Management's discussion and analysis ("MD&A") of the financial condition and the results of operations should be read in conjunction with the unaudited interim consolidated financial statements of Yangarra Resources Ltd. (the "Company") for the three and nine months ended September 30, 2009 and the audited consolidated financial statements for the year ended December 31, 2008, together with the accompanying notes. The MD&A has been prepared using information that is current to November 27, 2009.

The financial information presented herein has been prepared on the basis of Canadian generally accepted accounting principles ("GAAP"). Throughout this discussion, percentage changes are calculated using numbers rounded to the decimal to which they appear. All references to dollar amounts are in Canadian dollars.

BOE Presentation – *Production information is commonly reported in units of barrel of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalent wellhead value for the individual products. Such disclosure of boe may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.*

Special Note Regarding Non-GAAP Measures *– This MD&A includes references to financial measures commonly used in the oil and gas industry. The terms "**net petroleum and natural gas revenue**" (petroleum and natural gas sales less royalties, production expenses and transportation costs) and "**funds flow from operations**" (net loss for the period adjusted for non-cash items in the statement of operations) are not GAAP measures and do not have standardized meanings prescribed by GAAP.*

Forward-looking Statements – *Certain information regarding the Company set forth in this report, including management's assessment of the Company's future plans and operations, contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These risks and uncertainties, many of which are beyond the Company's control, include the impact of general economic conditions and specific industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, the lack of available qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits the Company can derive such events.*

Company Description and Outlook

Yangarra Resources Ltd. ("Yangarra" or the "Company") was formed by the amalgamation on November 9, 2005, under the Business Corporations Act (Alberta), of Yangarra Resources Inc. and TriOil Ltd. The Company is involved in the production, exploration and development of resource properties in the Ferrier, Medicine Hat, Mega, Viking, Jaslan and Bigstone areas of Alberta and in Bayhurst, Saskatchewan.

In June 2009, the Company contacted its unsecured creditors to extend repayment terms or settle accounts payable in common shares at $0.06 per share. On August 28, 2009, the Company issued 4,680,873 common shares for the settlement of $280,847 of accounts payable.

On October 22, 2009, the Company held a meeting to present a formal proposal to restructure under the Bankruptcy and Insolvency Act (the "Proposal") to its creditors at which time all affected creditors had the opportunity to vote on the Proposal as presented by the Company. Of the votes cast 85% supported the Proposal which represented 96% of the corresponding monetary value. The Company received court approval of the Proposal on November 10, 2009 and is awaiting the 30 day appeal period and final approval from the TSX Venture Exchange upon completion of all aspects of the formal Proposal.

The purpose of the Proposal is to restructure the financial affairs of the Company in order continue business. Pursuant to the terms of the Proposal:

a) The Company will continue to make payments to its senior lender in accordance with the terms of the Forbearance Agreement dated June 16, 2009 and a Loan Extension Agreement dated October 27, 2009 (collectively the "Loan Agreements"). The Loan Agreements include several additional covenants with respect to production levels, capital expenditures, drilling programs and certain other expenses and requirements. Pursuant to the Loan Agreements, the Company covenants and agrees that it shall:

    i) Pay principal and interest on the outstanding loan balance by way of a monthly payment of $175,000 from June to September 2009 as reflected in the loan balance drawn at September 30, 2009;

    ii) Accept the senior lender's retainer of a consultant to monitor the Company's operations as mandated by the senior lender with the costs of the consultant paid for by the Company;

    iii) Obtain prior written consent from the senior lender for all capital expenditures;

    iv) Maintain a specified level of production;

    v) Complete a drilling program for three specified wells;

    vi) Enter into an agreement with the President and Chief Executive Officer ("CEO") of the Company for all salary compensation to be made in the form of common shares of the Company until such time that the senior lender agrees that such agreement is no longer necessary;

    vii) Remove any liens exercised against the property and assets of the Company (completed in July 2009);

    viii) Pay a $150,000 fee earned and payable to the senior lender on October 15, 2009 in the form of 1,000,000 common shares of the Company at a value of $0.15 per share;

    ix) Complete the Proposal with its creditors, including its subordinated lender, by December 31, 2009;

    x) Complete the proposed merger with Athabaska Energy Ltd. subject to TSX Venture Exchange approval;

    xi) Raise additional equity and/or subordinated debt in the minimum amount of $500,000 for working capital purposes by December 31, 2009; and

    xii) Abide by all other covenants as specified in the Loan Agreements.

b) The subordinated lender that is owed $4,950,000 including accrued interest and fees, but whose interest is subordinate to that of the senior lender, will have its debts satisfied as follows:

    i) $1,000,000 will be satisfied via the issuance of preferred shares of the Company, such preferred shares having a 5% annual dividend payable in common shares of the Company, being redeemable at any time by the Company and being due for redemption on April 15, 2011.

    ii) $450,000, being the amount equal to the claim for accrued interest and fees from May 1 to October 15, 2009, will be satisfied via the issuance of 9,000,000 common shares of the Company at a deemed price of $0.05 per share of which 1,745,753 common shares were issued on August 18, 2009 pursuant to a previous agreement; and

    iii) The balance of $3,500,000 will be satisfied via the issuance of 23,333,333 common shares of the Company at a deemed price of $0.15 per share.

c) Ordinary unsecured creditors who are owed up to approximately $1,795,000 will have their debts settled as follows:

   i) The first $500 of each such ordinary unsecured creditor's claim will be paid in cash; and

   ii) The balance will be satisfied via the issuance of common shares of the Company at a deemed price of $0.15 per share; resulting in the anticipated payment of up to $55,000 in cash and the anticipated issuance of up to 11,600,000 common shares, based on the number of known ordinary unsecured creditors.

d) The Company will undertake to merge with Athabaska (subject to Athabaska shareholder approval). The assets of Athabaska will be combined with the assets of the Company no later than 30 days after the Court issues a final order approving of the Proposal. The number of common shares of the Company to be issued in exchange for the shares of Athabaska will be based on the current net asset value of each company as determined by a qualified independent third party expert.

e) Subsequent to the completion of (d), above, the Company will raise $500,000 by selling common shares at a price per share to be determined with reference to then current market conditions, but at a price per share of not less than $0.05, no later than 60 days after the Court issues a final order approving of the Proposal.

The Proposal will be considered complete when all of the foregoing is accomplished.

In June 2009, the Company entered into a participation and farmout agreement (the "Farmout Agreement") with Athabaska Energy Ltd. ("Athabaska"). A director and principal shareholder of the Company is also an officer, director and principal shareholder of Athabaska. The Farmout Agreement covers seven sections of Company land and will include the drilling of three wells specified and required by the Company's senior lender. Pursuant to the terms of the Farmout Agreement, Athabaska will earn one section of the farmout lands for each well drilled. Athabaska will contribute 100% of the cost to drill, complete and tie-in each well to the Company's facilities in order to earn a 60% working interest in each well at payout. The Company will have the option, up to the spud date of each well, to elect to participate for up to a 25% working interest in the well upon notification by Athabaska of the drilling location.

The three wells required by the senior lender were drilled in the third quarter with the first well wet and abandoned and the second well capable of 750 mcf per day. The second well, in which Yangarra holds a 16.4% working interest before payout and a 50% working interest after payout, was tied into facilities in October and is producing at 500 mcf per day. The third well was drilled in October with Yangarra holding a 0% working interest before payout and 40% working interest after payout. The third well was tied into facilities in November and is currently flowing at 500 mcf per day. A standing well in the Jaslan area was farmed to Athabaska in which Athabaska would earn 50% working interest for completion and tie-in of the well. The well is currently being flow tested and will be put into production in early December.

With the rapid decline in the price of commodities, the price of natural gas in particular, Yangarra has elected to reduce capital expenditures until prices improve, while continuing to monitor the commitment to incur $600,000 of eligible flow-through expenditures by December 31, 2009 which had been reduced to $215,315 by the end of the third quarter. In addition, the Company has entered into commodity swaps to provide a $ 5.69 per GJ floor price for natural gas sales for the majority of its production. This floor will enable Yangarra to continue to generate positive funds flow from operations until the end of 2009. In addition Yangarra has entered into commodity swaps for 500 GJ per day for the 2010 calendar year at a strike price of $5.68 per GJ and an additional 1000 GJ per day for the January/February period of 2010 at a strike price of $5.52 per GJ which reflects Yangarra's opinion that gas prices may be weaker in the early part of 2010.

Upon completion of the various steps contemplated by the Proposal to Restructure expected to be complete by mid-December 2009, Yangarra will have strengthened its balance sheet considerably. Debt service fees are forecast to be reduced by approximately 80% per annum, the farm out program in Jaslan with Athabaska has resulted in three additional producing wells and the proposed merger with Athabaska will further enhance Yangarra's financial position.

The unaudited interim consolidated financial statements were prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. As at September 30, 2009, the Company had a working capital deficiency of $13,711,547 and an accumulated deficit of $17,686,465. At the same time, the Company continues to generate positive cash flow from operations. The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom, negotiate favorable terms with its lenders and to continue to obtain capital financing from investors sufficient to meet current and future obligations.

Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. There can be no assurance that the steps management is taking will be successful and any adjustments necessary to the financial statements if the Company ceases to be a going concern could be material.

Summary Financial Information

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Statement of Operations and Deficit				
Net (loss) income for the period	$ (4,308,038)	$ 871,862	$ (5,470,879)	$ (1,250,289)
Net (loss) income per share - basic	$ (0.05)	$ 0.01	$ (0.07)	$ (0.02)
Weighted average number of shares - basic	78,445,038	69,776,582	76,533,515	66,492,766
Statement of Cash Flows				
Funds flow from operations	$ 133,901	$ 724,869	$ 747,437	$ 2,883,718

	September 30 2009	December 31 2008
Balance Sheet		
Property and equipment	$ 35,644,022	$ 41,922,138
Total assets	$ 37,456,836	$ 44,081,309

Results of Operations

Net petroleum and natural gas revenue

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Net petroleum & natural gas revenue	$ 430,962	$ 1,287,609	$ 1,594,382	$ 4,459,883
Per boe	$ 16.77	$ 30.77	$ 19.17	$ 34.84
Net petroleum & natural gas revenue with royalty recovery	$ 430,962		$ 1,770,018	
Per boe	$ 16.77		$ 21.28	

The variances in net petroleum and natural gas revenue are explained by changes in the following components:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Total boe (boe 6:1)	25,696	41,852	83,180	128,024
Daily sales volumes (boe 6:1)	279	455	305	467
Petroleum & natural gas sales	$ 889,449	$ 2,071,008	$ 2,825,010	$ 6,836,072
Per boe	$ 34.61	$ 49.48	$ 33.96	$ 53.40
Royalties	$ 28,114	$ 375,526	$ 107,540	$ 1,167,442
Per boe	$ 1.09	$ 8.97	$ 1.29	$ 9.12
As a % of sales	3%	18%	4%	16%
Royalty recovery	$ -	$ -	$ 175,636	$ -
Production & transportation costs	$ 430,373	$ 407,873	$ 1,123,088	$ 1,208,747
Per boe	$ 16.75	$ 9.75	$ 13.50	$ 9.44

- The reduction in production for the 2009 periods as compared to the 2008 periods can be attributed to lower production from Medicine Hat, Ferrier and Viking South wells due to natural declines and the loss of two Bow Island wells in Medicine Hat due to premature watering out.
- The average price earned by the Company decreased in 2009 due to industry-wide price declines for all commodities as follows:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Oil ($/bbl)	$ 69.94	$ 120.59	$ 60.68	$ 115.79
NGL ($/bbl)	$ 28.24	$ 73.38	$ 35.01	$ 77.45
Gas ($/mcf)	$ 2.73	$8.15	$ 3.93	$8.60

- Included in petroleum and natural gas revenue for the three and nine months ended September 30, 2009 is $383,988 and $688,168, respectively, of realized gains on the fulfilled portion of commodity contracts from April 1 to September 30, 2009. Including the realized gains, the average gas price earned by the Company for the three and nine months ended September 30, 2009 increases to $5.55 per mcf and $5.45 per mcf, respectively.

- Included in petroleum and natural gas revenue for the three and nine months ended September 30, 2008 is $158,919 and $282,528, respectively of realized losses on the fulfilled portion of commodity contracts. Including the realized losses, the average gas price earned by the Company for the three and nine months ended September 30, 2008 decreases to $7.45 per mcf and $8.20 per mcf, respectively.
- The decrease in royalties for the 2009 quarter on both a boe and percentage basis relates to lower production and pricing, gas cost allowance adjustments from prior periods in combination with the realized gains from the commodity contracts, on which royalties are not paid. The majority of the Company's properties are at lower royalty rates in 2009 due to lower production levels.
- During the first quarter of 2009, the Company recognized a recovery in the amount of $175,636 related freehold and gross overriding royalties calculated and paid in previous years.
- Production and transportation costs per boe for the 2009 periods are higher than those for 2008 due to higher fixed costs per boe attributed to lower 2009 production levels. Production and transportation costs per boe increased in the third quarter of 2009 due to additional maintenance expenditures in the Medicine Hat area and the timing of certain fixed costs.

Depletion, depreciation and accretion

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Depletion and depreciation	$ 5,217,275	$ 1,062,110	$ 7,248,123	$ 3,330,372
Per boe	$ 203.04	$ 25.38	$ 87.14	$ 26.01
Accretion	$ 37,134	$ 32,410	$ 109,544	$ 93,324

A ceiling test impairment in the amount of $4,300,000 has been included in depletion expense for the three and nine months ended September 30, 2009. The continued lower commodity prices combined with a decline in some of the Company's probable reserves resulted in the Company's net book value of its assets being greater than the value as determined by the ceiling test.

The depletion rate for the 2009 periods is higher, excluding the impairment, as compared to 2008 due to a decrease in the Company's proved reserves as stated in the Company's December 31, 2008 independent reserve report. Although the Company had considerable success with the Jaslan Wabamun play, the Jaslan reserve additions were offset by reductions in proved reserves in previously evaluated areas and current year production that has not been replaced by addition of new reserves. Reductions were primarily due to unexpectedly low pool pressure indications in Ferrier and premature watering out of a gas reservoir in Medicine Hat.

Accretion expense increased in 2009 due to an increase in the undiscounted cash flows associated with the retirement of the Company's assets resulting from the increase in the number of properties and changes to certain reserve life and cost estimates.

Other expenses

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
General and administrative expenses	$ 178,991	$ 244,021	$ 564,828	$ 744,902
Interest and financing fees	$ 300,279	$ 315,693	$ 802,460	$ 929,999
Stock-based compensation	$ -	$ 15,685	$ -	$ 587,321

General and administrative expenses have decreased due to management's continued efforts to monitor and reduce costs. In addition, $37,800 and $63,000 of the expenses for the three and nine months ended September 30, 2009 will be satisfied by the issuance of shares as opposed to a cash expense.

Interest and financing fees for the three months ended September 30, 2009 includes:

- $5,521 of Part XII.6 interest on the unspent portion of flow-through expenditures to be incurred by December 31, 2009 and other minor amounts;
- $144,284 on the revolving operating demand loan for which the average amount drawn during the period was $8,437,500 at an effective interest rate of 6.78% compared to $124,686 in the 2008 period on an average loan balance of $7,510,000 at an effective interest rate of 5.82%; and
- $150,474 of interest and financing fees on the credit facility based on the effective interest method compared to $191,007 for the 2008 period.

Interest and financing fees for the nine months ended September 30, 2009 includes:

- $11,628 of Part XII.6 interest on the unspent portion of flow-through expenditures to be incurred by December 31, 2009 and other minor amounts;
- $308,503 on the revolving operating demand loan for which the average amount drawn during the period was $8,175,500 at an effective interest rate of 4.96% compared to $362,653 in the 2008 period on an average loan balance of $7,600,000 at an effective interest rate of 6.07%; and
- $482,329 of interest and financing fees on the credit facility based on the effective interest method compared to $576,346 for the 2008 period.

The Company did not grant any stock options or record any stock-based compensation ("SBC") during the three and nine months ended September 30, 2009.

In the three and nine months ended September 30, 2008, a total of $24,597 and $833,687, respectively, was recognized for SBC. Of the total, $8,912 and $246,366 was attributed to stock options granted to field personnel and capitalized to property and equipment in the three and nine month periods. The remaining SBC for the three and nine month periods of $15,685 and $587,321, respectively, was recorded as expense in the interim consolidated statements of operations.

Commodity price risk contracts

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Unrealized (gain) loss on commodity price risk contracts	$ 255,687	$ (1,279,296)	$ 120,344	$ (76,940)

2009 unrealized loss: The Company is committed to the following commodity price risk contracts for the sale of natural gas:

- 1,500 GJ per day from April 1 to December 31, 2009 at a fixed price of $5.69 per GJ;
- 1,000 GJ per day from January 1 to January 31, 2010 at a fixed price of $5.51 per GJ;
- 1,000 GJ per day from February 1 to February 28, 2010 at a fixed price of $5.53 per GJ; and
- 500 GJ per day from January 1 to December 31, 2010 at a fixed price of $5.68 per GJ.

In addition the Company sold calls which provide a ceiling for the price it receives for natural gas as follows:

- 500 GJ per day from January 1 to December 31, 2010 at the ceiling price of $6.25 per GJ;
- 500 GJ per day from March 1 to December 31, 2010 at the ceiling price of $6.50 per GJ; and
- 500 GJ per day from March 1 to December 31, 2010 at the ceiling price of $6.70 per GJ.

Included in petroleum and natural gas revenue for the three and nine months ended September 30, 2009 is $383,988 and $688,168, respectively, of realized gains on the fulfilled portion of the commodity contracts. The mark-to-market value of the unfulfilled portion of the above contracts at September 30, 2009 is a liability of $120,344 based on a remaining term of October 1, 2009 to December 31, 2010.

2008 unrealized gain: The mark-to-market value of the unfulfilled portion of the above contracts at September 30, 2008 was an asset of $76,940 based on a remaining term of October 1, 2008 to December 31, 2008.

The Company also had commodity price risk contracts in place from April 1, 2008 to December 31, 2008. Included in petroleum and natural gas revenue for the three and nine months ended September 30, 2008 is $158,919 and $282,528, respectively, of realized losses on the fulfilled portion of the commodity contracts.

The mark-to-market value represents what the Company would have to pay (liability) or receive (asset) if the contracts were terminated on the measurement date.

Investment

The Company held a minority equity position in a public company which was sold in May 2009 for cash proceeds of $33,669. The reported amount of (gain) loss on investment for the three and nine months ended September 30, 2009 and 2008 was comprised of the following:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Realized loss	$ –	$ –	$ 231,638	$ –
Reversal of previously recognized unrealized net losses	–	–	(254,839)	–
Unrealized (gain) loss on mark-to-market	–	25,124	–	101,194
	$ –	$ 25,124	$ (23,201)	$ 101,194

Future income tax reduction

During the three and nine months ended September 30, 2009, the Company recorded a reduction of future income taxes of $1,250,366 and $1,570,346, respectively, (three and nine months ended September 30, 2008 – nil) related to the reversal of temporary differences between the carrying value and tax basis of the Company's property and equipment. Of this temporary timing difference, $1,000,000 relates to the effect of the $4.3 million ceiling test impairment that was recorded during the three and nine months ended September 30, 2009.

Liquidity and Capital Resources

During the nine months ended September 30, 2009, the Company generated $747,347 of funds flow from operations compared to $2,883,718 in the 2008 comparative period. The reduction in funds flow from operations is primarily due to the effect of lower production and commodity prices on net petroleum and natural gas revenue.

The Company's bank debt is subject to a Forbearance Agreement dated June 16, 2009 and a Loan Extension Agreement dated October 27, 2009 (collectively the "Loan Agreements"). During the period May 1 to October 26, 2009, the revolving operating demand loan was an increased interest rate of prime plus 4.0% (previously prime plus 0.5%) per annum calculated daily and payable monthly. Commencing October 27, 2009, the interest rate was reduced to prime plus 1.0%. The maximum amount available under the revolving operating demand loan is $8,300,000 (June 30, 2009 – $8,825,000; December 31, 2008 – $9,000,000) with monthly reductions based on the Company's excess cash flow (as defined in the Loan Agreements) commencing January 31, 2010. The annual renewal date of the bank debt is set for May 31, 2010. Other details of the Loan Agreements are provided in the Company Description and Outlook section.

As at September 30, 2009, the $8,325,547 (December 31, 2008 – $8,853,990) reported amount of bank debt was comprised of $8,200,000 (December 31, 2008 – $8,150,000) drawn on the revolving operating demand loan and $125,547 (December 31, 2008 – $703,990) of bank overdraft.

The Company is subject to a financial covenant with respect to working capital, which the Company was not in compliance with at September 30, 2009 which has been acknowledged in light of the creditor Proposal. The annual renewal date of the bank debt is May 31, 2010.

On October 22, 2009, the subordinated lender accepted the Company's Proposal to its creditors pursuant to which the credit facility will be settled as follows:

a) $1,000,000 will be satisfied via the issuance of preferred shares of the Company, such preferred shares having a 5% annual dividend payable in common shares of the Company, being redeemable at any time by the Company and being due for redemption on April 15, 2011.

b) $450,000, being the amount equal to the claim for accrued interest and fees from May 1 to October 15, 2009, will be satisfied via the issuance of 9,000,000 common shares of the Company at a deemed price of $0.05 per share of which 1,745,753 common shares were issued on August 18, 2009 pursuant to a previous agreement; and

c) The balance of $3,500,000 will be satisfied via the issuance of 23,333,333 common shares of the Company at a deemed price of $0.15 per share.

As at September 30, 2009, the Company had a working capital deficit of $13,711,547 compared to $13,599,207 at December 31, 2008. The change in the working capital deficit was due to $747,437 of funds flow generated by operating activities, $33,669 of proceeds on the sale of the Company's minority equity position in a public company and the settlement of $280,847 of accounts payable through the issuance of shares offset by $120,344 liability for the fair value of the commodity price risk contracts, $955,846 of capital spending, $19,664 of share issue costs and $78,439 related to the amortized cost of the credit facility.

Capital Spending

Capital spending is summarized as follows:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Land and lease rentals	$ 44,235	$ 264,267	$ 134,845	$ 706,054
Drilling and completion	307,348	881,082	592,262	2,501,087
Geological and geophysical	1,069	21,000	31,814	50,842
Equipment	172,283	277,379	196,925	766,110
	524,935	1,443,728	955,846	4,024,093
Dispositions	-	-	-	(50,000)
	$ 524,935	$ 1,443,728	$ 955,846	$ 3,974,093

Asset Retirement Obligation

As at September 30, 2009, the undiscounted fair value of the asset retirement obligation associated with the Company's existing properties was estimated to be $4,418,748 for which $2,214,004 has been recorded using a discount rate of 7%, an inflation rate of 2% and an estimated weighted average timing of cash flows of 11 years.

Related Party Transactions

During the three and nine months ended September 30, 2009 and 2008, the Company was charged or invoiced the following amounts by certain of its officers and directors and by companies controlled by certain of the Company's officers and directors:

	Three months ended September30		Nine months ended September 30	
	2009	2008	2009	2008
Administration and consulting fees	$ 26,350	$ 28,649	$ 37,826	$ 101,769
Production and capital expenditures	$ 31,652	$ 117,303	$ 91,294	$ 162,100

During the three and nine months ended September 30, 2009, the Company was charged $2,322 and $7,902 (three and nine months ended September 30, 2008 – $10,824 and $18,258) by a law firm in which a former director of the Company is a partner.

In June 2009, the Company entered into a participation and Farmout Agreement with Athabaska as discussed under the Company Description and Outlook section. The Farmout Agreement is a related party transaction as a director and principal shareholder of the Company is also an officer, director and principal shareholder of Athabaska.

Subsequent Event

On October 22, 2009, the Company held a meeting to present a formal proposal to restructure under the Bankruptcy and Insolvency Act (the "Proposal") to its creditors at which time all affected creditors had the opportunity to vote on the Proposal as presented by the Company. Of the votes cast 85% supported the Proposal which represented approximately 96% of the corresponding monetary value. The Company received court approval of the Proposal on November 10, 2009 and is awaiting the 30 day appeal period and final approval from the TSX Venture Exchange upon completion of all aspects of the formal Proposal. See Company Description and Outlook section.

Share Capital

Common shares

As at December 31, 2008 there were 75,561,912 issued and outstanding common shares. In August 2009, the Company issued 6,930,536 common shares increasing the number of shares outstanding as at September 30, 2009 and the date of this MD&A to 82,492,448.

Stock options

As at December 31, 2008, the Company had 6,267,025 stock options outstanding all of which are exercisable. During the nine months ended September 30, 2009, 100,000 stock options were forfeited and 360,000 stock options expired. As at September 30, 2009, the Company had 5,807,025 stock options outstanding.

In November 2009, an additional 151,750 stock options expired, reducing the number of stock options outstanding as of the date of this MD&A to 5,655,275.

Contingency

The Company has filed a Statement of Claim against the operator of certain jointly held properties for which the operator has filed a defense and counterclaim. The lawsuit is subject to a Standstill Agreement while the parties attempt to negotiate a resolution. As the likely outcome of this litigation cannot be determined while the Standstill Agreement is in effect, no provision was made in the financial statements at September 30, 2009 or December 31, 2008.

Commitments

The Company has until December 31, 2009 to incur $600,000 of qualifying flow-through expenditures related to the issue of 6,000,000 common shares on a flow-through basis issued in December 2008, of which approximately $215,315 remained unspent at September 30, 2009.

The Company is committed to the following commodity price risk contracts for the sale of natural gas:

- 1,500 GJ per day from April 1 to December 31, 2009 at a fixed price of $5.69 per GJ;
- 1,000 GJ per day from January 1 to January 31, 2010 at a fixed price of $5.51 per GJ;
- 1,000 GJ per day from February 1 to February 28, 2010 at a fixed price of $5.53 per GJ; and
- 500 GJ per day from January 1 to December 31, 2010 at a fixed price of $5.68 per GJ.

In addition the Company sold calls which provide a ceiling for the price it receives for natural gas as follows:

- 500 GJ per day from January 1 to December 31, 2010 at the ceiling price of $6.25 per GJ;
- 500 GJ per day from March 1 to December 31, 2010 at the ceiling price of $6.50 per GJ; and
- 500 GJ per day from March 1 to December 31, 2010 at the ceiling price of $6.70 per GJ.

A fee of $150,000 is payable to the senior lender on October 15, 2009 in the form of 1,000,000 common shares of the Company at a value of $0.15 per share.

Financial Instruments

The Company's financial instruments include accounts receivable, accounts payable and accrued liabilities, bank debt, credit facility, and commodity price risk contracts. The carrying values of accounts receivable, accounts payable and accrued liabilities, bank debt, and credit facility approximate their fair values due to their relatively short periods to maturity. The commodity price risk contracts have been marked-to-mark at the balance sheet date.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with the risk management policies as set out herein:

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable are with natural gas and liquids marketers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at September 30, 2009, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of $1,416,390 (December 31, 2008 – $1,710,780).

As at September 30, 2009, the Company's receivables consisted of $1,277,072 from joint venture partners and other trade receivables and $139,318 of revenue receivable from a petroleum and natural gas marketer. Receivables from petroleum and natural gas marketers are typically collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any significant collection issues with its petroleum and natural gas marketers. All of the $139,318 of revenue receivable from petroleum and natural gas marketers was received in October and November 2009. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company mitigates the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risk exists with joint venture partners as disagreements occasionally arise which increases the potential for non-collection. For properties that are operated by the Company, production can be withheld from joint venture partners who are in default of amounts owing. In addition, the Company often has offsetting amounts payable to joint venture partners from which it can net receivable balances. As at September 30, 2009, the largest amount owing from one partner is $694,659.

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended September 30, 2009. The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted.

As at September 30, 2009, the Company considers its receivables to be aged as follows:

Not past due	$	253,255
Past due by less than 90 days		41,817
Past due by more than 90 days		1,121,318
	$	1,416,390

b) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

On October 22, 2009, the Company held a meeting to present the Proposal to restructure to its creditors at which time 85% of affected creditors voted in support of the Proposal. The Company received court approval of the Proposal on November 10, 2009 and is awaiting approval from the TSX Venture Exchange.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving reserve-based bank facility, which is reviewed quarterly by the lender. The Company monitors its total debt position monthly. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month.

The Company's financial liabilities are comprised of accounts payable and accrued liabilities, bank debt and the credit facility, all of which have expected maturities of less than one year resulting in their current classification on the balance sheet.

c) Market risk

Market risk consists of interest rate risk, currency risk and commodity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with a risk management policy as set out herein:

i) Interest rate risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears interest at a floating rate. For the three and nine months ended September 30, 2009, if interest rates had been 1% lower with all other variables held constant, loss for the period would have been $21,267 and $61,145 (three and nine months ended September 30, 2008 – $18,929 and $55,950) lower, respectively, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amounts. The Company had no interest rate swap or financial contracts in place at September 30, 2009.

ii) Currency risk
Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars; however, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate

between the Canadian and United States dollar. The Company had no outstanding forward exchange rate contracts in place at September 30, 2009.

iii) Commodity price risk
Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above.

Commodity price risk contracts for the sale of natural gas in place at September 30, 2009 are detailed in the Commitments section. The mark-to-market value of the unfulfilled portion of the commodity price risk contracts at September 30, 2009 is a liability of $120,344 based on a remaining term of October 1, 2009 to December 31, 2010.

Capital management

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company considers its capital structure to include:

	September 30 2009	December 31 2008
Working capital deficiency	$ (13,711,547)	$ (13,599,207)
Shareholders' equity	19,209,720	24,452,012
	$ 5,498,173	$ 10,852,805

The Company monitors capital based on annual funds from operations and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors. The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs.

In order to maintain or adjust the capital structure, the Company considers its forecasted funds from operations while attempting to finance an acceptable capital expenditure program including acquisition opportunities, the current level of bank credit available from the Company's lender, the level of bank credit that may be attainable from its lender as a result of petroleum and natural gas reserve growth, the availability of other sources of debt with different characteristics than existing debt, the sale of assets, limiting the size of the capital expenditure program and the issue of new equity if available on favorable terms.

As at September 30, 2009, the Company's capital structure is subject to external restrictions as a result of the Loan Agreements with the Company's senior lender and as a result, the Company's approach to capital management has changed to ensure compliance with the Loan Agreements.

The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

Selected Historical Financial Information

2009	First Quarter	Second Quarter	Third Quarter
Petroleum and natural gas sales	$ 1,025,969	$ 909,592	$ 889,449
Net petroleum and natural gas revenue	$ 629,971	$ 533,449	$ 430,962
Net loss	$ (405,050)	$ (757,791)	$ (4,308,038)
Net loss per share	$ (0.01)	$ (0.01)	$ (0.05)
Funds flow from operations	$ 432,673	$ 180,863	$ 133,901
Net capital expenditures	$ 298,013	$ 132,898	$ 524,935

2008	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Petroleum and natural gas sales	$ 2,104,060	$ 2,661,004	$ 2,071,008	$ 1,806,264
Net petroleum and natural gas revenue	$ 1,427,515	$ 1,744,759	$ 1,287,609	$ 1,023,858
Net income (loss)	$ (1,045,274)	$ (1,076,877)	$ 871,862	$ (574,791)
Net income (loss) per share	$ (0.02)	$ (0.02)	$ 0.01	$ (0.01)
Funds flow from operations	$ 944,104	$ 1,214,745	$ 724,869	$ 936,560
Net capital expenditures	$ 1,017,265	$ 1,513,100	$ 1,443,728	$ 1,717,702

2007	First Quarter
Petroleum and natural gas sales	2,606,074
Net petroleum and natural gas revenue	1,889,356
Net income (loss)	(868,562)
Net income (loss) per share	(0.02)
Funds flow from operations	1,281,607
Net capital expenditures (proceeds)	1,378,362

Business Risks and Uncertainties

The Company is exposed to several operational risks inherent in exploring, developing, producing and marketing crude oil and natural gas. These inherent risks include: economic risk of finding and producing reserves at a reasonable cost; financial risk of marketing reserves at an acceptable price given current market conditions; cost of capital risk associated with securing the needed capital to carry out the Company's operations; risk of environment impact and credit risk of non-payment for sales contracts and joint venture partners.

The Company attempts to control operating risks by maintaining a disciplined approach to implementation of its exploration and development programs. Exploration risks are managed by hiring experienced technical professionals and by concentrating the exploration activity on specific core regions that have multi-zone potential where the Company has experience and expertise. The Company also generates internal prospects and participates in projects where ownership interest is considered sufficient to minimize risk. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner.

The Company maintains a comprehensive insurance program to reduce risk to an acceptable level and to protect it against significant losses. The Company's risk in regards to financial instruments is detailed in note 14 to the September 30, 2009 unaudited interim consolidated financial statements.

Disclosure Controls and Procedures

In connection with Exemption Orders issued in November 2007 by each of the securities commissions across Canada, the Company's certifying officers will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certification includes a 'Notice to Reader' stating that the certifying officers do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

Critical Accounting Estimates

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles. A comprehensive discussion of the Company's significant accounting policies is contained in Notes 2 and 3 to the audited consolidated financial statements for the year ended December 31, 2008. The Company's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control.

The Company believes the following are the most critical accounting estimates used in the determination of its financial results:

Petroleum and natural gas properties – depletion and ceiling test

The Company follows the full cost method of accounting by initially capitalizing all costs related to the acquisition, development and exploration of petroleum and natural gas reserves. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead directly related to exploration and development activities and lease and well equipment. Costs capitalized are depleted using the unit-of-production method based on gross proved petroleum and natural gas reserves as determined by independent qualified reserve evaluators. Production and reserves of petroleum and natural gas are converted to common units of measure based on their relative energy content where one barrel of oil is equivalent to six thousand cubic feet of natural gas. The depletion base excludes the cost of significant unproved properties until it is determined whether proved reserves are attributable to the properties or impairment has occurred.

The Company performs a ceiling test the carrying amount of property and equipment is compared to the sum of the undiscounted cash flows expected to result from the future production of proved and probable reserves and the cost, less any impairment of unproved properties. Estimated cash flows are discounted at the Company's risk-free rate of interest using forecast prices and costs. The carrying amount of undeveloped properties and seismic excluded from the ceiling test are compared to independent evaluations of fair value. Any impairment is recorded as additional depletion expense.

Estimates are the basis for amounts recorded as depletion and the ceiling test. These estimates include proved and probable reserves, production rates, future petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates could be material in future periods.

Asset retirement obligation

The Company recognizes the liability for the asset retirement obligation associated with the abandonment of petroleum and natural gas wells, related facilities, compressors and plants and the removal of equipment from leased acreage and returning such land to its original condition. The fair value the Company's asset retirement obligation is recorded in the period a well or related asset is drilled, constructed or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the assets at the Company's credit-adjusted risk-free interest rate based on the expected timing of such cash outflows. Future costs and their expected timing are estimates that are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates could be material in future periods.

Income taxes

The Company records future tax assets and liabilities to account for the expected future tax consequences of events that have been recorded in its consolidated financial statements and its tax returns. These amounts are estimates and the actual tax consequences may differ from the estimates due to changing tax rates and regimes, as well as changing estimates of cash flows and capital expenditures in current and future periods. A valuation allowance is recorded to the extent that there is uncertainty regarding utilization of future tax assets.

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 and expense may differ from that estimated and recorded.

Stock-based compensation

Stock-based compensation expense is recorded in the statement of loss and deficit for all options granted based on the estimated fair value at the time of the grant and recognized as expense over the vesting period of the option. The fair value of options is estimated using the Black-Scholes pricing model based on estimates and assumptions for expected life of the options, expected volatility, risk-free interest rate and dividend yield. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates could be material in future periods.

Changes in Accounting Policies

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants Handbook *Section 3064 Goodwill and Intangible Assets* which replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's unaudited interim consolidated financial statements.

In addition, the Company is currently assessing the impact of:

		Effective for Annual Periods Beginning on or After
Section 1582	Business Combinations	January 1, 2011
Section 1601	Consolidations	January 1, 2011
Section 1602	Non-controlling Interests	January 1, 2011

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) published a new strategic plan that outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. The changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles is interim and annual financial statements for fiscal years beginning on or after January 1, 2011 with the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The Company has completed a high-level review and preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight into what are anticipated to be the most significant areas of difference applicable to the Company. The next step is to perform an in-depth review of the significant areas of difference and select ongoing IFRS policies. Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities including the effect, if any, on covenants and compensation arrangements.

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.