million from December 31, 2009. Cash and cash equivalents amounted to \$19.6 million compared with \$20.0 million at the beginning of the year. The decrease was offset by an increase of \$3.1 million in GICs.

Accounts receivable increased by \$1.8 million to \$4.6 million as at December 31, 2010. The amount due from JV partners increased from \$9.1 million at the beginning of the year to \$10.8 million as at December 31, 2010.

Oil inventory decreased from \$0.2 million at December 31, 2009 to \$0.1 million at December 31, 2010. Oil inventory results from the timing of lifts and relates to oil production in storage at the end of a period, valued at the average cost of production. At December 31, 2010, the Company's oil inventory net of royalties and taxes amounted to 2,562 bbls compared to 5,805 bbls at December 31, 2009.

Property and equipment increased to \$101.8 million as at December, 2010. The movement in property and equipment resulted from capital expenditures of \$21.1 million, which was offset by DD&A expense of \$9.4 million less \$0.1 million in net adjustments to depletion related to oil in inventory.

	2010				2009	
	Q4	Q3	Q2	Q1	Q4	Q3
Liabilities and Shareholders' Equity (\$000)						
As at period-end						
Accounts payable and accrued liabilities	19,264	10,297	8,626	9,390	12,220	6,232
Share capital	116,140	116,079	116,227	116,143	116,387	116,622

Accounts payable and accrued liabilities increased to \$19.3 million as at December 31, 2010, from \$12.2 million as at December 31, 2009. The primary reason for this decrease is the increased capital spending related to heightened exploration and development activity during the last two months of 2010 and the timing of payments made to suppliers and contractors.

Share capital decreased to \$116.1 million as at December 31, 2010 from \$116.4 million as at the end of 2009 as a result of the repurchase of common shares through the Company's normal course issuer bids. The decrease was partially offset by the issuance of Class "A" Common Voting Shares from the exercise of stock options during the period.

LIQUIDITY AND CAPITAL RESOURCES

Calvalley's principal source of liquidity has been funds flow from operations. Calvalley manages its liquidity risk by regularly monitoring its cash flows from operating activities and holding adequate amounts of cash and cash equivalents. The Company does not invest its funds in speculative securities. The 2010 budget is expected to be funded from cash flow from operations and existing cash resources. Should the prevailing Dated Brent Crude price decline to lower than budgeted, Calvalley has sufficient flexibility in its capital budget to adjust capital expenditures to enable the capital program to be funded through internally generated cash flow. Fluctuations in commodity prices, product demand, foreign exchange rates and interest rates, as well as various other risks relating to factors beyond the control of Calvalley may impact capital resources.

Calvalley has no outstanding bank debt or other interest-bearing indebtedness as at December 31, 2010. The Company has not arranged any undrawn operating lines of credit with any financial institution as the Company intends to fund its near-term capital expenditure programs from available cash on hand, funds flow from operations and, if required, from the issuance of additional share capital.

As at December 31, 2010, the Company's total assets were \$190.7 million, an increase of \$17.7 million from December 31, 2009. Cash and cash equivalents amounted to \$19.6 million compared with \$20.0 million at the beginning of the year. Cash equivalents are invested with high-quality financial institutions with terms to maturity of less than three months. Additionally, the Company held GICs with an initial term greater than 90 days. Total cash and cash equivalents plus GICs increased from \$70.4 million at December 31, 2009 to \$73.0 million at December 31, 2010.

Interest rates on interest-bearing deposits have remained depressed over the past year as central banks attempt to stimulate their economies by reducing borrowing rates. Most of Calvalley's funds are deposited at a credit union where deposits are guaranteed by the Government of Alberta.

As at December 31, 2010 the Company's working capital decreased to \$69.7 million as compared to \$70.7 million as at December 31, 2009.

At December 31, 2010 the Company had Canadian tax pools of approximately \$34.2 million, of which \$16.8 million were non-capital losses, \$7.1 million were Canadian resource tax pools, \$10.3 million were undepreciated capital cost allowance and \$Nil were deferred financing costs. No provision has been made to record these pools as an asset because the Company is not likely to take advantage of them due to the insignificance of its Canadian operations and assets.

The Company has no long-term contractual obligations in Canada other than an operating lease for office space of approximately \$0.2 million in each of 2011, 2012, and 2013. Its long-term commitments regarding its Yemen property include its 50% proportionate share of government allowances and bonuses payable under the terms of the PSA of \$450,000 per year, plus its 50% proportionate share of certain other bonus payments of \$2 million, \$3 million and \$4 million when and if sustainable production exceeds 25,000, 75,000 and 100,000 bopd day, respectively.

During 2008, Calvalley entered into its first Production Sharing Contract (PSC) with the government of the Federal Democratic Republic of Ethiopia. Pursuant to the PSC, the Company has entered into certain commitments to spend approximately \$8.5 million during the first four years of its work program.

Calvalley had no off-balance-sheet arrangements as at December 31, 2010 or December 31, 2009.

ECONOMIC SENSITIVITIES

The following table shows the estimated after-tax effect that changes to crude oil prices, gross crude oil production, operating costs and interest rates would have had on Calvalley's net income for the year ended December 31, 2010, had these changes occurred on January 1, 2010. These calculations are based on business conditions, production and sales volumes existing for the current period. The 1,000 bopd increase assumes the increase is to gross field production and Calvalley's entitlement is calculated according to the provisions of the PSA and JOA.

	Change (+)	Net Income Impact (\$ millions)	Net Income Impact (\$ per basic share)
Average realized price	\$10.00/bbl	4.5	0.05
Crude oil production	1,000 bopd	3.6	0.04
Increase in operating expenses	\$1.00/bbl	(0.8)	(0.01)
Interest rate	1%	0.7	0.01

The impact of the above changes may be compounded or offset by changes to other business conditions. In addition, the table does not reflect any inter-relationships between the above factors. Changes in the foreign exchange rates have not been considered in this analysis as they do not have a significant impact on Calvalley's operations.

RELATED-PARTY TRANSACTIONS

On June 10, 2009 the Company advanced \$113,000 to a member of the Board of Directors. The advance was provided to provide funds for the exercise of options and was included in accounts receivable, was non-interest-bearing, repayable within 90 days, and secured by shares of the Company. The advance was repaid in full during August 2009.

RISK FACTORS

Calvalley is exposed to a number of risks inherent in exploring for, developing and producing oil and natural gas. This section describes the risks and other matters that would be most likely to influence an investor's decision to purchase securities of Calvalley.

Calvalley manages a number of risks in its business in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has adopted procedures to identify and manage significant operational and financial risks.

Commodity Risk

Calvalley's principal business is the production and sale of crude oil. Revenues, earnings and cash flows from the sale of crude oil are sensitive to change in market prices, over which the Company has little or no control. The Company has the ability to address its price-related exposures through the limited use of options, future and forward contracts, but generally does not enter into such arrangements.

Currency Fluctuations

Calvalley undertakes transactions in currencies other than the United States dollar. The Company's primary foreign exchange risk is to changes in the value of the Canadian dollar relative to the United States dollar. Fluctuations in exchange rates between the United States dollar and other currencies will give rise to foreign currency exposure, either favourable or unfavourable, which may have material effects on the Company's operations and financial condition. The Company has the ability to address its currency-related exposures through the use of foreign exchange contracts. It generally does not enter into such hedging arrangements but maintains a portion of its currency in Canadian dollars to meet its Canadian dollar requirements.

Interest Rates

The Company has no interest-bearing debt. The Company invests surplus cash balances in short-term investments with recognized Canadian financial institutions. Fluctuations in interest rates, either favourable or unfavourable, may have material effects on the Company's interest income on short-term cash investments.

Credit Risk and Concentration of Sales Risk

In January 2007, the Company entered into a long-term crude oil marketing agreement under which the Company sells all of its crude oil production to a single purchaser for a period of 18 months. The purchaser is a subsidiary of Reliance Industries Limited, India's largest business enterprise, which is a party to the JOA for Yemen Block 9. The purchaser's obligations under the crude oil marketing agreement are guaranteed by Reliance, which has been assigned credit ratings of Baa2 Stable Outlook by Moody's and BBB Stable Outlook by S&P (above Sovereign Rating). The contract was formally extended in April 2009 and remains in effect.

Credit risk also relates to the risk that joint venture partners may not fulfill their contractual obligations for financial contributions towards exploration, development, appraisal and production operations.

During the initial agreement negotiations and ratification, these risks are considered and incorporated into the terms of the applicable contracts. Furthermore, cash calls can be made in advance of incurring costs to help ensure costs are recovered. However, it is possible that the interest of Calvalley and its JV partners are not aligned, resulting in project delays, additional costs or disagreements, which could adversely affect business results.

Insurable Risk

Calvalley employs risk management practices to reduce and mitigate operational risks and other hazard risks and exposures, although it is impossible to completely protect its operations from all such risks. The Company places types and an amount of insurance that it considers consistent with industry practice to the extent coverage is available and cost effective. Such coverage includes third-party liability insurance and property and business interruption insurance.

The Company may become liable for damages arising from unforeseen events which it cannot insure against or chooses to self-insure. Costs incurred to repair such uninsured damage or to pay associated liabilities may have a material effect on the financial condition of the Company.

Legal Contingencies

The Company has been named in a claim filed in the Commercial Court of Yemen by a Saudi Arabian company. The claimant alleges that, pursuant to an agency agreement entered into in 1996, it is entitled to a percentage of the net profit attributable to the Company. Over the past several years this issue has been before the Commercial Court of Yemen, the Yemeni Court of Appeal and the Supreme Court of Yemen on a number of procedural issues and has now been sent back to the Supreme Court of Yemen for reassessment. Interim judgments have been issued and both parties appealed an initial ruling which limited the plaintiff's entitlement to an interest on the net profit from profit oil production prior to February, 2008. Calvalley has cross-appealed on a number of matters of substance and procedure.

The Company's legal advisors in Sana'a and Calgary are pursuing the appeal jointly. The outcome of the action in the Supreme Court of Yemen is undeterminable at this time and the Company is exploring both judicial, and extra judicial, resolution. No amounts have been accrued in the consolidated financial statements for the periods ended December 31, 2010 as the ultimate resolution is uncertain. The Company will record any amounts due, if any, once the outcome of the contingency is likely and reasonably estimated.

Between 2004 and 2007, the Company billed its Block 9 joint venture partners (JV Partners) for fees in accordance with the terms of the PSA which governs the joint venture operating activities on Block 9. The JV Partners contend that certain of these fees are not billable under the terms of the Joint Operating Agreement (JOA) between the Company and the JV Partners. Pending resolution of this matter, the Company has not charged the JV Partners for the fees in question during 2008 and 2009. The

Company and its JV Partners have now agreed to enter into a binding expert determination in London, England to interpret the terms of the JOA and to obtain a ruling on whether the fees in question are billable. While management is not able to determine the likelihood of a positive or negative outcome, the maximum liability to the Company related to fees charged from 2004 to 2007 is \$1.0 million. Conversely, should the fees be deemed billable, the Company would recover fees which have not previously been recorded in the accounts in the amount of \$926,997.

In the normal course of operations, the Company may be subject to litigation and claims. In the opinion of management, other than as disclosed above, no such litigation or claim, individually or in aggregate, would result in a liability that would have a significant adverse effect on the financial position or results of operations of the Company.

Concentration of Producing Assets

Substantially all of Calvalley's production is generated from highly productive individual wells in Yemen. The production and sale of crude oil in Yemen involves the use of central production facilities, oil pipelines, and export terminals, either operated by the Company or by third parties. As significant production is generated from each of these assets, any single event causing an interruption to any one of these operations could result in the loss of production and reserves as a result.

Exploration, Development and Production Risks

Acquiring, developing and exploring for oil and natural gas involves many risks which include but are not limited to encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, well bore collapse, equipment failures and other accidents, craterings and sour gas releases, uncontrollable flows of oil, natural gas or well fluids, and environmental risks.

In many oil and natural gas producing countries, oil and natural gas properties, together with related production and transportation infrastructure, can be situated in remote areas. In addition to the operational risks described above, oil and natural gas properties in some of these countries may be vulnerable to premeditated acts of violence which have the potential to cause significant damage to oil and natural gas operations and injury or death to personnel. The Company relies on the Government of Yemen's support in providing appropriate security for crude oil operations in Block 9.

Calvalley may not be fully insured against all of these risks. Losses resulting from the occurrence of these risks could have a material impact on the Company's financial results.

Reserve Additions

Calvalley's future crude oil reserves and production, and therefore its operating cash flows and results of operations, are highly dependent upon the Company's success in exploiting its current reserve base and acquiring or discovering additional reserves. Without reserve additions through exploration, development or acquisitions, the Company's reserves and production will decline over time as reserves are produced. The business of exploring for, developing or acquiring reserves is capital-intensive. To the extent cash flows from operations are insufficient and external sources of capital become limited or unavailable, Calvalley's ability to make the necessary capital investments to maintain and expand its oil production and reserves will be impaired.

Environment, Health, Safety and Regulatory Approvals

Environmental, health and safety laws and regulations are continually evolving. Compliance with such laws and regulations can require significant expenditures which may materially affect the Company's financial condition or results of operations.

Expansion of existing operations and the development of new operating sites generally require approval of regulatory authorities. If such approvals are delayed or not achieved, the Company's ability to meet project schedule or cost objectives or to operate at expanded or existing levels could be materially impacted.

Workplace health and safety risks for workers arise from the inherent nature of the Company's operations and the jurisdictions within which it operates.

Political Risks

Beyond the risk inherent in the oil and gas industry, the Company is subject to additional risks resulting from the current unrest in the Middle East. These risks can involve matters arising out of the evolving laws and policies, the imposition of special taxes or similar charges, oil export or pipeline restrictions, foreign currency controls, the unenforceability of contractual rights, restrictions on the use of expatriates in the operations and other matters.

There can be no assurance that agreements entered into with various parties are enforceable or binding in accordance with the Company's understanding of their terms or that if breached, the Company would be able to obtain favourable remedies. The Company bears the risk that political change could occur and that such change could have a further impact on the Company's operations.

Competition

There is strong competition relating to all aspects of the oil and natural gas industry. Calvalley actively competes for skilled industry personnel who are in high demand, particularly at its Canadian headquarters, with a substantial number of other oil and natural gas companies, many of which have significantly greater financial and other resources.

Changes in Legislation

There can be no assurance that laws and regulations relating to the oil and natural gas industry will not be changed in a manner which would adversely affect the operations of the Company. Under the PSA, the Company is not obligated to comply with regulatory changes that are inconsistent with the provisions of the PSA. Further, the PSA stipulates that the interests, rights and obligations of the Government of Yemen and the Company shall be solely governed by the provisions of the PSA unless altered or amended by mutual agreement. In particular, the PSA requires that the Government of Yemen pay profit taxes on the Company's behalf, out of the Government of Yemen's share of profit oil.

MEASUREMENT UNCERTAINTY

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses during the reporting period. Actual results, including petroleum and natural gas sales, royalties and operating expenses, can differ from these estimates.

In particular, amounts recorded for depreciation and depletion and amounts used for ceiling test calculations are based on estimates of petroleum and natural gas reserves and future costs required to develop those reserves. The Company's reserve estimates are evaluated annually by an independent engineering firm. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty and the impact on the consolidated financial statements of future periods could be material.

Computations of provisions and estimates for income taxes involve management making judgments with respect to interpretation of tax regulations and related legislation which is continually changing. In addition, there are tax matters that have not yet been confirmed by taxation authorities. While management believes the provision for income taxes is adequate, these amounts are subject to measurement uncertainty. Adjustments required, if any, to these provisions will be reflected in the period when it is determined that adjustments are warranted.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options and warrants have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

Amounts recorded as due from joint venture partners are based on the Company's interpretation of underlying agreements and may be subject to joint approval. The Company has recorded balances due based on costs incurred and its interpretation of allowable expenditures. Any adjustments required as a result of joint venture audits are recorded in the period of settlement with joint venture partners.

ADDITIONAL INFORMATION

As at December 31, 2010, the Company had 97,714,280 common shares outstanding. Additionally, there were 4,801,668 options outstanding which were issued pursuant to the Company's stock option plan. As at March 22, 2011, the Company had 97,554,679 common shares outstanding. Additionally, there were 4,764,341 options outstanding which were issued pursuant to the Company's stock option plan.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure Controls and Procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation, and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

As at December 31, 2010, an evaluation of the design of the Company's DC&P was carried out under the supervision of, and with the participation of management including its certifying officers. Based on that evaluation, the Company's certifying officers concluded that the design of the Company's DC&P was effective as at December 31, 2010 and would provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities during the period in which the annual filings were prepared, and that information required to be disclosed by the Company would be recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal Controls over Financial Reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. ICFR can only provide reasonable assurance and may not prevent or detect misstatements. Projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. As at December 31, 2010, an evaluation of the design of the Company's ICFR was carried out under the supervision of, and with the participation of management including its certifying officers. Based on that evaluation, the Company's certifying officers concluded that the design of the Company's ICFR was effective as at December 31, 2010 and would provide reasonable assurance that material weaknesses in ICFR would be made known to them, and reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

EFFECT OF FUTURE CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards (IFRS)

In February 2008, the CICA's Accounting Standards Board confirmed that all Canadian publicly accountable enterprises will be required to adopt IFRS for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Calvalley is continually assessing the impact of the convergence of Canadian GAAP with IFRS on the Company's results of operations, financial position and disclosures. Under the direction and oversight of the Board of Directors and Audit Committee, the Company has assembled a project team to manage the transition and to ensure successful implementation within the required timeframe.

The Company recognizes that the changeover to IFRS has complex implications on a combination of accounting, financial reporting, and information technology and business systems. Consequently, senior management has engaged external consultants to conduct a business impact study, to assist in the development a project plan, and to provide assistance in considering various accounting policy decisions which will be required throughout the transition period. Company personnel involved with the transition project have also received appropriate training and education.

The overall IFRS transition project consists of five phases: (i) Scope; (ii) Plan; (iii) Design and Build; (iv) Implement; (v) Review.

The Scope phase, which consisted of identifying the significant differences between Canadian GAAP and IFRS, has been completed. The Company concluded that the following key issues will have the most significant impact on Calvalley's results of operations, financial position and disclosures:

IFRS 1 – First-time adoption of International Financial Reporting Standards;

IFRS 6 – Exploration and Evaluation of Mineral Resources;

International Accounting Standard (IAS) 16 – Property, Plant and Equipment; and

IAS 36 – Impairment of Assets.

The Company has also completed the Plan phase. During this phase, the Company gathered information and financial data to assess the potential impacts of the differences identified during the Scope phase. Management established the resources that are required to complete the transition to IFRS, assembled an IFRS transition project team, and established internal milestones and timelines. The Company is currently adhering to the timelines established in its transition project plan.

The Company continues to progress through the Design and Build phase of the transition project. The IFRS project team's development of recommendations for IFRS policy decisions is ongoing, based on appropriately documented consideration of the following factors:

- Impact on financial and key performance indicators;
- Impact on information technology and systems;
- Impact on the internal control and disclosure control frameworks;
- Transition and maintenance costs;
- Impact on communications with key stakeholders; and
- Other general business impacts.

Accounting Policies

The IFRS project team conducted a preliminary detailed analysis of all IFRSs identified during the Scope phase and has identified the impact of the available policy alternatives to the Company's financial reports. A draft IFRS transition date consolidated balance sheet has been reviewed and approved by management and by the Audit Committee. Management has reviewed the available policy alternatives and has presented recommendations to the Audit Committee.

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. Adjustments that arise on retrospective conversion to IFRS from other GAAP are recognized directly in retained earnings. However, certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1.

Anticipated impacts to the Company of applying certain IFRS 1 exemptions and other relevant accounting differences between Canadian GAAP and IFRS on the consolidated financial statements of the Company are as follows:

Financial Statement Item	Implications of IFRS	Expected Impact on Calvalley
Property, plant and equipment (PP&E)	The existing Canadian GAAP oil and gas full cost pool must be segregated into exploration and evaluation (E&E) assets and development and producing (D&P) PP&E. Per IFRS 6, assets are to be reclassified from E&E assets to D&P PP&E once technical feasibility and commercial viability have been achieved. Using the IFRS 1 deemed cost exemption the carrying value of the assets in the full cost pool under Canadian GAAP is deemed to be the opening carrying value under IFRS, subject to an impairment test.	The Company plans to use the IFRS 1 deemed cost exemption for the opening IFRS carrying value of oil and gas assets, and management has assessed that all oil and gas assets in Yemen and Canada are technically feasible and commercially viable as at January 1, 2010. As a result, exploration costs incurred in Ethiopia will be reclassified from PP&E to intangible E&E assets, and Yemen PP&E costs will be classified as D&P PP&E in the opening IFRS balance sheet.
	Canadian GAAP requires a two-step approach to impairment testing. Asset carrying values are first compared to undiscounted cash flows to determine whether impairment exists. If an impairment is indicated, the magnitude of the impairment is measured by comparing the carrying value to the fair value of discounted cash flows. IAS 36 uses a one-step approach for testing and measuring impairment. Asset carrying values are compared to the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). IFRS also requires reversal of impairment losses when circumstances for previous impairment have changed, however Canadian GAAP prohibits reversal.	The Company conducted IAS 36 impairment tests on its PP&E as at January 1, 2010. None of the Company's assets were found to be impaired at the date of transition. Going forward under IFRS, the one-step impairment test approach could trigger more frequent impairment losses, and the reversal of impairments could result in greater volatility in net income and carrying values of assets.

Financial Statement Item	Implications of IFRS	Expected Impact on Calvalley
Contributed surplus – stock-based compensation	Where the Company recorded stock-based compensation expense on a straight-line basis and forfeitures as they occurred under Canadian GAAP, IFRS 2 <i>Share-based Payment</i> requires expense recognition over the individual vesting periods of graded vesting awards and an estimation of forfeiture rates. Using the IFRS 1 share-based payment transactions exemption, IFRS 2 is retrospectively applied only to stock options issued after November 7, 2002, that had not vested as at January 1, 2010.	The Company plans to apply the IFRS 1 share-based payment transactions exemption. The opening IFRS balance sheet will reflect an increase to contributed surplus and a corresponding decrease to retained earnings for additional stock-based compensation expense. Going forward under IFRS, stock-based compensation expense will be concentrated in the earlier years of an issue of graded vesting options.
Accumulated other comprehensive income – cumulative translation differences	Applying the IFRS 1 cumulative translation differences exemption resets previously recognized translation differences relating to investments in foreign operations to zero.	The Company plans to elect the IFRS 1 cumulative translation differences exemption. Accumulated other comprehensive income as at January 1, 2010 will consequently be decreased with a corresponding increase to retained earnings.
	IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> requires the Company to formally assess the functional currency of each entity in the consolidated group. Some variances in functional currency criteria exist between IFRS and Canadian GAAP.	Consistent with its assessment under Canadian GAAP, the Company determined that the US dollar is the functional currency of each entity within the consolidated group. Accounting for the Company's foreign currency transactions and balances under IFRS will remain consistent with Canadian GAAP.

While management and the Audit Committee have made preliminary decisions and approvals regarding some of the Company's IFRS accounting policies, the areas impacted by IFRS discussed above should not be regarded as a comprehensive list of changes that will result from the transition to IFRS. The Company's selected IFRS policies have not been finalized and remain subject to review by the Company's external auditors. As the Company proceeds with the Implementation and Review stages, management may find it necessary to refine its policy choices in order to accommodate developments to industry best practices and to provide more useful information in the financial statements. Further, the International Accounting Standards Board has ongoing projects that could affect IFRS prior to conversion in 2011 as well as the Company's financial statements in future years.

DC&P and ICFR

Implementation of the necessary changes to entity level, information technology, financial reporting, disclosure, and business process controls will be executed as policy choices are finalized. Where significant changes are identified, these changes will be mapped and tested to ensure that no material deficiencies exist as a result of the Company's conversion to IFRS.

Business Activities

In conjunction with policy development, the Company continues to assess whether the transition to IFRS will have an impact on business activities. Management does not anticipate that IFRS will significantly affect the Company's contractual agreements, as the Company has no debt covenants, and the Yemen PSA and Ethiopian PSC stipulate particular accounting and reporting requirements. Management has not identified any instances where IFRS would have major implications on existing contractual arrangements or on other business activities.

Information Technology and Data Systems

In respect of information technology systems implications, management has communicated with software suppliers to confirm that systems in place are sufficient to enable the IFRS transition. Management is in the process of developing a strategy for implementing IFRS-compliant financial reporting processes during 2010 using the existing accounting software suite and financial reporting infrastructure. Plans are also under development in preparation for the Q1 2011 transition to IFRS, which will require the loading of IFRS financial information into the current accounting and reporting systems.

NORMAL COURSE ISSUER BIDS

On April 21, 2009, the Company made the necessary filings, and received the necessary approvals, to make a normal course issuer bid through the facilities of the Toronto Stock Exchange (TSX) commencing April 23, 2009 and ending April 22, 2010. A copy of the notice filed with the Toronto Stock Exchange can be obtained by any shareholder of the Company, without charge, by contacting the Company.

A total of 4,948,029 Class A Common Shares (the "Common Shares") were authorized to be acquired under the bid, representing 5% of the 98,960,580 Common Shares outstanding as of April 15, 2009. Calvalley was to acquire Common Shares under the bid at the market price at the time of purchase, and all Common Shares acquired were to be cancelled. Unless Calvalley utilized a Block Purchase Exemption as permitted by the TSX, purchases were subject to a daily purchase restriction equal to 25% of the average daily trading volume of the Common Shares over the preceding six calendar months, or a maximum of 28,824 Common Shares per trading day.

In the opinion of Calvalley's Board of Directors, Calvalley's Common Shares were, from time to time, undervalued by the market, and the cost of acquiring the shares is an expense prudently incurred by Calvalley to increase shareholder value.

A total of 1,657,688 shares were acquired under the bid at an average cost of C\$1.93/share.

On September 14, 2010, the Company made the necessary filings, and received the necessary approvals, to make a normal course issuer bid through the facilities of the Toronto Stock Exchange (TSX) commencing September 16, 2010 and ending September 15, 2011. A copy of the notice filed with the Toronto Stock Exchange can be obtained by any shareholder of the Company, without charge, by contacting the Company.

A total of 7,841,792 Class A Common Shares (the "Common Shares") were authorized to be acquired under the bid, representing 10% of the public float of Common Shares of the Company. Calvalley may acquire Common Shares under the bid at the market price at the time of purchase, and all Common Shares acquired are to be cancelled. Unless Calvalley utilizes a Block Purchase Exemption as permitted by the TSX, purchases are subject to a daily purchase restriction equal to 25% of the average daily trading volume of the Common Shares over the preceding six calendar months, or a maximum of 32,134 Common Shares per trading day.

In the opinion of Calvalley's Board of Directors, Calvalley's Common Shares are, from time to time, undervalued by the market, and the cost of acquiring the shares is an expense prudently incurred by Calvalley to increase shareholder value.

As of March 22, 2011, a total of 563,804 shares have been acquired under the bid at an average cost of C\$4.17/share.

COMPARABILITY WITH PRIOR PERIODS

Revenue may fluctuate from period to period due to the timing of shipments of oil from the Ras Isa Oil Terminal. Revenue is recognized only when oil is loaded onto a tanker. Oil in storage at period-end is recorded as inventory at the average cost of production and depletion and in situations where the take-or-pay provisions of the crude marketing agreement take effect, any receivable related to those provisions is recorded in the accounts as deferred revenue. At December 31, 2010, the Company had no take-or-pay revenue and oil inventory was \$0.1 million.

In April 2009, the Government of Yemen charged Calvalley \$1.1 million for facilities usage. All producers of crude oil in Yemen are subject to the Facility Usage Fee (FUF). The charge was applied retroactively from the commencement of production at Block 9 and was accrued in the first quarter 2009 financial statements. The portion of the charge related to deliveries that occurred prior to January 1, 2009 amounted to \$1.0 million. The balance of the charge in the amount of \$81,000 (\$0.40/bbl) related to oil that was delivered to the government facility during Q1 2009. The Company will continue to incur the \$0.40/bbl FUF in future periods. The FUF is recoverable from the Company's share of cost oil in accordance with the terms of the Production Sharing Agreement.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements. Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks of the Company may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic, political and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof.

Forward-looking statements and other information contained herein concerning the oil and natural gas industry and Calvalley's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which Calvalley believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Calvalley is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors. See "Risk Factors."

Calvalley does not undertake any obligation to update publicly or revise any forward-looking statements contained in this or in any other document filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

MANAGEMENT'S REPORT

The consolidated financial statements of Calvalley Petroleum Inc. were prepared by management within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles. Management is responsible for ensuring that the financial and operating information presented in the Company's 2010 annual report is consistent with that shown in the consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with the accounting principles as described in the notes to the consolidated financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management.

Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records properly maintained to facilitate the preparation of consolidated financial statements for reporting purposes.

Deloitte & Touche LLP, an independent firm of Chartered Accountants appointed by the shareholders, have conducted an examination of the corporate and accounting records in order to express their opinion on the consolidated financial statements. The Audit Committee, consisting of three independent directors, has met with representatives of Deloitte & Touche LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The Board of Directors has approved the consolidated financial statements.



Edmund Shimoon
Chairman and CEO

March 22, 2011



Zacharie J. Magnan
Acting Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Calvalley Petroleum Inc.:

We have audited the accompanying consolidated financial statements of Calvalley Petroleum Inc., which comprise the consolidated balance sheets as at December 31, 2010, and 2009, and the consolidated statements of operations and retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

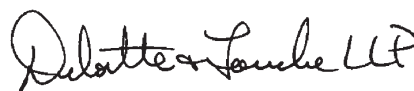
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Calvalley Petroleum Inc. as at December 31, 2010 and 2009, and its results from operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
March 22, 2011



Deloitte & Touche LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of United States Dollars)

As at December 31	2010	2009
	\$	\$
ASSETS		
Current		
Cash and cash equivalents (note 4)	19,573	20,043
Guaranteed investment certificates (note 5)	53,447	50,383
Accounts receivable	4,611	2,821
Oil inventory (note 6)	120	225
Due from joint venture partners (note 7)	10,825	9,112
Prepaid expenses	371	341
	88,947	82,925
Property, Plant and Equipment (note 8)	101,763	90,066
	190,710	172,991
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	19,264	12,220
	19,264	12,220
Commitments (note 17)		
Contingencies (note 18)		
Shareholders' Equity		
Share capital (note 9)	116,140	116,387
Contributed surplus (note 10)	8,462	7,146
Accumulated other comprehensive income (note 2)	3,963	3,963
Retained earnings	42,881	33,275
	171,446	160,771
	190,710	172,991

See accompanying notes

On behalf of the Board:



Edmund Shimoon



Gary Robertson

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Expressed in thousands of United States Dollars)

For the years ended December 31	2010	2009
	\$	\$
REVENUE		
Oil sales	63,867	50,839
Royalties	(24,373)	(19,485)
	39,494	31,354
Management fees	466	389
Interest and other	400	798
	40,360	32,541
EXPENSES		
Operating	10,157	11,338
General and administrative, net of recoveries	4,349	4,413
Stock-based compensation	1,530	928
Depletion, depreciation and amortization	9,437	9,850
	25,473	26,529
Income Before Other Items	14,887	6,012
Foreign exchange gain (loss)	(6)	82
Income Before Income Tax	14,881	6,094
Income tax (note 12)	3,940	3,143
Net Income and Comprehensive Income	10,941	2,951
Retained earnings, beginning of year	33,275	30,480
Common share repurchases (note 9)	(1,335)	(156)
Retained Earnings, End of Year	42,881	33,275
Earnings Per Share (note 15)		
Basic	\$ 0.11	\$ 0.03
Diluted	\$ 0.11	\$ 0.03

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of United States Dollars)

For the years ended December 31	2010	2009
	\$	\$
OPERATING ACTIVITIES		
Net income for the year	10,941	2,951
Add (deduct) items not affecting cash:		
Stock-based compensation	1,530	928
Depletion, depreciation and amortization	9,437	9,850
Unrealized foreign exchange gain (loss)	7	(129)
	21,915	13,600
Change in non-cash working capital (note 13)	(323)	371
	21,592	13,971
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(21,077)	(11,803)
Investment in guaranteed investment certificates	(224,090)	(148,576)
Redemption of guaranteed investment certificates	221,026	140,939
Change in non-cash working capital (note 13)	3,843	6,960
	(20,298)	(12,480)
FINANCING ACTIVITIES		
Issuance of common shares (note 9)	393	776
Common share repurchases (note 9)	(2,189)	(3,342)
	(1,796)	(2,566)
Foreign exchange gain on cash and cash equivalents held in foreign currencies	32	129
Decrease in cash and cash equivalents	(470)	(946)
Cash and cash equivalents, beginning of year (note 4)	20,043	20,989
Cash and Cash Equivalents, End of Year	19,573	20,043

See accompanying notes – non-cash transactions (note 7)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Financial figures expressed in thousands of United States Dollars)
December 31, 2010 and 2009

1. Description of Business

Calvalley Petroleum Inc. (the “Company” or “Calvalley”) was incorporated on July 1, 1996 under the Canada Business Corporations Act and is engaged in the exploration, development and production of crude oil and natural gas. The Company’s activities are carried out in Yemen, Ethiopia, and Canada.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). In these consolidated financial statements, all dollar amounts are expressed in United States dollars, unless otherwise indicated. All references to US\$ or \$ are to United States dollars and references to C\$ are to Canadian dollars.

Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. Inter-company accounts and balances are eliminated on consolidation.

Accumulated Other Comprehensive Income

Effective December 31, 2005, management changed the reporting currency of the Company from Canadian dollars (C\$) to United States dollars (\$), as this currency is more appropriate for the Company’s investors and other users of the financial statements. The Company followed the recommendations of the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA), set out in EIC-130, “Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency.” Financial statements for all periods were translated from Canadian dollars to US dollars using the current rate method. Using this method, all consolidated assets and liabilities were translated using the exchange rate at the balance sheet dates, while shareholders’ equity was translated using the historical rates of exchange in effect on the dates of the corresponding transactions. The consolidated statements of operations and deficit and consolidated statements of cash flows were translated using the prevailing average exchange rates for the periods. The resulting exchange difference due to this translation of \$3,963 was included in shareholders’ equity as accumulated other comprehensive income.

Joint Interests

Substantially all of the Company’s exploration and development activities are conducted jointly with other parties. These financial statements reflect only the Company’s proportionate interest in such activities.

Foreign Currency

The activities of the Canadian parent have been translated into United States dollars using the temporal method. Under this method, monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates in effect on the dates the assets were acquired or liabilities were incurred. Revenue and expenses are translated at the rates of exchange prevailing at the date of the transaction. Foreign exchange gains and losses are included in net income in the period in which they arise.

Foreign-currency-denominated transactions are recorded at the rates of exchange prevailing at the date of the transaction.

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

Measurement Uncertainty

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses during the reporting period. Actual results, including petroleum and natural gas sales, royalties and operating expenses, can differ from these estimates.

In particular, amounts recorded for depreciation and depletion and amounts used for ceiling test calculations are based on estimates of petroleum and natural gas reserves and future costs required to develop those reserves. The Company's reserve estimates are evaluated annually by an independent engineering firm. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty and the impact on the consolidated financial statements of future periods could be material.

Computations of provisions and estimates for income taxes involve management making judgments with respect to interpretation of tax regulations and related legislation which is continually changing. In addition, there are tax matters that have not yet been confirmed by taxation authorities. While management believes the provision for income taxes is adequate, these amounts are subject to measurement uncertainty. Adjustments required, if any, to these provisions will be reflected in the period when it is determined that adjustments are warranted.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options and warrants have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

Amounts recorded as due from joint venture partners are based on the Company's interpretation of underlying agreements and may be subject to joint approval. The Company has recorded balances due from its joint venture partners based on costs incurred and its interpretation of allowable expenditures. Any adjustments required as a result of joint venture audits are recorded in the period of settlement with joint venture partners.

Revenue Recognition

Revenues associated with the sale of the Company's crude oil are recognized when the title passes from the Company to its customer.

Pursuant to the crude oil sales agreement, the Block 9 joint venture is entitled to invoice the buyer in any month that the crude oil available for sale but not purchased by the buyer exceeds 200,000 barrels (commonly referred to as a "take or pay" feature). The price used in such a take or pay invoice is the price that would apply had a crude oil transfer occurred in that particular month and is based on the average of the Dated Brent benchmark price for the applicable month. Due to the revenue recognition accounting policy stated above, take or pay invoice amounts are not recorded as sales revenue. Rather, such amounts are reported as deferred revenue in the current liabilities section of the balance sheet. These amounts are recognized as revenue in the period in which the underlying crude oil is sold.

In Yemen, the government receives crude oil production as payment of the Company's profit taxes on the profit oil share of production. The Company recognizes this amount as revenue with a corresponding income tax expense when the oil is sold.

Management fees are based on amounts expended and are recognized in the period when the underlying expenditure is incurred.

Cash and Cash Equivalents

Cash and cash equivalents include short-term deposits with maturity terms of three months or less at the date of investment.

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

Financial Instruments

All financial instruments are initially recognized at fair value on the consolidated balance sheet. The Company has classified each financial instrument into one of the following categories: held-for-trading (assets and liabilities), loans and receivables, financial assets available-for-sale, financial assets held-to-maturity, and other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities held-for-trading are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

Financial assets held-to-maturity, loans and receivables, and other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Cash and cash equivalents are classified as held-for-trading. Accounts receivable and amounts due from joint venture partners are classified as loans and receivables. Accounts payable and accrued liabilities are designated as other financial liabilities.

The Company does not have any hedges or derivative instruments, including embedded derivatives.

Oil Inventory

Oil inventory represents the volume of crude oil in storage, which is valued at the aggregate of average production costs and depletion costs per barrel. Inventory is stated at the lower of cost and net realizable value.

Property, Plant and Equipment

The Company follows the full cost method of accounting for oil and natural gas operations whereby all costs relating to the acquisition of, exploration for and development of petroleum and natural gas properties are capitalized in cost centres on a country-by-country basis. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals, costs of drilling and equipping productive and non-productive wells and certain overhead expenditures related to exploration and development activities.

Overhead expenditures relating to petroleum and natural gas cost centres in the pre-production stage of development are capitalized. Proceeds from the disposal of properties are applied as a reduction of the cost of the remaining assets except where such a disposal would alter the depletion and depreciation rate by more than 20 percent, in which case a gain or loss would be recognized.

The Company tests the impairment of producing cost centres using undiscounted future net revenue from proved reserves at expected future product prices and production costs. Impairment is recognized when the carrying amount is greater than the undiscounted future net revenues, at which time assets are written down to the fair value of proved and probable reserves plus the cost of unproved properties, net of impairment allowances. Fair value is determined using expected future product prices and production costs, and amounts are discounted using an adjusted interest rate.

The recoverability of new undeveloped cost centres is assessed annually based on results of geological and geophysical assessments, drilling activity and planned operations.

Depletion and Depreciation

Capitalized costs of properties, including a provision for future costs to develop proved reserves, are amortized through depletion and depreciation charges using the unit of production method based on estimated proved crude oil and natural gas reserves in that cost centre. For purposes of these calculations, production of crude oil, natural gas liquids, natural gas, and proved reserves before royalties is converted to a common unit of measure on the basis of each commodity's approximate relative energy content. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion until it is determined whether proved reserves are attributable to the properties or impairment occurs.

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

Other capital assets are depreciated using the declining balance method based on the estimated service lives of the assets, which vary from three to five years.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted or substantively enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs. Future income tax assets are evaluated and if realization is not considered "more likely than not", a valuation allowance is provided.

The Company's contractual arrangements in Yemen stipulate that income taxes are paid by the respective government out of its share of production sharing oil. Such amounts are included in income tax expense at the statutory rate in effect at the time of production.

Earnings Per Share

Basic earnings per share is calculated based on net earnings or loss for the year divided by the weighted average number of shares outstanding during the year. The Company follows the treasury stock method in calculating diluted earnings per share. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds from the exercise of options and warrants are used to purchase common shares at the average market price for the year.

Stock-Based Compensation

The fair value of options and warrants granted is estimated at the date of the grant using the Black-Scholes valuation model. Stock-based compensation is recognized over the vesting period of the options granted. Stock-based compensation expense is recorded with a corresponding increase recorded to contributed surplus. Upon the exercise of the options and warrants, consideration paid by employees, consultants or directors together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options that will not vest. Forfeitures are accounted for as they occur.

3. Changes in Accounting Policies

New Accounting Standards

International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standards Board confirmed that all Canadian publicly accountable enterprises will be required to adopt IFRS for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Calvalley is currently assessing the impact of the convergence of Canadian GAAP with IFRS on the Company's results of operations, financial position and disclosures. The significant impact to Calvalley's results of operations, financial position and disclosures will be on property, plant and equipment, as it relates to the Company's policy of full-cost accounting for its exploration assets and the continued ability to utilize this policy, how these assets are ultimately depreciated, and how impairment is ultimately determined and measured. Other areas of potential impact include stock-based compensation.

4. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2010 include various short-term deposits of \$13,403 (December 31, 2009 – \$16,664), bearing interest at 0.18% (December 31, 2009 – 0.20% to 0.28%) and maturing from January 20-23, 2011, and \$6,170 (December 31, 2009 – \$3,379) of cash.

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

5. Guaranteed Investment Certificates

Guaranteed investment certificates (GICs) with original maturities in excess of 90 days at December 31, 2010 are as follows:

Maturity	Face Value	Interest Rate
October 7, 2011	\$ 47,692	0.85%
November 12, 2011	\$ 5,656	0.60%

The GICs are carried at cost plus interest, which approximates fair value and can be redeemed at any time without penalty.

6. Oil Inventory

Inventory sold is expensed through production and depletion expenses in the period when it is sold. During 2010, \$225 (2009 – \$2,995) was expensed with respect to oil which was sold.

7. Due from Joint Venture Partners

Amounts due from joint venture partners are comprised primarily of amounts due for operating costs and capital expenditures. The balances are due under normal trade terms. During 2010, there were no adjustments to the amounts due from joint venture partners. During 2009, the Company assumed and recorded as additions to property, plant and equipment certain costs previously billed to its joint venture partners in the amount of \$3,221.

8. Property, Plant and Equipment

December 31, 2010	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
Yemen:			
Oil and natural gas properties	146,358	45,984	100,374
Ethiopia:			
Oil and natural gas properties	1,206	–	1,206
Canada:			
Oil and natural gas properties	129	90	39
Other capital assets	335	191	144
	464	281	183
	148,028	46,265	101,763

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

December 31, 2009	Cost	Accumulated Depletion and Depreciation	Net Book Value
Yemen:			
Oil and natural gas properties	125,889	36,653	89,236
Ethiopia:			
Oil and natural gas properties	639	–	639
Canada:			
Oil and natural gas properties	130	80	50
Other capital assets	294	153	141
	424	233	191
	126,952	36,886	90,066

Ceiling Test

The Company performed a ceiling test as at December 31, 2010 to assess the recoverable value of its property, plant and equipment. The crude oil future prices are based on December 31, 2010 commodity prices forecast by independent reserve engineers adjusted for differentials specific to the Company's reserves. The following table summarizes the benchmark prices used in the ceiling test calculation. Based on these assumptions, the value of future net revenues from the Company's reserves exceeded the carrying value of property, plant and equipment at December 31, 2010.

Year	Dated Brent Adjusted Crude Oil Price US\$/bbl
2011	85.00
2012	87.20
2013	89.50
2014	92.30
2015	95.20
2016	98.30
Thereafter	2%

Yemen

The Company has a 50% working interest in the Malik Block 9 Joint Venture in Yemen. The Company's right to produce crude oil under the Production Sharing Agreement (PSA) continues to 2025, with a provision for a five-year extension. The ownership of all assets, tangible and intangible, remains with the Yemen authority.

During the year, the Company capitalized overhead costs relating to oil and natural gas exploration and development activities of \$1,995 (2009 – \$1,242).

Ethiopia

During 2008, the Company signed a Production Sharing Contract (PSC) with the government of the Federal Democratic Republic of Ethiopia on the Metema and Gimbi Blocks covering a total area of 11.5 million acres.

Costs incurred during 2010 and 2009 related to initial exploration efforts. Costs incurred during 2008 were related to the signing of the PSC. Properties in Ethiopia are unproved and the costs incurred of \$1,206 (December 31, 2009 – \$639) have been excluded from costs subject to depletion and depreciation.

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

9. SHARE CAPITAL

(a.) Common Shares

Authorized:

Unlimited number of Class A Common Voting Shares.

Issued:

Year Ended December 31, 2010	Number	Amount (\$)
Class A Common Voting Shares		
Shares outstanding, beginning of year	98,217,984	116,387
Issued on the exercise of options ⁽ⁱ⁾	214,958	393
Contributed surplus reclassified on exercise of options ⁽ⁱ⁾	–	214
Repurchased and cancelled ⁽ⁱⁱ⁾	(718,662)	(854)
Balance, end of year	97,714,280	116,140

⁽ⁱ⁾ During 2010, the Company issued 214,958 Class A shares upon the exercise of options for proceeds of \$393. An amount of \$214 related to stock-based compensation expensed in prior periods was reclassified from contributed surplus to share capital in connection with options exercised.

⁽ⁱⁱ⁾ During 2010, the Company repurchased 718,662 of its common shares pursuant to its Normal Course Issuer Bid at a cost of \$2,189. The cost to repurchase common shares at prices in excess of their average book value has been charged to retained earnings.

Year ended December 31, 2009	Number	Amount (\$)
Class A Common Voting Shares		
Shares outstanding, beginning of year	100,265,602	118,243
Issued on the exercise of options ⁽ⁱ⁾	563,300	776
Contributed surplus reclassified on exercise of options ⁽ⁱ⁾	–	452
Repurchased and cancelled ⁽ⁱⁱ⁾	(2,610,918)	(3,084)
Balance, end of year	98,217,984	116,387

⁽ⁱ⁾ The Company issued 563,300 Class A Common Voting Shares upon the exercise of options for proceeds of \$776. An amount of \$452 related to stock-based compensation expensed in prior years was reclassified from contributed surplus to share capital in connection with options exercised in 2009.

⁽ⁱⁱ⁾ The Company repurchased 2,610,918 of its common shares pursuant to its Normal Course Issuer Bid at a cost of \$3,342. The cost to repurchase common shares at prices in excess of their average book value has been charged to retained earnings and contributed surplus. The cost to repurchase shares at prices below their average book value has been credited to contributed surplus.

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

(b.) Stock options

The Company's restated stock option plan, as approved effective May 11, 2010, provides for the issue of stock options to directors, officers, employees and consultants. Vesting terms are determined by the Board of Directors as they are granted and currently include periods ranging from immediately to evenly over three or five years. The options' maximum term is five years (10 years for options granted prior to October 1, 2001).

At December 31, 2010 a total of 9,771,428 (December 31, 2009 – 9,821,798) shares were reserved for issue under this plan. Options which are forfeited are available for reissue.

The following is a continuity of stock options outstanding:

Price C\$	Year ended December 31, 2010		Year ended December 31, 2009	
	Options (000s)	Weighted Average Exercise Price C\$	Options (000s)	Weighted Average Exercise Price C\$
Opening balance	4,095	3.53	4,358	3.66
Granted	1,310	3.57	945	1.76
Forfeited/expired	(388)	3.67	(645)	3.52
Exercised	(215)	1.77	(563)	1.58
Ending balance	4,802	3.60	4,095	3.53

Stock options outstanding at December 31, 2010 were as follows:

Number of Options (000s)		Weighted average Exercise price – C\$	Year of expiry
Granted	Exercisable		
680	680	4.13	2011
50	50	0.90	2011
75	75	6.86	2011
160	160	7.61	2012
1,420	1,246	4.32	2013
357	235	1.61	2013
570	290	1.65	2014
200	67	2.22	2014
1,290	300	3.57	2015
4,802	3,103		

During 2010, stock-based compensation costs of \$1,530 (2009 – \$928) were expensed and credited to contributed surplus. The fair value of the options granted during 2010 was C\$2,745 (2009 – C\$910) or C\$2.10 per option (2009 – C\$0.96 per option) using the Black-Scholes option pricing model with the following assumptions:

	2010	2009
Risk-free interest rate	2.29 to 2.59%	1.6 to 2.5%
Expected hold period to exercise	5 years	5 years
Volatility in the price of the Company's shares	66 to 67%	70 – 71%
Dividend yield	Nil	Nil

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

10. Contributed Surplus

Year ended December 31	2010	2009
	\$	\$
Opening balance	7,146	6,772
Stock-based compensation	1,530	928
Stock-based compensation associated with exercised options	(214)	(452)
Shares repurchased and cancelled	–	(102)
Closing balance	8,462	7,146

11. Capital Disclosure

The Company defines and computes its capital employed as follows:

December 31	2010	2009
	\$	\$
Shareholders' equity	171,446	160,771
Long-term debt	–	–
Cash and cash equivalents	(19,573)	(20,043)
GICs	(53,447)	(50,383)
Total capital	98,426	90,345

The Company's objectives in managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue or repurchase shares, incur debt or sell assets to reduce debt.

The Company currently has no requirement for debt financing and has not required debt financing over the last two completed fiscal years. The objectives and strategy for utilizing capital are monitored to provide the appropriate capital structure for the risk profile of corporate objectives.

The Company has no debt and therefore has no financial covenants.

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

12. Income Taxes

The provision for income taxes differs from the calculated tax obtained by applying the combined statutory Canadian federal and provincial tax rate to the loss before income taxes as follows:

	2010	2009
	\$	\$
Applicable tax rate	28.0%	29.0%
Provision for income taxes computed at the Canadian statutory rate	4,167	1,767
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	428	269
Change in valuation allowance net of foreign exchange	339	(431)
Difference in foreign jurisdiction tax rate	1,308	928
Recognition of cost recovery pool	(2,025)	537
Other	(277)	73
Income tax expense	3,940	3,143

The Company has non-capital losses of \$16,774 available to carry forward for deduction against future years' Canadian taxable income. These losses, the benefit of which has not been recognized in these financial statements, expire in the following years:

	\$
2014	943
2015	937
2026	2,745
2027	4,356
2028	3,840
2030	3,953
	16,774

The significant components of the Company's Canadian future income tax assets are as follows:

	2010	2009
	\$	\$
Differences between tax bases and reported amounts of depreciable assets and resource properties	4,308	4,092
Non-capital loss carry-forwards	4,194	3,372
Share issue costs	-	316
Total future tax assets	8,502	7,780
Less: valuation allowance	(8,502)	(7,780)
Future income taxes	-	-

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

13. Supplemental Cash Flow Information

	2010	2009
	\$	\$
Changes in non-cash working capital:		
Accounts receivable	(1,790)	472
Due from joint venture partners	(1,713)	6,086
Oil inventory	48	1,561
Prepaid expenses	(30)	(60)
Accounts payable and accrued liabilities	7,005	2,527
Deferred revenue	-	(3,255)
	3,520	7,331
Changes in non-cash working capital:		
Operating activities	(323)	371
Investing activities	3,843	6,960
	3,520	7,331

During the year ended December 31, 2010, the Company incurred cash outlays of \$Nil for interest (2009 – \$Nil) and \$Nil for taxes (2009 – \$Nil). Yemen income taxes in the amount of \$3,940 (2009 – \$3,143) were remitted to the government through its allocation of oil under the PSA.

14. Geographical Information

The Company has defined its continuing operations as oil and natural gas operations. The majority of the Company's oil and natural gas operations are located in Yemen with lesser operations in Ethiopia and Canada.

Revenue for each segment is as follows:

Year ended December 31	2010	2009
	\$	\$
Yemen	64,173	51,086
Ethiopia	-	-
Canada	560	940
Total	64,733	52,026

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

15. Per Share Amounts

In calculating basic and diluted earnings per share, the following weighted average numbers of shares were used:

	2010	2009
Weighted average number of shares outstanding	97,947	98,926
Dilutive effect of stock options	597	201
Weighted average number of diluted shares outstanding	98,544	99,127

A total of 3,525,000 (2009 – 2,915,000) options were not in the money and were excluded from the dilutive calculation.

16. Financial Instruments And Risk Management

Carrying Values and Estimated Fair Values of Financial Assets and Liabilities

The Company has classified its cash and cash equivalents and GICs as assets held for trading which are measured at fair value with changes being recognized in net income. Accounts receivable and amounts due from joint venture partners are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost.

The carrying value and fair value of financial assets and liabilities are summarized as follows:

Classification	Carrying Value (\$)	Fair Value (\$)
Financial assets held for trading	73,020	73,020
Loans and receivables	15,436	15,436
Accounts payable and accrued liabilities	19,264	19,264

Credit Risk

The majority of the accounts receivable are in respect of oil and natural gas operations and are due from the Company's joint venture partners or its customer for oil sales. Management believes the risk is mitigated by the size and reputation of the companies to which the Company extends credit. The Company has not experienced any material credit loss in the collection of accounts receivable to date.

The Company is under contract to sell its production to one purchaser. The selling price is based on the quoted Dated Brent price on the date of shipment adjusted for the official selling price differential posted by the Government of Yemen. At December 31, 2010, \$4,530 (2009 – \$2,771) was receivable under the contract. Payment is secured by a guarantee issued by the purchaser's parent company.

The Company funds capital and operating costs and bills joint venture partners their share of those costs. In the event that a joint venture partner was incapable of fulfilling its obligation to pay its share of the costs, the Company could, under the terms of the joint operating agreement, recover the costs from the joint venture partner's share of proceeds from crude oil sales.

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

Trade and other receivables from continuing operations are analyzed in the table below. With respect to the trade and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Trade and other receivables at December 31, 2010

Neither impaired nor past due	\$ 13,562
Impaired (net of valuation allowance)	—
Not impaired and past due in the following period:	
Within 30 days	\$ 1,874
31-60 days	—
61-90 days	—
Over 90 days	—

Interest Rate Risk

The Company has exposure to interest rate risk as it relates to investments in GICs. Interest rate risk relates to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company incurs interest rate risk on its cash and cash equivalents, and GICs. All cash balances are current and available immediately. The Company does not hedge its exposure to interest rate risk. A 100-basis-point increase in interest rates during 2010 would have increased net income by approximately \$682 (\$0.01/share).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity describes a company's ability to access cash. Companies operating in the upstream oil and natural gas industry require sufficient cash in order to fund capital programs necessary to maintain and increase production and proved reserves, to acquire strategic oil and natural gas assets, and to repay debt. The Company actively monitors its cash requirements to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost. The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company also utilizes authorizations for expenditures to further manage capital expenditures.

The Company's obligations coming due in the next 12 months are accounts payable and accrued liabilities of \$19,264. In addition, the Company has commitments under existing agreements as described in note 17. Given the Company's working capital position, management assesses liquidity risk as being low.

In determining the fair value of financial instruments, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs reflect market-driven or market-based information obtained from independent sources, while unobservable inputs reflect the Company's estimate about market data. Based on the observability of significant inputs used, the Company classifies its fair value measurements in accordance with a three-level hierarchy. This hierarchy is based on the quality and reliability of the information used to determine fair value, as follows:

- Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities. Since the valuations are based on quoted prices that are readily available in an active market, they are not subject to significant measurement uncertainty.
- Level 2: Valuations are based on observable inputs other than quoted prices.
- Level 3: Valuations are based on at least one unobservable input that is supported by little or no market activity and is significant to the fair value measurement.

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

In assigning financial instruments to the appropriate levels, the Company performs detailed analysis. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. The level within which the fair value measurement is categorized is based on the lowest-level input that is significant to the fair value measurement in its entirety.

The Company's fair value measurement of held for trading financial assets was conducted using Level 1 of the hierarchy.

Commodity Price Risk Management

While the Company is exposed to business risk associated with fluctuations in the price of crude oil, the Company does not hold financial instruments whose fair values are susceptible to variability resulting from changes in the price of crude oil.

Foreign Exchange Risk

The Company holds substantially all of its cash and cash equivalents and GICs at one financial institution in Canada. The Company invests its cash reserves in GICs issued by an Alberta credit union which deposits are guaranteed by the Province of Alberta. Approximately \$1,363 of the \$19,573 in cash and cash equivalents is held in Canadian-dollar-denominated accounts. As such, the Company is exposed to foreign currency risk. The impact to net income of a 10% change in the foreign exchange rates between the Canadian and United States dollars at December 31, 2010 would have been approximately \$104 (\$0.00/share).

17. Commitments

The Company is committed to operating leases for office space with payments due and to its proportionate share of various allowances and bonus payments to the Government of Yemen.

2011	\$ 513
2012	\$ 492
2013	\$ 410
2014	\$ 225
2015	\$ 225

In addition to the payments indicated above, the Company is obligated to pay to the Government of Yemen its 50% proportionate share of a \$2,000, a \$3,000 and a \$4,000 bonus payment when sustainable production exceeds 25,000, 75,000 and 100,000 barrels of oil per day, respectively.

The Company is also committed to pay a royalty of \$1.25 per barrel of oil produced from the Yemen properties to an arm's-length party until its commitment to pay these royalties has been satisfied. The total commitment outstanding at December 31, 2010 under this obligation is approximately \$2,217 (December 31, 2009 – \$2,777).

As part of the Production Sharing Contract with the Government of Ethiopia, the Company has entered into certain commitments to spend approximately \$8.5 million during the first four years of its work program. The Company has incurred approximately \$1,206 in respect of this commitment.

Notes to the Consolidated Financial Statements

(Financial figures expressed in thousands of United States Dollars) December 31, 2010 and 2009

18. Contingencies

The Company has been named in a claim filed in the Commercial Court of Yemen by a Saudi Arabian company. The claimant alleges that, pursuant to an agency agreement entered into in 1996, it is entitled to a percentage of the net profit attributable to the Company. Over the past several years this issue has been before the Commercial Court of Yemen, the Yemeni Court of Appeal and the Supreme Court of Yemen on a number of procedural issues and has now been sent back to the Supreme Court of Yemen for reassessment. Interim judgments have been issued and both parties appealed an initial ruling which limited the plaintiff's entitlement to an interest on the net profit from profit oil production prior to February, 2008. Calvalley has cross-appealed on a number of matters of substance and procedure.

The Company's legal advisors in Sana'a and Calgary are pursuing the appeal jointly. The outcome of the action in the Supreme Court of Yemen is undeterminable at this time and the Company is exploring both judicial, and extra judicial, resolution. No amounts have been accrued in the consolidated financial statements for the periods ended December 31, 2010 as the ultimate resolution is uncertain. The Company will record any amounts due, if any, once the outcome of the contingency is likely and reasonably estimated.

Between 2004 and 2007, the Company billed its Block 9 joint venture partners (JV Partners) for fees in accordance with the terms of the PSA which governs the joint venture operating activities on Block 9. The JV Partners contend that certain of these fees are not billable under the terms of the Joint Operating Agreement (JOA) between the Company and the JV Partners. Pending resolution of this matter, the Company has not charged the JV Partners for the fees in question during 2008 and 2009. The Company and its JV Partners have now agreed to enter into a binding expert determination in London, England to interpret the terms of the JOA and to obtain a ruling on whether the fees in question are billable. While management is not able to determine the likelihood of a positive or negative outcome, the maximum liability to the Company related to fees charged from 2004 to 2007 is \$1,012. Conversely, should the fees be deemed billable, the Company would recover fees which have not previously been recorded in the accounts in the amount of \$927.

In the normal course of operations, the Company may be subject to litigation and claims. In the opinion of management, other than as disclosed above, no such litigation or claim, individually or in aggregate, would result in a liability that would have a significant adverse effect on the financial position or results of operations of the Company.

19. Related Party Transactions

On June 10, 2009, the Company advanced \$113 to a member of its Board of Directors. The advance was included in accounts receivable, was non-interest-bearing, repayable within 90 days, and was secured by shares of the Company. The advance was repaid in full during August 2009.

ABBREVIATIONS

Bbls	barrels of oil
Mbbls	thousand barrels
Bopd	barrels of oil per day
Km	kilometre
Km2	square kilometre
Mmcf	million cubic feet
Mmcf/d	million cubic feet per day

Forward-Looking Statements

This Annual Report contains certain forward-looking statements. Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks of the Company, may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic, political and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof.

Forward-looking statements and other information contained herein concerning the oil and natural gas industry and Calvalley's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which Calvalley believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Calvalley is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors. See "Risk Factors."

Calvalley does not undertake any obligation to update publicly or revise any forward-looking statements contained in this or in any other document filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

CORPORATE INFORMATION

DIRECTORS

Edmund M. Shimon
Calgary, Alberta

Gary Robertson⁽¹⁾
Montreal, Quebec

Kenneth M. Stephenson^{(1) (2)}
Calgary, Alberta

Memet Kont⁽²⁾
Calgary, Alberta

Thomas H. Skupa^{(1) (2)}
Calgary, Alberta

Thomas E. Valentine
Calgary, Alberta

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Reserves Committee

OFFICERS

Edmund M. Shimon
Chairman and Chief Executive Officer

Memet Kont
President and Chief Operating Officer

Zacharie J. Magnan
Vice President, Finance and
Acting Chief Financial Officer

Thomas E. Valentine
Corporate Secretary

STOCK LISTING

Toronto Stock Exchange
CVI.A

BANKERS

Scotiabank
First Calgary Savings &
Credit Union Ltd.

LEGAL COUNSEL

Macleod Dixon LLP

Auditors

Deloitte & Touche LLP

TRANSFER AGENT

Computershare
Trust Company of Canada

CORPORATE OFFICE

Suite 700, 600 - 6th Avenue S.W.
Calgary, Alberta T2P 0S5
Office: +1 (403) 297-0490
Fax: +1 (403) 297-0499

Sana'a Office

P.O. Box 7090 Hadda Area,
Sana'a Republic of Yemen
Office: +9671 41 5555
Fax: +9671 42 3580

www.calvalleypetroleum.com

CALVALLEY PETROLEUM INC.

Calgary Office:

Suite 700, 600 - 6th Avenue S.W. Calgary, Alberta T2P 0S5

Office: (403) 297-0490

Fax: (403) 297-0499

CALVALLEY PETROLEUM (CYPRUS) LTD.

Yemen Office:

P.O. Box 7090 Hadda Area, Sana'a Republic of Yemen

Office: +9671 41 5555

Fax: +9671 42 3580

www.calvalleypetroleum.com