

Q2 REPORT FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008

FINANCIAL AND OPERATING HIGHLIGHTS

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Petroleum and natural gas revenue ⁽¹⁾	\$ 11,280,829	\$ 5,555,957	\$ 20,447,727	\$ 9,991,800
Funds from operations	7,242,093	3,708,699	12,841,761	6,163,167
Per diluted share	0.26	0.19	0.52	0.33
Earnings (loss)	(31,439)	1,277,452	(1,945,057)	256,488
Per basic and diluted share	–	0.06	(0.09)	0.01
Working capital (net debt)	(5,808,924)	(9,684,735)	(5,808,924)	(9,684,735)
Capital expenditures	\$ 5,884,953	\$ 11,284,524	\$ 25,509,590	\$ 23,869,797
Weighted average shares outstanding – basic and diluted	27,131,143	19,763,841	24,465,119	18,901,963
Production				
Natural gas (mcf per day)	10,630	7,009	10,188	6,239
Oil and NGL (bbls per day)	225	156	220	135
Total (@ 6:1) (boe per day)	1,996	1,324	1,918	1,175
Realized average sales prices				
Natural gas (\$ per mcf) ⁽¹⁾	9.44	7.43	9.02	7.62
Oil and NGL (\$ per bbl)	105.18	57.68	92.65	56.57
Combined average (\$ per boe)	62.10	46.13	58.57	46.98
Royalties (\$ per boe)	(12.65)	(4.32)	(10.76)	(5.60)
Operating costs (\$ per boe)	(5.88)	(5.39)	(6.37)	(5.88)
Transportation costs (\$ per boe)	(0.93)	(0.85)	(0.75)	(0.88)
Operating netback (\$ per boe)	42.64	35.57	40.69	34.62
General and administrative costs (\$ per boe)	(2.72)	(4.79)	(3.32)	(5.75)
Net interest income (expense) (\$ per boe)	(0.06)	0.01	(0.59)	0.12
Corporate netback (\$ per boe)	39.86	30.79	36.78	28.99

⁽¹⁾ Includes realized gains (losses) on commodity contracts.

CORPORATE HIGHLIGHTS

DURING THE THREE MONTHS ENDED JUNE 30, 2008, OPEN RANGE:

- Initiated completion operations on the Corporation's 3,800-metre Foothills exploratory well at Rough, Alberta, completing the primary Glauconitic target zone and establishing a new Glauconitic natural gas and NGL pool;
- Increased production by 51 percent over the second quarter of 2007, to an average of 1,996 boe per day, of which 89 percent was natural gas;
- Increased funds from operations by 95 percent and funds from operations per diluted share by 37 percent over the second quarter of 2007, to \$7.2 million and \$0.26 per share (after the impact of realized hedging losses of \$1.2 million or \$0.05 per diluted share), respectively;
- Increased operating netbacks per unit of production by 20 percent over the second quarter of 2007, to \$42.64 per boe;
- Reduced combined cash costs per unit of production by 13 percent from the second quarter of 2007, to an average of \$9.59 per boe; and
- Exited the quarter with net debt of only \$5.8 million on the Corporation's \$40 million available credit facilities.

SUBSEQUENT TO THE END OF THE QUARTER ENDED JUNE 30, 2008, OPEN RANGE:

- Conducted flow-testing of the Rough discovery well, confirmed commercial viability of the well and initiated preparations for tie-in and production;
- Initiated a two-rig drilling program at the core Ansell/Sundance property, with the goal to drill an additional eight gross wells at the property by year-end;
- Approved an increase of more than 50 percent to its 2008 capital budget, to \$70 million from \$45 million, reflecting the repeatable, high quality results at Ansell/Sundance; and
- Approved plans to drill the Corporation's first horizontal well into a Deep Basin target at Ansell/Sundance.

EXPLORATION AND OPERATIONS UPDATE

ROUGH: OPEN RANGE CONFIRMS SIGNIFICANT RESOURCE POTENTIAL

Open Range has successfully completed the primary reservoir zone, the Glauconitic sandstone, at its 70 percent working interest Rough 15-35 discovery well drilled under farm-in in the fourth quarter of 2007 in the Alberta Foothills.

Completion operations commenced June 18, 2008. The primary objective, the Glauconitic Zone, was fracture-stimulated followed by a four-day production test. The well tested at rates of 1.5-3.0 mmcf per day, with natural gas liquids of 35 bbls per mmcf.

Pressure transient analysis (PTA) results were encouraging with estimated reservoir pressure of 50,220 kPa (7,284 psi). This is consistent with the over-pressured Deanne Glauconitic "A" and "B" pools offsetting Rough. It strongly suggests that the Rough pool lies within the same over-pressured Deep Basin fairway and that the discovery well intersected a new pool not in pressure communication with existing offsetting production. The offsetting pools have produced more than 50 bcf of liquids-rich natural gas to date, with initial production from successful wells of 0.6-7.0 mmcf per day.

Flowing wellhead pressure during testing ranged from 2,700 kPa to 8,000 kPa, which may indicate lower permeability than the offsetting pool average. A reservoir flow capacity of 0.483 mDm was derived from the PTA. Well logs indicate that in the primary Glauconitic target, the 15-35 well encountered among the thickest net pay yet discovered in the area and porosity of 14 to 20 percent was among the highest encountered in the area to date. These are excellent reservoir characteristics and are suggestive of significant gas-in-place potential in the new pool.

The Corporation has also confirmed a second new pool discovery following successful completion of a second zone in the 15-35 well. This zone tested at 0.3-1.5 mmcf per day on clean-up. This zone will be flow tested shortly.

Open Range has signed a best efforts tie-in agreement to a third-party gas plant. Well equipping and tie in operations are planned to commence later in August, with the well to come on-production early in the fourth quarter of 2008. The Corporation anticipates initial production of approximately 200-300 boe per day, including natural gas liquids, from the Rough 15-35 well.

The Corporation is actively evaluating drilling methodologies for the pool's development, including further vertical wells and horizontal wells using multi-stage fracture technology. Pay thickness, porosity estimates and reservoir pressure encountered to date all are highly suggestive of a substantial gas-in-place resource. At Rough, Open Range holds a total of 39 gross sections of undeveloped land at an average working interest of 94 percent.

ANSELL/SUNDANCE: DRIVES PRODUCTION GROWTH AND TWO-RIG DRILLING PROGRAM

Open Range's core Ansell/Sundance property in the Deep Basin region of west-central Alberta remains the Corporation's growth engine and continues to yield a growing opportunity base through an expanding development drilling inventory. The play's demonstrated repeatability is reducing technical risks and has enabled Open Range to achieve operating efficiencies leading to lower cash costs and higher netbacks per unit of production.

Open Range's new quarterly record production, averaging 1,996 boe per day in the second quarter of 2008, a 51 percent increase over the average for the comparative period in 2007 and an eight percent increase over the first quarter of 2008, was entirely due to growth at the Ansell/Sundance property. New production was realized from three recent wells brought on-stream late in the first quarter. Volumes from Open Range's other producing properties at Big Bend, Ferrier and Garrington averaged a combined 487 boe per day in the second quarter, with minimal capital expenditures undertaken.

Late in the second quarter, following spring break-up, two (0.9 net) wells were spud at Ansell/Sundance, initiating the Corporation's first continuous two-rig drilling program at the property. The Corporation anticipates maintaining accelerated operations for the remainder of 2008 and into 2009, subject to commodity prices.

The Ansell/Sundance property is currently contributing approximately 1,600 boe per day or 78 percent of the Corporation's production from 26 gross producing wells totalling 93 commercial pay zones. Late in the second quarter completion and tie-in operations were finalized on one (1.0 net) well drilled in the first quarter. Of the remaining two (0.6 net) wells drilled in the first quarter, one well came on-production in early August and the other well is expected to be on production late in the third quarter. The Corporation currently has three (1.4 net) wells at various stages of completion operations; all are expected to be on-production late in the third quarter.

SECOND HALF 2008 OUTLOOK: CAPEX EXPANSION AND FIRST HORIZONTAL TEST AT ANSELL/SUNDANCE

The Corporation is pleased to announce an increase to its 2008 capital investment program to \$70 million from \$45 million. With capital spending to June 30, 2008 totalling \$25.5 million, the \$25 million budgetary expansion represents an increase of 128 percent to funds available for the second half of 2008 under the previous budget. The entire 2008 capital investment program, including the announced expansion, can be funded by cash flow from ongoing operations and the Corporation's credit facilities.

The majority of the additional funds will be utilized at Ansell/Sundance to drill an additional eight gross wells, increasing the total to 21 (10.2 net) wells at Ansell/Sundance in 2008 at an average 49 percent working interest. Accelerating activity at Ansell/Sundance reflects the repeatable results generated to date at the multi-zone Deep Basin area and the diminishing risks of Open Range's expanding development drilling inventory. Open Range's management team remains focused on continuing to add to the opportunity base throughout the area in order to accelerate the Corporation's growth.

Open Range is also pleased to announce that one of the additional eight gross wells planned at Ansell/Sundance will be drilled horizontally. It will be completed with multi-stage fracture technology to test the economic viability of horizontal drilling in the Bluesky formation. The Corporation's management is cautiously optimistic about the horizontal test. If successful it could be a catalyst to additional capital and operating efficiencies, as well as suggesting the viability of testing other potential horizons among the more than one-dozen separate geological reservoirs identified at Ansell/Sundance to date.

Additionally the Corporation is pleased to announce an increase to its 2008 production guidance to an average 2008 rate of 2,100 boe per day and an exit rate of 2,700 boe per day (up from the previously announced rates of 2,000 boe per day and 2,500 boe per day, respectively).

Open Range is pleased to announce the recent addition of Cliff Wiebe to the Corporation's technical team as Manager, Completions. Mr. Wiebe has over 25 years of industry experience and will add his expertise to this crucial phase of operations as the Corporation's number of new wells continues to increase.

Open Range also announces that Kenneth Woolner, a member of the Board of Directors since the Corporation's inception in late 2005, will be stepping down effective immediately to pursue personal interests outside of the oil and natural gas business. Mr. Woolner has confirmed that he is retiring from all Board of Director's positions that he currently holds. The Corporation would like to thank Mr. Woolner, an accomplished explorationist over a successful industry career, for his timely insights and significant contributions and guidance. Open Range wishes him the very best in his new pursuits. The Corporation expects to announce the addition of a new Board member in the near future.

MANAGEMENT'S DISCUSSION AND ANALYSIS



The following management's discussion and analysis (MD&A) is a review of operations, current financial position and outlook for Open Range Energy Corp. ("Open Range" or the "Corporation") for the three- and six-month periods ended June 30, 2008 and 2007. This MD&A should be read in conjunction with the unaudited interim financial statements for the three and six months ended June 30, 2008 and 2007, and the audited annual financial statements for the year ended December 31, 2007. This MD&A is dated August 7, 2008.

BOE PRESENTATION

The use of barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and is not intended to represent a value equivalency at the wellhead.

NON-GAAP MEASUREMENTS

The terms "funds from operations", "funds from operations per share" and "operating netback" in this discussion are not recognized measures under Canadian generally accepted accounting principles (GAAP). Open Range management believes that in addition to net earnings, funds from operations and operating netback are useful supplemental measurements. Open Range utilizes funds from operations to evaluate operating performance and assess leverage. The Corporation considers funds from operations to be an important measure of the results generated by its principal business activities before the consideration of how those activities are financed or how the results are taxed and before abandonment expenditures. Operating netback is a benchmark used in the oil and natural gas industry to measure the contribution of oil and natural gas sales following the deduction of royalties, operating expenses and transportation costs. Users are cautioned, however, that these measures should not be construed as an alternative to net earnings determined in accordance with GAAP as an indication of Open Range's performance.

RECONCILIATION OF CASH FLOW PER GAAP TO FUNDS FROM OPERATIONS

Open Range's method of calculating funds from operations may differ from that of other corporations and, accordingly, may not be comparable to measures used by other corporations. Open Range calculates funds from operations by taking cash flow from operating activities as determined under GAAP before the change in non-cash working capital related to operating activities and asset retirement expenditures incurred as the Corporation believes the uncertainty surrounding the timing of collection, payment or incurrence of these items makes them less useful in evaluating Open Range's operating performance. A summary of this reconciliation is as follows:

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Cash flow from operating activities (per GAAP)	\$ 8,310,361	\$ 4,624,227	\$ 13,466,332	\$ 6,995,300
Change in non-cash working capital	(1,115,410)	(915,528)	(793,536)	(832,133)
Asset retirement expenditures	47,142	–	168,965	–
Funds from operations	\$ 7,242,093	\$ 3,708,699	\$ 12,841,761	\$ 6,163,167

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements, which are statements that include terms such as “will”, “intend”, “anticipate”, “expect”, “plan”, “assume”, “contemplate”, “believe”, “shall” and similar terms and such forward-looking statements include assumptions with respect to (i) production; (ii) future capital expenditures; (iii) funds from operations; (iv) cash flow; and (v) debt levels. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. While management believes the forward-looking statements are reasonable, all such forward-looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond the Corporation’s control. Such risks and uncertainties include, without limitation, risks associated with oil and natural gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, increased competition from other producers, inability to retain drilling rigs and other services, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources, the impact of general economic conditions in Canada, the United States and overseas, industry conditions, changes in laws and regulations (including the adoption of new environmental laws and regulations) and changes in how they are interpreted and enforced, changes in federal and provincial tax laws and legislation (including the adoption of new royalty regimes), the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. The Corporation’s actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements (as a result of assumptions proving incorrect or due to the effect of risks) and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that the Corporation will derive therefrom. Readers are cautioned that the foregoing list of factors is not exhaustive and reference is made to the items under “Risk Factors” in the Corporation’s Annual Information Form (AIF) for the year ended December 31, 2007. All subsequent forward-looking statements, whether written or oral, attributable to the Corporation or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Furthermore, the forward-looking statements contained in this MD&A are made as at the date hereof and the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

DETAILED FINANCIAL ANALYSIS

PRODUCTION

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Production				
Oil and NGL (bbls/d)	225	156	220	135
Natural gas (mcf/d)	10,630	7,009	10,188	6,239
Total (boe/d)	1,996	1,324	1,918	1,175
Total (boe)	181,652	120,451	349,101	212,702
% natural gas	89	88	89	88

Open Range's production for the three and six months ended June 30, 2008, increased significantly from the comparative periods in 2007. The increase resulted from the continued successful drilling activity in the second half of 2007 and the first half of 2008. Production in the three and six months ended June 30, 2008, averaged 1,996 boe per day and 1,918 boe per day, respectively. This represented an increase of 51 percent and 63 percent, respectively, from the average production of 1,324 boe per day and 1,175 boe per day for the respective three and six months ended June 30, 2007. Natural gas production in the three and six months ended June 30, 2008, increased to 10,630 mcf per day and 10,188 mcf per day, respectively, from 7,009 mcf per day and 6,239 mcf per day, respectively, for the three and six months ended June 30, 2007. Oil and natural gas liquids (NGL) production in the three months ended June 30, 2008, increased by 44 percent to 225 barrels per day from 156 barrels per day in the second quarter of 2007. In the six months ended June 30, 2008, oil and NGL production increased by 63 percent to 220 boe per day from 135 boe per day in the first half of 2007.

Open Range has revised its 2008 production guidance and is forecasting average production of 2,100 boe per day in 2008 and expects to exit the year with production of approximately 2,700 boe per day. Previous guidance was 2,000 boe per day and 2,500 boe per day, respectively.

OIL AND NATURAL GAS REVENUES

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Revenue				
Oil and NGL	\$ 2,149,680	\$ 816,198	\$ 3,712,350	\$ 1,385,991
Natural gas	10,377,537	4,719,196	17,788,418	8,561,056
Realized gains (losses) on commodity contracts	(1,246,388)	20,563	(1,053,041)	44,753
Total	\$ 11,280,829	\$ 5,555,957	\$ 20,447,727	\$ 9,991,800
Average realized price				
Oil and NGL (\$/bbl)	105.18	57.68	92.65	56.57
Natural gas (\$/mcf)	10.73	7.40	9.59	7.58
Realized gains on commodity contracts (\$/mcf)	(1.29)	0.03	(0.57)	0.04
Combined average (\$/boe)	62.10	46.13	58.57	46.98
Benchmark pricing				
Edmonton Par (Cdn\$/bbl)	126.55	72.66	112.36	70.19
Alberta Spot (Cdn\$/mcf)	10.10	7.06	8.94	7.17

Revenue, including realized gains and losses on commodity contracts, for the three months ended June 30, 2008 increased by 103 percent to \$11.3 million from \$5.6 million in the comparative period in 2007. The increase in revenue resulted from a 51 percent increase in daily average production and a 35 percent increase in the combined average sales price from the second quarter of 2007. In the first half of 2008, revenue increased by 105 percent to \$20.4 million from \$10 million in the comparative period in 2007. The increase was due to a 63 percent increase in production and a 25 percent increase in the average sales price. The period-over-period changes in average sales prices for oil, NGL and natural gas realized by Open Range were consistent with the fluctuations in benchmark oil and natural gas prices over the same periods. Open Range's average sales price for natural gas continued to be at a premium to the Alberta natural gas spot benchmark price due to the high energy content of the Corporation's natural gas production.

Open Range realized losses on commodity contracts of \$1.2 million for the three months ended June 30, 2008. These realized losses related to natural gas commodity contracts and amounted to a reduction of \$1.29 per mcf on the Corporation's natural gas production for the three months ended June 30, 2008. For the six months ended June 30, 2008, the Corporation realized a loss on commodity contracts of \$1.1 million, which amounted to a reduction of \$0.57 per mcf on the Corporation's natural gas production for the first half of 2008.

UNREALIZED LOSSES ON COMMODITY CONTRACTS

Open Range's management utilizes commodity contracts as a risk management technique to protect exploration and development economics, reduce volatility in cash flows and mitigate the unpredictable commodity price environment. For the three and six months ended June 30, 2008, the Corporation recorded an unrealized loss on commodity contracts of \$2.1 million and \$6 million, respectively. These amounts represented the change in the fair value of the commodity contracts held by the Corporation during the three- and six-month periods ended June 30, 2008.

Natural gas hedging contracts entered into as at June 30, 2008 and 2007 are as follows:

Period	Volume (GJ/d)	Type	Average AECO Spot floor (Cdn\$/GJ)	Average AECO Spot ceiling (Cdn\$/GJ)	Unrealized loss for the three months ended June 30, 2008	Unrealized gain for the three months ended June 30, 2007	Unrealized loss for the six months ended June 30, 2008	Unrealized gain (loss) for the six months ended June 30, 2007
Jan. to Dec. 2007	2,500	Costless Collar	\$7.00	\$10.20	–	\$ 396,454	–	\$ (293,207)
Jan. to Dec. 2007	1,250	Costless Collar	\$7.00	\$8.00- 9.90	–	291,644	–	(74,830)
Apr. 2007 to Mar. 2008	1,000	Costless Collar	\$7.00	\$10.16	–	253,255	\$ (68,534)	210,097
Nov. 2007 to Mar. 2008	1,500	Costless Collar	\$7.50	\$10.67	–	226,786	(164,411)	169,582
Jan. to Dec. 2008	3,000	Costless Collar	\$6.75	\$7.50- 9.12	\$ (830,852)	–	(2,465,341)	–
Apr. to Oct. 2008	1,500	Swap	\$6.46	\$6.46	(109,296)	–	(896,353)	–
Nov. to Dec. 2008	1,500	Swap	\$7.26	\$7.26	(232,159)	–	(424,136)	–
Apr. to Oct. 2008	1,500	Swap	\$6.50	\$6.50	(114,662)	–	(898,294)	–
Nov. 2008 to Mar. 2009	1,500	Costless Collar	\$6.75	\$11.09	(342,778)	–	(485,475)	–
Jan. to Dec. 2009	1,000	Costless Collar	\$6.50	\$9.00- 13.00	(501,343)	–	(600,619)	–
					\$ (2,131,090)	\$ 1,168,139	\$(6,003,163)	\$ 11,642

For more details on these contracts refer to note 8, Financial Instruments, in the interim financial statements for the three and six months ended June 30, 2008.

ROYALTIES

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Royalty expense – oil & NGL	\$ 367,508	\$ 336,501	\$ 480,949	\$ 303,529
Royalty expense – natural gas	1,929,551	184,271	3,274,202	887,743
Total	\$ 2,297,059	\$ 520,772	\$ 3,755,151	\$ 1,191,272
\$ per boe	12.65	4.32	10.76	5.60
% of revenues ⁽¹⁾	18	9	17	12

⁽¹⁾ Revenue before realized gains (losses) on commodity contracts.

Royalties totalled \$2.3 million and \$3.8 million for the second quarter and first half of 2008, respectively, compared to \$0.5 million and \$1.2 million, respectively, for the comparative periods in 2007. Royalties as a percentage of revenue increased in the second quarter and first half of 2008 from the comparative periods in 2007, as the Corporation had fewer wells receiving the beneficial effects of the deep well royalty holiday program. On a per unit of production basis, royalty costs for the three and six months ended June 30, 2008, were up by 192 percent and 92 percent, respectively, from the comparative periods in 2007, mainly due to higher commodity prices and several wells at Ansell/Sundance fully utilizing their royalty holiday entitlement, thus commencing the payment of cash royalties.

Open Range anticipates an average royalty rate for 2008 of approximately 15 percent to 20 percent of revenue. This increase in royalty rates from 2007 reflects the fact that as the Corporation continues to grow, a smaller portion of its production base will receive the beneficial effects of the deep well royalty holiday program on royalty expenses.

On October 25, 2007, the Alberta government announced a New Royalty Framework (NRF) that will result in changes to royalties levied on natural gas and conventional oil produced in Alberta effective January 1, 2009. The Alberta government introduced several modifications to the NRF on April 10, 2008, which still require further clarification, and possibly additional public and industry consultation. Depending on further clarification of the NRF, the proposed changes to royalties could have an impact on the Corporation's net earnings, funds from operations, cash flow from operating activities, operating netbacks, and reserve values, which could create uncertainty as to the recoverability of the carrying value of the Corporation's petroleum and natural gas assets.

OPERATING COSTS AND NETBACK

(\$ per boe)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Average realized sales price	62.10	46.13	58.57	46.98
Royalty expenses	(12.65)	(4.32)	(10.76)	(5.60)
Operating costs	(5.88)	(5.39)	(6.37)	(5.88)
Transportation costs	(0.93)	(0.85)	(0.75)	(0.88)
Operating netback	42.64	35.57	40.69	34.62

The Corporation's operating netback for the second quarter and first half of 2008 increased to \$42.64 per boe and \$40.69 per boe, respectively, from \$35.57 per boe and \$34.62 per boe for the respective periods in 2007. The operating netback increased by 20 percent and 18 percent for the three and six months ended June 30, 2008, respectively, from the comparative periods in 2007. This was mainly due to an increase in the realized average sales price, partially offset by an increase in royalties.

Operating costs were \$1.1 million and \$2.2 million for the three and six month periods ending June 30, 2008, respectively, compared to \$0.7 million and \$1.3 million for the respective periods in 2007. On a per unit of production basis, operating costs for the second quarter and first half of 2008 were \$5.88 per boe and \$6.37 per boe, respectively. These amounts represent a nine percent and eight percent respective increase from \$5.39 per boe and \$5.88 per boe for the comparative periods in 2007. With production continuing to grow and the commissioning of a new 20 mmcf per day Open Range-operated gas plant at Ansell/Sundance near the end of the first quarter, the Corporation expects significant operating efficiencies to be realized at Ansell/Sundance for the balance of 2008. Consequently, Open Range expects operating costs on a per unit of production basis to come down significantly for the remainder of 2008. Transportation costs were \$0.2 million or \$0.93 per boe for the second quarter of 2008 and \$0.3 million or \$0.75 per boe for the first half of 2008.

GENERAL AND ADMINISTRATIVE (G&A) COSTS

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Gross	\$ 1,531,563	\$ 1,212,338	\$ 2,895,029	\$ 2,552,640
Partner recovery	(387,615)	(47,128)	(508,919)	(207,340)
Capitalized	(650,277)	(587,867)	(1,226,131)	(1,121,660)
Net G&A expense	\$ 493,671	\$ 577,343	\$ 1,159,979	\$ 1,223,640
Per boe net (\$)	2.72	4.79	3.32	5.75

G&A costs for the three months ended June 30, 2008, totalled \$0.5 million or \$2.72 per boe after overhead recoveries and capitalization totalling just over \$1.0 million. On a per boe basis G&A costs in the second quarter of 2008 declined by 43 per cent to \$2.72 per boe from \$4.79 per boe in the second quarter of 2007. For the first half of 2008, net G&A costs per boe decreased by 42 percent to \$3.32 from \$5.75 in the first half of 2007. These substantial reductions per boe for both periods were mainly due to increased production in 2008, combined with the slight decrease in overall net G&A costs. Capitalized G&A costs represented 42 percent of gross G&A costs both for the three and six months ended June 30, 2008, as the Corporation continued to focus on exploration activities and capitalized its exploration, geological and geophysical expenses.

Open Range expects to continue to reduce its net G&A costs per boe in 2008, reflecting the Corporation's continued forecast production growth combined with no significant planned increase in quarterly G&A spending.

INTEREST INCOME AND EXPENSE

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Interest income	\$ 39,050	\$ 37,591	\$ 43,510	\$ 89,697
Interest expense	(50,272)	(35,855)	(250,221)	(65,141)
Net interest income (expense)	\$ (11,222)	\$ 1,736	\$ (206,711)	\$ 24,556
Per boe net (\$)	(0.06)	0.01	(0.59)	0.12

Net interest expense for the first half of 2008 was \$0.2 million or \$0.59 per boe. The interest income earned on available cash balances through short-term interest-bearing instruments after the financing in April 2008 slightly offset the interest paid on the Corporation's credit facility during the first six months of 2008.

The Corporation had no amounts drawn on its extendable revolving credit facility at June 30, 2008. Open Range's continuing exploration activity will require incurring some debt during the second half of 2008. However, the Corporation continues to manage debt levels prudently and expects net interest expense to be relatively low for the year.

STOCK-BASED COMPENSATION

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Total stock-based compensation	\$ 355,195	\$ 259,365	\$ 639,654	\$ 500,772
Capitalized stock-based compensation	(170,419)	(133,388)	(306,033)	(248,884)
Stock-based compensation expense	\$ 184,776	\$ 125,977	\$ 333,621	\$ 251,888

During the second quarter of 2008, stock-based compensation of \$184,776 was expensed and \$170,419 was capitalized. This resulted in total stock-based compensation for the three months ended June 30, 2008, of \$355,195, compared to \$259,365 for the second quarter of 2007. For the first six months of 2008 stock-based compensation of \$333,621 was expensed and \$306,033 was capitalized, compared to \$251,888 expensed and \$248,884 capitalized for the comparative six-month period in 2007. The increases in stock-based compensation expense were due to the additional expense associated with the stock options granted in the first half of 2008. At June 30, 2008 there were 2,700,000 stock options outstanding compared to 1,922,500 outstanding at June 30, 2007.

DEPLETION, DEPRECIATION AND ACCRETION

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Depletion and depreciation	\$ 4,855,942	\$ 2,813,443	\$ 9,103,319	\$ 5,356,716
Accretion	39,911	44,636	81,334	87,059
Total	\$ 4,895,853	\$ 2,858,079	\$ 9,184,653	\$ 5,443,775
Depletion and depreciation (\$/boe)	26.73	23.36	26.08	25.18
Accretion (\$/boe)	0.22	0.37	0.23	0.41
Total (\$/boe)	26.95	23.73	26.31	25.59

Depletion and depreciation are calculated based upon cumulative capital expenditures, production rates and reserves. Open Range recorded \$4.9 million or \$26.73 per boe in depletion and depreciation for the three months ended June 30, 2008, compared to \$2.8 million or \$23.36 per boe for the comparative period in 2007. Depletion and depreciation for the first half of 2008 increased to \$9.1 million or \$26.08 per boe from \$5.4 million or \$25.18 per boe in the first half of 2007. The per boe increase in depletion and depreciation for the second quarter of 2008 is primarily due to no new wells being drilled as access at Ansell/Sundance was limited for much of the quarter due to road bans relating to spring break-up, which in turn resulted in no new reserve additions being booked in the second quarter. The per boe increase in depletion and depreciation for the first half of 2008 is primarily due to higher average production and increased capital expenditures being partially offset by reserve additions in the first quarter.

Open Range estimates depletion on a quarterly basis throughout the year using independent inputs such as reserve and land reports when available. Undeveloped land and seismic and salvage values of \$22.3 million have been excluded in the calculation and future development costs of \$3.7 million have been included in the capital base used in the calculation.

INCOME TAXES

Open Range did not incur any cash tax expense in the first half of 2008. Open Range does not expect to pay any cash taxes in 2008 based on current oil and natural gas prices, existing tax pools, planned capital expenditures and forecast taxable income. For the quarter ended June 30, 2008, the Corporation recorded a future income tax expense of \$61,813. In the six-month period ended June 30, 2008, a future income tax reduction of \$0.7 million was recorded. This reduction was primarily due to the recording of a significant future tax asset relating to the unrealized loss on commodity contracts during the second quarter and first half. The future income tax liability associated with the Corporation's \$19 million in flow-through share issuances in 2007 was also recorded in the first quarter of 2008.

The Corporation estimates that at June 30, 2008, tax pools of \$79.4 million are available for deduction against future taxable income.

EARNINGS (LOSS)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Earnings (loss)	\$ (31,439)	\$ 1,277,452	\$ (1,945,057)	\$ 256,488
Earnings (loss) per basic and diluted share	\$ -	\$ 0.06	\$ (0.08)	\$ 0.01

The Corporation recorded a loss of \$31,439 for the three months ended June 30, 2008, compared to income of \$1.3 million or \$0.06 per basic and diluted share for 2007. The loss of \$1.9 million for the six months ended June 30, 2008 is attributable to the recording of a \$1.1 million realized loss on commodity contracts and a \$6.0 million unrealized loss on commodity contracts.

FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATING ACTIVITIES

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Funds from operations	\$ 7,242,093	\$ 3,708,699	\$ 12,841,761	\$ 6,163,167
Funds from operations per boe	39.87	30.79	36.79	28.98
Funds from operations per basic share	0.27	0.19	0.52	0.33
Funds from operations per diluted share	0.26	0.19	0.52	0.33
Cash flow from operating activities (per GAAP)	\$ 8,310,361	\$ 4,624,227	\$ 13,466,332	\$ 6,995,300

In the three months ended June 30, 2008, Open Range generated funds from operations of \$7.2 million or \$0.27 per basic share and \$0.26 per diluted share. Second-quarter 2008 funds from operations increased by 95 percent, and funds from operations per basic share increased by 42 percent, from \$3.7 million and \$0.19, respectively, in the comparative period of 2007. In the second quarter of 2008 Open Range recorded cash flow from operating activities of \$8.3 million, compared to \$4.6 million for the comparative period in 2007. The significant increases in funds from operations and cash flow from operating activities were due to stronger operating results, primarily driven by higher average production, as well as stronger netbacks which in turn were caused mainly by higher average realized sales prices.

CAPITAL EXPENDITURES

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Drilling and completions	\$ 4,805,878	\$ 6,168,197	\$ 14,805,142	\$ 14,488,197
Equipment and facilities	398,523	752,800	2,378,715	4,267,799
Land	19,609	3,735,010	6,407,087	3,756,971
Capitalized G&A	650,277	587,867	1,226,131	1,121,660
Geological and geophysical	10,666	40,650	692,515	235,170
Total capital expenditures	\$ 5,884,953	\$ 11,284,524	\$ 25,509,590	\$ 23,869,797
Capital items not involving cash:				
Stock-based compensation	230,296	176,232	413,558	341,103
Asset retirement obligations	–	27,686	44,546	138,038
Total capital expenditures including non-cash items	\$ 6,115,249	\$ 11,488,442	\$ 25,967,694	\$ 24,348,938

Open Range's capital budget during the second quarter of 2008 was focused almost entirely on completing wells drilled in the first quarter of 2008 and completing the farm-in well drilled at Rough, Alberta in the fourth quarter of 2007. Drilling and completions were the primary focus of capital expenditures during the first half of 2008 and during both comparative 2007 periods, along with significant investments in land acquisitions, facilities and infrastructure. During the first half of 2008, Open Range drilled five gross natural gas wells (2.6 net) at its core Ansell/Sundance property, all of which were successful. Facilities and equipment expenditures for the six months ended June 30, 2008, relate mainly to the costs associated with the construction of the new 20 mmcf per day gross operated gas plant at Ansell/Sundance and connecting successful wells to existing infrastructure. The Corporation's average working interest on new wells during the first half of 2008 was 52 percent. Expenditures on land increased significantly in the first six months of 2008 as the Corporation assembled land during the first quarter of 2008 surrounding the well drilled at Rough.

	Three months ended June 30, 2008		Three months ended June 30, 2007		Six months ended June 30, 2008		Six months ended June 30, 2007	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Wells drilled								
Exploration	–	–	3	2	5	2.6	7	3.80
Development	–	–	–	–	–	–	5	0.35
Total	–	–	3	2	5	2.6	12	4.15
Average working interest		–		66.7%		52.0%		34.6%
Success rate		–		100%		100%		100%

SHARE CAPITAL

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Weighted average basic common shares outstanding ⁽¹⁾	27,131,143	19,793,841	24,465,119	18,901,963
Stock option dilution	378,595	–	71,875	–
Weighted average diluted common shares outstanding ⁽²⁾	27,509,738	19,793,841	24,536,994	18,901,963

⁽¹⁾ For purposes of calculating earnings (loss) per basic and diluted share.

⁽²⁾ For purposes of calculating funds from operations per diluted share only.

Outstanding securities	June 30, 2008	August 7, 2008
Common shares	27,334,241	27,334,241
Stock options	2,700,000	2,700,000
Total outstanding securities	30,034,241	30,034,241
Proportion of outstanding securities held by officers and directors	15%	15%

On April 4, 2008, Open Range closed an equity financing for gross proceeds of \$25 million. Pursuant to this financing, the Corporation issued 3,095,300 common shares at a price of \$4.20 per share and 2,400,000 flow-through common shares at a price of \$5.00 per share. This equity issuance, combined with cash flows from ongoing operations and the Corporation's credit facilities, will allow the Corporation to pursue its capital investment program for the year and have positioned it with financial flexibility for 2008.

During the first half of 2008 the Corporation issued 779,500 stock options to employees of the Corporation. The options vest over three years and are exercisable into common shares at an average price of \$4.93. At June 30, 2008, the Corporation had 2,700,000 options outstanding with an average exercise price of \$4.33.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

During the six months period ended June 30, 2008, the Corporation incurred \$120,596 in legal costs to a law firm in which the Chairman of the Board of Directors and the Corporate Secretary of the Corporation are partners. Of the legal costs incurred in the quarter ended June 30, 2008, \$10,534 was included in accounts payable at June 30, 2008.

Certain officers of Open Range purchased a total of 5,000 shares as part of the equity offering that closed on April 4, 2008, for total gross proceeds of \$21,000.

Open Range was not involved in any off-balance-sheet transactions during the three and six months ended June 30, 2008.

LIQUIDITY AND CAPITAL RESOURCES

Open Range had a working capital deficiency of \$5.8 million at June 30, 2008. As at June 30, 2008, Open Range had available a \$36 million extendable revolving-credit facility and a \$4 million acquisition and development facility with the National Bank of Canada. The interest rates on the facilities are calculated using the bank's prime rate plus an applicable facility margin based on the Corporation's net debt to cash flow ratio for the previous trailing calendar quarter. As at June 30, 2008, no amounts had been drawn on these facilities. The facilities are open for review semi-annually with the next review occurring in August 2008. The facility is a borrowing base facility that is determined based on, among other things, the Corporation's reserve report, production and operating results, and current and forecast commodity prices. Pursuant to the terms of the credit facilities, the Corporation has provided the covenant that at all times its working capital ratio shall be not less than 1 to 1. The working capital ratio is defined under the terms of the facilities as current assets, including the undrawn portion of the revolving credit facility, to current liabilities, excluding any current bank indebtedness. The Corporation is in compliance with this covenant as at June 30, 2008.

The Corporation has recently experienced a collection issue with one of its purchasers of natural gas, SemCanada Energy Company, and one of its purchasers of crude oil, SemCanada Crude Company. Both companies are Canadian subsidiaries of SemGoup, L.P. which recently filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code in the United States. As of August 7, 2008, the Corporation had receivables from SemCanada Energy Company and SemCanada Crude Company of \$1.0 million and \$0.1 million, respectively. It is not certain what portion, if any, of these receivables will be collectible.

	As at June 30, 2008
Bank lines available	\$ 40,000,000
Working capital deficiency	(5,808,924)
Capital resources available	\$ 34,191,076

The Corporation's capital expenditure budget for 2008 has been expanded to \$70 million, an increase from the previously announced budget of \$45 million. The capital program will be funded through a combination of funds from operations, the Corporation's credit facility and the \$25 million equity financing agreement that closed on April 4, 2008. The Corporation will closely monitor the capital program in conjunction with the commodity price outlook and adjust it accordingly.

The details of the revised 2008 budget are provided in the following table:

	2008
Drilling and completions	\$ 54,600,000
Equipment and facilities	3,200,000
Land and seismic	10,000,000
Capitalized G&A	2,200,000
Total	\$ 70,000,000

SELECTED QUARTERLY INFORMATION

	2008			2007			2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Production								
Natural gas (mcf/d)	10,630	9,746	8,862	9,545	7,009	5,460	5,111	3,951
Oil and NGL (bbls/d)	225	216	171	225	156	115	81	74
Total (boe/d)	1,996	1,840	1,648	1,815	1,324	1,025	933	733
Total (boe)	181,652	167,448	151,660	167,009	120,451	92,251	85,795	67,420
% natural gas	89	88	90	88	88	89	91	90

Financial

(\$000s except per share amounts and share numbers)

Revenue ⁽¹⁾	11,281	9,167	7,097	6,823	5,556	4,436	3,747	2,550
Net earnings (loss)	(31)	(1,914)	(345)	611	1,277	(1,020)	(160)	361
Net earnings (loss) per basic and diluted share (\$)	–	(0.09)	(0.02)	0.03	0.06	(0.06)	(0.01)	0.03
Funds from operations	7,242	5,600	4,583	4,413	3,709	2,454	1,931	1,615
Funds from operations per basic share (\$)	0.27	0.26	0.23	0.22	0.19	0.14	0.12	0.11
Funds from operations per diluted share (\$)	0.26	0.26	0.23	0.22	0.19	0.14	0.12	0.11
Cash flow from operating activities	8,310	5,156	2,867	3,728	4,624	2,371	758	1,507
Total assets (end of period)	117,265	114,415	97,517	93,289	86,746	85,984	78,656	64,303
Capital expenditures	5,885	19,625	9,354	8,780	11,285	12,585	6,985	6,277
Weighted average basic and diluted shares (000s)	27,131	21,799	20,029	19,764	19,764	18,031	15,779	14,410

Per Unit

Oil and NGL (\$/bbl)	105.18	79.60	73.10	61.32	57.68	55.05	49.73	65.71
Natural gas (\$/mcf) ⁽¹⁾	9.44	8.58	7.29	6.33	7.43	7.87	7.19	5.78
Revenue (\$/boe) ⁽¹⁾	62.10	54.74	46.80	40.85	46.13	48.08	43.67	37.82
Operating netback (\$/boe)	42.64	38.58	35.75	30.43	35.58	33.36	30.16	28.18

⁽¹⁾ Includes realized gains (losses) on commodity contracts.

Open Range's quarterly growth in production, revenues, funds from operations, funds from operations per share and total assets is attributable to the active exploration and development drilling program at the Corporation's Deep Basin properties, particularly the Ansell/Sundance core area.

CONTRACTUAL OBLIGATIONS ^{(1),(2)}

As at June 30, 2008	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Payments for office lease	\$ 2,381,265	\$ 985,351	\$ 1,395,914	\$ –	\$ –
Payments for office equipment lease	39,223	14,263	24,960	–	–
Total	\$ 2,420,488	\$ 999,614	\$ 1,420,874	\$ –	\$ –

⁽¹⁾ The Corporation has entered into farm-in agreements in the normal course of its business which are not included in this table.

⁽²⁾ The Corporation has entered into commodity contracts which are not included in this table. For a complete listing refer to note 8, Financial Instruments, in the interim financial statements for the three and six months ended June 30, 2008.

On December 20, 2007, the Corporation issued 2,029,100 flow-through common shares for gross proceeds of \$7 million. Under the terms of the flow-through share agreements, the Corporation is required to renounce qualifying oil and natural gas expenditures in 2008 and has until December 31, 2008 to incur the expenditures. As at June 30, 2008 the Corporation had incurred \$7 million of qualifying expenditures and is not required to incur any additional expenditures.

On April 4, 2008, the Corporation issued 2,400,000 flow-through common shares for gross proceeds of \$12 million. Under the terms of the flow-through share agreements, the Corporation is required to renounce the \$12 million of qualifying oil and natural gas expenditures effective December 31, 2008, and has until December 31, 2009, to incur the expenditures. As at June 30, 2008, the Corporation had incurred \$4.8 million of qualifying expenditures and is required to incur an additional \$7.2 million of expenditures.

ACCOUNTING POLICY UPDATES

On January 1, 2008, the Corporation adopted the following standards contained in the Handbook of the Canadian Institute of Chartered Accountants: Section 1535 – *Capital Disclosures*, Section 3862 – *Financial Instruments Disclosures* and Section 3863 – *Financial Instruments Presentation*. Section 1535 establishes standards for disclosing information about an entity’s capital and how it is managed. This section specifies disclosure about objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with all capital requirements, and if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 establish standards for the presentation and disclosure of information that enable users to evaluate the significance of financial instruments to the entity’s financial position, and the nature and extent of risks arising from financial instruments and how the entity manages those risks. The implementation of these new standards did not impact the Corporation’s financial results, but did result in additional disclosures. Refer to note 6 and note 8 in the interim financial statements for the three and six months ended June 30, 2008.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the CICA Accounting Standards Board (AcSB) confirmed that the convergence of Canadian GAAP to IFRS will be required for publicly accountable enterprises’ interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The AcSB issued the “omnibus” exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators (CSA) has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the continued use of US GAAP by domestic issuers. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Corporation’s reported financial position and results of operations.

The International Accounting Standards Board (IASB) has stated that it plans to issue an exposure draft relating to certain amendments and exemptions to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting is expected to reduce the administrative burden in the transition from the current Canadian Accounting Guideline 16 to IFRS. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment will potentially permit the Corporation to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the proviso that a ceiling test, under IFRS standards, be conducted at the transition date.

Although the Corporation has not completed the development of its IFRS changeover plan, when finalized it will include project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Corporation anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, by the fourth quarter of 2008.

FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of the Corporation are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Corporation has assessed the design of its internal controls over financial reporting and has not identified any weaknesses other than those disclosed in the MD&A for the year ended December 31, 2007. No material changes in the Corporation's internal controls over financial reporting were identified during the three and six months ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal financial reporting processes.

The management of Open Range is responsible for the integrity of the information contained in this quarterly report and for the consistency between the MD&A and the financial statements. In the preparation of the financial statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected with all information available up to August 7, 2008. The financial statements have been prepared using policies and procedures established by management in accordance with Canadian GAAP and reflect fairly Open Range's financial position, results of operations and cash flow.

The Board of Directors and the Audit Committee have reviewed and approved the financial statements and the MD&A.

Balance Sheets

(Unaudited)	As at June 30, 2008	As at December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,715,527	\$ –
Accounts receivable	7,135,074	7,891,264
Prepaid expenses and deposits	1,067,112	813,772
Fair value of commodity contracts (note 8)	–	713,075
Future income taxes	1,383,362	–
	12,301,075	9,418,111
Property, plant and equipment (note 2)	104,963,543	88,099,168
	\$ 117,264,618	\$ 97,517,279
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 3)	\$ –	\$ 12,855,623
Accounts payable and accrued liabilities	13,420,530	9,184,239
Fair value of commodity contracts (note 8)	4,689,469	–
Future income taxes	–	210,356
	18,109,999	22,250,218
Fair value of commodity contracts (note 8)	600,619	–
Future income taxes	5,935,413	440,742
Asset retirement obligations (note 4)	2,299,675	2,342,760
Shareholders' equity:		
Share capital (note 5)	90,050,109	70,884,500
Contributed surplus (note 5)	2,490,206	1,875,405
Deficit	(2,221,403)	(276,346)
	90,318,912	72,483,559
Commitments (note 7)		
	\$ 117,264,618	\$ 97,517,279

See accompanying notes to financial statements.

Statements of Operations, Comprehensive Loss and Deficit

(Unaudited)	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenues:				
Petroleum and natural gas	\$ 12,527,217	\$ 5,535,394	\$ 21,500,768	\$ 9,947,047
Royalties	(2,297,059)	(520,772)	(3,755,151)	(1,191,272)
Interest	39,050	37,591	43,510	89,697
Realized gain (loss) on commodity contracts (note 8)	(1,246,388)	20,563	(1,053,041)	44,753
Unrealized gain (loss) on commodity contracts (note 8)	(2,131,090)	1,168,139	(6,003,163)	11,642
	6,891,730	6,240,915	10,732,923	8,901,867
Expenses:				
Operating	1,236,784	750,879	2,484,125	1,438,277
General and administrative	493,671	577,343	1,159,979	1,223,640
Stock-based compensation	184,776	125,977	333,621	251,888
Interest	50,272	35,855	250,221	65,141
Depletion and depreciation	4,855,942	2,813,443	9,103,319	5,356,716
Accretion of asset retirement obligations	39,911	44,636	81,334	87,059
	6,861,356	4,348,133	13,412,599	8,422,721
Earnings (loss) before income taxes	30,374	1,892,782	(2,679,676)	479,146
Future income tax expense (reduction)	61,813	615,330	(734,619)	222,658
Net earnings (loss) and comprehensive income (loss)	(31,439)	1,277,452	(1,945,057)	256,488
Deficit, beginning of period	(2,189,964)	(1,820,449)	(276,346)	(799,485)
Deficit, end of period	\$ (2,221,403)	\$ (542,997)	\$ (2,221,403)	\$ (542,997)
Earnings (loss) per share (note 5):				
Basic	\$ -	\$ 0.06	\$ (0.08)	\$ 0.01
Diluted	\$ -	\$ 0.06	\$ (0.08)	\$ 0.01

See accompanying notes to financial statements.

Statements of Cash Flows

(Unaudited)	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Cash provided by (used in):				
Operating:				
Net earnings (loss)	\$ (31,439)	\$ 1,277,452	\$ (1,945,057)	\$ 256,488
Items not involving cash:				
Depletion and depreciation	4,855,942	2,813,443	9,103,319	5,356,716
Accretion of asset retirement obligations	39,911	44,636	81,334	87,059
Future income tax expense (reduction)	61,813	615,330	(734,619)	222,658
Stock-based compensation	184,776	125,977	333,621	251,888
Unrealized loss (gain) on commodity contracts	2,131,090	(1,168,139)	6,003,163	(11,642)
Asset retirement expenditures	(47,142)	–	(168,965)	–
Change in non-cash working capital	1,115,410	915,528	793,536	832,133
	8,310,361	4,624,227	13,466,332	6,995,300
Financing:				
Issue of common shares, net of issue costs	23,617,167	(3,374)	23,668,803	11,291,558
Bank indebtedness	(21,878,434)	4,734,340	(12,855,623)	897,872
	1,738,733	4,730,966	10,813,180	12,189,430
Investing:				
Acquisition of property, plant and equipment	(5,884,953)	(11,284,524)	(25,509,590)	(23,869,797)
Change in non-cash working capital	(1,448,614)	(2,457,241)	3,945,605	4,685,067
	\$ (7,333,567)	(13,741,765)	(21,563,985)	(19,184,730)
Change in cash	2,715,527	(4,386,572)	2,715,527	–
Cash, beginning of period	–	4,386,572	–	–
Cash, end of period	\$ 2,715,527	\$ –	\$ 2,715,527	\$ –
Interest received	\$ 39,050	\$ 37,591	\$ 43,510	\$ 89,697
Interest paid	\$ 50,272	\$ 35,855	\$ 250,221	\$ 65,141

Cash is defined as cash and cash equivalents.
See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS



FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008

(Unaudited)

The interim financial statements of Open Range Energy Corp. (“Open Range” or the “Corporation”) have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the year ended December 31, 2007, except as noted below. The following disclosure is incremental to the disclosure included with the annual financial statements. These interim financial statements should be read in conjunction with the financial statements and notes thereto in the Corporation’s annual report for the year ended December 31, 2007. Certain comparative figures have been reclassified to conform to the current period’s presentation.

1. CHANGE IN ACCOUNTING POLICIES

(A) FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

On January 1, 2008, the Corporation adopted the following standards contained in the Handbook of the Canadian Institute of Chartered Accountants (CICA): Section 1535 – *Capital Disclosures*, Section 3862 – *Financial Instruments Disclosures* and Section 3863 – *Financial Instruments Presentation*. Section 1535 establishes standards for disclosing information about an entity’s capital and how it is managed. This section specifies disclosure about objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with all capital requirements, and if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 establish standards for the presentation and disclosure of information that enable users to evaluate the significance of financial instruments to the entity’s financial position, and the nature and extent of risks arising from financial instruments and how the entity manages those risks. The implementation of these new standards did not impact the Corporation’s financial results, but did result in additional disclosures; refer to note 6 and note 8.

(B) INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the CICA Accounting Standards Board (AcSB) confirmed that the convergence of Canadian GAAP to IFRS will be required for publicly accountable enterprises’ interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The AcSB issued the “omnibus” exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators (CSA) has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the continued use of U.S. GAAP by domestic issuers. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Corporation’s reported financial position and results of operations.

The International Accounting Standards Board (IASB) has stated that it plans to issue an exposure draft relating to certain amendments and exemptions to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting is expected to reduce the administrative burden in the transition from the current Canadian Accounting Guideline 16 to IFRS. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment could potentially permit the Corporation to apply IFRS prospectively to its full cost pool, rather than applying the retrospective assessment of capitalized exploration and development expenses, with the proviso that a ceiling test, under IFRS standards, be conducted at the transition date.

Although the Corporation has not completed the development of its IFRS changeover plan, when finalized it will include project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Corporation anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, by the fourth quarter of 2008.

2. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2008	December 31, 2007
Petroleum and natural gas properties	\$ 132,757,504	\$ 106,799,108
Other assets	2,385,304	2,376,006
	135,142,808	109,175,114
Accumulated depletion and depreciation	(30,179,265)	(21,075,946)
Net book value	\$ 104,963,543	\$ 88,099,168

During the three- and six-month periods ended June 30, 2008, the Corporation capitalized \$820,696 and \$1,532,164 (June 30, 2007 – \$721,255 and \$1,370,544), respectively, of overhead-related costs to petroleum and natural gas properties, of which \$170,419 and \$306,033 (June 30, 2007 – \$133,388 and \$248,884), respectively, related to stock-based compensation. During the three and six months ended June 30, 2008, the future tax liability of \$59,877 and \$107,525 (June 30, 2007 – \$42,844 and \$92,219), respectively, associated with the capitalized stock-based compensation has also been capitalized.

Costs associated with unproved properties excluded from costs subject to depletion for the period ended June 30, 2008, totalled \$15,926,000 (June 30, 2007 – \$12,784,000). Future development costs of proved reserves of \$3,733,000 at June 30, 2008 (June 30, 2007 – \$2,769,000) have been included in the depletion calculation.

3. BANK DEBT

The Corporation has a \$36,000,000 extendable revolving credit facility and a \$4,000,000 non-revolving acquisition/development demand facility. These facilities are with a Canadian chartered bank. The interest rates on the facilities are calculated using the bank's prime rate plus an applicable facility margin based on the Corporation's net debt to cash flow ratio for the previous trailing calendar quarter. The credit facilities are secured by a first fixed and floating charge debenture in the minimum face amount of \$100,000,000 and a general security agreement. Pursuant to the terms of the credit facilities, the Corporation has provided the covenant that at all times its working capital ratio shall be not less than 1 to 1. The working capital ratio is defined under the terms of the facilities as current assets, including the undrawn portion of the revolving credit facility, to current liabilities, excluding any current bank indebtedness. The Corporation is in compliance with this covenant as at June 30, 2008. The facilities are open for review semi-annually with the next review occurring in August 2008.

As at June 30, 2008, no amounts (December 31, 2007 – \$12,855,623) have been drawn against the revolving credit facility and no amounts (December 31, 2007 – \$nil) have been drawn against the non-revolving demand facility. The revolving facility had an effective interest rate of 4.75 percent at June 30, 2008 (December 31, 2007 – 6.125 percent).

4. ASSET RETIREMENT OBLIGATIONS

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at June 30, 2008 to be approximately \$6,621,000 (December 31, 2007 – \$6,578,000), to be incurred between 2008 and 2040. The majority of the costs will be incurred between 2020 and 2040. A credit-adjusted, risk-free rate of eight percent (December 31, 2007 – eight percent) was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	June 30, 2008	December 31, 2007
Balance, beginning of period	\$ 2,342,760	\$ 1,994,891
Liabilities incurred	44,546	202,441
Liabilities settled	(168,965)	(16,869)
Accretion expense	81,334	162,297
Balance, end of period	\$ 2,299,675	\$ 2,342,760

5. SHARE CAPITAL

(A) COMMON SHARES ISSUED AND OUTSTANDING

	Number of shares	Amount
Balance, December 31, 2006	16,763,841	\$ 54,526,892
Issued pursuant to flow-through share offerings	5,029,100	19,000,395
Share issue costs (net of tax of \$334,898)	–	(811,947)
Tax effect of flow-through shares issued in 2006	–	(1,830,840)
Balance, December 31, 2007	21,792,941	\$ 70,884,500
Issued pursuant to flow-through share offerings	2,400,000	12,000,000
Issued pursuant to common share offerings	3,095,300	13,000,260
Issued pursuant to private placements	40,000	178,600
Exercise of stock options	6,000	18,250
Stock-based compensation on exercise of stock options	–	7,453
Share issue costs (net of tax of \$412,056)	–	(1,098,851)
Tax effect of flow-through shares issued in 2007	–	(4,940,103)
Balance, June 30, 2008	27,334,241	\$ 90,050,109

On March 4, 2008, Open Range closed a private placement common share issuance with a new employee of the Corporation for 20,000 shares at a price of \$3.10 per share for gross proceeds of \$62,000. On June 17, 2008, Open Range closed a private placement common share issuance with another new employee of the Corporation for 20,000 shares at a price of \$4.96 per share for gross proceeds of \$99,200 plus stock-based compensation of \$17,400.

Certain officers of Open Range purchased 5,000 shares as part of the equity offering that closed on April 4, 2008, for total gross proceeds of \$21,000.

(B) SHARE OPTION PLAN

Under the Corporation's share option plan it may grant options to its employees for up to 2,733,424 shares, of which 2,700,000 had been granted as at June 30, 2008 (December 31, 2007 – 1,926,500). The exercise price of each option equals the market price of the Corporation's stock on the date of grant. Options have terms of five years and vest as to one-third on each of the first, second and third anniversaries of the grant date.

	Six months ended June 30, 2008		Year ended December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Granted and outstanding, beginning of period	1,926,500	\$ 4.08	1,673,000	\$ 4.17
Granted	779,500	4.93	256,500	3.51
Exercised	(6,000)	3.04	–	–
Forfeited	–	–	(3,000)	3.53
Granted and outstanding, end of period	2,700,000	4.33	1,926,500	4.08
Exercisable at period-end	1,053,166	\$ 4.26	859,667	\$ 4.32

The following table summarizes information about the fixed stock options outstanding at June 30, 2008:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted average exercise price	Weighted average contractual life (years)	Number exercisable	Weighted average exercise price
\$ 2.40 - \$ 3.60	713,500	\$ 3.27	3.5	151,333	\$ 3.12
\$ 3.61 - \$ 6.06	1,986,500	\$ 4.71	3.4	901,833	\$ 4.45
\$ 2.40 - \$ 6.06	2,700,000	\$ 4.33	3.4	1,053,166	\$ 4.26

(C) STOCK-BASED COMPENSATION

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in the six-month period ended June 30, 2008: zero dividend yield, average expected volatility of 58 percent (December 31, 2007 – 52 percent), average risk-free interest rate of 3.14 percent (December 31, 2007 – 4.27 percent), and expected life of five years (December 31, 2007 – five years). The average fair value of stock options granted during the period was \$2.57 (December 31, 2007 – \$1.74) per option. The Corporation has not re-priced any stock options. The Corporation has not incorporated an estimated forfeiture rate for stock options that will not vest; rather, the Corporation accounts for actual forfeitures as they occur.

(D) CONTRIBUTED SURPLUS

Balance, December 31, 2006	\$ 819,334
Stock-based compensation expense	1,056,071
Balance, December 31, 2007	\$ 1,875,405
Stock-based compensation expense	622,254
Transfer to share capital on exercise of stock options	(7,453)
Balance, June 30, 2008	\$ 2,490,206

(E) PER SHARE AMOUNTS

Per share amounts have been calculated using the weighted average number of shares outstanding. The following table summarized basic and diluted common shares outstanding:

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Weighted average basic and diluted common shares outstanding	27,131,143	19,763,841	24,465,119	18,901,963

Options to purchase 2,700,000 common shares for the three and six months ended June 30, 2008 (June 30, 2007 – 1,922,500) were not included in the computation because they were anti-dilutive.

6. CAPITAL MANAGEMENT

The Corporation's objectives when managing its capital are: maintain financial flexibility so as to preserve the ability to meet its financial obligations, and finance its growth, which may include accessing capital markets and credit facilities to fund the drilling of exploration and development wells as well as potential property or corporate acquisitions.

The Corporation manages its capital structure and adjusts it as a result of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholders' equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Corporation may from time to time issue shares and adjust its capital spending to manage current and forecast debt levels.

The Corporation manages its capital and financing requirements using the non-GAAP financial metric of the net debt to annualized funds from operations ratio. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus working capital, divided by annualized funds from operations, defined as the most recent calendar quarter's cash flow from operating activities, before the change in non-cash working capital and asset retirement expenditures incurred, multiplied by four. The Corporation's strategy is to maintain a ratio of no more than 2 to 1. This ratio may increase at certain times as a result of acquisitions. This ratio is calculated as follows:

	June 30, 2008	December 31, 2007
Current liabilities	\$ 18,109,999	\$ 22,250,218
Current assets	(12,301,075)	(9,418,111)
Net debt	5,808,924	12,832,107
Cash flow from operating activities	8,310,361	2,867,479
Change in non-cash working capital	(1,115,410)	1,698,137
Asset retirement expenditures	47,142	16,869
Quarterly funds from operations	7,242,093	4,582,485
Annualized funds from operations	\$ 28,968,372	\$ 18,329,940
Net debt to annualized funds from operations ratio	0.2 : 1	0.7 : 1

As at June 30, 2008, and December 31, 2007, the Corporation's ratio of net debt to annualized funds from operations was within the acceptable range established by the Corporation. The decrease in the ratio from December 31, 2007, to June 30, 2008, is primarily due to the closing of an equity financing for gross proceeds of \$25,000,260 on April 4, 2008 and increased funds from operations. The Corporation expects the ratio will increase during the third quarter of 2008 as the Corporation continues to incur expenditures under the 2008 capital program.

The Corporation's share capital is not subject to external restrictions; however, the bank debt facilities are based on petroleum and natural gas reserves (see note 3) and covenants. The Corporation has not paid or declared any dividends since the date of incorporation, nor are any contemplated at this time.

There were no changes in the Corporation's approach to capital management during the period.

7. COMMITMENTS

(A) FUTURE MINIMUM LEASE PAYMENTS RELATING TO OPERATING LEASES FOR OFFICE SPACE AND EQUIPMENT ARE:

2008	\$	499,807
2009		999,614
2010		917,501
2011		3,566
	\$	2,420,488

(B) FLOW-THROUGH COMMON SHARES

On December 20, 2007, the Corporation issued 2,029,100 flow-through common shares for gross proceeds of \$7,000,395. Under the terms of the flow-through share agreements, the Corporation is required to renounce qualifying oil and natural gas expenditures in 2008 and has until December 31, 2008, to incur the expenditures. As at June 30, 2008, the Corporation had incurred \$7,000,395 of qualifying expenditures and is not required to incur any additional expenditures.

On April 4, 2008, the Corporation issued 2,400,000 flow-through common shares for gross proceeds of \$12,000,000. Under the terms of the flow-through share agreements, the Corporation is required to renounce the \$12,000,000 of qualifying oil and natural gas expenditures effective December 31, 2008, and has until December 31, 2009, to incur the expenditures. As at June 30, 2008 the Corporation had incurred \$4,756,000 of qualifying expenditures and is required to incur an additional \$7,244,000 of expenditures.

8. FINANCIAL INSTRUMENTS

The Corporation has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk, and market risk.

This note presents information about the Corporation's exposure to each of the above risks and the Corporation's objectives, policies and processes for measuring and managing risk. Further qualitative disclosures are included throughout these financial statements.

(A) CREDIT RISK

Credit risk is the risk of financial loss to the Corporation if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from purchasers of the Corporation's natural gas, crude oil and natural gas liquids and from joint venture partners. As at June 30, 2008 the Corporation's receivables consisted of \$3,036,057 (December 31, 2007 – \$4,552,556) from joint venture partners, \$3,956,142 (December 31, 2007 – \$2,078,846) from purchasers of the Corporation's natural gas, crude oil and natural gas liquids and \$142,875 (December 31, 2007 – \$1,259,862) of other trade receivables.

Receivables from purchasers of the Corporation's natural gas, crude oil and natural gas liquids are normally collected on the 25th day of the month following production. The Corporation's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Corporation has recently experienced a collection issue with one of its purchasers of natural gas, SemCanada Energy Company, and one of its purchasers of crude oil, SemCanada Crude Company. Both companies are Canadian subsidiaries of SemGroup, L.P. which recently filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code in the United States. As of June 30, 2008, the Corporation has receivables from SemCanada Energy Company and SemCanada Crude Company of \$585,000 and \$67,000, respectively. It is not certain what portion, if any, of these receivables will be collectible. After reviewing the facts and sequence of events in this issue, the Corporation's management has concluded that these events could not have been detected, or detected earlier, by a standard credit risk program.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Corporation attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to commencement of the joint venture project. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. The Corporation does not typically obtain collateral from joint venture partners; however, the Corporation does have the ability to withhold production from joint venture partners in the event of non-payment.

Cash and cash equivalents, when outstanding, consist of cash bank balances and short-term deposits maturing in less than 90 days. The Corporation manages the credit risk exposure related to short-term investments by selecting counter-parties based on credit ratings and monitoring all investments to ensure a stable return, and also by avoiding complex investment vehicles with higher risk such as asset-backed commercial paper.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at June 30, 2008, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended June 30, 2008.

As at June 30, 2008, the Corporation considers its receivables to be aged as follows:

Not past due (less than 120 days)	\$	6,969,522
Past due (over 120 days)		165,552
Total	\$	7,135,074

(B) LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation utilizes prudent cash and debt management to mitigate the likelihood of encountering difficulties in meeting its financial obligations. As disclosed in note 6, the Corporation targets a net debt to annualized funds from operations ratio of no more than 2 to 1 to manage the Corporation's overall liquidity risk.

The Corporation prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Corporation has a revolving reserve-based credit facility, as disclosed in note 3, that is reviewed semi-annually by the lender. The Corporation also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month.

The following are the contractual maturities of financial liabilities as at June 30, 2008:

Financial liability	Less than 1 year	1 to 2 years	Total
Accounts payable and accrued liabilities	\$ 13,420,530	\$ –	\$ 13,420,530
Commodity contracts	\$ 4,689,469	\$ 600,619	\$ 5,290,088

(C) MARKET RISK

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

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 not only the relationship between the Canadian and United States dollar, but also by continental and worldwide economic events and natural phenomena such as the weather, all of which influence the levels of supply and demand. The Corporation utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. Because the large majority of the Corporation's production is natural gas, plus the associated natural gas liquids, all of the Corporation's current commodity contracts are for natural gas.

The following table indicates the fair value of natural gas hedging contracts outstanding as at June 30, 2008 and indicates the unrealized losses on natural gas contracts for the periods then ended:

Period	Volume (Gj/d)	Type of contract	Average AECO Spot floor (Cdn\$/Gj)	Average AECO Spot ceiling (Cdn\$/Gj)	Fair value of contract as at June 30, 2008	Unrealized losses for the three months ended June 30, 2008	Realized gains for the six ended June 30, 2008
Apr. 2007 to Mar. 2008	1,000	Costless Collar	\$7.00	\$10.16	–	–	\$ (68,534)
Nov. 2007 to Mar. 2008	1,500	Costless Collar	\$7.50	\$10.67	–	–	(164,411)
Jan. to Dec. 2008	3,000	Costless Collar	\$6.75	\$7.50-\$9.12	\$ (1,967,883)	\$ (830,852)	(2,465,341)
Apr. to Oct. 2008	1,500	Swap	\$6.46	\$6.46	(905,617)	(109,296)	(896,353)
Nov. to Dec. 2008	1,500	Swap	\$7.26	\$7.26	(432,200)	(232,159)	(424,136)
Apr. to Oct. 2008	1,500	Swap	\$6.50	\$6.50	(898,294)	(114,662)	(898,294)
Nov. 2008 to Mar. 2009	1,500	Costless Collar	\$6.75	\$11.09	(485,475)	(342,778)	(485,475)
Jan. to Dec. 2009	1,000	Costless Collar	\$6.50	\$9.00-\$13.00	(600,619)	(501,343)	(600,619)
					\$ (5,290,088)	\$ (2,131,090)	\$ (6,003,163)

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Corporation's petroleum and natural gas sales are denominated in Canadian dollars, 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.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest.

The Corporation had no forward exchange rate contracts or interest rate swap contracts in place as at or during the period ended June 30, 2008 and 2007.

The following table summarizes the sensitivity of the fair value of the Corporation's market risk management positions to fluctuations in natural gas prices and interest rates. Both such fluctuations were evaluated independently, with all other variables held constant. In assessing the potential impact of these fluctuations, the Corporation believes that the volatilities presented below are reasonable measures. Fluctuations in natural gas prices, which would impact the mark-to-market calculation of commodity contracts, and interest rates could have resulted in the following impact on the net loss:

	Net earnings (loss)	
	Three months ended June 30, 2008	
	Increase	Decrease
Natural gas price – change of 10%	\$ 1,118,714	\$ (1,059,504)
Interest rate – change of 10% ⁽¹⁾	791	(791)

⁽¹⁾ As at June 30, 2008, a 10 percent change to the Corporation's effective interest rate would be equivalent to a change of 48 basis points or 0.48 percent in the rate charged by the Corporation's bank.

(D) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's financial instruments as at June 30, 2008, and December 31, 2007, include cash and cash equivalents, accounts receivable, derivative contracts, accounts payable and accrued liabilities and bank debt. The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their carrying amounts due to their short terms to maturity.

The fair value of derivative contracts is determined by discounting the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes.

Bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

9. RELATED-PARTY TRANSACTIONS

During the three and six months ended June 30, 2008, the Corporation incurred \$71,045 and \$120,596 in legal costs (December 31, 2007 – \$124,000), respectively, to a law firm in which the Chairman of the Board of Directors and the Corporate Secretary of the Corporation are partners. The legal costs incurred were in the normal course of operations and were based on the exchange value of the services provided. Of the legal costs incurred in the six months ended June 30, 2008, \$10,534 is included in accounts payable at June 30, 2008 (December 31, 2007 – \$43,000).

Certain officers and directors of the Corporation purchased a total of 5,000 shares as part of the equity offering that closed on April 4, 2008, for total gross proceeds of \$21,000.

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ABBREVIATIONS

bbls	barrels of oil inclusive of NGL
bcf	billion cubic feet
boe	barrels of oil equivalent, converting natural gas to oil at a ratio of six mcf of gas to one barrel of oil
boe/d	barrels of oil equivalent per day
G&A	general and administrative
GAAP	generally accepted accounting principles
GJ	Gigajoule
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
NGL	natural gas liquids
W.I.	working interest