Management's discussion and analysis ("MD&A") of the financial condition and the results of operations should be read in conjunction with the September 30, 2010 unaudited interim consolidated financial statements and the December 31, 2009 audited consolidated financial statements of Yangarra Resources Ltd. (the "Yangarra" or "Company"), together with the accompanying notes. The MD&A has been prepared using information that is current to ***November 24, 2010.***

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

The Company is involved in the production, exploration and development of resource properties in the Willesden Green, Medicine Hat and Jaslan areas of Alberta.

On December 31, 2009, the Company acquired all of the issued and outstanding shares of Athabaska Energy Ltd. ("Athabaska"), a non-arm's length private corporation, in exchange for 50,000,004 common shares of the Company. On May 1, 2010, the Company and Athabaska were amalgamated and continue to carry on business under the name Yangarra Resources Ltd.

The comparative results included herein for the three and nine months September 30, 2009 are those of Yangarra only.

The Company developed its Glauconite and Cardium prospects in Willesden Green during the nine months ended September 30, 2010. The first horizontal Glauconite well (100% working interest) which was drilled in the first quarter was fracture stimulated during the second quarter utilizing a LPG (Liquid Propane) fracturing system. The well tested at rates in excess of 1100 boe/d, including a significant amount of oil production after recovery of load fluid, and was placed on production into Company-owned facilities on August 3, 2010, averaging 602 boe/d (48% liquids) over the first 30 days of production (IP 30).

Yangarra participated in the drilling of a Cardium horizontal well (31.875% working interest and a 15% gross override on 100%) which was operated by a joint interest partner during the quarter. The well was completed and put onstream on August 3, 2010 at an initial rate of 120 boe/d and averaged 85 boe/d over the first 30 days of production (IP 30).

In July/August 2010, Yangarra drilled a second Cardium well (Yangarra operated at (31.875% working interest plus 15% gross override on 100%) which was completed and tied-in in late August. Subsequent to drilling Yangarra acquired an additional 36.25% working interest in this well for a total working interest of 68.125% with the 15% gross override remaining on the 31.875% working interest not held by the Company. The well had an initial test rate of 800 bbl/d and averaged 324 boe/d over the first 30 days of production (IP 30).

In mid-November 2010, the Company placed its fourth horizontal well on production. The well is in the Glauconite zone with 68.125% working interest plus a 15% sliding scale gross overriding royalty on the remaining 31.875% working interest in the Willesden Green area of Alberta. The initial test rate of this well was in excess of 2500 boe/d. The Company has moved the drilling rig to its fifth location where it is currently drilling a Cardium horizontal (100% working interest) in the Ferrier area of Alberta on land acquired through an asset acquisition which closed in October 2010 (see Subsequent Events).

Yangarra has secured a drilling rig for the balance of 2010 and through to spring breakup with an option to retain the drilling rig for another year after that. With the dramatic increase in horizontal wells being drilled in Alberta, rigs capable of the depths required are very difficult to obtain.

In May and June 2010, the Company completed two private placements for total proceeds of $3.05 million, with each private placement priced at a premium to the previous financing.

In October 2010, the Company completed a special warrant financing ("Special Warrants") for total gross proceeds of $13,000,000. The financing consisted of 8,666,667 flow-through special warrants priced at $0.75 each, issued on a flow-through basis and 10,000,000 common share special warrants priced at $0.65 each. Each Special Warrant is exercisable into common shares of the Company, and all unexercised warrants will be deemed to be exercised the 5th day after receiving receipts from the various securities regulatory authorities for a Final Prospectus, which receipts were obtained on November 22, 2010.

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, 2010, the Company had a working capital deficiency of $7,691,402 (December 31, 2009 – $7,963,051) and an accumulated deficit of $21,858,365 (December 31, 2009 – $19,483,606). 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 2010	2009	Nine months ended September 30 2010	2009
Statement of Operations and Deficit				
Net (loss) income for the period	$ (166,794)	$ (4,308,038)	$ (2,374,759)	$ (5,470,879)
Net (loss) income per share - basic	$ (0.00)	$ (0.05)	$ (0.05)	$ (0.07)
Weighted average number of shares - basic	60,713,460	78,445,038	52,092,914	76,533,515
Statement of Cash Flows				
Funds flow from operations	$ 921,972	$ 133,901	$ 1,391,530	$ 747,437

	September 30 2010	December 31 2009
Balance Sheet		
Property and equipment	$ 46,733,504	$ 38,830,516
Total assets	$ 49,317,004	$ 39,641,449

Results of Operations

Net petroleum and natural gas revenue

	Three months ended September 30 2010	2009	Nine months ended September 30 2010	2009
Net petroleum & natural gas revenue	$ 1,299,935	$ 430,962	$ 2,386,495	$ 1,594,382
Per boe	$26.36	$ 16.77	$ 20.97	$ 19.17
Net petroleum & natural gas revenue with royalty recovery	$ 1,299,935	$ 430,962	$ 2,386,495	$ 1,770,018
Per boe	$26.36	$ 16.77	$ 20.97	$ 21.28

Netbacks were stronger due to higher oil and liquid sales as a result of developing the Glauconite and Cardium wells in Willesden Green and lower operating costs due to higher volumes.

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	
	2010	2009	2010	2009
Total boe (boe 6:1)	49,324	25,696	113,799	83,180
Daily sales volumes (boe 6:1)	536	279	417	305
Petroleum & natural gas sales	$ 1,821,333	$ 889,449	$ 3,669,575	$ 2,825,010
Per boe	$ 36.93	$ 34.61	$ 32.25	$ 33.96
Royalties	$ (32,375)	$ 28,114	$ 36,325	$ 107,540
Per boe	($0.66)	$ 1.09	$ 0.32	$ 1.29
As a % of sales	-2%	3%	1%	4%
Royalty recovery	$ -	$ -	$ -	$ 175,636
Production costs	$ 482,944	$ 410,311	$ 1,081,852	$ 1,040,206
Per boe	$ 9.79	$ 15.97	$ 9.51	$ 12.51
Transportation costs	$ 70,829	$ 20,062	$ 164,903	$ 82,882
Per boe	$ 1.44	$ 0.78	$ 1.45	$ 1.00

- The increased production in 2010 can be attributed to new wells in Jaslan area (100% working interest); the fracing process on a new Willesden Green well which resulted in additional oil production in May; and the first horizontal Glauconite well (100% working interest) and a horizontal Cardium well (31.875% working interest and a 15% gross override on 100%) in Willesden Green placed on production in early August. The increases have been somewhat offset by the temporary shut-in of several wells by the operator in Willesden Green, a shut-in well in Jaslan and natural declines in Medicine Hat.
- The overall average price earned by the Company was higher in the three months ended September 30, 2010 due to increased oil production (28% compared to 5% in 2009), primarily from the horizontal wells that came on production in early August.
- For the nine months ended September 30, 2010, although the Company's production was more heavily weighted to oil (15% oil, 5% NGL and 80% natural gas) than the 2009 comparative period (4% oil, 5% NGL and 91% gas), the overall average 2010 price was lower due to a higher realized price for natural gas in the 2009 period.
- Included in petroleum and natural gas revenue for the three and nine months ended September 30, 2010 is nil and $31,131, respectively, of realized gains on the fulfilled portion of commodity contracts from January 1 to March 31, 2010. Including the realized gains, the average gas price earned by the Company for the nine month 2010 period increased to $4.00 per mcf from $3.94 per mcf.
- 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 was $5.55 per mcf and $5.45 per mcf, respectively.

- Average prices earned by the Company in the comparative periods were as follows:

	Three months ended September 30				Nine months ended September 30			
	2010		2009		2010		2009	
Oil ($/bbl)	$	69.32	$	69.94	$	69.80	$	60.68
NGL ($/bbl)	$	53.78	$	28.24	$	52.47	$	35.01
Gas ($/mcf)	$	3.50	$	2.73	$	3.94	$	3.93
Gas ($/mcf) - including effect of commodity contracts	$	3.50	$	5.55	$	4.00	$	5.45

- During the three and nine months ended September 30, 2010, the Company received $124,018 and $248,181, respectively, of capital cost allowance, custom processing and operating deductions which are included in royalty expense. As a result, royalties were a net recovery for the 2010 three month period. Excluding these deductions, royalties as a percentage of revenue were 5% and 8% for the three and nine months ended September 30, 2010. The crown royalty rate on the new horizontal wells in Willesden Green is 5% for the earlier of 2 years or 60,000 boe of production.
- During the first quarter of 2009, the Company recognized a recovery in the amount of $175,636 related to freehold and gross overriding royalties calculated and paid in previous years.
- Production costs per boe have dropped in 2010 due to increased production in areas with facilities in place and the majority of the costs are fixed. Operating costs per boe in the Willesden Green area are expected to continue to decline as more production is brought on stream and fixed costs are shared over higher volumes.
- Transportation costs per boe are higher in 2010 compared to 2009 due to higher transportation tolls on natural gas.

Depletion, depreciation and accretion

	Three months ended September 30				Nine months ended September 30			
	2010		2009		2010		2009	
Depletion and depreciation	$	959,199	$	5,217,275	$	3,028,464	$	7,248,123
Per boe	$	19.45	$	203.04	$	26.61	$	87.14
Accretion	$	42,455	$	37,134	$	127,225	$	109,544

Depletion and depreciation per boe decreased in 2010 compared to 2009 due to: (1) an estimated increase in the Company's proved reserves from that stated in the December 31, 2009 external reserve report; (2) the estimated reclassification of reserves from the probable to proved category in the current period as a result of drilling activity; and (3) the addition of estimated proved reserves related to a gross overriding royalty acquired in March 2010.

The 2009 depletion rates include the effect of a ceiling test impairment in the amount of $4,300,000. 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 at September 30, 2009 being greater than the value as determined by the ceiling test.

Accretion expense increased in 2010 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	
	2010	2009	2010	2009
General and administrative expenses	$ 268,792	$ 178,991	$ 780,744	$ 564,828
Interest and financing fees	$ 68,511	$ 300,279	$ 170,471	$ 802,460
Dividends on preferred shares	$ 12,397	$ -	$ 37,397	$ -
Stock-based compensation	$ 121,645	$ -	$ 784,955	$ -

General and administrative expenses were higher in the 2010 periods due to an increase in professional fees related to the year end audit, consulting fees related to new consultants commensurate with the increase in the Company's exploration and development activities, legal fees related to a dispute with a joint venture partner, filing fees related to the increase in the Company's share base and expenses related to the special meeting of shareholders held in March 2010.

Interest and financing fees for the three and nine months ended September 30, 2010 is for interest on the revolving operating demand loan for which the average amount drawn in 2010 was $6,250,000 at an effective interest rate of 3.0%.

Interest and financing fees for the three and nine months ended September 30, 2009 were significantly higher on a comparative basis as they included:

- $5,522 and $11,628, respectively, accrued for Part XII.6 interest on the unspent portion of flow-through expenditures incurred under the look-back rule and other minor amounts;
- $144,284 and $308,503, respectively, on the revolving operating demand loan for which the average amount drawn during the 2009 period was $8,175,000 at an effective interest rate of 5.0% plus other fees; and
- $150,474 and $482,329, respectively, of interest and financing fees on the subordinated credit facility (settled in December 2009) based on the effective interest method.

Dividends on preferred shares for the three and nine months ended September 30, 2010 are at a rate of 5% payable semi-annually in cash or common shares of the Company on $1,000,000 of preferred shares issued in December 2009 in conjunction with the settlement of the subordinated credit facility. The dividends to June 30, 2010 were paid in cash.

During the nine months ended September 30, 2010, the Company granted a total of 2,615,000 stock options which vested immediately. The total fair value of the options was estimated at $1,260,000 of which $784,955 was recognized as stock-based compensation expense ("SBC") and $475,145 was capitalized to property and equipment. The Company did not grant any options in the 2009 comparative period.

Commodity price risk contracts

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Commodity contract settlement	$ -	$ -	$ 73,500	$ -
Change in fair value of commodity contracts	6,270	(255,687)	119,631	(120,344)
	$ 6,270	$ (255,687)	$ 193,131	$ (120,344)

As at January 1, 2010, the Company was committed to the following commodity price risk contracts for the sale of natural gas:

- 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 provided a ceiling for the price it received 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.

In March 2010, the Company settled all outstanding commodity price risk contracts for proceeds of $73,500 and reported an unrealized gain of $113,361 related to the reversal of the mark-to-market liability recognized at December 31, 2009.

As at September 30, 2010, the Company was committed to a commodity price risk "basis" contract on 1,000 MMBTU of natural gas per day from November 1, 2010 to March 31, 2011, the terms of which were related to the difference in price between AECO and NYMEX fixed at $0.45 per MMBTU. The mark-to-market value of the unfulfilled portion of the above contracts at September 30, 2010 is an asset of $6,270. The Company terminated the contract in November 2010 at a cost of $14,616.

Included in petroleum and natural gas revenue for the three and nine months ended September 30, 2010 is nil and $31,131, respectively, of realized gains (three and nine months ended September 30, 2009 – $383,988 and $688,168) on the fulfilled portion of commodity contracts.

Future income tax reduction

During the nine months ended September 30, 2010, the Company recognized a $177,011 future tax benefit in share capital for share issue costs incurred in the period and a $158,382 future tax liability in property and equipment for SBC capitalized in the period. The Company did not recognize future tax recovery or provision in the interim consolidated statement of loss in the period.

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, 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 related 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, 2010, the Company generated $1,391,530 of funds flow from operations compared to $747,437 in the 2009 comparative period. Funds flow from operations was higher for the 2010 period due primarily to the increase in petroleum and natural gas revenue and the reduction in interest and financing fees.

As at September 30, 2010, the maximum amount available under the revolving operating demand loan was $6,000,000 (December 31, 2009 – $8,300,000) at an interest rate of bank prime plus 1% per annum and a standby fee of 0.175% per annum on any unutilized portion of the credit facility, payable monthly.

As at September 30, 2010, the $5,011,467 (December 31, 2009 – $8,195,069) reported amount of bank debt was comprised of $4,700,000 (December 31, 2009 – $7,800,000) drawn on the revolving operating demand loan and $311,467 (December 31, 2009 – $395,069) 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, 2010.

In November 2010, the Company signed a credit facility agreement with a new lender for a revolving operating loan with a maximum availability of $8,500,000 in November 2010 based on production in the month of October 2010 and $9,000,000 based on production in the month of November 2010. The credit facility bears interest at bank prime plus 1% per annum, increased to bank prime plus 1.5% if the Company's net debt to trailing cash flow ratio is equal to or greater than 1 to 1.

As at September 30, 2010, the Company had a working capital deficit of $7,691,402 compared to a deficit of $7,963,051 at December 31, 2009. The improvement in the Company's working capital position is primarily due to $9,405,957 of net proceeds from private placements completed in March, May and June 2010, $1,391,530 of funds flow from operations, $6,270 commodity price risk contract asset and the reversal of the $113,361 year end commodity price risk contract liability offset by $10,245,469 of expenditures on property and equipment and the $400,000 deposit on the asset acquisition which closed in October 2010.

Capital Spending

Capital spending is summarized as follows:

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Land and lease rentals	$ 171,954	$ 44,235	$ 1,621,955	$ 134,845
Drilling and completion	1,475,332	307,348	6,184,122	592,262
Geological and geophysical	135,617	1,069	314,943	31,814
Equipment	906,146	172,283	2,124,449	196,925
	$ 2,689,049	$ 524,935	$ 10,245,469	$ 955,846

2010 Drilling Activity:

	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	Gross	Net	Gross	Net
Natural gas	–	–	1.0	1.0
Oil	1.0	1.0	2.0	1.31875
	1.0	1.0	3.0	2.31875

Yangarra has accumulated approximately $1.9 million of drilling credits related to the Drilling Royalty Credit ("DRC") program implemented by the Alberta Government.

The DRC program is a short-term stimulus program which provides credits for qualifying drilling. These credits, once established by drilling, are paid to eligible companies based on their royalty obligations during the program. The program is two years in duration, allowing the establishment of credits through drilling, and payment of credits based on royalty obligations, from April 1, 2009 until March 31, 2011.

Amounts received under the DRC program are credited against the related capital costs of the wells drilled, however a significant amount of the DRCs may not be used by the Company depending on commodity pricing and program interpretation by the Alberta Government.

In addition, Yangarra will earn approximately $650,000 of credits under the Natural Gas Deep Drilling Program ("NGDDP") on the drilling of its second horizontal Glauconite well. NGDDP credits will be applied to reduce future crown royalties on the related qualifying wells. The NGDDP was recently modified to reduce the vertical depth requirement from 2,500 metres to 2,000 metres and make the program an on-going feature of Alberta's royalty regime.

Asset Retirement Obligation

As at September 30, 2010, the undiscounted fair value of the asset retirement obligation associated with the Company's existing properties was estimated to be $4,343,140 for which $2,306,684 has been recorded using a discount rate of 7% - 10%, an inflation rate of 2% and an estimated weighted average timing of cash flows of 10 years.

Related Party Transactions

During the three and nine months ended September 30, 2010 and 2009, 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 September 30		*Nine months ended September 30*	
	2010	*2009*	*2010*	*2009*
Administration and consulting fees	$ 73,200	$ 26,350	$ 136,860	$ 37,826
Production and capital expenditures	$ 118,116	$ 31,652	$ 526,357	$ 91,294

On March 17, 2010, the Company completed a private placement of 80,000,000 Units at $0.075 per Unit for gross proceeds of $6,000,000. Management and directors subscribed for 13,356,669 Units for gross proceeds of $1,001,750 or 16% of the financing.

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

Share Capital

Details of changes in the number of outstanding equity instruments are detailed in the following table:

	Common Shares	Preferred Shares	Warrants	Stock Options
Balance - December 31, 2009	**186,940,030**	**1,000,000**	**10,000,000**	**17,711,275**
Unit private placement	80,000,000	-	40,000,000	-
Exercise of warrants	1,400,000	-	(1,400,000)	-
Granted to director	-	-	-	500,000
Expired	-	-	-	(318,250)
Forfeited	-	-	-	(175,000)
Granted to field consultants	-	-	-	1,000,000
	268,340,030	1,000,000	48,600,000	18,718,025
1-for-5 consolidation April 28, 2010	(214,672,024)		(38,880,000)	(14,974,420)
Private placement May 2010 (Flow-through)	3,745,454	-	-	-
Private placement June 2010 (Flow-through)	1,650,000	-	-	-
Private placement June 2010	1,650,000	-	-	-
Granted to officers, directors and consultants	-	-	-	2,315,000
Expired	-	-	-	(5,700)
Balance - September 30, 2010	60,713,460	1,000,000	9,720,000	6,052,905
Special Warrant Financing	18,666,667	-	-	-
Exercise of warrants	188,000	-	(188,000)	-
Exercise of options	70,000	-	-	(70,000)
Granted	-	-	-	25,000
Balance - Date of MD&A	**79,638,127**	**1,000,000**	**9,532,000**	**6,007,905**

Subsequent Events

On October 25, 2010, the Company closed an asset acquisition in the Ferrier/Willesden Green area of Alberta. The assets include 31 sections of land (12.3 net), 10 gross producing wells (4.25 net) and 9 gross standing wells (4.8 net) with current production of approximately 50 boe/d, 90% weighted to oil. The purchase price was $4.0 million cash, of which the Company paid $400,000 in September 2010 as a deposit. The final $3,600,000 was paid on the closing date.

On October 25 and 28, 2010, the Company completed a special warrant financing ("Special Warrants") for total gross proceeds of $13,000,000. The financing consisted of 8,666,667 flow-through special warrants priced at $0.75 each, issued on a flow-through basis and 10,000,000 common share special warrants priced at $0.65 each. Each Special Warrant is exercisable into common shares of the Company, and all unexercised warrants will be deemed to be exercised the 5th day after receiving receipts from the various securities regulatory authorities for a Final Prospectus, which receipts were obtained on November 22, 2010.

On November 15, 2010, the Company signed a credit facility agreement with a new lender for a revolving operating loan with a maximum availability of $9,000,000 as disclosed under "Liquidity and Capital Resources". The credit facility with the previous lender was paid out and cancelled.

Contingency

In December 2009, the Company terminated the Standstill Agreement that it had with an industry partner regarding a joint producing property and served that industry partner with a Statement of Claim issued from The Court of Queen's Bench of Alberta, by which the Company claims breach of the agreements between the parties, gross negligence and default of operator. The Company seeks judgment for specified and such further damages to be determined by the Court, as well as appointment as operator. The industry partner has filed a Statement of Defence and Counterclaim. The potential outcome of the lawsuit and claims are undetermined however they may be material. As the likely outcome of this litigation cannot be determined at this time, no provision has been made in the consolidated financial statements.

Commitments

During the three months ended March 31, 2010, the Company incurred all of the $500,000 of qualifying flow-through expenditures related to the private placement of Units completed in December 2009 that will be renounced effective December 31, 2010.

As at September 30, 2010, the Company has until December 31, 2011 to incur $3,190,000 of qualifying flow-through expenditures related to the private placement of flow-through shares issued in May and June 2010, of which approximately $3,024,500 has been incurred.

The Company has entered into lease agreements for office premises, field equipment and a Company vehicle with estimated minimum annual payments as follows:

2010 (remainder)	$ 37,408
2011	141,236
2012	141,236
2013	83,833

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 2010	*December 31 2009*
Working capital deficiency	$ (7,691,402)	$ (7,963,051)
Shareholders' equity	$ 35,316,690	$ 26,848,381

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. At September 30, 2010, the Company's capital structure was not subject to external restrictions. The Company's bank facility is determined by the senior lender and based on the lender's borrowing base model and the Company's petroleum and natural gas reserves.

Selected Historical Financial Information

2010	First Quarter	Second Quarter	Third Quarter
Petroleum and natural gas sales	$ 1,009,188	$ 839,054	$ 1,821,333
Net petroleum and natural gas revenue	$ 646,831	$ 439,729	$ 1,299,935
Net loss	$ (570,592)	$ (1,637,373)	$ (166,794)
Net loss per share	$ (0.00)	$ (0.03)	$ (0.00)
Funds flow from operations	$ 410,168	$ 59,390	$921,972
Net capital expenditures	$ 3,799,846	$ 3,756,574	$ 2,689,049

2009	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Petroleum and natural gas sales	$ 1,025,969	$ 909,592	$ 889,449	$ 754,728
Net petroleum and natural gas revenue	$ 629,971	$ 533,449	$ 430,962	$ (228,328)
Net loss	$ (405,050)	$ (757,791)	$ (4,308,038)	$ (1,797,141)
Net loss per share	$ (0.01)	$ (0.01)	$ (0.05)	$ (0.02)
Funds flow from (used in) operations	$ 432,673	$ 180,863	$ 133,901	$ (640,581)
Net capital expenditures	$ 298,013	$ 132,898	$ 524,935	$659,115

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

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 18 to the December 31, 2009 audited consolidated financial statements.

Disclosure Controls and Procedures

The Company's certifying officers will file a Venture Issuer Basic Certificate with respect to the information contained in its 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, 2009. 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 where 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.

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.

The following IFRS standards are considered most relevant to the Company's conversion process:

IFRS 1 - First-time Adoption of IFRS which generally requires that an entity apply all IFRS standards retrospectively, with specific mandatory exemptions, and a limited number of optional exemptions. A preliminary assessment of the available exemptions has been completed.

Elections made upon transition to IFRS can have a significant impact on the level of time and effort needed for the conversion to IFRS. The following optional exemptions appear to be the most applicable to the Company:

a) Fair value as deemed cost - This exemption provides the Company with the option to elect specific fair values as the deemed cost of any qualifying item of property, plant and equipment;

b) Deemed cost of full cost oil and gas assets - This exemption provides the Company with the option of measuring exploration and evaluation assets and assets in the D&P phases at the amount determined for the cost centre under Canadian GAAP. The cost of the D&P assets are allocated to the underlying assets on a pro rata basis using reserve volumes or reserve values as of the transition date;

c) Business combinations - This exemption provides the Company with the option of not applying IFRS 3 Business Combinations to business combinations that took place before the date of transition;

d) Share-based payments - This exemption provides the Company with the option of not applying IFRS 2 to equity-settled share-based payment transactions issued after November 7, 2002 and which have vested before the date of transition; and,

e) Decommissioning liabilities - If the exemption discussed under b) is utilized, the Company may then measure decommissioning, restoration and similar liabilities at the transition date in accordance with IAS 37 and recognize, directly in retained earnings, any difference between that amount and the Canadian GAAP carrying amount of the liabilities at the transition date.

In addition to these exemptions, IFRS 1 provides other exemptions that are available on transition to IFRS. These exemptions may become useful for the Company to consider in the future.

IFRS 2 – Share-based Payments requires the use of a forfeiture rate based on an estimate of the number of options expected to vest and requires that each tranche of options be treated as a separate arrangement as graded vesting is utilized.

IFRS 6 – Exploration and Evaluation of Mineral Resources ("E&E") requires that costs associated to the exploration for and evaluation of resources be recorded separately from the costs associated to the development of resources. Assets within this category are not depreciated and are tested for impairment when events suggest that the carrying amount may exceed the recoverable amount.

IAS 16 – Property, Plant and Equipment requires that assets be assigned to a cash generating unit and be depreciated over the useful life of each significant component. This requires a useful life assessment at a potentially lower level than under current Canadian GAAP and potential amendments to the accounting system to enable the tracking of costs at both a component and cash generating unit level.

IAS 36 – Impairment of Assets involves an impairment test at the cash generating unit level using either proven or proven and probable reserves whereby the recoverable amount, defined as the higher of the fair value less costs to sell or value in use, is compared to the carrying value of the assets. Impairments are likely to be triggered at an earlier date under IFRS as this test involves a one step approach utilizing discounted cashflows at a potentially lower asset group than currently required under Canadian GAAP.

IAS 37 - Provisions, Contingent Liabilities, and Contingent Assets will impact the calculation and presentation of the asset retirement obligation. This calculation will now include both legal and constructive obligations based on managements estimate and will be discounted based on the risk specific to the asset to be retired which is likely to be a lower discount rate.

There is also a potential Canadian GAAP – IFRS difference with respect to the treatment of flow-through shares which may impact the Company's financial statements with respect to future flow-through share issuances. As the International Accounting Standards Board is not expected to issue specific guidance on the accounting treatment of flow-through shares, the Company will be required to develop an appropriate accounting policy which may or may not be significantly different from current Canadian GAAP.

Based on the preliminary assessment of IFRS, the Company anticipates the conversion to IFRS will primarily impact the reported amount for property and equipment and asset retirement obligation. Financial statement disclosures will be greatly expanded.

The Company has received a formal diagnostic of Canadian GAAP and IFRS differences. The Company has commenced a more detailed analysis of each of the specific areas identified in the diagnostic (i.e. preparing position papers, drafting consolidated financial statements, identifying the impact on systems and processes, etc) to conclude on the accounting and systems implications. Subsequent phases will propose detailed solutions for accounting policies and quantify the expected impact. The Company plans to have a draft opening balance sheet and related IFRS disclosures completed in the first quarter of 2011.