tuscany energy ltd

# 2010 Annual Report

## *Annual Meeting*

The Annual Meeting of the Shareholders of Tuscany Energy Ltd. will be held at 10:30 am on Tuesday, May 31, 2011 in the Main Boardroom at Burnet, Duckworth & Palmer LLP, 1400, 350 – 7th Avenue S.W., Calgary, Alberta.

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# Summary of Financial and Operating Results

## Summary of Financial and Operating Results

| | Year Ended December 31 2010 | | Year Ended December 31 2009 | |
|---|---|---|---|---|
| **Financial** (thousands except per share amounts) | | | | |
| Revenue net of royalties | **$** | **2,892** | $ | 1,732 |
| Cash flow from operations | **$** | **450** | $ | (144) |
| per share, diluted | **$** | **0.01** | $ | (0.00) |
| Loss for the year | **$** | **(877)** | $ | (263) |
| per share, diluted | **$** | **(0.02)** | $ | (0.01) |
| Property, plant and equipment - additions | **$** | **3,042** | $ | 1,286 |
| Net Debt | **$** | **4,204** | $ | 2,733 |
| Total shares outstanding at year end | | **62,802** | | 55,300 |
| **Operations** | | | | |
| Production | | | | |
| Oil & NGL (Bbl/d) | | **117** | | 90 |
| Gas (Mcf/d) | | **164** | | 180 |
| BOE/d (6 Mcf = 1 Bbl) | | **144** | | 120 |
| Product Prices | | | | |
| Oil & NGL ($/Bbl) | **$** | **61.70** | $ | 52.98 |
| Gas ($/Mcf) | **$** | **4.02** | $ | 4.08 |
| Reserves | | | | |
| (proved plus probable, future costs and prices) | | | | |
| Gas (MMcf) | | **600.7** | | 685.2 |
| Oil & NGL (MBbl) | | **1,050.2** | | 626.7 |
| BOE (Millions) | | **1,150.3** | | 740.9 |
| Present value, before tax discounted at 10% (thousands) | **$** | **22,876** | $ | 17,200 |

* Non-GAAP Measure. Please see "Non-GAAP Measurements"

# President's Message

## To The Shareholders

Tuscany is pleased to report significant increases in revenue, cash flow and reserves for the year ended December 31, 2010.

Tuscany's revenue increased by 60% to $2.9 million, cash flow improved to $450,000 from a working capital deficiency of $144,000, and proved and probable reserves increased by 64% to 1.2 million barrels of oil equivalent, compared with the prior year.

The Company anticipates improved results for 2011 as a result of two additional heavy oil wells, at Evesham, being placed on production, at year end. In addition, heavy oil prices have increased significantly in the past two months and should result in higher average prices through the balance of the year.

Operationally the Company has laid the foundation for long term growth by purchasing new heavy oil prospects at Macklin, Lloydminster, Winter and acreage on 10 additional oil prospects in Alberta and Saskatchewan.

**Focus on Oil**

The primary reasons for Tuscany's focus on heavy oil development are:

- The rapid rebound in oil prices from early 2009, partly aided by OPEC oil production curtailments,
- Increasing use of oil by Far Eastern economies, especially China,
- The variable uses and easy transportation of oil, making it the principal fuel of choice, and
- The availability of inexpensive leases in Alberta and Saskatchewan, on repeatable oil exploration prospects.

**2010 Highlights**

During 2010 Tuscany accomplished the following:

- Drilled and completed three successful Dina horizontal oil wells, and completed the construction of a salt water disposal facility at Evesham, Saskatchewan, significantly increasing production from the field while reducing operating expenses.

- Raised $1.2 million through the issue of flow through shares, late in the year.

- Subsequent to the year end, Tuscany announced its intention to complete a business combination with Sharon Energy Ltd, whereby Tuscany would acquire all of the outstanding shares of Sharon by issuing 62.1 million Tuscany shares. At December 31, 2010 Sharon reported working capital of $8.3 million, investments valued at $4.0 million and proved and probable oil and gas reserves having a net present value, using a 10% discount rate, of $2.6 million.

Tuscany completed 2010 in sound financial condition and with proved and probable reserves of 1.2 MMBOE, 91% of which, on a BOE basis, were oil and NGL reserves. The net present value of its reserves at December 31, 2010 was $22.9 million at a 10% discount rate, 64% of which were proved reserves.

**Exploration and Development**

During 2011, Tuscany will continue to focus on developing its Dina oil property at Evesham. Tuscany plans to increase the pace of investment and development at Evesham with six new wells planned for 2011. Initial drilling is planned to commence after spring break-up, as conditions permit. If the proposed business combination with Sharon is completed, the pace of drilling will increase significantly as the company plans to maximize its growth through the development of this pool.

In order to maximize the amount of investment available for reinvestment in exploration and development, Tuscany has agreed to share overhead expenditures with two related companies, in effect, to manage the company within a joint venture group with common goals. Tuscany is operating jointly with Diaz Resources Ltd. and Sharon Energy Ltd. to identify and develop oil properties along similar trends in Alberta and Saskatchewan.

Since the beginning of 2010 Tuscany participated in the acquisition of an additional 15,110 gross acres (4,530 net acres) and the drilling and completion of a vertical oil well in the Chambery, Saskatchewan area, through this joint venture.

**Financial**

Tuscany's total revenue, net of royalties, increased by 60% in 2010 to $2.9 million from $1.7 million in 2009. The Company reported a loss of $875,000 compared with a loss of $263,000 a year earlier. Tuscany reported cash flow of $450,000, a significant increase from the previous year, when it reported a cash flow deficiency of $144,000.

Tuscany incurred $3.0 million of capital expenditures during the year. At December 31, 2010 Tuscany had total net debt of $4.2 million. Subsequent to the year end, the company negotiated an increase in its credit facility to $4.6 million.

**Outlook**

Tuscany is focused on growth through oil exploration and development. With a sound reserve base developed over the past two years, Tuscany believes it can achieve significant growth over the next year by continuing to develop its Evesham, Dina oil pool.

In order to accelerate the development of this pool and Tuscany's growth, the Company has entered into the business combination agreement with Sharon Energy Ltd. which will provide the combined companies with sufficient working capital to develop the pool at a significantly accelerated pace.

Management would like to thank its shareholders for their continued support and we look forward to a year of steady growth.

April 18, 2011

*Signed "Robert W. Lamond"*
President and CEO

# Operations Review

In the following description of Tuscany's principal oil and natural gas properties, reserve and production amounts stated are gross reserves based on forecast costs and prices, as reported by McDaniel & Associates Consultants Ltd. in the evaluation report dated March 31, 2010, outlined in the "Oil and Gas Reserves" section, later in this report (the "McDaniel Report"). The estimates of reserves and future net revenue for the individual properties may not reflect the same confidence level as estimates and reserves in future net revenue for all properties due to the effects of aggregation.

In Canada, during the year ended December 31, 2010, 4 wells were drilled (net 2.15) all of which were successfully completed as oil wells.

**Evesham, Saskatchewan – Working Interest 60%**

Tuscany has a 60% working interest in 5 producing Dina heavy oil wells and a 100% working interest in an additional 7 producing Sparky oil wells (10 net wells). The Evesham Dina pool continues to be the primary development focus of the Company for 2011. The Company plans to drill six additional horizontal wells into the Dina pool in 2011.

| Evesham, Saskatchewan Dina | Heavy Oil |
|---|---|
| Reserves | |
| Proved developed producing | 118 MBbl |
| Proved developed non-producing | - MBbl |
| Proved undeveloped | 270 MBbl |
| Probable | 410 MBbl |
| Total proved plus probable | 798 MBbl |
| 2010 average production | 56 Bopd |

The Evesham Dina pool represents 69% of the Company's proved plus probable reserves at December 31, 2010.

The McDaniel Report has identified 9 proved undeveloped locations and 5 probable undeveloped locations adjacent to the five existing wells on the property. McDaniel forecasts initial production rates of approximately 85 Bopd per well. The McDaniel Report assigns 75 MBbls of proved plus probable reserves (45 MBbls net) to each of the undrilled wells.

## The Contingent Resource Report

McDaniel has also prepared an evaluation of Contingent Resources of the Company's Evesham, Dina Pool (the "Resource Report") dated February 18, 2011, effective as of December 31, 2010, which estimates that the portion of the Evesham Dina Pool which was not assigned Proved or Probable reserves in the McDaniel Report, summarized above, may contain the following Contingent Resources:

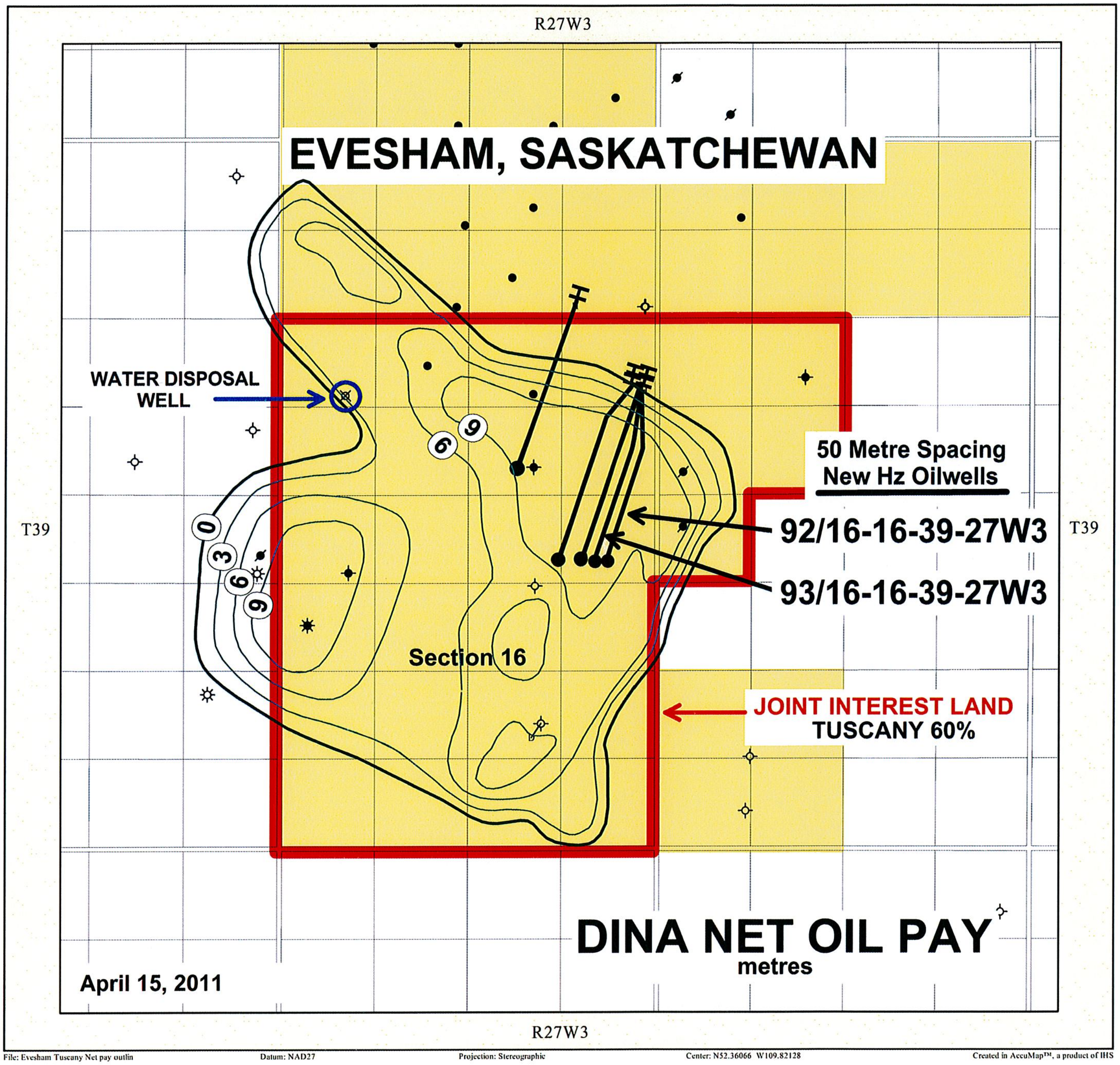
| | Contingent Resource ( MBbl) | | |
|---|---|---|---|
| | Low Estimate | Best Estimate | High Estimate |
| **Total Contingent Resource** | **2,190** | **4,380** | **6,570** |
| **Tuscany's interest (60%)** | **1,314** | **2,628** | **3,942** |

The Resource Report on the resource potential of the Evesham Dina property describes the recoverable volumes of oil associated with the Evesham Dina Property as contingent resources as they do not meet the requisite criteria to be classified as reserves with respect to location relative to producing Dina wells. *Contingent Resources* are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage.

The "Contingent Resources", as defined by the Canadian Oil and Gas Evaluation Handbook, do not represent an estimate of reserves. The Resource Report was prepared in accordance with National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities" ("NI 51-101").

According to the Resource Report the recovery of the Contingent Resources will require the drilling of 59 additional horizontal wells of 600 metres in horizontal length with interwell spacing of 50 metres. The development of the Contingent Resources will require a significant amount of capital investment and therefore will take several years to complete. In 2011 the Company plans to drill additional horizontal wells on the Evesham Dina Property as the Company's working capital and cash flow permit. There is no certainty that these Contingent Resources will be produced.

The following is a gross pay map of the Evesham pool, showing Tuscany's 5 producing wells, and joint lands available for future drilling on the property.



### Other Saskatchewan Properties

Tuscany's other production in Saskatchewan is currently from low productivity oil wells in the Sparky sand in the Evesham and Macklin areas of south western Saskatchewan. Production from these wells represented 29% of the Company's production in 2010. Tuscany plans to continue to maintain the production from these areas through required workovers and technological improvements in production methods on the basis of prioritized capital expenditures.

| Evesham, Saskatchewan Sparky | Oil and NGLs | Natural Gas |
|---|---|---|
| Reserves | | |
| Proved developed producing | 130 MBbl | 412 MMcf |
| Proved developed non-producing | - MBbl | - MMcf |
| Proved undeveloped | - MBbl | - MMcf |
| Probable | 21 MBbl | 63 MMcf |
| Total proved plus probable | 150 MBbl | 475 MMcf |
| 2010 average production | 38 Bopd | - Mcfd |

| Macklin, Saskatchewan | Oil and NGLs | Natural Gas |
|---|---|---|
| Reserves | | |
| Proved developed producing | 55 MBbl | 87 MMcf |
| Proved developed non-producing | 15 MBbl | - MMcf |
| Proved undeveloped | - MBbl | - MMcf |
| Probable | 19 MBbl | 15 MMcf |
| Total proved plus probable | 88 MBbl | 102 MMcf |
| 2010 average production | 17 Bopd | 107 Mcfd |

## Other Exploration and Development

At the beginning of 2010 Tuscany commenced the exploration and development joint venture with Diaz and Sharon. Since the joint venture commenced Tuscany has acquired a 30% working interest in 15,110 gross acres (4,532 net) on 13 separate oil prospects in Alberta and Saskatchewan.

### Macklin Dina Acquisition

Late in Q3 2010, Tuscany acquired a 30% interest in an additional property in the Macklin, Saskatchewan area. The property contained four shut-in oil wells, a water disposal well, 3-D seismic over the lease area, and 3,770 acres under lease. Tuscany believes the property's four wells can be reactivated. The wells were producing a combined 58 bopd when they were shut-in. The operator reactivated the first well in mid December 2010. To date, the reactivated well has been producing an average of 20 bopd (6 bopd net). The operator now plans to reactivate the remaining three wells after spring breakup.

### Other Saskatchewan Oil Plays

Tuscany has acquired an interest in the Birdbear, Shaunavon and other heavy oil development areas in Saskatchewan.

During Q3 2010, Tuscany drilled a vertical Shaunavon oil well, 91/13-19-7-18W3, located in the Chambery field, Saskatchewan. Based on Tuscany's analysis, the open hole logs indicate potential oil pay in two zones. Tuscany has a 30% interest in the section. The operator has received approval from the Saskatchewan Government to commingle the Upper Shaunavon and Lower Shaunavon zones and the well was on production in late March 2011.

### Other Alberta Oil Plays

In Alberta Tuscany has purchased interest in 5 prospects on trend with the Lloydminster heavy oil area for development in 2011.

## Oil and Gas Reserves

An independent evaluation of the Company's oil and gas reserves, conducted by McDaniel & Associates Consultants Ltd. dated March 31, 2011 (the "McDaniel Report") has assigned proved plus probable reserves of 1.2 MMBOE to the Company's properties, having an estimated net present value, before income tax of $22.9 million, at a 10% discount rate. **There is no assurance that this represents the fair value of the assets.**

### Summary of Oil and Gas Reserves and Net Present Values of Future Net Revenue

Tuscany's proved reserves were 42% higher than in the prior year while proved plus probable reserves increased by 55%. The significant increase in reserves came from the Dina heavy oil pool. With the addition of oil reserves plus a significant reduction in future operating costs, from the new water disposal system, the net present value of the Company's reserves increased by 33%.

| | LIGHT AND MEDIUM OIL | | HEAVY OIL | | NATURAL GAS | | NATURAL GAS LIQUIDS | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| RESERVES CATEGORY | Gross (MBbl) | Net (MBbl) | Gross (MBbl) | Net (MBbl) | Gross (MMcf) | Net (MMcf) | Gross (MBbl) | Net (MBbl) | Gross (MBOE) | Net (MBOE) |
| PROVED | | | | | | | | | | |
| Developed Producing | 4.0 | 3.3 | 302.3 | 289.1 | 517.7 | 508.8 | 0.6 | 0.3 | 393.2 | 377.5 |
| Developed Non-producing | - | - | 15.0 | 14.3 | - | - | - | - | 15.0 | 14.3 |
| Undeveloped | - | - | 270.0 | 264.1 | - | - | - | - | 270.0 | 264.1 |
| TOTAL PROVED | 4.0 | 3.3 | 587.3 | 567.5 | 517.7 | 508.8 | 0.6 | 0.3 | 678.2 | 655.9 |
| PROBABLE | 10.0 | 9.1 | 448.9 | 416.7 | 83.1 | 81.3 | 0.2 | 0.1 | 473.0 | 439.5 |
| TOTAL PROVED PLUS PROBABLE (1) | 14.0 | 12.4 | 1,036.2 | 984.2 | 600.7 | 590.0 | 0.7 | 0.4 | 1,151.0 | 1,095.3 |

(1) Columns may not add due to rounding.

| | NET PRESENT VALUES OF FUTURE NET REVENUE (1) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | BEFORE INCOME TAXES DISCOUNTED AT (% per year) | | | | | AFTER INCOME TAXES DISCOUNTED AT (% per year) | | | | |
| | 0 | 5 | 10 | 15 | 20 | 0 | 5 | 10 | 15 | 20 |
| RESERVES CATEGORY | (MM$) | (MM$) | (MM$) | (MM$) | (MM$) | (MM$) | (MM$) | (MM$) | (MM$) | (MM$) |
| PROVED | | | | | | | | | | |
| Developed Producing | 11.95 | 10.03 | 8.64 | 7.62 | 6.85 | 11.95 | 10.03 | 8.64 | 7.64 | 6.85 |
| Developed Non-producing | 0.35 | 0.32 | 0.29 | 0.26 | 0.24 | 0.35 | 0.32 | 0.29 | 0.26 | 0.24 |
| Undeveloped | 6.07 | 4.90 | 3.97 | 3.24 | 2.66 | 5.24 | 4.25 | 3.45 | 2.81 | 2.30 |
| TOTAL PROVED | 18.37 | 15.25 | 12.91 | 11.13 | 9.75 | 17.55 | 14.60 | 12.39 | 10.71 | 9.39 |
| PROBABLE | 18.51 | 13.19 | 9.97 | 7.89 | 6.48 | 13.64 | 9.62 | 7.18 | 5.62 | 4.55 |
| TOTAL PROVED PLUS PROBABLE (1) | 36.88 | 28.44 | 22.88 | 19.02 | 16.23 | 31.19 | 24.22 | 19.57 | 16.32 | 13.94 |

(1) Columns may not add due to rounding.

More detailed information with respect to the reserves reports, including cost and pricing assumptions and reserve classifications can be found in the Company's Annual Information Form filed on Sedar. **There is no assurance that the above amounts represent the fair value of the assets.**

# Management's Discussion and Analysis ("MD&A")

April 18, 2011

The following management's discussion and analysis of financial condition should be read in conjunction with Tuscany's audited financial statements and notes thereto for the years ended December 31, 2010 and December 31, 2009. Additional information relating to Tuscany can be found on the company's website at www.tuscanyenergy.com or on the SEDAR website at www.sedar.com. This MD&A has been prepared as at April 18, 2011. The information provided for the three months ended December 31, 2010 and 2009 has not been audited by the Company's auditors.

**Basis of Presentation**
The financial data presented herein has been prepared in accordance with accounting principles generally accepted in Canada. All dollar amounts are in Canadian dollars unless otherwise indicated.

**Non-GAAP Measurements**
The Management's Discussion and Analysis contains the term "cash flow from operations" and "operating netback", which should not be considered an alternative to, or more meaningful as an indicator of the Company's performance than cash flow from operating activities, or earnings as determined in accordance with accounting principles generally accepted in Canada. Tuscany's determination of "cash flow from operations" and "operating netback" may not be particularly comparable to that reported by other companies especially those in other industries. Management uses "cash flow from operations" as a measure of operating performance as the measure is not exposed to non-cash working capital movements, which for a small company, could be material and misleading. The reconciliation of "cash flow from operating activities" and "cash flow from operations" is as follows:

| **Cash flow from operations** *(in thousands dollars)* | Three Months Ended December 31 | | Year Ended December 31 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Cash provided by (used in)- operating activities | $ 923 | $ (184) | $ 866 | $ 83 |
| Change in non-cash working capital - fom operations | 812 | 105 | 416 | 227 |
| Cash flow from operations | $ 111 | $ (289) | $ 450 | $ (144) |
| Cash flow from operations per Share, diluted | $ - | $ (0.01) | $ 0.01 | $ - |

The Company also presents "net debt", calculated as the excess of current liabilities over current assets. The Company also presents "annualized cash flow from operations" which equals four times the current period and comparative period quarterly "cash flow from operations".

| **Net Debt** *(in thousands dollars)* | December 31 **2010** | **2009** |
|---|---|---|
| Current Assets | $ 630 | $ 806 |
| Current Liabilities | 4,834 | 3,539 |
| Net Debt | $ (4,204) | $ (2,733) |

The term “operating netback” is calculated as the total sales revenue for the period less royalties, operating expenses and workover costs. “Operating netback” per BOE is calculated by dividing “Operating netback" for the period by the BOE sales for the period. These represent cash margin calculations for each BOE sold.

**BOE Presentation** – The term barrels of oil equivalent (BOE) may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All BOE conversions in this report are derived by converting gas to oil in the ratio of six Mcf of gas to one Bbl of oil.

**Forward-looking Statements –** Certain of the statements contained herein including, without limitation, financial and business prospects and financial outlook, reserve and production estimates, drilling and re-completion plans, timing of drilling, completion and tie in of wells and capital expenditures and the timing thereof may be forward looking statements. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions may be used to identify these forward looking statements. These statements reflect management's beliefs at the date of the report and are based on information available to management at that time. 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, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources and the risk factors outlined elsewhere herein. The recovery and reserve estimates of Tuscany's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect Tuscany's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or at Tuscany's website www.tuscanyenergy.com. Although the forward looking statements contained herein are based upon what management believes to be reasonable assumptions, including but not limited to assumptions as to the price of oil and natural gas, interest rates, exchange rates and the regulatory and legal environment in which Tuscany operates, the producibility of Tuscany's reserves, the capital expenditures program and future operations and other matters, 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 and the Company assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities laws.

Forward looking statements and other information contained herein concerning the oil and gas industry and the Company'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 the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market conditions, market shares and performance characteristics. While the Company 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.

## Summary of Results

The following table provides financial data derived from the Company's financial statements for the past three years:

| *($ Thousands, except per BOE, BOEd and per share amounts)* | | | | | Years Ended December 31 | |
|---|---|---|---|---|---|---|
| | | **2010** | | 2009 | | 2008 |
| Total revenue | **$** | **2,892** | $ | 1,732 | $ | 4,265 |
| Cash flow from operations * | **$** | **450** | $ | (144) | $ | 1,717 |
| per share, basic and diluted * | **$** | **0.01** | $ | (0.00) | $ | 0.05 |
| Earnings (loss) for the year | **$** | **(877)** | $ | (263) | $ | 244 |
| per share, basic and diluted | **$** | **(0.02)** | $ | (0.01) | $ | 0.01 |
| Total assets | **$** | **12,257** | $ | 10,476 | $ | 9,333 |
| Net debt * | **$** | **4,204** | $ | 2,733 | $ | 1,910 |
| Production (BOEd) | | **144** | | 120 | | 184 |
| Price ($ per BOE) | **$** | **54.57** | $ | 45.82 | $ | 71.99 |

* Non-GAAP measure

During 2010, an increase in oil prices, higher sales volumes and revenue from third party water disposal resulted in an increase in revenues and cash flows from operations compared with the prior year. The loss for 2010 was higher than the prior year. In 2009 the company reported a gain on the acquisition of Goldmark Minerals Ltd.

In 2008 oil and gas sales from a new well in the Wildwood area of Alberta and high commodity prices resulted in revenues of $4.3 million and cash flow of $1.7 million. The production from the well declined rapidly and Company revenue for 2009 declined to $1.7 million and Tuscany reported a cash flow deficiency of $144,000 for 2009.

## Selected Quarterly Information

| ($ Thousands, except production and per share amounts) | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Q4** | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Production (BOEd) | **148** | 153 | 124 | 151 | 89 | 103 | 127 | 164 |
| Price ($/BOE) | **55.28** | 50.19 | 53.45 | 56.05 | 54.35 | 50.42 | 44.47 | 38.74 |
| Total revenue, net of royalty | **786** | 698 | 646 | 762 | 390 | 418 | 469 | 455 |
| Cash flow ( deficiency ) | | | | | | | | |
| from operations | **110** | 57 | 52 | 231 | (289) | (13) | 85 | 73 |
| Per share - basic and diluted | **0.00** | 0.00 | 0.00 | 0.00 | (0.01) | 0.00 | 0.00 | 0.00 |
| Net earnings (Loss) | **(313)** | (348) | (85) | (131) | (81) | 72 | (108) | (146) |
| Per share - basic and diluted | **(0.01)** | (0.00) | (0.00) | (0.00) | (0.00) | 0.00 | (0.00) | (0.00) |
| General and Administrative cost | **204** | 192 | 225 | 98 | 163 | 110 | 93 | 78 |
| Net capital expenditures | **1,340** | 645 | 624 | 433 | 931 | 171 | 89 | 86 |
| Total assets | **12,257** | 11,209 | 11,121 | 10,619 | 10,476 | 9,174 | 8,767 | 8,879 |
| Net debt | **(4,204)** | (4,167) | (3,550) | (2,971) | (2,733) | (3,224) | (3,040) | (3,035) |

Over the past two years Tuscany's production volumes rebounded from a low of 89 BOE/d in Q4 2009 to 148 BOE/d in Q4 2010. The company spent the greater part of 2009 conserving cash in the face of weak commodity prices and a global economic crisis. In late 2009, Tuscany raised $521,000 through a rights offering. The Company then merged with Goldmark Minerals Ltd, which provided the Company with a further $1.4 million.

With this additional working capital the Company was able to drill its second horizontal well into the Evesham Dina formation. In Q2 2010 Tuscany drilled the third horizontal well at Evesham which helped increase the oil sales to 153 BOEd in Q3 2010.

In Q4 2010 the company raised $1.2 million through a flow through share issue and used the additional working capital to drill two more successful horizontal oil wells at Evesham. These wells were placed on production in the middle of December 2010 and therefore had limited effect on the average production for the quarter, however production in January 2011 increased to 223 BOEd.

Increased production from the new Evesham Dina oil wells was offset by reductions in oil and gas production from the Company's Wildwood well and oil production from the Evesham Sparky oil wells.

## Results of Operations – 2010

| Sales and Prices | Three Months Ended December 31 2010 | 2009 | Year Ended December 31 2010 | 2009 |
|---|---|---|---|---|
| **Average daily Sales** | | | | |
| Oil & NGL (Bbl/d) | **127** | 64 | **117** | 90 |
| Gas (Mcf/d) | **128** | 150 | **164** | 180 |
| BOEd | **148** | 89 | **144** | 120 |
| | | | | |
| **Average price** | | | | |
| Oil & NGL ($/Bbl) | **$ 60.88** | $ 64.54 | **$ 61.70** | $ 52.94 |
| Gas ($/Mcf) | **$ 3.67** | $ 4.71 | **$ 4.02** | $ 4.08 |
| $/BOE | **$ 55.28** | $ 54.35 | **$ 54.57** | $ 45.82 |

### Oil & Gas Sales

During Q4 2010, Tuscany's oil and NGL sales increased by 63 Bbls/d over the same period in 2009 and by 9 Bbls/d over Q3 2010. For the year ended December 31, 2010 oil and NGL sales were up 27 Bbls/d. Sales increased as a result of the Evesham Dina horizontal drilling. Sales from these wells averaged 66 Bbls/d net to the Company in the quarter. This represents an increase of 55 Bbls/d from Q4 2009. The two new wells drilled in Q4 2010 were placed on production in the middle of December, 2010 and therefore had little effect on the Q4 2010 average sales levels.

Production from the Wildwood, Alberta well continued to decline throughout 2010. Gas sales declined slightly for the year ended 2010 to an average 164 mcf/day, compared with 180 mcf/d in 2009 as the company avoided gas prospects and remained focused on the development of its Dina oil property.

| Sales by Area | Three Months Ended December 31 2010 | 2009 | Year Ended December 31 2010 | 2009 |
|---|---|---|---|---|
| Oil & NGL (Bbls/d) | | | | |
| Evesham Dina | 66 | 11 | 56 | 17 |
| Evesham Sparky | 40 | 26 | 38 | 39 |
| Macklin | 17 | 18 | 17 | 15 |
| Wildwood | 4 | 10 | 6 | 20 |
| | 127 | 64 | 117 | 90 |
| Gas (Mcf/d) | | | | |
| Evesham Sparky | 121 | 97 | 107 | 95 |
| Macklin | - | 12 | 33 | 15 |
| Wildwood | 6 | 26 | 12 | 55 |
| Other | 1 | 16 | 12 | 15 |
| | 128 | 150 | 164 | 180 |

*columns may not add due to rounding

In Q4 2010, Tuscany completed the drilling of its fourth and fifth horizontal Dina oil wells at Evesham. The horizontal wells commenced production in mid-December 2010. These wells increased the Company's production in January 2011 to 223 BOEd.

### Selling Prices

For the year ended December 31, 2010 Tuscany received an average of $54.57 per BOE, a significant increase in price from $45.82 per BOE for the same period in 2009. Oil prices were relatively steady throughout 2010, though the heavy oil price differential increased briefly in Q4 2010 due to a disruption in pipeline and refining capacity. Gas prices, have remained weak throughout 2010 and the Company received $3.67 per Mcf for its natural gas sales in Q4 2010 compared to $4.71 per Mcf in Q4 2009.

The Company's production is heavily weighted to oil production with 92% of its Oil & Gas sales revenue coming from oil in Q4 2010.

| **Summary of operating net back** *(in thousands of dollars except per BOE information)* | Three Months Ended December 31 2010 | Three Months Ended December 31 2009 | Year Ended December 31 2010 | Year Ended December 31 2009 |
|---|---|---|---|---|
| Oil and NGLs | **$ 709** | $ 380 | **$ 2,633** | $ 1,739 |
| Natural Gas | **58** | 65 | **241** | 268 |
| Oil & Gas sales revenue | **767** | 445 | **2,874** | 2,007 |
| Processing revenue | **55** | | **168** | - |
| Total Revenue | **822** | 445 | **3,042** | 2,007 |
| Royalties | **(35)** | (56) | **(150)** | (275) |
| Operating-Water Disposal facility | **(5)** | - | **(54)** | - |
| Workovers and repairs | **(184)** | (289) | **(520)** | (424) |
| Operating expenses producing wells | **(247)** | (201) | **(965)** | (902) |
| Operating net back | **$ 351** | $ (101) | **$ 1,353** | $ 406 |
| **$/ BOE** | | | | |
| Oil & Gas sales revenue | **$ 55.28** | $ 54.35 | **$ 54.57** | $ 45.82 |
| Processing revenue | **4.04** | - | **3.20** | - |
| Royalties | **(2.57)** | (6.84) | **(2.85)** | (6.28) |
| Operating-Water Disposal facility | **(0.37)** | - | **(1.03)** | - |
| Workovers | **(13.51)** | (35.30) | **(9.89)** | (9.68) |
| Operating expenses producing wells | **(18.14)** | (24.55) | **(18.36)** | (20.59) |
| Operating net back | **$ 24.73** | $ (12.34) | **$ 25.64** | $ 9.27 |

### Sales Revenue

Total revenue increased 52% from $2.0 million for the year ended December 31, 2009 to $3.0 million for the year ended December 31, 2010. The increased revenue resulted from a 20% increase in Sales volumes, a price increase of 19% and the addition of processing revenues from third party water disposal in 2010. Total revenue increased in Q4 2010 to $822,000 from $745,000 in Q3 2010 primarily as a result of higher oil sales and higher oil prices. Tuscany anticipates revenues will continue to increase in 2011 as a result of additional production from new wells at Evesham.

### Royalty Expense

The Company's average royalty rate for the twelve months ended December 31, 2010 was 5.2% or $2.85 per BOE. By comparison, in 2009 the Company incurred an average royalty rate of 13.72% or $6.28 per BOE. Sales revenue increases in 2010 was mainly from Saskatchewan heavy oil wells which have a 2.5% royalty for the initial 37,500 bbls of sales. In addition the low productivity Sparky wells have a low royalty rate. Royalty paid in Alberta decreased proportionately with the decline in production from the Wildwood well.

### Operating Expense

Tuscany's operating expenses, net of workovers and repairs, for 2010 totaled $965,000, or $18.36 per BOE, compared to $902,000 or $20.59 per BOE in 2009. Total operating expenses increased during the year due to the addition of the Salt Water Disposal facility at Evesham, and the addition of four new wells drilled in the year. Operating cost per BOE decreased as a result of these water disposal facilities and increased production rates. During 2010, the Company incurred $520,000 in workover and repair costs primarily on its Sparky wells. This was up slightly from the $424,000 spent in 2009 as the Sparky wells mature.

### General and Administrative Expense

| **General and Administrative Expenses** *(in thousands of dollars except per BOE information)* | Three Months Ended December 31 2010 | Three Months Ended December 31 2009 | Year Ended December 31 2010 | Year Ended December 31 2009 |
|---|---|---|---|---|
| Gross expenses | **$ 256** | $ 163 | **$ 880** | $ 444 |
| Capitalized overhead | **(52)** | - | **(160)** | - |
| Stock based compensation costs | **34** | 34 | **184** | 83 |
| Total overhead | **238** | 197 | **904** | 527 |
| Per BOE | **$ 17.48** | $ 24.06 | **$ 17.20** | $ 12.03 |

General and administrative expenses of $904,000 ($17.20 per BOE) increased from the $527,000 ($12.03 per BOE) incurred in 2009. This is primarily due to an increased level on activity for the Company under the overhead sharing arrangement entered into with the related group of companies, which assigned costs proportionally to activity levels of the companies in the group. Tuscany's overhead is anticipated to increase slightly as its activity level increases in 2011, however, management believes the cost sharing arrangement will result in the most efficient overhead cost structure and provides Tuscany exposure to an increasing number of new prospects.

### Financing Charges

| **Interest Expense** *(in thousands of dollars)* | Three Months Ended December 31 2010 | Three Months Ended December 31 2009 | Year Ended December 31 2010 | Year Ended December 31 2009 |
|---|---|---|---|---|
| Average bank debt | **$ 3,494** | $ 2,384 | **$ 2,889** | $ 2,312 |
| Bank Interest | **$ 36** | $ 25 | **$ 158** | $ 105 |
| Interest on unexpended flow through shares | **(5)** | - | **24** | - |
| Average interest rate | **4.1%** | 4.2% | **4.1%** | 4.5% |

Interest expense for Q4 2010 increased slightly to $36,000 from $25,000 incurred in Q4 2009. For the year ended December 31, 2010 interest expenses increased to $158,000 from $105,000 in the prior year, due to increased levels of debt being carried to finance increased drilling and completions activity in the latter half of the year.

### Depletion, Depreciation and Accretion

| Depletion, Depreciation & Accretion *(in thousands dollars except per BOE information)* | Three Months Ended December 31 2010 | 2009 | Year Ended December 31 2010 | 2009 |
|---|---|---|---|---|
| Depletion and depreciation | **$ 325** | $ 202 | **$ 1,277** | $ 902 |
| ARO accretion | **12** | 13 | **47** | 51 |
| Total | **$ 337** | $ 215 | **$ 1,324** | $ 953 |
| per BOE | **$ 24.75** | $ 26.26 | **$ 25.19** | $ 21.76 |

Depletion and depreciation charges calculated on a unit of production basis are based on total proved reserves. In Q4 2010, depletion and depreciation expense increased to $325,000 from $202,000 in Q4 2009 due to the increase in production volumes. On a per unit basis, depletion, depreciation and accretion expense decreased slightly to $24.75 per BOE in Q4 2010, compared to $26.26 per BOE recorded in Q4 2009. For the year ended December 31, 2010, depletion and depreciation Increased to $1.3 million, due to higher production volumes and higher depletion rates. The annual depletion rate increased to $25.19 per BOE primarily as a result of estimated costs to bring additional proved reserves to production.

Accretion represents the time value of the Company's asset retirement obligation. Until the costs are incurred it will continue to increase with time, which will increase Tuscany's asset retirement obligations.

### Income Taxes

As at December 31, 2010 the Company had the following tax deductions available to reduce future taxable income. The Company has committed to renounce $1.2 million of tax pools to subscribers of a flow through shares issue in November 2010 and the commitment has been renounced in the first quarter of 2011. This will reduce the available tax pools by $1.2 million in the first quarter of 2011. The non capital loss carry forward expires between 2014 and 2028 with $473,813 expiring prior to the end of 2014**.**

Tuscany's tax pools exceed the carrying value of its assets and therefore Tuscany had a future tax asset of $1.0 million. This represents the estimated future value of the excess of the tax deductions over the net book value of the Company's assets. The Tax pools are set forth in the table below:

| Deductions | 2010 | 2009 |
|---|---|---|
| Canadian oil and gas property expense | **$ 4,022,326** | $ 4,155,679 |
| Canadian foreign exploration expense | **1,467,931** | 1,631,035 |
| Undepreciated capital cost | **2,781,391** | 1,766,002 |
| Non-capital loss carry forward | **2,084,652** | 1,899,112 |
| Canadian exploration expense | **665,195** | 739,167 |
| Canadian development expense | **2,442,070** | 921,877 |
| ACRI | **159,561** | 159,561 |
| Other | **96,656** | 115,915 |
| Total | **$ 13,719,782** | $ 11,388,348 |

## Capital Expenditures

| **Capital Expenditures** *(in thousands of dollars)* | **Three Months Ended December 31** 2010 | 2009 | **Year Ended December 31** 2010 | 2009 |
|---|---|---|---|---|
| Land | **$ 45** | $ 2 | **$ 254** | $ 105 |
| Geological and geophysical | **$ 65** | (44) | **189** | 24 |
| Drilling and completions | **$ 888** | 593 | **1,549** | 754 |
| Equipment, facilities and pipelines | **$ 306** | 320 | **1,015** | 493 |
| ARO | **$ 25** | 60 | **36** | (99) |
| Total | **$ 1,329** | $ 931 | **$ 3,043** | $ 1,277 |

During 2010 Tuscany incurred $3.0 million in capital expenditures, including drilling 4 oil wells, completing a water disposal well and adding 3,940 net acres of land on new oil prospects.

During the twelve months ended December 31, 2009 Tuscany incurred $1.5 million on its drilling and completion program.

## Capital Disclosures

Tuscany's capital structure consists of shareholders' equity and bank debt. The Company makes adjustments to its capital structure based on changes in economic conditions and its planned requirements. Tuscany has the ability to adjust its capital structure by issuing new equity or bank debt to the limit of its credit facility (see Note 2 to the financial statements - Bank debt), selling assets to reduce debt and making adjustments to its capital expenditure program.

Tuscany's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and
- To provide an adequate return to shareholders by investing in oil and gas activities commensurate with the level of risk management deems acceptable.

Tuscany targets the level of capital in proportion to its risk of achieving sufficient annualized operating cash flows to maintain its debt repayability ratio to less than twenty-four months cash flow. The Company makes adjustments to capital and planned expenditures in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure Tuscany may issue new shares, sell assets or increase its debt.

The ratio of net current debt to annualized cash flow from operations is the primary ratio of capital that Tuscany uses. Net current debt repayability is a calculation to determine the number of months required to repay net debt from recent historic cash flow from operations. The ratio is calculated as follows:

| As at | December 31 | | | |
|---|---|---|---|---|
| *($000)* | | **2010** | | 2009 |
| Current assets | **$** | **630** | $ | 806 |
| Current liabilities | | **(2,304)** | | (1,739) |
| Bank debt | | **(2,530)** | | (1,800) |
| | **$** | **(4,204)** | $ | (2,733) |
| Annualized cash flow from operations | **$** | **440** | $ | (1,156) |
| Months estimated to repay debt | | **115** | | **N/A** |

The Company's debt repayability has improved markedly, with annualized cash flow of $440,000 compared to a cash flow deficit in the prior year, however it remains unacceptably high. Anticipated production levels for 2011 combined with current oil prices and the planned development program at Evesham should result in higher cash flow from operations during 2011. Management's plan for 2011 is to match overall capital spending and commitments with anticipated operating cash flows for the year. The Company's $4.0 million credit facility imposes a capital restriction that the Company's debt to equity ratio cannot exceed 2:1 and the Company's net debt cannot exceed its credit facility.

At December 31, 2010 the company did not meet these requirements, with net debt exceeding the credit facility by $204,000 and the bank has informed the Company that it intends to waive the requirement. Subsequent to year end the Company negotiated an agreement in principle for a new credit facility of $4.6 million.

**Liquidity and Capital Resources**

The Company's 2010 operations and capital expenditures were funded from cash flows and an increase in bank debt and trade payables. Tuscany's operating demand loan provides for a line of credit of $4.0 million (2009 – $3.0 million) of which $1.5 million remained undrawn at the end of the year. At December 31, 2010 Tuscany's net debt was $4.2 million. The terms of the Company's existing line of credit do not allow the Company to exceed $4.0 million in net debt, however the bank has informed the Company that it intends to waive the requirement. Subsequent to year end the Company has negotiated an increase in principle of the credit facility to $4.6 million. The Company plans to finance its exploration budget out of cash flow and the bank credit facility.

At April 18, 2011 Tuscany had 62,801,825 common shares issued and outstanding options to purchase 3,950,000 additional common shares.

**Business Risks**

The Company is engaged in the exploration, development, production and acquisition of crude oil and natural gas. Tuscany's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced.

Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates and currency exchange rates. Operational risks include competition, environmental factors, reservoir performance uncertainties, a complex regulatory environment and safety concerns.

The Company attempts to minimize some of its business risks by focusing on a select group of properties. This enables Tuscany to have more control over the timing, direction and costs related to exploration and development opportunities. The geological focus is on areas in which the prospects are well understood by management. Technological tools are regularly used to reduce risk and increase the probability of success. The Company closely follows all government regulations and has an up-to-date emergency response plan that has been communicated to all field operations by management. Tuscany also carries insurance coverage to protect itself against potential losses.

The Company is exposed to commodity price and market risk for its principal products of petroleum and natural gas. Commodity prices are influenced by a wide variety of factors of which most are beyond the control of Tuscany.

**Contractual Obligations and Commitment**

In the normal course of business, Tuscany may be obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancelable. Tuscany currently has no such commitments.

The Company has asset retirement obligations with respect to the abandonment and reclamation of wells and facilities owned by the Company. Tuscany includes the present value of the estimated liabilities for such costs on its balance sheet. The total estimated undiscounted cost of these liabilities at December 31, 2010, was $1.2 million (2009 – $1.1 million).

The Company issued $1,200,000 of fow-through shares on November 16, 2010 and has $305,500 remaining to spend on qualified expenditures prior to December 31, 2011.

**Off Balance Sheet Arrangements**

Tuscany does not currently utilize any off balance sheet arrangements with unconsolidated entities to enhance liquidity and capital resource positions or for any other purpose.

**Application of Critical Accounting Estimates**

Tuscany's financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The significant accounting policies used by Tuscany are disclosed in Note 1 to the Financial Statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discusses such accounting policies and is included in Management's Discussion and Analysis to aid the reader in assessing the critical accounting policies and practices of the Company and the likelihood of materially different results being reported.

Tuscany's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results that differ materially from current estimates.

The following assessment of significant accounting policies is not meant to be exhaustive. The Company might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

**Proved Oil and Gas Reserves**

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

The estimated quantities of proved crude oil, natural gas liquids including condensate and natural gas that geological and engineering data demonstrate with reasonable certainty can be recovered in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made.

Reserves are considered proved if it is expected that they can be produced economically as demonstrated by either actual production or conclusive formation tests.

The oil and gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans. The effect of changes in proved oil and gas reserves on the financial results and position of the Company is described under the heading "Full Cost Accounting for Oil and Gas Activities."

**Full Cost Accounting for Oil and Gas Activities**

***Depletion Expense***

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future development costs less estimated salvage values is amortized using the unit of production method based on estimated proved oil and gas reserves.

An increase in estimated proved oil and gas reserves would result in a corresponding reduction in depletion expense. A decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

***Withheld Costs***

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly and any impairment is transferred to the costs being depleted.

***Impairment of Long-Lived Assets***

The Company is required to review the carrying value of all property, plant and equipment, including the carrying value of oil and gas assets, for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost center is not recoverable by the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings.

***Asset Retirement Obligations***

The Company is required to provide for future removal and site restoration costs. The Company must estimate these costs in accordance with existing laws, contracts or other policies. These estimated costs are charged to the appropriate asset account when the liability has been determined and charged to earnings over the expected service life of the asset.

When the future removal and site restoration costs cannot be reasonably determined, a contingent liability may exist. Contingent liabilities are charged to earnings when management is able to determine the amount and the likelihood of the future obligation.

***Legal, Environmental Remediation and Other Contingent Matters***

The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined it is charged to earnings.

The Company's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

**Income Tax Accounting**

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management. The value of the income tax asset of the Company is dependent upon the Company's ability to generate sufficient future income to use the tax asset set up.

**International Financial Reporting Standards (IFRS) Conversion**

During 2009, the CICA Accounting Standards Board ("ACSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and operations.

In July 2009, the International Accounting Standards Board issued Additional Exemptions for First-time Adopters (Amendments to IFRS-1) which gives the option to companies using the full cost method of accounting to carry forward the amount determined under Canadian GAAP as the deemed cost under IFRS. This exemption will significantly reduce property, plant and equipment adjustments which would have resulted from the retroactive adoption of IFRS.

To date, the CFO, the primary sponsor for the project, has prepared a summary level changeover plan for IFRS conversion that has been presented to the Audit Committee of the Board of Directors. Hallmarks of the changeover plan include, initial definition of the tasks required for conversion, a timeline for the completion of the tasks, an estimate of the effort and duration associated with the conversion, prioritization of tasks, and the assignment of key personnel within the organization.

The conversion plan has been divided into three distinct phases and management is currently in phase three. The Company has prepared its opening January 1, 2010, IFRS balances which have been reviewed by the Company's auditor. To date, differences have been identified in the Company's balance sheet as at January 1, 2010, between Canadian GAAP and IFRS. The Company has been collecting dual reporting data during the year as its accounting systems were modified in the prior year to support IFRS data requirements.

Phase One:

Identification of a project work plan that outlines potential conversion issues unique to our industry. This phase assigns ownership responsibility for each of those issues, estimates the time, duration and costs associated with each major deliverable within the plan, and presents an overall project timeline and in- progress reporting from key deliverable owners and assigned employees.

Phase Two:

Identification of the significant accounting policies that relate to each of the major conversion items within the firm. This phase identifies the changes to the accounting policies that will be required with IFRS, and adjusts the plan identified in Phase One accordingly.

Phase Three:

Management of dual reporting under Canadian GAAP and IFRS as required. This phase determines the mapping between the different accounts identified in our chart of accounts and applies this mapping to generate the IFRS reporting. Dual reporting capability is required as of January 1, 2010, so that the Company can prepare comparative information for IFRS reporting which will begin the first quarter of 2011.

## Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables" or "other financial liabilities" as defined by the standard.

Cash and cash equivalents are designated as "held-for-trading" and are measured at fair value, which approximates carrying value due to the short-term nature of these instruments. Accounts receivable are designated as "loans and receivables" and are carried at amortized cost. Accounts payable are designated as "other financial liabilities" and are carried at amortized cost.

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable, deposits, accounts payable and bank debt.

### Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity of those instruments.

### Credit risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. The Company is exposed to credit risk on its accounts receivable to a maximum of the carrying value of the aforementioned items at the end of the period. A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The maximum exposure to credit risk is the balance sheet amount. Approximately $12,000 represents accounts receivable balances in excess of 90 days, which have a higher risk. Management has reviewed the items comprising the accounts receivable balance and determined that all accounts are collectible; accordingly there has been no allowance for doubtful accounts recorded.

### Interest rate risk

The Company is exposed to risks from interest rate fluctuation on its bank loan which is based on Prime rates. Interest rate risk is specific to the interest expense charged to income on the Company's bank debt. The Company believes a 25% volatility is a reasonable measure when assessing the potential impact of a change in interest rate. Variations in interest rates on the Company's bank debt could have resulted in gains (losses) impacting net earnings as at December 31, 2010, as follows:

**Interest rate sensitivity**

| *($ Thousands)* | Favourable 25% Change | Unfavourable 25% Change |
|---|---|---|
| Interest rate | $ 40 | $ (40) |

**Liquidity risk**

The Company is exposed to liquidity risk from the possibility that it will encounter difficulty meeting its financial obligations. The Company manages this risk by forecasting cash flows in an effort to match operating cash flow to future expenditures and to arrange financing, if necessary. It may take many years and substantial cash expenditures to pursue exploration and development activities on all of the Company's existing undeveloped properties. Accordingly, the Company may need to raise additional funds from outside sources in order to explore and develop its properties. There is no assurance that adequate funds from debt and equity markets will be available to the Company in a timely manner. All of the Company's liabilities are due within one year.

At December 31, 2010 the Company has met all the obligations associated with its financial liabilities. The majority of the Company's accounts payable are current. The bank loan is a demand loan and is classified as a current liability of less than one year. The bank loan credit limit is subject to change at the decision of the bank.

**Commodity price risk**

Inherent to the Company's business of producing petroleum and natural gas is the commodity price risk where fluctuations in the market price of petroleum and natural gas could significantly impact the Company's ability to generate cash flow from operating activities. The Company believes that a 10% volatility is a reasonable measure when assessing the potential impact of commodity price changes on natural gas and oil prices. Variations in commodity prices could have resulted in gains (losses) impacting net earnings as at December 31, 2010, as follows:

**Commodity price risk**

| *($ Thousands)* | Favourable 10% Change | Unfavourable 10% Change |
|---|---|---|
| Natural Gas Price | 263 | (263) |
| Conventional Oil Price | 15 | (15) |
| Heavy Oil Price | 149 | (149) |
| Horizontal Heavy Oil Price | 123 | (123) |
| Crude Oil Price | 287 | (287) |

**Related Party Transactions**

At December 31, 2010, Humboldt Capital Corporation ("Humboldt") and certain of its officers and directors owned 41.6% of the outstanding shares of Tuscany. Humboldt's business includes the ownership, acquisition and sale of securities in other companies and Humboldt owns significant interests in companies in the oil and gas sector, which compete with Tuscany and operate jointly with Tuscany, from time to time, in certain areas. These include Diaz Resources Ltd ("Diaz"), Sharon Energy Ltd. ("Sharon"), and Paris Energy Inc. ("Paris") which also have certain common officers and directors. The following table sets forth the respective ownership of Humboldt and insiders in companies that may be considered related parties.

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| Tuscany | 42.3% | 43.7% |
| Diaz | 37.2% | 41.4% |
| Sharon | 29.1% | 26.8% |
| Paris | 21.3% | 20.9% |

Commencing April 1, 2010 Tuscany, Diaz and Sharon have agreed to jointly conduct exploration and development activities, oil and gas operations and general and administration functions and share the cost of such operations equitably. Because of the consolidation of administrative and operational resources during the period and an increase in exploration and development activity on the part of Tuscany, management fees charged to Tuscany increased in the year. Management fees of $160,000 (2009- $nil) were charged to Tuscany by Diaz Resources Ltd. in the year related to Exploration and Development activities and were capitalized. By comparison, no overhead was capitalized in the prior year.

During the year ended December 31, 2010, the Company shared certain overhead costs with the related companies as follows:

| Overhead Charged to Tuscany for the year ended December 31, | | 2010 | | 2009 |
|---|---|---|---|---|
| Diaz Resources Ltd. | $ | 679,385 | $ | 145,000 |
| Paris Energy Inc. | | 132,588 | | 130,000 |

The following balances were outstanding at the end of the period.

| Balance payable to related parties at December 31, | | 2010 | | 2009 |
|---|---|---|---|---|
| Diaz Resources Ltd. | $ | 55,682 | $ | 13,657 |
| Paris Energy Inc. | | 19,342 | | - |

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

**Corporate Outlook**

Tuscany is focused on growth through oil exploration and development. With a sound reserve base developed over the past two years, Tuscany believes it can achieve significant growth over the next year by continuing to develop its Evesham, Dina oil pool.

In order to accelerate the development of this pool and Tuscany's growth, the Company has entered into the business combination agreement with Sharon Energy Ltd. which will provide the combined companies with sufficient working capital to develop the pool at a significantly accelerated pace.

Management would like to thank its shareholders for their continued support and we look forward to a year of steady growth.

# Management's Report

The accompanying financial statements of Tuscany Energy Ltd. have been prepared by management in accordance with generally accepted and consistently applied accounting principles. The Company's accounting procedures and related systems of internal controls are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this annual report is consistent with the information presented in the financial statements.

PricewaterhouseCoopers LLP have been appointed by the shareholders of Tuscany Energy Ltd. and serve as the Company's independent auditors. The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the financial statements of Tuscany Energy Ltd., which are contained in this annual report.

Robert W. Lamond
President

Brad R. Perry
Chief Financial Officer

April 18, 2011

## Independent Auditor's Report

### To the Shareholders of Tuscany Energy Ltd.

We have audited the accompanying consolidated financial statements of Tuscany Energy Ltd. which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

### 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 the Company as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta
April 18, 2011

# Consolidated Balance Sheet

| As at | December 31 2010 | December 31 2009 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash | **$ 14,309** | $ 109,475 |
| Accounts Receivable | **612,158** | 694,031 |
| Prepaid Expenses and deposits | **3,488** | 2,086 |
| | **629,955** | 805,592 |
| | | |
| Property, plant and equipment (Note 4) | **10,632,784** | 8,866,565 |
| Future tax asset (Note 7) | **994,081** | 803,688 |
| Total Assets | **$ 12,256,820** | $ 10,475,845 |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | **$ 2,303,662** | $ 1,738,843 |
| Bank debt (Note 2) | **2,530,000** | 1,800,000 |
| | **4,833,662** | 3,538,843 |
| Other Liabilities | | |
| Asset retirement obligation (Note 6) | **669,650** | 586,737 |
| Total Other Liabilities | **669,650** | 586,737 |
| | **5,503,312** | 4,125,580 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 5) | **7,992,463** | 6,877,686 |
| Contributed surplus (Note 5) | **557,546** | 392,368 |
| Deficit | **(1,796,501)** | (919,789) |
| | **6,753,508** | 6,350,265 |
| Total Liabilities and Shareholders' Equity | **$ 12,256,820** | $ 10,475,845 |

See Note 12, Commitments

see accompanying notes to the financial statements

Approved by the Board:

John G.F. McLeod, Director

Charles A. Teare, Director

# Consolidated Statements of Operations, Comprehensive Loss and Deficit

| | Year Ended December 31 2010 | 2009 |
|---|---|---|
| **Revenue** | | |
| Petroleum and natural gas sales | **$ 2,873,654** | $ 2,006,708 |
| Processing income | **168,054** | 0 |
| Royalties | **(150,066)** | (275,222) |
| Interest income | **124** | 221 |
| | **2,891,766** | 1,731,707 |
| **Expenses** | | |
| Operating and transportation | **1,539,400** | 1,326,169 |
| General and administrative | **719,800** | 443,994 |
| Interest | **182,452** | 104,700 |
| Costs incurred in Acquisition of Goldmark Minerals | | 172,242 |
| Foreign Exchange loss | **-** | 1,239 |
| Depletion, depreciation and accretion | **1,324,374** | 952,518 |
| Stock based compensation (Note 5) | **183,584** | 82,594 |
| | **3,949,610** | 3,083,456 |
| Gain on Purchase of Goldmark | **-** | 543,181 |
| Loss before income tax | **(1,057,844)** | (808,568) |
| Income tax | | |
| Current expense (recovery) | **-** | - |
| Future tax expense (recovery) | **(181,132)** | (545,350) |
| Total income tax | **(181,132)** | (545,350) |
| Earnings (Loss) and Comprehensive Loss for the year | **(876,712)** | (263,218) |
| Deficit, beginning of year | **(919,789)** | (656,571) |
| Deficit, end of year | **$ (1,796,501)** | $ (919,789) |
| Loss per share, basic and diluted | **$ (0.02)** | $ 0.00 |

see accompanying notes to the financial statements

# Consolidated Statement of Cash Flows

| | Year Ended December 31 2010 | 2009 |
|---|---|---|
| Cash provided by (used for): | | |
| **Operating Activities** | | |
| Loss and comprehensive loss for the year | **$ (876,712)** | $ (263,218) |
| Non-cash items: | | |
| Gain On Purchase of Goldmark | **-** | (543,181) |
| Less: Acquisition Costs | **-** | 172,242 |
| Depletion and depreciation | **1,277,435** | 901,703 |
| Accretion | **46,939** | 50,813 |
| Stock based compensation (Note 5) | **183,584** | 82,594 |
| Future tax expense (recovery) | **(181,132)** | (545,350) |
| | **450,114** | (144,397) |
| Change in non-cash working capital (Note 9) | **415,604** | 227,307 |
| Cash provided by (used for) operating activities | **865,718** | 82,910 |
| **Investing Activities** | | |
| Property, plant & equipment - additions | **(3,041,879)** | (1,375,950) |
| Property, plant & equipment - dispositions | **34,199** | 90,357 |
| Change in non-cash working capital (Note 9) | **229,687** | (420,590) |
| | **(2,777,993)** | (1,706,183) |
| **Financing Activities** | | |
| Net Increase in bank loan | **730,000** | 155,000 |
| Common Shares | | |
| Issued for cash on a flow-through basis | **1,200,000** | - |
| Costs of share Issue | **(34,725)** | - |
| Repurchased for cancellation | **(78,166)** | (97,297) |
| Rights Offering | **-** | 521,138 |
| Costs of Rights Offering | **-** | (55,752) |
| Goldmark Acquisition ( net of acquisition costs) | **-** | 1,204,535 |
| | **1,817,109** | 1,727,624 |
| Increase (decrease) in cash | **(95,166)** | 104,351 |
| Cash, beginning of year | **109,475** | 5,124 |
| Cash, end of year | **$ 14,309** | $ 109,475 |

see accompanying notes to the financial statements

# Notes To The Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

## 1. Accounting Policies

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Goldmark Minerals Ltd and Goldmark Minerals Alaska Inc. since the date of acquisition on October 7, 2009 to December 31, 2010 when the subsidiaries were wound up.

The Company's principal business activity is the exploration, development and operation of oil and natural gas properties in Canada.

These financial statements have been prepared in accordance with Canadian Generally accepted accounting principles ("GAAP") on a Going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business.

Management made the necessary estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses in the preparation of the financial statements. Accordingly, actual results may differ from estimated amounts but management does not believe such differences will materially affect Tuscany's financial position or results of operations.

**Property, Plant and Equipment**

The Company follows the full cost method of accounting for petroleum and natural gas operations. Under this method, all costs of exploration for and development of petroleum and natural gas reserves are capitalized by cost centre. Costs include lease acquisition costs, geological and geophysical expense, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to exploration activities.

Proceeds on disposal of properties are normally applied as a reduction of the capitalized costs without recognition of a gain or loss, except where such a disposal would alter the depletion and depreciation rate by 20% or more.

Depletion and depreciation of capitalized costs are provided by using the unit of production method based on the Company's total estimated gross proven reserves, as determined by independent engineers. Natural gas reserves and production are converted to equivalent barrels of oil based on the relevant energy content. In determining the depletion base, the Company includes future costs to be incurred in developing proven reserves and excludes the costs of unproven land.

An impairment loss is recognized in net earnings when the carrying amount of a cost centre is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of:

- the fair value of proved and probable reserves using the net present value of estimated future cash flows discounted at the risk free interest rate; and
- the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

Depreciation is provided on furniture and fixtures at annual rates of 30%, and computer equipment at an annual rate of 20%, each on a declining balance basis.

**Asset Retirement Obligation**

The Company recognizes the fair value of an Asset Retirement Obligation ("ARO") as a liability in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated ARO is capitalized as part of the net capitalized asset base and the depletion of the capitalized asset retirement cost is determined on a basis consistent with depletion of the Company's other assets. With time, accretion will increase the carrying amount of the obligation. Accretion is expensed.

**Cash and Cash Equivalents**

Cash comprises cash and short-term investments with a maturity of three months or less at the time of acquisition. The Company did not have cash equivalents at the balance sheet dates.

**Joint Ventures**

A significant portion of the Company's activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities.

**Share Based Compensation Plan**

The Company has a stock based compensation plan, which is described in Note 6. The Company has adopted the fair value method for accounting for stock based compensation. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings initially in the period of the option grant and during the subsequent vesting period of the options.

**Foreign Currency Translation**

Foreign currency balances are expressed in Canadian dollars on the following basis:

- Monetary assets and liabilities – at the balance sheet rate of exchange;
- Other assets and liabilities – at historical rates of exchange; and
- Revenues and expenses – at average rates of exchange for the period, except provisions for depreciation and depletion, which are translated on the same basis as the related assets.

**Flow-Through Shares**

Share capital is reduced by the future tax effect of renouncing income tax cost to the purchaser of flow-through shares when the tax pools are renounced. The tax effect is calculated using the expected rate of tax.

**Revenue Recognition**

Revenue associated with the sale of crude oil, natural gas and natural gas liquids owned by the Company is recognized when title passes from the Company to its customers and collectability is reasonably assured.

**Income Tax**

Income taxes are recorded using the liability method of accounting. Future income tax assets and liabilities are recognized for temporary differences between the income tax and accounting basis of assets and liabilities and measured using the enacted or substantively enacted tax rates expected to be in effect when the timing differences are estimated to reverse. Changes in income tax rates that are substantively enacted are reflected in the accumulated future income tax balances in the period the change occurs.

### Use of Accounting Estimates

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for asset retirement obligation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. The Black-Scholes option pricing model is used to estimate stock option values based on estimates of the current risk free interest rate, expected life of the options and expected volatility of the underlying common share price. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

### Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables" or "other financial liabilities" as defined by the standard.

### Financial Instrument Disclosures

Fair values are now required to be determined following a three level hierarchy:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: inputs for the asset or liability that are not based on observable market data.

The Company has cash, which is considered to be level 2.

### Earnings per share

The treasury stock method is used to determine the dilutive effect of stock options. Under the treasury stock method, only "in the money" dilutive instruments impact the dilution calculations.

Basic earnings (loss) per share are calculated by dividing the weighted average number of the aggregate outstanding shares during the period into net earnings (loss) attributable to the shareholders.

Diluted earnings per share are calculated by dividing the diluted weighted average number of aggregate outstanding shares during the period in the net earnings for the period. Diluted loss per share is calculated by dividing the basic weighted average aggregate number of outstanding shares into the loss for the period as using the diluted weighted average shares would be anti-dilutive.

## 2. Bank Debt

The bank loan is a revolving non-reducing operating demand loan with a maximum amount available of $4,000,000 (2009 - $3,000,000). Amounts drawn down under the facility bear interest at the bank's prime rate plus 2%, resulting in an effective rate of 5% at December 31, 2010; there is a standby fee of 0.2% on undrawn amounts. At December 31, 2010, the amount drawn on the operating demand loan is $2,530,000.

The loan is secured by an interest over all property, a general assignment of book debts and a floating charge on all lands. The facility is subject to both an annual review by May 31, 2011 and certain affirmative financial covenants. As at December 31, 2010 the Company was not in compliance with the covenants, as its net debt exceeded the line by $204,000 and the bank has informed the Company that it intends to waive the requirement. Subsequent to year end the Company negotiated an agreement in principle to increase the credit facility to $4.6 million.

## 3. Acquisition of Goldmark Minerals Ltd.

On October 7, 2009 Tuscany and Goldmark Minerals Ltd. ("Goldmark") closed an arrangement agreement pursuant to which Tuscany acquired all of the issued and outstanding shares of Goldmark ("Goldmark Shares") through the issue of 12,180,854 common shares of Tuscany to shareholders of Goldmark. Goldmark assets consisted of $1.4 million of working capital and assets held for resale. The net assets acquired exceeded the consideration provided, resulting in the "gain from bargain purchase". In order to facilitate the transition to IFRS in fiscal 2011, the company has chosen to early-adopt CICA Handbook section 1582 – "Business Combinations". As a result of early application of this section, the company has also adopted CICA Handbook sections 1601 – "Consolidated Financial Statements" and 1602 – "Non-Controlling Interests".

Prior to the acquisition Goldmark and the Company had certain common directors and officers and officers and directors of Tuscany owned or controlled 35% of the outstanding shares of Goldmark. The Majority of the Goldmark board of directors were independent of Tuscany and pursuant to the court approved transaction the transaction had to be approved by the majority of the shareholders who were not insiders of the Company. The companies were not considered to be under common control for the purpose of CICA Handbook section 1582. The assets of Goldmark were valued at fair value, for the purpose of the acquisition and the Shares issued for the acquisition were valued at fair value being of $0.07 per share, being the closing price of Tuscany shares on the TSX-Venture exchange on October 7, 2009, the date of the acquisition.

The transaction has been recorded using the acquisition method as follows:

**Identifiable net assets acquired at fair value:**

*in thousands of Canadian Dollars*

| | | |
|---|---|---|
| Current Assets | $ | **1,384** |
| Current Liabilities | | **(78)** |
| Alaskan Mineral Property (held for sale) | | **90** |
| Identifiable Net Assets Acquired | $ | **1,396** |
| Gain from bargain purchase | | **543** |
| Net assets acquired | $ | **853** |

**Consideration Provided:**

*in thousands of Canadian Dollars*

| | | |
|---|---|---|
| 12,180,854 Common Shares | $ | **853** |

## 4. Property, Plant and Equipment

| As at | | December 31 2010 | | December 31 2009 |
|---|---|---|---|---|
| Petroleum and natural gas properties | $ | 16,725,047 | $ | 13,681,394 |
| Accumulated depletion and impairment | | (6,095,959) | | (4,829,608) |
| | | 10,629,088 | | 8,851,786 |
| Furniture, fixtures and other assets | | 40,927 | | 40,927 |
| Accumulated depreciation | | (37,231) | | (26,148) |
| | | 3,696 | | 14,779 |
| | $ | 10,632,784 | $ | 8,866,565 |

At December 31, 2010, unproven property costs of $183,000 were excluded from the depletable cost base (2009 - $122,000). Unproved property costs are tested for impairment separately from those costs subject to depletion whereby the carrying value of the property must be less than or equal to the current fair value. Administrative expenses related to exploration and development activities totaling $160,000 (2009-$Nil) were capitalized as part of property, plant and equipment.

For the calculation of depletion expense, estimated future costs to develop the proved reserves were added to property, plant and equipment. Future costs were $5,336,000 (2009 - $3,211,700).

At December 31, 2010 the Company reviewed the carrying value of the oil and gas properties for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost centre is not recoverable from the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings. For the year ended December 31, 2010, no impairment of the properties was indicated.

The Company based its estimates on the forecast of an independent reserve engineering firm as follows:

| Price Estimates Used for Ceiling Test | | Gas ($Cdn/Mcf) | | Oil ($Cdn/Bbl) | | NGL ($Cdn/Bbl) |
|---|---|---|---|---|---|---|
| 2011 | $ | 4.48 | $ | 72.80 | $ | 72.80 |
| 2012 | $ | 5.17 | $ | 75.00 | $ | 75.00 |
| 2013 | $ | 5.70 | $ | 75.10 | $ | 75.10 |
| 2014 | $ | 5.81 | $ | 76.60 | $ | 76.60 |
| 2015 | $ | 5.93 | $ | 78.13 | $ | 78.13 |

+2% per year therafter

## 5. Share Capital

**Authorized**

An unlimited number of common voting shares;
Unlimited number of first preferred shares; and
Unlimited number of second preferred shares.

The preferred shares may be issued from time to time in one or more series, each series consisting of a number of preferred shares as determined by the Board of Directors of the Company who may also fix the designations, rights, privileges, restrictions and conditions attaching to each series of preferred shares. There are no preferred shares issued.

| Common Shares - Issued | Number of Shares | | Amount (thousands) |
|---|---|---|---|
| Balance, December 31, 2008 | 35,394,836 | $ | 5,686,428 |
| Rights offering | 8,685,635 | | 521,138 |
| Share issue costs (net of tax of $14,412) | - | | (41,341) |
| Acquisition of Goldmark | 12,180,854 | | 852,660 |
| Repurchased for cancellation | (961,500) | | (141,199) |
| Balance, December 31, 2009 | 55,299,825 | $ | 6,877,686 |
| Flow Through Shares Issued | 8,000,000 | | 1,200,000 |
| Share Issue Costs (net of tax of $9,262) | | | (25,463) |
| Repurchased for cancellation | (498,000) | | (59,760) |
| Balance at December 31, 2010 | 62,801,825 | $ | 7,992,463 |

On November 16, 2010 the Company issued 8,000,000 flow through shares at a price of $0.15 per share.

| Contributed Surplus | | Amount (thousands) |
|---|---|---|
| Balance, December 31, 2008 | $ | 265,870 |
| Option compensation for the period | | 82,594 |
| Paid up capital over (under) cost | | 43,904 |
| Balance, December 31, 2009 | $ | 392,368 |
| Option compensation for the period | | 183,584 |
| Paid up capital over (under) cost | | (18,406) |
| Balance at December 31, 2010 | $ | 557,546 |

**Earnings (Loss) Per share**

The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the dilution calculations. The diluted weighted average shares outstanding for December 31, 2010, does not include the conversion of any of the outstanding options into common shares, as the conversion would be anti-dilutive.

Basic earnings (loss) per share are calculated by dividing the weighted average number of the aggregate outstanding shares during the period into earnings (loss) attributable to the shareholders.

Diluted earnings (loss) per share are calculated by dividing the basic weighted average aggregate outstanding shares into the earnings (loss) for the period using the diluted weighted average number of shares.

| Shares Outstanding | Three Months Ended December 31 2010 (Unaudited) | 2009 | Year Ended December 31 2010 | 2009 |
|---|---|---|---|---|
| Weighted average shares outstanding | 58,723,021 | 39,794,546 | 55,999,409 | 39,794,546 |
| Dilutive effect of stock options | 369,015 | - | 344,706 | - |
| Diluted weighted average shares outstanding | 59,092,036 | 39,794,546 | 56,344,115 | 39,794,546 |

In 2010 the Company filed and received approval to acquire and cancel up to 5% of the outstanding shares of the company over a one-year period pursuant to a normal course issuer bid. In the year the Company acquired 498,000 shares (2009 - 961,500 shares) for cancellation at an average cost of $0.16 per share.

| Issuer Bid | Year Ended December 31 2010 | Year ended December 31 2009 |
|---|---|---|
| **Common Shares** | | |
| Shares repurchased | **498,000** | 961,500 |
| Average price per share | **$ 0.16** | $ 0.10 |

**Stock Option Plan**

As at December 31, 2010, there are a total of 4,195,000 options granted and outstanding under the stock option plan with a weighted average exercise price of $0.128 per share, 2,078,315 of which are exercisable.

The following summarizes information about stock options outstanding:

| Stock Options | Year Ended December 31, 2010 Shares | 2010 Exercise Price | 2009 Shares | 2009 Exercise Price |
|---|---|---|---|---|
| Weighted Average Outstanding, beginning of year | 2,220,000 | $ 0.116 | 220,000 | $ 0.260 |
| Granted | 2,175,000 | 0.140 | 2,000,000 | 0.100 |
| Exercised | - | - | - | - |
| Expired / cancelled | 200,000 | 0.250 | - | - |
| Forfeited | - | - | - | - |
| Weighted Average Outstanding, end of year | 4,195,000 | $ 0.128 | 2,220,000 | $ 0.116 |
| Options exercisable, end of year | 2,078,315 | $ 0.128 | 886,667 | $ 0.140 |

Options vest as to one third on issue and one third on the first and second anniversary of the issue date. Options expire five years from the date of issue. The Company accounts for its stock based compensation plan using the fair value method whereby compensation costs have been recognized in the financial statements for share options granted to employees and directors. The impact on compensation costs of using the fair value method increased compensation costs for the twelve months ended December 31, 2010 by $184,000 (2009 - $83,000).

A summary of the exercise price and the weighted average remaining life of the options outstanding are as follows:

| Stock Options | | December 31, 2010 | | |
|---|---|---|---|---|
| | Exercise price | Outstanding | Weighted Average Remaning Life Years | Exercisable |
| | $0.10 | 2,000,000 | 3.6 | 1,333,328 |
| | $0.14 | 2,175,000 | 4.7 | 724,987 |
| | $0.34 | 20,000 | 0.3 | 20,000 |
| Total | | 4,195,000 | 4.0 | 2,078,315 |

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with assumptions as follows:

| | Risk Free Interest Rate (%) | Expected Life (Years) | Expected Volatility | Weighted Average Future Value Per Option |
|---|---|---|---|---|
| 2007 | 4.30 | 4.3 | 0.69 | 0.0830 |
| 2009 | 2.23 | 5.0 | 1.54 | 0.0910 |

## 6. Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

| As at | December 31 2010 | December 31 2009 |
|---|---|---|
| Asset Retirement Obligation, beginning of period | $ 586,737 | $ 635,165 |
| Liabilities incurred | 35,974 | 11,442 |
| Changes in estimates | - | (110,683) |
| Accretion expense | 46,939 | 50,813 |
| Asset Retirement Obligation, end of period | $ 669,650 | $ 586,737 |

The total undiscounted amount of estimated cash flows required to settle the obligation using an inflation adjustment rate of 2% per year is $1.2 million which has been discounted using an average credit-adjusted risk free rate of 8%. The Company expects most of these obligations to be paid between 2013 and 2024.

## 7. Income Tax

The provision for income taxes in the statement of operations and deficit varies from the amount that would be computed by applying the expected tax rate to loss before income taxes. The expected tax rate used was 29% (2009 – 30%).The principal reasons for differences between such “expected” income tax expense and the amounts actually recorded are as follows:

| Income tax reconciliation | 2010 | | 2009 |
|---|---|---|---|
| Expected rate | 28.97% | | 29.85% |
| Earnings (Loss) before income taxes | **(1,057,844)** | | (808,568) |
| Computed expected income tax Expense (recovery) | **(306,665)** | $ | (241,327) |
| Stock-based compensation | **53,220** | | 24,651 |
| Tax pools expired | **37,634** | | 96,026 |
| Adjustment to prior tax pools | **4,884** | | (292,715) |
| Impact of lower future tax rates and other | **29,795** | | 30,134 |
| Provision for future income taxes | **(181,132)** | $ | (545,350) |

The significant components of the income tax asset are as follows:

| Components | | 2010 | | 2009 |
|---|---|---|---|---|
| Net book value of properties and equipment | **$** | **(2,922,911)** | $ | (2,557,668) |
| Tax pools | | **3,717,030** | | 3,177,636 |
| Asset retirement obligations | | **174,039** | | 151,650 |
| Share issue costs | | **25,923** | | 32,070 |
| Future tax asset | **$** | **994,081** | $ | 803,688 |

As at December 31, 2010 the Company had the following tax deductions available to reduce future taxable income. The Company has committed to renounce $1.2 million of tax pools to subscribers of a flow through shares issue in November 2010 and the commitment has been renounced in the first quarter of 2011. This will reduce the available tax pools by $1.2 million in the first quarter of 2011. The non capital loss carry forward expires between 2014 and 2028 with $473,813 expiring prior to the end of 2014**.**

| Deductions | | 2010 | | 2009 |
|---|---|---|---|---|
| Canadian oil and gas property expense | **$** | **4,022,326** | $ | 4,155,679 |
| Canadian foreign exploration expense | | **1,467,931** | | 1,631,035 |
| Undepreciated capital cost | | **2,781,391** | | 1,766,002 |
| Non-capital loss carry forward | | **2,084,652** | | 1,899,112 |
| Canadian exploration expense | | **665,195** | | 739,167 |
| Canadian development expense | | **2,442,070** | | 921,877 |
| ACRI | | **159,561** | | 159,561 |
| Other | | **96,656** | | 115,915 |
| Total | **$** | **13,719,782** | $ | 11,388,348 |

## 8. Related Party Transactions

At December 31, 2010, Humboldt Capital Corporation ("Humboldt") and certain of its officers and directors owned 41.6% of the outstanding shares of Tuscany. Humboldt's business includes the ownership, acquisition and sale of securities in other companies and Humboldt owns significant interests in companies in the oil and gas sector, which compete with Tuscany and operate jointly with Tuscany, from time to time, in certain areas. These include Diaz Resources Ltd ("Diaz"), Sharon Energy Ltd. ("Sharon"), and Paris Energy Inc. ("Paris") which also have certain common officers and directors. The following table sets forth the respective ownership of Humboldt and insiders in companies that may be considered related parties.

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| Tuscany | 42.3% | 43.7% |
| Diaz | 37.2% | 41.4% |
| Sharon | 29.1% | 26.8% |
| Paris | 21.3% | 20.9% |

Commencing April 1, 2010 Tuscany, Diaz and Sharon have agreed to jointly conduct exploration and development activities, oil and gas operations and general and administration functions and share the cost of such operations equitably. Because of the consolidation of administrative and operational resources during the period and an increase in exploration and development activity on the part of Tuscany, management fees charged to Tuscany increased in the year. Management fees of $160,000 (2009- $Nil) charged to Tuscany by Diaz Resources Ltd. in the year related to Exploration and Development activities and were therefore capitalized. By comparison, no overhead was capitalized in the prior period because of the lower level of exploration and development being carried out by Tuscany.

During the year ended December 31, 2010, the Company shared certain overhead costs with the related companies as follows:

| Overhead Charged to Tuscany for the year ended December 31, | 2010 | 2009 |
|---|---|---|
| Diaz Resources Ltd. | $ 679,385 | $ 145,000 |
| Paris Energy Inc. | 132,588 | 130,000 |

The following balances were outstanding at the end of the year.

| Balance payable to related parties at December 31, | 2010 | 2009 |
|---|---|---|
| Diaz Resources Ltd. | $ 55,682 | $ 13,657 |
| Paris Energy Inc. | 19,342 | - |

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

## 9. Supplemental Cash Flow Information

| Supplemental Cash Flow Information | Year Ended December 31 2010 | Year Ended December 31 2009 |
|---|---|---|
| Interest paid | **$ 157,978** | $ 104,700 |
| | | |
| Changes in non-cash working capital balances | | |
| Acquired from Goldmark | **$ -** | $ (71,297) |
| Receivables | **81,873** | (209,585) |
| Prepaid expenses | **(1,402)** | 34,406 |
| Accounts payable and accruals | **564,820** | (18,104) |
| | **$ 645,291** | $ (264,580) |
| | | |
| Allocated to: | | |
| Acquired from Goldmark | **$ -** | $ (71,297) |
| Operating activities | **415,604** | 227,307 |
| Investing activities | **229,687** | (420,590) |
| | **$ 645,291** | $ (264,580) |

## 10. Capital Disclosure

Tuscany's capital structure consists of shareholders' equity and bank debt. The Company makes adjustments to its capital structure based on changes in economic conditions and its planned requirements. Tuscany has the ability to adjust its capital structure by issuing new equity or bank debt to the limit of its credit facility (see Note 2 bank debt), selling assets to reduce debt and making adjustments to its capital expenditure program.

Tuscany's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and
- To provide an adequate return to shareholders by investing in oil and gas activities commensurate with the level of risk management deems acceptable.

Tuscany targets the level of capital in proportion to its risk of achieving sufficient annualized operating cash flows to maintain its debt repayability ratio to less than twenty-four months cash flow. The Company makes adjustments to capital and planned expenditures in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure Tuscany may issue new shares, sell assets or increase its debt.

The ratio of net current debt to annualized cash flow from operations is the primary ratio of capital that Tuscany uses. Net current debt repayability is a calculation to determine the number of months required to repay net debt from recent historic cash flow from operations. The ratio is calculated as follows:

| As at ($000) | December 31 2010 | 2009 |
|---|---|---|
| Current assets | $ 630 | $ 806 |
| Current liabilities | (2,304) | (1,739) |
| Bank debt | (2,530) | (1,800) |
| | $ (4,204) | $ (2,733) |
| Annualized cash flow from operations | $ 440 | $ (1,156) |
| Months estimated to repay debt | 115 | N/A |

The Company's debt repayability has improved markedly, with annualized cash flow of $440,000 compared to a cash flow deficit in the prior year, however it remains unacceptably high. Management's plan for 2011 is to match overall capital spending and commitments with anticipated operating cash flows for the year. The Company's $4.0 million credit facility imposes a capital restriction that the Company's debt to equity ratio cannot exceed 2:1 and the Company's net debt cannot exceed its credit facility.

At December 31, 2010 the company did not meet these requirements, with net debt exceeding the credit facility by $204,000 and the bank has informed the Company that it intends to waive the requirement. Subsequent to year end the company negotiated an agreement in principle to increase the credit facility of $4.6 million.

## 11. Financial Instruments

Fair values of financial assets and liabilities

All Financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables" or "other financial liabilities" as defined by the standard.

Cash and cash equivalents are designated as "held-for-trading" and are measured at fair value, which approximates fair carrying value due to the short-term nature of these instruments. Accounts receivables and deposits are designated as "loans and receivables" and are carried at amortized cost. Accounts payable, accrued liabilities and bank debt are designated as "other financial liabilities" and are carried at amortized cost. The current value of financial instruments approximates fair value due to the short term nature of the instruments. The fair value of the bank debt approximates its book value as it is at a market rate of interest.

**Credit risk**

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. The Company is exposed to credit risk on its accounts receivable, to a maximum of the carrying value of the aforementioned items at the end of the year. A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The accounts receivable balances in excess of 90 days are approximately $12,000. Management has reviewed the items comprising the accounts receivable balance and determined that all accounts are collectible; accordingly there has been no allowance for doubtful accounts recorded.

**Interest rate risk**

The Company is exposed to risks from interest rate fluctuation on its bank loan which is based on Prime rates. Interest rate risk is specific to the interest expense charged to income on the Company's bank debt. The Company believes 25% volatility is a reasonable measure when assessing the potential impact of a change in interest rate. Variations in interest rates on the Company's bank debt could have resulted in gains (losses) impacting net earnings as at December 31, 2010, as follows:

| *($ Thousands)* | Favourable 25% Change | Unfavourable 25% Change |
|---|---|---|
| Interest rate | $ 40 | $ (40) |

**Liquidity risk**

The Company's principal source of liquidity is its cash flows which are uncertain and difficult to predict. This risk is mitigated by continuously monitoring forecast and actual cash flows and matching expenditures to the cash flow from operations. The Company currently expects to fund any future capital expenditures through a combination of operating cash flows, new equity issuance and asset sales. All of the company's liabilities are due within one year.

The Company is exposed to liquidity risk from the possibility that it will encounter difficulty meeting its financial obligations. The Company manages this risk by forecasting cash flows in an effort to match operating cash flow to future expenditures and to arrange financing, if necessary. It may take many years and substantial cash expenditures to pursue exploration and development activities on all of the Company's existing undeveloped properties. Accordingly, the Company may need to raise additional funds from outside sources in order to explore and develop its properties. There is no assurance that adequate funds from debt and equity markets will be available to the Company in a timely manner.

## 12. Commitments

The Company issued $1,200,000 of Flow-through shares on November 16, 2010 and has $305,500 remaining to spend on qualified expenditures prior to December 31, 2011.

## 13. Subsequent events

On March 25, 2011 the Company entered into an into an agreement in principle in connection with a proposed business combination (the "**Transaction**") whereby Tuscany will acquire, subject to certain conditions, all of issued and outstanding common shares of Sharon Energy Ltd. on the basis of 0.84 common shares of Tuscany for each one Sharon common share. Following completion of the Transaction, Tuscany will have approximately 124.8 million common shares outstanding, of which approximately 50% will be held by current shareholders of Tuscany and approximately 50% of which will be held by former shareholders of Sharon.

The Transaction is expected to be completed by way of a Plan of Arrangement and is subject to the parties entering into a definitive arrangement agreement. Closing is expected to occur by the end of May 2011, subject to satisfaction of certain conditions including standard stock exchange, court and regulatory approvals and the requisite two-thirds majority and the majority of minority approvals of both Tuscany's and Sharon's shareholders.

# Corporate Information

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Okotoks, Alberta

*Charles A. Teare*
Calgary, Alberta

*Donald K. Clark*
Calgary, Alberta

*Glen Phillips*
Calgary, Alberta

*Roger W. Hume*[1]
Kelowna, BC

*Peter Barker*[1]
Calgary, Alberta

*Jorg Reich*
Nurtingen, Germany

[1]*Member of the Audit committee*

## *Officers*

*Robert W. Lamond*
President and CEO

*John G.F. McLeod*
Vice President and COO

*Charles A. Teare*
Executive Vice President

*Brad R. Perry*
Chief Financial Officer

*Donald K. Clark*
Vice President, Operations

*Marshall Kis*
Vice President, Development Geology

*Jason G. Gallant*
Controller

*Ray Arsenault*
Assistant Controller

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## *Banker*

ATB Financial
Calgary, Alberta

## *Registrar and Transfer Agent*

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## *Stock Exchange Listing*

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Trading Symbol: TUS

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printed in Canada