

TSX:ONR



FINANCIAL REPORT FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2009

FINANCIAL AND OPERATING HIGHLIGHTS

(thousands except per share amounts)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Petroleum and natural gas revenue ⁽¹⁾	\$ 9,254	\$ 10,238	\$ 28,203	\$ 40,331
Funds from operations	6,243	6,351	15,341	23,949
Per basic share	0.14	0.23	0.50	0.93
Per diluted share	0.14	0.23	0.50	0.92
Net earnings (loss)	(517)	1,067	(6,137)	2,798
Per basic and diluted share	(0.01)	0.04	(0.20)	0.11
Net debt	37,571	27,625	37,571	27,625
Capital expenditures, net	\$ 65,950	\$ 9,253	\$ 85,778	\$ 60,567
Weighted average shares outstanding				
– basic	44,132	27,111	30,980	25,851
Weighted average shares outstanding				
– diluted	44,132	27,111	30,980	26,002
Production				
Natural gas (mcf per day)	15,814	13,164	13,293	11,064
Oil and NGL (bbls per day)	282	257	241	226
Total (@ 6:1) (boe per day)	2,918	2,451	2,457	2,070
Realized average sales prices				
Natural gas (\$ per mcf) ⁽¹⁾	5.29	7.35	4.88	8.23
Oil and NGL (\$ per bbl)	60.09	56.40	51.41	84.39
Combined average (\$ per boe)	34.47	45.41	31.45	53.22
Royalties (\$ per boe)	(1.55)	(8.05)	(3.08)	(10.71)
Operating costs (\$ per boe)	(5.26)	(5.65)	(5.58)	(6.10)
Transportation costs (\$ per boe)	(0.75)	(0.70)	(0.96)	(0.74)
Operating netback (\$ per boe)	26.91	31.01	21.83	35.67
G&A costs (\$ per boe)	(1.92)	(1.04)	(3.09)	(2.60)
Net interest expense (\$ per boe)	(1.75)	(0.64)	(1.34)	(0.43)
Corporate netback (\$ per boe)	23.24	29.33	17.40	32.64

(1) Includes the realized gain or loss on commodity contracts.

CORPORATE HIGHLIGHTS

During the year ended December 31, 2009, Open Range:

- Produced an average of 2,457 boe per day (90 percent natural gas), a 19 percent increase from the 2008 average;
- Drilled its first horizontal Bluesky well (100 percent working interest) at its Ansell/Sundance property;
- Increased year-over-year total proved plus probable reserves by 6.8 million boe or 68 percent to 16.9 million boe;
- Achieved finding, development and acquisition costs, including the change in future development capital, of \$16.61 per proved plus probable boe of reserves added;
- Realized funds from operations of \$15.3 million (\$0.50 per diluted share), reflecting reduced revenues driven by lower commodity prices, partially offset by increased production, the Company's low cost structure and natural gas price hedges;
- Realized strong benefits from its hedging program, increasing the realized average sales price of the Company's natural gas production by \$0.57 per mcf and gaining \$2.7 million in incremental cash flow;
- Maintained its record of low cash costs, with fourth quarter cash costs (operating, transportation, G&A and interest) of \$9.68 per boe;
- Closed a purchase and sale agreement that substantially increased the Company's working interests at its core Ansell/Sundance Deep Basin property in west central Alberta, adding production of 1,150 boe per day and greatly augmenting the Company's multi-year drilling inventory;
- Completed a bought-deal financing totalling \$65 million gross in common shares and flow-through common shares with a syndicate of underwriters;
- Increased the Company's bank lines to \$75 million as a consequence of enlarging the asset base; and
- Increased undeveloped land by 28 percent year-over-year to 65,238 net acres.

MESSAGE TO SHAREHOLDERS

Open Range exited 2009 larger, stronger and with an active horizontal and vertical well drilling program underway in our core Ansell/Sundance property, recently enlarged by more than 50 percent through the \$60 million working interest acquisition that closed in November. We have resumed accelerated organic growth from a larger base of production and reserves and now offer our shareholders visible growth to 10,000 boe per day and beyond.

Initial results from our first (100 percent working interest) Notikewin horizontal Deep Basin well at Ansell/Sundance are very encouraging. The well tested at rates up to 5.4 mmcf per day on cleanup, as detailed in our operational update released on February 18, 2010. It was tied-into an Open Range compression facility in late February and began producing at an initial rate of 2.1 mmcf per day plus natural gas liquids.

We have a further two (1.6 net) horizontal Deep Basin wells, one net vertical multi-zone well, one (0.375 net) horizontal Cardium oil well and one (0.2 net) horizontal Glauconitic natural gas well awaiting completion or tie-in operations. Open Range's management team is optimistic about strong near-term production growth. Open Range's production is currently 3,500 boe per day, including 18.9 mmcf per day of natural gas. First-half 2010 production is initially forecast at 3,600 boe per day, but may be revisited as the new wells are tied in.

2009 IN REVIEW

We approached 2009 the way we needed to given Open Range's size, commodity focus and cost of capital. We cut capital spending early, before the severity and length of the downturn were clear, and further trimmed our already low internal costs. We built up a very good hedge book, which added materially to our cash flow throughout 2009. Open Range's high-quality production and low cost structure continued to generate positive cash flow.

While adjusting to the short-term business cycle constraints, strategically we maintained our long-term plan of exploration-based growth in the Deep Basin. Important to this strategy was drilling our first horizontal Deep Basin well at Ansell/Sundance. It was clear that multi-stage fractured horizontal drilling was an important industry trend and might drive a step-change in the economics of Deep Basin development. We proceeded with this first well to prove up the technology and methodologies. We were of the view that gaining this experience and moving up the learning curve would position the Company to execute quickly when market conditions improve.

Since being placed on production in early August, the 100 percent working interest Bluesky well has averaged 1.8 mmcf per day plus NGL at low initial decline. This well plus some vertical tie-ins earlier in 2009 and the closing of the Company's working-interest acquisition in November grew the Company's 2009 daily average production to 2,457 boe per day, representing an increase of 19 percent year-over-year.

Ansell/Sundance Working-Interest Acquisition

The year's key event was increasing our overall position at Ansell/Sundance by more than 50 percent. We were pleased to be able to take advantage of this cyclical opportunity and close this strategic deal in a timely manner. It clearly sets Open Range up for rapid growth on a base of high-working-interest lands that we know well.

The immediate benefits of the deal, which was effective October 1, 2009, were adding:

- 1,150 boe per day in current production;
- \$2.5 million in fourth-quarter 2009 cash flow, including standard closing adjustments;
- Over 5 million boe of proved plus probable reserves;
- 19 net sections of land, bringing our Ansell/Sundance lands to 50 net sections;
- 61 net drilling locations, bringing our inventory to a combined 196 gross vertical and horizontal locations;
- 12.1 mmcf per day of working-interest plant and compression capacity; and
- \$60 million of tax pools.

The key acquisition metrics were \$10.55 per proved plus probable boe of reserves added and \$46,100 per daily flowing boe of production. We now have 85 percent average working interest at Ansell/Sundance.

Because it is a working interest acquisition, Open Range's cash costs per boe of production are further reduced and we are able to operate the larger base of production without additional staff. Operating costs at Ansell/Sundance immediately fell from approximately \$5.50 per boe to \$4.50 per boe. For the year as a whole the Company's cash costs also continued to trend lower, a strong advantage in a time of lower commodity prices. All-in cash costs – operating, transportation, G&A and interest – were averaging \$1.92 per mcf during the first nine months of 2009. Following the working interest acquisition our cash costs declined to \$1.61 per mcf in the fourth quarter. This performance ranks Open Range in the top decile of its peer group.

The deal was financed by issuing \$65 million in common shares and flow-through common shares through a bought-deal financing. Along with our larger asset base our bank lines were increased to \$75 million from \$54 million and we exited the year with net debt of \$37.5 million. Our year-end debt to annualized fourth-quarter cash flow ratio declined substantially as a result of the transaction and was 1.5:1 exiting 2009 versus 3:1 prior to the closing of the acquisition.

The Ansell/Sundance acquisition had important strategic rationales. First, Open Range gained control over the timing and focus of future development activities at Ansell/Sundance. Second, the Company moved up to a critical mass of production and cash flow, supporting a more aggressive development scenario and gaining greater leverage with each successful new well. Third, we created a clear pathway to achieving our long-term vision of exploration-based growth to 10,000 boe per day and beyond.

Reserves

Reserves growth in 2009 was substantial at 68 percent year-over-year, as evaluated by GLJ Petroleum Consultants Ltd., independent reservoir engineers. Proved plus probable reserves at December 31, 2009 totalled 16.9 million boe compared to slightly over 10 million boe at year-end 2008. Proved plus probable reserve additions replaced 2009 production by 8.6 times, providing a reserve-life-index at year-end

of 13.6 years, further evidence of the long-life nature of our Deep Basin reservoirs. The 2009 year-end evaluation assigned a net present value (before tax, 10 percent discount) of \$236 million to our proved plus probable reserves.

The large majority of reserve additions stemmed from the Ansell/Sundance acquisition. We also added reserves through the Bluesky horizontal well and booked reserves on a number of low-risk development drilling locations. There were also some upward technical revisions at Ansell/Sundance, representing the continued improvement in the recognized quality of our multi-zone Deep Basin play as well production histories are extended and production type curves become established.

FIRST-HALF 2010 CAPITAL PROGRAM

The first quarter of 2010 marked the Company's return to a more aggressive level of field activities. As of mid-March operations are ongoing under our \$30 million first-half capital program.

The first of the three horizontal wells was a 100 percent working interest Notikewin that commenced drilling in early December and was fractured and tested by mid-February. The 4,100-metre well was drilled to a true vertical depth of approximately 2,600 metres, with a 1,250-metre horizontal leg.

As we announced in our operational update of February 18, this Notikewin well tested on cleanup at rates up to 5.4 mmcf per day over 60 hours. The well was tied into our 10-11 compressor in late February and began producing at an initial rate of 2.1 mmcf per day plus natural gas liquids. Recovery of fracturing fluids is continuing.

The second of the three horizontal wells, a Bluesky (60 percent working interest), began drilling in late December. It reached its total measured depth of 4,100 metres, including a 900-metre horizontal leg, and an update on the completion operations is expected before spring break-up. The third horizontal well (100 percent working interest), our second Notikewin, is currently awaiting multi-stage fracturing completion operations.

The first of our two planned 100 percent Open Range vertical wells is currently awaiting tie-in operations. The second vertical is expected to spud in June.

Royalty Incentives

The long measured depth of the Company's Ansell/Sundance horizontal wells provides strong exposure to the current provincial Natural Gas Deep Drilling Program, New Well Royalty Reduction Program and Drilling Royalty Credit Program. The three first-quarter horizontal wells drilled by the Company are expected to receive an average of \$3.5 million in combined provincial royalty incentives per well. All the horizontal wells in our current drilling program will receive incentive royalty rates of no more than 5 percent on their first 0.5 bcf of production.

Control of Key Infrastructure

The second and third horizontal wells of the first-half 2010 program are located in the Ansell/Sundance core and will be tied into our expanded Ansell/Sundance gas plant (61 percent working interest). The expansion was completed in early March, increasing gross throughput capacity to 40 mmcf per day.

Control of key infrastructure is important in this active, competitive area, and our gas plant can be expanded further, accommodating future drilling. We are also expanding our gathering system and are making plans to convert the 10-11 compressor into a second gas plant. In the meantime production from the first Notikewin well is flowing from the 10-11 compressor to a third-party processing facility.

Emerging Cardium Opportunity

The Company is participating in an exciting opportunity outside Ansell/Sundance. The Cardium light oil play has captured much attention in recent months. Like our Deep Basin activities it involves the application of horizontal wells with multiple fractures to a known reservoir. The Cardium is a medium-depth sandstone discovered in the early 1950s and long considered in terminal decline. Now its less permeable edge areas, which tended not to be conventionally developed, have yielded multiple high-rate wells. Successful horizontal Cardium wells have generated strong initial production rates of premium-priced, low-royalty, high-netback light oil and condensate.

Among Open Range's smaller land parcels in west central Alberta are some with Cardium potential. Through a recent land pooling arrangement with a private producer we assembled a three-section block at a 27.5 percent average working interest. The partner is operating a horizontal Cardium test (37.5 percent working interest), which was drilled to depth in late February and underwent completion operations in early March. Our share to drill and complete is approximately \$1 million. We expect to have test results shortly, and follow-up locations are being evaluated. We're pleased at the opportunity to increase the liquids weighting in our production mix.

OUTLOOK

Industry activity in a range of exciting unconventional oil and natural gas plays across western Canada has accelerated in the past several months. This includes the Deep Basin, where operators are testing several new zones with horizontal drilling and multi-stage fractures while drilling multiple development wells as they gain confidence in the four to five main formations proven to date.

Open Range intends to continue a steady pace of activities while always maintaining the financial discipline to adjust to prevailing natural gas prices and the cost of capital. Second-half 2010 activity will continue to focus on lands near the expanded Ansell/Sundance gas plant to maximize capital and operating efficiencies and ensure speedy tie-ins.

Multi-Year High-Quality Drilling Inventory

Vertical and horizontal drilling results to date show Open Range extending its multi-year track record of success in the Deep Basin. The current inventory stands at approximately 150 gross multi-zone vertical locations and approximately 50 horizontal locations in three initial horizons at only one well per prospective section.

Vertical drilling remains important. Vertical wells delineate new areas as we move outward from the Ansell/Sundance core – finding the sweet spots for horizontal development – and exploit secondary zones not amenable to horizontal drilling. Vertical drilling at Ansell/Sundance has yielded as many as nine productive zones from a single wellbore. Ansell/Sundance is a true high-quality multi-zone area, with 17 producing geological reservoirs to date. We now have 46 gross wells on production from a combined 165 zones.

These strong positives mean that ultimately we might drill several vertical wells per section of land at Ansell/Sundance, as well as all the horizontal locations we can establish in our scalable inventory. This scalable horizontal inventory could be very material to a company of our size. Steady horizontal success would create a multi-year activity inventory with the potential to rapidly accelerate the Company's production. Important to note is that horizontal wells represent more than just acceleration of recoveries that would occur eventually with vertical wells. The horizontal wells have the ability to access incremental reserves.

Well Economics

Open Range continues to benefit from the advantages of the Ansell/Sundance play: true Deep Basin multi-zone characteristics, year-round access, no produced water, low costs, high working interest, control of operations and a scalable, highly material inventory with multiple well locations per land section.

Strong initial production from the horizontal wells plus provincial drilling credits and royalty benefits support strong economics at current commodity prices. Our initial economics are encouraging from the limited dataset. The first Bluesky well looks as if it will be a long-life producer with at least 10-20 years of productive life.

Commodity Price Outlook and Hedging

Open Range's realized sales prices outperformed the AECO monthly index for 34 of the 38 months through February 2010. Hedging added almost \$3.0 million to our cash flow in 2009 alone, while providing downside protection that safeguarded our capital program. To date we have hedged approximately 10 mmcf per day through year-end 2010 at an average floor price of approximately \$4.55 per mcf. We intend to build out our hedge book well into 2011, emphasizing put options to protect on the downside without limiting upside exposure.

Open Range is positioned for a range of macro scenarios, and with its larger size is more able to take advantage of potential cyclical opportunities to grow or diversify. We will maintain the fiscal prudence that got us through 2009, carefully monitoring our balance sheet, debt levels and ratios.

Cash flow for the first half of 2010, based on average commodity prices of \$4.50 per mcf at AECO and US\$65.00 per bbl of WTI, is expected to be approximately \$12 million. These figures show the benefits of Open Range's larger, more sustainable base. The current capital program is strongly underpinned by this larger base. We expect our cash costs to remain top-decile in our peer group throughout 2010.

Please note that the Annual General Meeting for Open Range is scheduled to take place on Thursday, May 13th at 10:00 a.m. MDT in the Strand-Tivoli Room of the Metropolitan Conference Centre, located at 333 - 4th Avenue S.W., Calgary, Alberta.

On behalf of the Board of Directors,

"signed" A. Scott Dawson

A. Scott Dawson
President, Chief Executive Officer and Director
March 17, 2010

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 year ended December 31, 2009 compared to the year ended December 31, 2008. This MD&A should be read in conjunction with the audited annual financial statements for the year ended December 31, 2009 and comparative information for the year ended December 31, 2008, along with the MD&A for the quarters ended March 31, 2009, June 30, 2009 and September 30, 2009. This MD&A is dated March 17, 2010.

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 and cash flow from operations as per GAAP, 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 assess operating profitability by measuring 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. The Corporation uses this method as it 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:

(thousands)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Cash flow from operating activities (per GAAP)	\$ 782	\$ 6,037	\$ 13,365	\$ 24,087
Change in non-cash working capital	5,161	13	1,501	(616)
Asset retirement expenditures	300	301	475	478
Funds from operations	\$ 6,243	\$ 6,351	\$ 15,341	\$ 23,949

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements, which relate to future events or the Corporation's future performance, that include terms such as "will", "intend", "anticipate", "could", "should", "may", "might", "expect", "estimate", "forecast", "plan", "potential", "project", "assume", "contemplate", "believe", "shall" and similar terms. These statements involve known and unknown risks, uncertainties and other factors that are beyond the Corporation's control, which may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Open Range believes the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this MD&A.

This MD&A, and the documents incorporated by reference, contain forward-looking statements pertaining to the following: (a) future production volumes; (b) expected royalty rates, operating expenses and G&A costs; (c) future capital expenditures and the method of financing thereof; (d) amount of asset retirement obligations; (e) future liquidity and the ability to raise capital to continually add to reserves through exploration and development; (f) the future tax horizon of the Corporation; (g) the timing and impact of the adoption of International Financial Reporting Standards and other accounting policies and standards; (h) the performance characteristics of the Corporation's oil and natural gas properties; (i) estimates of future cash flows from operations; (j) drilling plans and timing of drilling, completion and tie-in of wells; (k) anticipated benefits of the Corporation's property acquisition; (l) commodity prices, exchange rates and interest rates; (m) the utilization and effectiveness of commodity price risk management techniques; (n) Open Range's ability to grow or sustain production and reserves through prudent management; (o) the Corporation's future operating and financial results; and (p) treatment under governmental and other regulatory regimes and tax, environmental and other laws.

With respect to forward-looking statements contained in this MD&A, the Corporation has made a number of assumptions. The key assumptions underlying the aforementioned forward-looking statements are that: (i) future oil and natural gas prices will not deteriorate significantly; (ii) capital, undeveloped lands and skilled personnel will continue to be available at the level Open Range has enjoyed to date; (iii) Open Range will be able to obtain equipment in a timely manner to carry out exploration, development and exploitation activities; (iv) Open Range will be able to obtain financing on acceptable terms; (v) Open Range will be able to continue to add production and reserves through exploration and development activities at a satisfactory rate; and (vi) the current tax and regulatory regimes will remain substantially unchanged. Certain or all of the forgoing assumptions may prove to be incorrect.

Open Range's actual results could differ materially from those anticipated in these forward-looking statements as a result of 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, counterparty credit risk, 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 debt or 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. Readers are cautioned that the foregoing list of risks to Open Range's performance 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, 2009. 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 Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Production				
Oil and NGL (bbls per day)	282	257	241	226
Natural gas (mcf per day)	15,814	13,164	13,293	11,064
Total (boe per day)	2,918	2,451	2,457	2,070
Total (mboe)	268	225	897	758
Natural gas % of production	90	90	90	89

Open Range's production for the three months and year ended December 31, 2009 increased from the comparative periods in 2008. The increase for each reporting period was primarily the result of the tie-in of new wells drilled in the fourth quarter of 2008, the Corporation's first horizontal well being brought-on production in the third quarter of 2009 and the Corporation's working-interest acquisition at Ansell/Sundance in November 2009. Production in the three months and year ended December 31, 2009 averaged 2,918 boe per day and 2,457 boe per day, respectively. This represented an increase of 19 percent from the average production of 2,451 boe per day and 2,070 boe per day for the respective three months and year ended December 31, 2008. Natural gas production in the three months and year ended December 31, 2009 increased to 15,814 mcf per day and 13,293 mcf per day, respectively, from 13,164 mcf per day and 11,064 mcf per day, respectively, for the three months and year ended December 31, 2008. Oil and natural gas liquids (NGL) production in the three months ended December 31, 2009 increased to 282 barrels per day from 257 barrels per day in the fourth quarter of 2008. For the year ended December 31, 2009 oil and NGL production increased to 241 barrels per day from 226 barrels per day for the respective period in 2008. Open Range is forecasting average production of 3,600 boe per day in the first half of 2010.

Oil and Natural Gas Revenues

	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Revenue (thousands)				
Oil and NGL	\$ 1,559	\$ 1,331	\$ 4,523	\$ 6,996
Natural gas	7,110	8,708	20,935	34,826
Realized gain (loss) on commodity contracts	585	199	2,745	(1,491)
Total	\$ 9,254	\$ 10,238	\$ 28,203	\$ 40,331
Average realized price				
Oil and NGL (\$ per bbl)	60.09	56.40	51.41	84.39
Natural gas (\$ per mcf)	4.89	7.19	4.31	8.60
Realized gain (loss) on commodity contracts (\$ per mcf)	0.40	0.16	0.57	(0.37)
Combined average (\$ per boe)	34.47	45.41	31.45	53.22
Benchmark pricing				
Edmonton Par (Cdn\$ per bbl)	76.73	63.62	66.30	102.66
Alberta Spot (Cdn\$ per mcf)	4.50	6.62	3.85	8.06

Revenue, including realized gains or losses on commodity contracts, for the three months ended December 31, 2009 decreased by 10 percent to \$9.3 million from \$10.2 million in the comparative period in 2008. The decrease in revenue was primarily a result of a 24 percent decrease in the combined average sales price partially offset by a 19 percent increase in production volumes from the fourth quarter of 2008. In the year ended December 31, 2009, revenue, including realized gains or losses on commodity contracts, decreased by 30 percent to \$28.2 million from \$40.3 million in the comparative period in 2008. The decrease was due to a 41 percent decrease in the combined average sales price partially offset by a 19 percent increase in production volumes. The period-over-period changes in average sales prices for crude 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 gains on commodity contracts of \$0.6 million for the three months ended December 31, 2009. These realized gains related to natural gas commodity contracts and amounted to additional revenue of \$0.40 per mcf on the Corporation's natural gas production for the fourth quarter of 2009. For the year ended December 31, 2009, the Corporation realized gains on commodity contracts of \$2.7 million, which amounted to additional revenue of \$0.57 per mcf on the Corporation's 2009 natural gas production.

Unrealized Gain (Loss) on Commodity Contracts

Open Range's management utilizes commodity contracts as a risk management technique to reduce volatility in cash flows and mitigate the unpredictable commodity price environment. For the three months and year ended December 31, 2009, the Corporation recorded an unrealized loss on commodity contracts of \$0.3 million and \$0.8 million, respectively. These amounts represented the change in the fair value of the commodity contracts held by the Corporation during the three- and 12-month periods ended December 31, 2009.

Natural gas hedging contracts entered into as at December 31, 2009 and expired contracts presented for comparative purposes are as follows:

(thousands, except as noted)			Average AECO Spot Floor (Cdn\$/GJ)	Average AECO Spot Ceiling (Cdn\$/GJ)	Unrealized gain (loss) for the three months ended Dec. 31, 2009	Unrealized gain (loss) for the three months ended Dec. 31, 2008	Unrealized gain (loss) for the year ended Dec. 31, 2009	Unrealized gain (loss) for the year ended Dec. 31, 2008
Period	Volume (GJ/d)	Type of contract						
Apr. 2007 to Mar. 2008	1,000	Costless Collar	\$ 7.00	\$ 10.16	\$ -	\$ -	\$ -	\$ (69)
Nov. 2007 to Mar. 2008	1,500	Costless Collar	\$ 7.50	\$ 10.67	-	-	-	(164)
Jan. to Dec. 2008	3,000	Costless Collar	\$ 6.75	\$ 7.50- 9.12	-	(156)	-	(497)
Apr. to Oct. 2008	1,500	Swap	\$ 6.46	\$ 6.46	-	(20)	-	9
Nov. to Dec. 2008	1,500	Swap	\$ 7.26	\$ 7.26	-	(55)	-	8
Apr. to Oct. 2008	1,500	Swap	\$ 6.50	\$ 6.50	-	(22)	-	-
Nov. 20 2008 to Mar. 2009	1,500	Costless Collar	\$ 6.75	\$ 11.09	-	4	(103)	103
Jan. to Dec. 2009	1,000	Costless Collar	\$ 6.50	\$ 9.00- 13.00	(199)	180	(265)	265
Apr. 2009 to Mar. 2010	5,000	Costless Collar	\$ 4.00	\$ 5.84	29	-	(32)	-
Apr. 2009 to Mar. 2010	1,000	Costless Collar	\$ 4.25	\$ 5.92	(9)	-	(4)	-
Jul. to Dec. 2009	1,500	Swap	\$ 5.00	\$ 5.00	(86)	-	-	-
Jan. to Dec. 2010	1,500	Call Option	n/a	\$ 7.75	73	-	(75)	-
Apr. to Oct. 2010	3,000	Put Option	\$ 4.25 ⁽¹⁾	n/a	(22)	-	(225)	-
Apr. to Oct. 2010	1,000	Put Option	\$ 4.50 ⁽²⁾	n/a	(7)	-	(35)	-
Apr. to Oct. 2010	1,500	Put Option	\$ 4.25 ⁽³⁾	n/a	(69)	-	(69)	-
Apr. to Oct. 2010	1,000	Put Option	\$ 4.50 ⁽⁴⁾	n/a	(44)	-	(44)	-
Jan. to Dec. 2010	1,500	Costless Collar	\$ 4.40	\$ 7.00	(11)	-	(11)	-
Apr. to Oct. 2010	1,500	Swap	\$ 5.51	\$ 5.51	61	-	61	-
					\$ (284)	\$ (69)	\$ (802)	\$ (345)

(1) Cost of put option to the Corporation is \$0.565 per GJ and payment is due on the fifth business day following each contract month.

(2) Cost of put option to the Corporation is \$0.455 per GJ and payment is due on the fifth business day following each contract month.

(3) Cost of put option to the Corporation is \$0.430 per GJ and payment is due on the fifth business day following each contract month.

(4) Cost of put option to the Corporation is \$0.495 per GJ and payment is due on the fifth business day following each contract month.

For more details on these contracts refer to note 11, Financial Instruments, in the audited financial statements for the year ended December 31, 2009.

Royalties

(thousands except per unit amounts)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Royalty expense – oil & NGL	\$ 306	\$ 417	\$ 1,102	\$ 1,245
Royalty expense – natural gas	111	1,397	1,661	6,872
Total	\$ 417	\$ 1,814	\$ 2,763	\$ 8,117
Per boe (\$)	1.55	8.05	3.08	10.71
% of revenue ⁽¹⁾	5	18	11	19

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

Royalties totalled \$0.4 million and \$2.8 million for the three months and the year ended December 31, 2009, respectively, compared to \$1.8 million and \$8.1 million, respectively, for the comparative periods in 2008. Royalties as a percentage of revenue decreased significantly in the three months ended December 31, 2009 as deep drilling royalty holiday credits previously earned by the Corporation were higher than originally estimated, lower commodity prices resulted in lower royalty rates and the horizontal well was brought on production in the second half of 2009 taking advantage of the provincial royalty incentive program that began in April 2009. On a per unit of production basis, royalty costs for the three months and year ended December 31, 2009 were down by 81 percent and 71 percent, respectively, from the comparative periods in 2008, mainly due to larger than anticipated royalty holiday credits, lower commodity prices and the impact of the newly introduced royalty incentives.

Open Range estimates that royalty rates for 2010 will amount to an average of 10 percent to 15 percent of revenue. This reflects the impact of current commodity prices resulting in lower royalty rates and the second year of the two-year provincial royalty incentive program.

Operating Costs

(thousands except per unit amounts)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Operating costs	\$ 1,412	\$ 1,273	\$ 5,008	\$ 4,626
Transportation costs	200	158	860	559
Total	\$ 1,612	\$ 1,431	\$ 5,868	\$ 5,185
Operating costs (\$ per boe)	5.26	5.65	5.58	6.10
Transportation costs (\$ per boe)	0.75	0.70	0.96	0.74
Total (\$ per boe)	6.01	6.35	6.54	6.84

Operating costs were \$1.4 million and \$5.0 million, respectively, for the three months and year ended December 31, 2009 compared to \$1.3 million and \$4.6 million, respectively, for the comparative periods in 2008. On a per unit of production basis, operating costs for the three months and year ended December 31, 2009 were \$5.26 per boe and \$5.58 per boe, respectively. This represented a 7 percent and 9 percent decrease, respectively, from \$5.65 per boe and \$6.10 per boe for the comparative periods in 2008. This reduction was due primarily to continued operating efficiencies being realized at Ansell/Sundance where, following the Corporation's working-interest acquisition in November 2009, increasing production volumes are handled at the Corporation-operated plant and facilities. Transportation costs for the three months and year ended December 31, 2009 were \$0.2 million or \$0.75 per boe and \$0.9 million or \$0.96 per boe, respectively, compared to \$0.2 million or \$0.70 per boe and \$0.6 million or \$0.74 per boe for the respective periods in 2008. The period-over-period increases in dollar terms mainly reflect higher rates of production throughput and the increases on a per unit of production basis reflects the changes in the pricing structure of the third-party transportation system the Corporation utilizes at Ansell/Sundance.

Operating Netback

(\$ per boe)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Average realized sales price	34.47	45.41	31.45	53.22
Royalty expenses	(1.55)	(8.05)	(3.08)	(10.71)
Operating costs	(5.26)	(5.65)	(5.58)	(6.10)
Transportation costs	(0.75)	(0.70)	(0.96)	(0.74)
Operating netback	26.91	31.01	21.83	35.67

The Corporation's operating netback for the three months and year ended December 31, 2009 decreased to \$26.91 per boe and \$21.83 per boe, respectively, from \$31.01 per boe and \$35.67 per boe for the respective periods in 2008. The operating netback decreased by 13 percent and 39 percent for the fourth quarter and year of 2009, respectively, from the comparative periods in 2008. This decline was mainly due to the period-over-period decrease in commodity prices driving down the Corporation's average realized sales prices, slightly mitigated by increased operating efficiencies resulting in lower operating costs per unit of production, lower royalties due to decreased commodity prices and realized gains from the Corporation's commodity price contracts.

General and Administrative (G&A) Costs

(thousands except per unit amounts)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Gross G&A costs	\$ 1,507	\$ 1,166	\$ 6,225	\$ 5,548
Partner recovery	(289)	(297)	(758)	(1,092)
Capitalized	(702)	(634)	(2,693)	(2,485)
Net G&A costs	\$ 516	\$ 235	\$ 2,774	\$ 1,971
Per boe, net (\$)	1.92	1.04	3.09	2.60

Net G&A costs for the three months ended December 31, 2009 totalled \$0.5 million or \$1.92 per boe after overhead recoveries and capitalization of \$1.0 million. On a per boe basis G&A costs in the fourth quarter of 2009 increased to \$1.92 per boe from \$1.04 per boe in the comparative period in 2008. For the year ended December 31, 2009, net G&A costs per boe increased by 19 percent to \$3.09 per boe from \$2.60 per boe in 2008. The increase on a unit of production basis in 2009 was mainly due to reduced exploration and development activity with partners resulting in decreased partner overhead recoveries. Capitalized G&A costs represented 47 percent and 43 percent, respectively, of gross G&A costs for the three months and year ended December 31, 2009, as the Corporation continued to focus its efforts on future-oriented exploration activities and capitalized its exploration, geological and geophysical expenses. The Corporation's gross G&A costs for the year ended December 31, 2009 increased by 12 percent from the comparative periods of 2008, less than the increase in the Corporation's production, reflecting the Corporation's success at limiting overall G&A costs through the industry cycles.

Net Interest Expense

	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Net interest expense (thousands)	\$ 469	\$ 145	\$ 1,199	\$ 324
Per boe, net (\$)	1.75	0.64	1.34	0.43

Net interest expense for the three months and year ended December 31, 2009 was \$0.5 million or \$1.75 per boe and \$1.2 million or \$1.34 per boe, respectively. The increase in net interest expense for each reporting period was primarily the result of increased borrowings on the Corporation's credit facilities. The Corporation had \$40.1 million drawn on its extendable revolving credit facility at December 31, 2009 compared to \$31.4 million drawn at December 31, 2008. The Corporation continues to manage debt levels prudently and expects net interest expense to increase modestly through the first half of 2010 as some additional borrowings will be incurred to fund a portion of its planned capital investment program for the first half of 2010.

Stock-Based Compensation

(thousands)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Total stock-based compensation	\$ 375	\$ 387	\$ 1,084	\$ 1,537
Capitalized stock-based compensation	(191)	(201)	(532)	(745)
Stock-based compensation expense	\$ 184	\$ 186	\$ 552	\$ 792

During the fourth quarter of 2009, stock-based compensation of \$0.2 million was expensed and \$0.2 million was capitalized. This resulted in total stock-based compensation for the three months ended December 31, 2009 of \$0.4 million, compared to \$0.4 million for the fourth quarter of 2008. For the year ended December 31, 2009 stock-based compensation of \$0.6 million was expensed and \$0.5 million was capitalized, compared to \$0.8 million expensed and \$0.7 million capitalized for the comparative period in 2008. The decrease in stock-based compensation expense was mainly due to stock options that were granted in the Corporation's first year of operations being fully expensed as of December 31, 2008 partially offset by new stock options granted near the end of 2009. At December 31, 2009 there were 5.8 million stock options outstanding compared to 2.6 million outstanding at December 31, 2008.

Depletion, Depreciation and Accretion

(thousands except per unit amounts)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Depletion and depreciation	\$ 6,326	\$ 5,247	\$ 21,839	\$ 18,959
Accretion	50	41	178	159
Total	\$ 6,376	\$ 5,288	\$ 22,017	\$ 19,118
Depletion and depreciation (\$ per boe)	23.56	23.27	24.36	25.02
Accretion (\$ per boe)	0.19	0.18	0.19	0.21
Total (\$ per boe)	23.75	23.45	24.55	25.23

Depletion and depreciation are calculated based upon cumulative capital expenditures, production rates and reserves. Open Range recorded \$6.3 million or \$23.56 per boe in depletion and depreciation for the three months ended December 31, 2009, compared to \$5.2 million or \$23.27 per boe for the comparative period in 2008. Depletion and depreciation for 2009 increased on a total dollar basis to \$21.8 million from \$19.0 million but decreased on a per unit of production basis to \$24.36 per boe from \$25.02 per boe. The period-over-period per boe decrease in depletion and depreciation for the year ended December 31, 2009 is due to significant reserve additions from the Corporation's working-interest acquisition at its Ansell/Sundance property and its successful drilling program combined with continued strong well production performance recognized in the Corporation's independent reserve evaluation as at December 31, 2009.

Open Range estimates depletion on a quarterly basis throughout the year using independent inputs such as reserve and land reports when available. Undeveloped land, seismic and salvage value of \$32.9 million have been excluded from the calculation and future development costs of \$69.2 million have been included in the capital base used in the calculation.

Income Taxes

Open Range did not incur any cash tax expense in 2009, nor does it expect to pay any cash taxes in 2010 based on current oil and natural gas prices, existing tax pools, planned capital expenditures and forecast taxable income. For the year ended December 31, 2009, a future income tax reduction of \$1.9 million was recorded. The future income tax liability of \$3.0 million associated with the Corporation's \$12.0 million flow-through share issuance in 2008 was recorded in the first quarter of 2009.

The estimated tax pools of the Corporation are included in the table below:

(thousands except percentages)	Maximum annual deduction	December 31, 2009	December 31, 2008
Canadian exploration expense	100%	\$ 33,626	\$ 43,515
Canadian development expense	30%	22,602	4,794
Undepreciated capital cost	25%	27,553	16,743
Share issue costs	20%	4,658	2,510
Canadian oil and gas property expense	10%	77,778	36,026
Total		\$ 166,217	\$ 103,588

Subsequent to December 31, 2009, Open Range renounced Canadian exploration expenditures related to its 2009 flow-through share obligations that will result in reductions of the above tax pool balances by \$7.0 million. The tax effect of these renunciations will be recorded in the first quarter of 2010.

Net Earnings (Loss)

	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Earnings (loss) (thousands)	\$ (517)	\$ 1,067	\$ (6,137)	\$ 2,797
Earnings (loss) per basic and diluted share	\$ (0.01)	\$ 0.04	\$ (0.20)	\$ 0.11

The Corporation recorded a net loss of \$6.1 million or \$0.20 per basic and diluted share for the year ended December 31, 2009, compared to net earnings of \$2.8 million or \$0.11 per basic and diluted share for the comparative period in 2008. The net loss for the three months ended December 31, 2009 was \$0.5 million or \$0.01 per basic and diluted share compared to net earnings of \$1.1 million or \$0.04 per basic and diluted share for the comparative period in 2008. The loss in 2009 is mainly attributable to sharply reduced commodity prices. The pattern of earnings and loss, and the reasons attributable, were similar for the respective three-month reporting periods.

Funds from Operations and Cash Flow from Operating Activities

(thousands except per share amounts)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Funds from operations	\$ 6,243	\$ 6,351	\$ 15,341	\$ 23,949
Funds from operations per boe	\$ 23.26	\$ 28.17	\$ 17.11	\$ 31.60
Funds from operations per basic share	\$ 0.14	\$ 0.23	\$ 0.50	\$ 0.93
Funds from operations per diluted share	\$ 0.14	\$ 0.23	\$ 0.50	\$ 0.92
Cash flow from operating activities (per GAAP)	\$ 782	\$ 6,037	\$ 13,365	\$ 24,087

In the three months and year ended December 31, 2009, Open Range generated funds from operations of \$6.2 million and \$15.3 million, respectively, compared to \$6.4 million and \$23.9 million for the comparative periods in 2008. Fourth-quarter funds from operations decreased by 2 percent and funds from operations per share decreased by 39 percent from the comparative quarter in 2008. For the year ended December 31, 2009, funds from operations decreased by 36 percent and funds from operations per share decreased by 46 percent from 2008. The decreases in funds from operations and cash flow from operating activities were primarily due to reduced revenues driven by much lower commodity prices, partially offset by increased production volumes and lower royalties.

Capital Expenditures

(thousands)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Drilling and completions	\$ 3,730	\$ 6,813	\$ 18,318	\$ 37,156
Equipment and facilities	(258)	3,099	1,985	8,820
Land	2,211	112	3,037	13,064
Property acquisitions	58,516	–	58,516	–
Capitalized G&A	662	438	2,483	1,932
Geological and geophysical	1,089	(1,209)	1,439	(405)
Total capital expenditures	65,950	9,253	85,778	60,567
Capital items not involving cash:				
Stock-based compensation, including related future tax liability	253	250	709	993
Asset retirement obligations	818	568	1,008	451
Total capital expenditures including non-cash items	\$ 67,021	\$ 10,071	\$ 87,495	\$ 62,011

Open Range's 2009 capital budget was primarily focused on the Ansell/Sundance property and included drilling and completing the Corporation's first horizontal natural gas well (100 percent working interest) and completing four wells that were drilled in the fourth quarter of 2008. On November 16, 2009 the Corporation acquired the position of a working-interest partner at Ansell/Sundance for a cash purchase price of \$58.5 million, net of closing adjustments, and recognized \$0.5 million in associated asset retirement obligations. Fourth-quarter activities focused on commencing drilling operations on two horizontal wells at Ansell/Sundance in late December 2009 and expanding the Corporation's land position at Ansell/Sundance.

	Three months ended Dec. 31, 2009		Three months ended Dec. 31, 2008		Year ended Dec. 31, 2009		Year ended Dec. 31, 2008	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Wells drilled								
Exploration	–	–	6.0	2.7	2	2	11	5.3
Development	–	–	–	–	–	–	–	–
Total	–	–	6.0	2.7	2	2	11	5.3
Average working interest	–			45%		100%		48.2%
Success rate	–			100%		50%		100%

Share Capital

(thousands)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Weighted average basic common shares outstanding	44,132	27,111	30,980	25,852
Stock option dilution	–	–	–	150
Weighted average diluted common shares outstanding	44,132	27,111	30,980	26,002

Options to purchase 5.8 million common shares for the three months and year ended December 31, 2009 were not included in the computation of weighted average diluted shares outstanding because they were anti-dilutive.

(thousands except percentages) Outstanding securities	December 31, 2009	March 17, 2010
Common shares	60,934	60,934
Stock options	5,793	5,793
Total outstanding securities	66,727	66,727
Proportion of outstanding securities held by officers and directors	11%	11%

(thousands except per share amounts) Equity financings since inception	Date of issue	Issue price per share	Shares issued	Gross proceeds
Common shares ⁽¹⁾	November 29, 2005	\$ 3.10	2,000	\$ 6,200
Common shares	January 10, 2006	4.25	1,649	7,008
Flow-through common shares	May 16, 2006	5.70	1,000	5,700
Common shares	November 9, 2006	3.55	2,324	8,251
Flow-through common shares	February 22, 2007	4.00	3,000	12,000
Flow-through common shares	December 20, 2007	3.45	2,029	7,000
Common shares	April 4, 2008	4.20	3,095	13,000
Flow-through common shares	April 4, 2008	5.00	2,400	12,000
Flow-through common shares	November 4, 2009	2.30	3,050	7,015
Common shares	November 16, 2009	1.85	31,350	57,997
Total		\$ 2.62	51,898	\$ 136,171

⁽¹⁾ Initial private placement financing.

On October 23, 2008 the Corporation received regulatory approval under Canadian securities laws to purchase common shares under a Normal Course Issuer Bid (the “Bid”) which commenced on October 28, 2008 and terminated on October 27, 2009. Pursuant to the Bid, Open Range was entitled to purchase for cancellation, from time to time, up to a maximum of 1.4 million common shares. As of December 31, 2009 the Corporation had purchased and cancelled 0.8 million common shares under the Bid at an average price of \$1.46 per share and for total consideration of \$1.2 million.

On November 4, 2009, following filing and obtaining receipt for its short-form prospectus, the Corporation issued 3.0 million flow-through common shares upon the deemed exercise of an equivalent number of flow-through special warrants that were previously issued at a price of \$2.30 per special warrant for gross proceeds of \$7.0 million.

On November 16, 2009, following receipt of all customary regulatory and shareholder approvals, the Corporation issued 31.4 million common shares upon the deemed exercise of an equivalent number of subscription receipts previously issued at a price of \$1.85 per subscription receipt for gross proceeds of \$58.0 million.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

During the year ended December 31, 2009, the Corporation incurred \$0.3 million 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.

During the year ended December 31, 2009, the Corporation received \$0.4 million in office rent from a private corporation in which the Chairman of the Board of Directors and the President and Chief Executive Officer are directors.

Certain officers and directors of Open Range purchased 82,125 shares as part of the equity offerings of the Corporation during the year ended December 31, 2009, for total gross proceeds of \$0.2 million.

Open Range was not involved in any off-balance-sheet transactions during the three months and year ended December 31, 2009.

LIQUIDITY AND CAPITAL RESOURCES

Open Range had a working capital deficiency of \$37.6 million at December 31, 2009. As at December 31, 2009, Open Range had available a \$70 million extendable revolving-credit facility and a \$5 million acquisition and development facility with the National Bank of Canada. The interest rate on the extendable revolving facility is 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 interest rate on the non-revolving facility is calculated using the bank's prime rate plus 50 basis points above an applicable facility margin based on the Corporation's net debt to cash flow ratio for the previous trailing calendar quarter. The facilities are borrowing-base facilities that are 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 was in compliance with this covenant as at December 31, 2009. As at December 31, 2009, \$40.1 million had been drawn on these facilities. The facilities are open for review semi-annually with the next review occurring in April 2010.

(thousands)	As at December 31, 2009
Bank lines available	\$ 75,000
Working capital deficiency, excluding fair value of commodity contracts and future income taxes	(37,571)
<u>Capital resources available</u>	<u>\$ 37,429</u>

During periods of commodity market instability, such as throughout 2009, Open Range actively manages its capital structure to ensure it maintains financial flexibility so as to preserve the ability to meet all of its financial obligations while continuing to finance the Corporation's future growth. The Corporation manages its capital structure in part by using the non-GAAP financial metric of net debt to annualized funds from operations ratio. The Corporation's strategy is to maintain a ratio of no more than 2 to 1. As at December 31, 2009, the Corporation's ratio of net debt to annualized funds from operations was 1.5 to 1, which was within the targeted range established by the Corporation. The Corporation expects the ratio will increase modestly during the first half of 2010 as Open Range plans to fund its first-half capital program through a combination of anticipated funds from operations and additional borrowings. For more details on the calculation of this ratio refer to note 9, Capital Management, in the audited financial statements for the year ended December 31, 2009.

The Corporation's initial capital expenditure budget for the first half of 2010 is \$30 million. The details of the first half 2010 budget are as follows:

(thousands)	First half of 2010
Drilling and completions	\$ 25,000
Equipment and facilities	3,000
Land, seismic and capitalized G&A	2,000
Total	\$ 30,000

SELECTED QUARTERLY INFORMATION

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production								
Natural gas (mcf per day)	15,814	12,612	12,078	12,642	13,164	10,696	10,630	9,746
Oil and NGL (bbls per day)	282	201	232	249	257	209	225	216
Total (boe per day)	2,918	2,303	2,245	2,356	2,451	1,992	1,996	1,840
Quarterly total (mboe)	268	212	204	212	225	183	182	167
% natural gas	90	91	90	89	90	89	89	88
Financial								
(\$ thousands except as noted)								
Revenue ⁽¹⁾	9,254	5,901	5,727	7,321	10,238	9,646	11,281	9,167
Net earnings (loss)	(517)	(2,389)	(1,927)	(1,304)	1,067	3,676	(31)	(1,914)
Per share (\$)								
– basic and diluted	(0.01)	(0.09)	(0.07)	(0.05)	0.04	0.13	–	(0.09)
Funds from operations	6,243	3,264	2,508	3,326	6,351	4,757	7,242	5,600
Per share (\$)								
– basic	0.14	0.12	0.09	0.13	0.23	0.17	0.27	0.26
– diluted	0.14	0.12	0.09	0.13	0.23	0.17	0.26	0.26
Cash flow from								
operating activities	782	4,210	3,920	4,453	6,037	4,583	8,310	5,156
Total assets (end of period)	209,009	140,498	140,086	145,379	151,102	137,117	117,265	114,415
Capital expenditures, net	65,950	5,176	1,576	13,076	9,253	25,804	5,885	19,625
Weighted average basic shares (thousands)	44,132	26,534	26,534	26,576	27,111	27,334	27,131	21,799
Weighted average diluted shares (thousands)	44,132	26,534	26,534	26,576	27,111	27,557	27,131	21,799
Per Unit								
Oil and NGL revenue (\$ per bbl)	60.09	53.67	48.13	42.57	56.40	101.51	105.18	79.60
Natural gas revenue (\$ per mcf) ⁽¹⁾	5.29	4.23	4.29	5.60	7.35	7.82	9.44	8.58
Combined revenue (\$ per boe) ⁽¹⁾	34.47	27.85	28.03	34.53	45.41	52.64	62.10	54.74
Operating netback (\$ per boe)	26.91	19.94	18.84	20.15	31.01	31.81	42.64	38.58

⁽¹⁾ Includes the realized gain or loss on commodity contracts.

Open Range's steady growth in production and total assets is attributable to successful exploration and development drilling at the Corporation's Deep Basin properties, particularly the Ansell/Sundance core area. Production growth in the fourth quarter of 2009 was primarily the result of the Corporation's working-interest acquisition at Ansell/Sundance in November 2009.

SELECTED ANNUAL INFORMATION

	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007
Production			
Natural gas (mcf per day)	13,293	11,064	7,733
Oil and NGL (bbls per day)	241	226	167
Total (boe per day)	2,457	2,070	1,456
Annual total (mboe)	897	758	531
% natural gas	90	89	89

Financial

(\$ thousands except as noted)

Revenue ⁽¹⁾	28,203	40,331	23,912
Net earnings (loss)	(6,137)	2,798	523
Net earnings (loss) per basic and diluted share (\$)	(0.20)	0.11	0.03
Funds from operations	15,341	23,949	15,159
Funds from operations per basic share (\$)	0.50	0.93	0.78
Funds from operations per diluted share (\$)	0.50	0.92	0.78
Cash flow from operating activities	13,365	24,087	13,590
Total assets (end of period)	209,009	151,102	97,517
Total liabilities (end of period)	60,013	56,266	25,034
Capital expenditures, net	85,778	60,567	42,004
Weighted average basic shares (thousands)	30,980	25,851	19,403
Weighted average diluted shares (thousands)	30,980	26,002	19,403

Per Unit

Oil and NGL revenue (\$ per bbl)	51.41	84.39	62.46
Natural gas revenue (\$ per mcf) ⁽¹⁾	4.88	8.23	7.13
Combined revenue (\$ per boe) ⁽¹⁾	31.45	53.22	45.00
Operating netback (\$ per boe)	21.83	35.67	33.63

⁽¹⁾ Includes the realized gain or loss on commodity contracts.

CONTRACTUAL OBLIGATIONS ^{(2), (3)}

(thousands) As at December 31, 2009	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Bank indebtedness ⁽¹⁾	\$ 40,065	\$ 40,065	–	–	–
Office lease	931	931	–	–	–
Office equipment leases	70	15	\$ 39	\$ 16	–
Firm natural gas transportation agreements	15,342	1,109	6,967	4,987	\$ 2,279
Total	\$ 56,408	\$ 42,120	\$ 7,006	\$ 5,003	\$ 2,279

⁽¹⁾ Amount is drawn against the Corporation's extendable revolving demand facility. As the facility is demand in nature amounts outstanding are classified as current liabilities, implying they are due in one year or less. Management fully expects the term of the facility to be extended.

⁽²⁾ The Corporation has entered into farm-in agreements in the normal course of its business which are not included in this table.

⁽³⁾ The Corporation has entered into commodity contracts which are not included in this table. For a complete listing refer to note 11, Financial Instruments, in the audited financial statements for the year ended December 31, 2009.

RISK FACTORS

There are numerous factors, both known and unknown, that can cause actual results or events to differ materially from forecast results. Although some of these risks are discussed in this section and in the AIF, these factors should not be construed as exhaustive.

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Open Range depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Open Range may have at any particular time and the production there from will decline over time as such existing reserves are exploited. A future increase in Open Range's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that further commercial quantities of oil and natural gas will be discovered or acquired by Open Range.

Open Range's principal risks are finding and developing economic hydrocarbon reserves efficiently and being able to fund the capital program. The Corporation's need for capital will be both short-term and long-term in nature. Short-term working capital will be required to finance accounts receivable, drilling deposits and other similar short-term assets, while the acquisition and development of oil and natural gas properties requires large amounts of long-term capital. Open Range anticipates a \$30 million capital program in the first half of 2010. The capital program will be funded through a combination of anticipated funds from operations and the bank credit facilities. If any components of the business plan are missing, the Corporation may not be able to execute the entire business plan.

Open Range mitigates exploration risk by employing a team of highly qualified and experienced professionals to pursue exploration and exploitation activities and to carry out and control the capital spending program. All aspects of exploration projects are reviewed at a very early stage, including: corporate fit, environmental issues, timing, costs and reward potential. Identified risks are addressed and excessive risks are mitigated to the extent possible before any project is approved.

Open Range intends to maintain an insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blowouts, pollution or other business interruptions. The Open Range assets are in compliance, in all material respects, with current environmental legislation and Open Range will work with government environmental agencies to maintain this level of compliance, as well as maintain a proactive approach to all safety and environmental issues.

Operational risk is mitigated by having Open Range staff address the continued development of a new or established reservoir, on a go-forward basis, using the same procedure that is used to address exploration risk. Reserves are produced based on the amount of capital employed, production practices and reservoir quality. Open Range evaluates reservoir development based on the timing and amount of additional capital required and the expected change in production volumes. Finding and development costs are controlled when capital is employed cost-effectively.

The financial risks of global credit conditions, equity availability from the capital markets, commodity prices, interest rates, royalty rates, government intervention or taxation levels in the oil and natural gas industry are largely beyond Open Range's control. The Corporation's approach to managing these risks is to maintain a prudent level of debt and to employ forecasting and budgeting projections. In addition, from time to time Open Range may use financial instruments to reduce corporate risk in certain situations. For a listing of commodity contracts entered into in 2009 refer to note 11, Financial Instruments, in the audited financial statements for the year ended December 31, 2009.

CRITICAL ACCOUNTING ESTIMATES

Oil and Natural Gas Reserves

Under National Instrument 51-101 (N.I. 51-101), proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable, i.e., that it is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. In accordance with this definition, the level of certainty targeted by the reporting corporation should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated reserves. In the case of probable reserves, which are obviously less certain to be recovered than proved reserves, N.I. 51-101 states that it must be equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. With respect to the consideration of certainty, in order to report reserves as proved plus probable, the reporting corporation must believe that there is at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves. The implementation of N.I. 51-101 has resulted in a more rigorous and uniform standardization of reserve evaluation.

The oil and natural gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Corporation's plans. The effect of changes in proved oil and natural gas reserves on the financial results and position of the Corporation is described under "Depletion Expense" and "Impairment of Petroleum and Natural Gas Properties" below.

Financial Instruments Valuation

The fair value of the Corporation's derivative contracts are determined using forward price curves as at the balance sheet date in combination with the remaining contracted petroleum and natural gas volumes. Changes in the forward price curves will result in a corresponding increase or decrease in the fair value of the derivative contracts.

Depletion Expense

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

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

Withheld Costs

Certain costs related to unproved properties may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation, or in the ceiling test for impairment, for which any write-down would be charged to depletion and depreciation expense.

Impairment of Petroleum and Natural Gas Assets

The Corporation is required to review the carrying value of all petroleum and natural gas assets for potential impairment. Impairment is indicated if the carrying value of the petroleum and natural gas assets is not recoverable by the future undiscounted funds from operations. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the property, plant and equipment is charged to earnings. The assessment of impairment is dependent on estimates of reserves, production rates, prices, future costs and other relevant assumptions.

Asset Retirement Obligations

The Corporation is required to provide for future removal and site restoration costs. The Corporation must estimate these costs in accordance with existing laws, contracts or other policies. The fair value of the liability of \$3.2 million for the Corporation's asset retirement obligation is recorded in the period in which it is expected to be incurred between 2009 and 2064, discounted to its present value using the Corporation's 10 percent credit-adjusted, risk-free interest rate and 2 percent inflation rate. The offset to the liability is recorded in the carrying amount of petroleum and natural gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of funds from operations, the original estimated undiscounted cost, the estimated inflation rate or the estimated discount rate could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

Stock-Based Compensation

The Corporation uses the fair value method for valuing stock option grants. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2009: zero dividend yield, average expected volatility of 71 percent, risk-free rate of 2.58 percent, and expected life of five years. The weighted-average fair value of stock options granted during the year was \$1.18 per option. A zero dividend yield is used as the Corporation does not issue dividends. The volatility is a calculation based on trading history. The risk-free rate is from the Bank of Canada. An increase in dividends would decrease the option expense and an increase in the volatility or the risk-free rate would increase the calculated expense.

Legal, Environmental Remediation and Other Contingent Matters

The Corporation is required to determine whether a loss is probable based on judgment and interpretation of laws and regulations and whether the loss can reasonably be estimated. When the loss is determined, it is charged to earnings. The Corporation's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

Income Tax Accounting

The determination of the Corporation'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. Future tax assets and liabilities are booked using substantively enacted future income tax rates which include rate reductions over several years. The rate used by the Corporation is based on estimated reversals of temporary differences. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Transition Plan

Effective January 1, 2011, Canadian publicly traded companies are required to adopt IFRS. In the time leading up to the conversion date, some existing Canadian standards will change to converge with IFRS. Open Range's financial statements up to and including the December 31, 2010 financial statements will continue to be reported in accordance with Canadian GAAP as it exists on each reporting date. Financial statements for the quarter ended March 31, 2011, including comparative amounts, will be prepared on an IFRS basis.

In order to transition to IFRS, Open Range has formed a project team to lead the changeover from Canadian GAAP. A transition plan is in place to convert the financial statements to IFRS. Training has been provided to key employees and the Corporation continues to assess the effect of the transition on information systems, internal controls over financial reporting and disclosure controls and procedures. Systems and controls are being updated as IFRS accounting processes are implemented. Analysis and quantification of differences between IFRS and Open Range's current accounting policies are continuing. Some accounting policies may change on adoption of IFRS even though Open Range's current accounting policies are acceptable under IFRS. Changes in accounting policy may materially impact the financial statements.

There are several significant accounting policy changes anticipated on adoption of IFRS. Changes in IFRS prior to adoption may result in other accounting policy changes which could significantly impact the financial statements. Numerous accounting policy changes will be made under IFRS, with the most significant changes expected to include accounting for petroleum and natural gas assets and equipment, accounting for business combinations and accounting for future income taxes.

Petroleum and Natural Gas Assets

IFRS standards require that a corporation choose to report its petroleum and natural gas assets either at the amount which would have been recorded had the Corporation always followed current IFRS standards or at fair value on the date of adoption of IFRS. Alternatively, IFRS standards allow for a conversion exemption whereby petroleum and natural gas corporations can choose to record opening petroleum and natural gas properties at a deemed cost equal to historic cost as calculated under Canadian GAAP. Open Range currently intends to elect to record petroleum and natural gas assets at either historic cost as calculated under Canadian GAAP on January 1, 2010 or at fair value on that date. Open Range has not yet determined which of these options will be chosen as the opening IFRS deemed cost basis.

Under Canadian GAAP, all petroleum and natural gas assets are accounted for under the full cost accounting guideline. Under IFRS, petroleum and natural gas assets will be divided into exploration and evaluation properties (“exploration assets”) and petroleum and natural gas properties and equipment (“development assets”). Exploration assets will initially be capitalized and accumulated pending determination of technical feasibility and economic viability. Exploration assets will not be depreciated and will be carried at cost less any accumulated impairment losses. Development assets will be measured at cost less accumulated depletion and depreciation and any accumulated impairment losses.

Both exploration assets and development assets will be assessed to determine whether impairment losses exist under IFRS as at January 1, 2010. These impairment tests will differ from the current Canadian GAAP full cost ceiling test in several significant ways. Assets will be allocated to Cash Generating Units (CGU) and a separate impairment test will be completed for each CGU identified. Under current Canadian GAAP the ceiling test is a two-step test conducted over the single full cost pool for Open Range. The carrying value of assets is first compared to the undiscounted future cash flows. If the carrying value of the assets exceeds the undiscounted future cash flows of proved reserves, then the second step of the test is required whereby the assets are written down to the value of the discounted future cash flows of proved and probable reserves. Under IFRS, the impairment test compares the carrying value of the assets to the greater of the fair value of the assets and the value-in-use of the assets, which is a discounted cash flow measure. Future impairment tests will be required when management determines that indicators of impairment exist. Should impairment losses be recorded in accordance with IFRS, certain of those losses can reverse in the future if facts and circumstances change.

Depreciation under Canadian GAAP is calculated using a unit-of-production method based on total proved reserves for all accumulated costs, excluding unproved properties. Under IFRS, the net carrying value of development assets will still be depleted using a unit of production method; however, significant components with different useful lives, will be accounted for as separate items and depreciated separately. In addition, IFRS allows depreciation to be calculated using either proved reserves or proved plus probable reserves. Open Range has not yet chosen whether depreciation will be calculated using proved or proved plus probable reserves.

Under the full cost accounting guideline, gains or losses are not recognized upon the disposition of petroleum and natural gas assets unless the disposition results in a significant change in the depletion rate. Under IFRS, gains and losses are recognized in net income on the disposal of an item of petroleum and natural gas assets. The amount of the gain or loss is determined by comparing the proceeds from disposal with the carrying amount of the item. This will include transactions such as sales of assets, farm-outs, asset swaps and other non-monetary transactions which typically did not result in gains or losses being recorded under Canadian GAAP.

The quantitative impact to Open Range of these changes to accounting for petroleum and natural gas assets has not been determined.

Other Items

Under IFRS, asset retirement obligations (referred to as “decommissioning liabilities” under IFRS) are likely to increase as a result of the change from a credit adjusted risk free rate to a risk free rate in the discounting of the liabilities to their present value. In addition, any change in the discount rate would affect the entire liability and not just current period additions.

IFRS standards require stock-based awards that vest in installments, such as on anniversaries of the grant date, to be accounted for as though each installment or vesting date is a separate award. This will result in stock-based compensation expense likely increasing in the earlier vesting periods immediately following new grants. Under IFRS, estimates of the number of stock-based awards expected to vest or expected to be forfeited prior to their expiry will have a quantitative impact on the amount of stock-based compensation expense recorded.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to the Corporation’s management as appropriate to allow timely decisions regarding required disclosure. The Corporation’s Chief Executive Officer and Chief Financial Officer concluded based on their evaluation as at December 31, 2009 that disclosure controls and procedures were effective, with the exception of the weaknesses in the internal controls over financial reporting noted in the following section, to provide reasonable assurance that material information related to the Corporation is made known to them by others within the Corporation. It should be noted that while the Corporation’s Chief Executive Officer and Chief Financial Officer believe that disclosure controls and procedures provide a reasonable level of assurance and are effective, they do not expect that the disclosure controls and procedures would prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

FINANCIAL REPORTING

Open Range's Chief Executive Officer and Chief Financial Officer 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. Such officers of the Corporation are also responsible for evaluating, or causing to be evaluated under their supervision, the operating effectiveness of Open Range's internal controls over financial reporting at the financial year-end of the Corporation.

The Corporation evaluated the design and operating effectiveness of its internal controls over financial reporting as at December 31, 2009. During this evaluation the Corporation identified weaknesses over segregation of duties. Specifically, due to the limited number of finance and accounting personnel at the Corporation it is not feasible to achieve complete segregation of incompatible duties with regards to any complex and non-routine accounting transactions that may arise. Notwithstanding the weaknesses identified with regards to segregation of incompatible duties, the Corporation concluded that all other of its internal controls over financial reporting have been designed and are operating effectively at December 31, 2009.

No material changes in the Corporation's internal controls over financial reporting, including identified weaknesses, were identified during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal financial reporting processes.

As a result of the weaknesses identified in the Corporation's internal controls over financial reporting, there is a greater likelihood that a material misstatement would not be prevented or detected. To mitigate the risk of such material misstatement in financial reporting, the CEO and CFO oversee all material transactions of the Corporation. In addition, the Audit Committee reviews on a quarterly basis the financial statements and key risks of the Corporation and queries management about significant transactions, there is a quarterly review of the financial statements by the Corporation's auditors and there is daily oversight of the accounting records by the senior management of Open Range.

ADDITIONAL INFORMATION

Additional information relating to Open Range, including the Annual Information Form (AIF), is available on SEDAR at www.sedar.com or the Corporation's website at www.openrangeenergy.com.

MANAGEMENT'S REPORT

Management is responsible for the integrity and objectivity of the information contained in the accompanying financial statements, management's discussion and analysis and message to shareholders (collectively, the "annual release") and for the consistency between the financial statements and other financial and operating data contained in the other sections described. In the preparation of these 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 March 17, 2010. The financial statements have been prepared using policies and procedures established by management in accordance with Canadian generally accepted accounting principles and reflect fairly Open Range's financial position, results of operations and cash flow.

Management has established and maintains a system of internal controls which are designed to ensure that financial information is relevant, reliable and accurate and to provide assurance that assets are safeguarded from loss or unauthorized use and transactions are executed in accordance with management's authorization.

KPMG LLP, independent auditors appointed by the shareholders, have examined the financial statements and GLJ Petroleum Consultants Ltd. has evaluated the corporate reserves. Their examinations provide independent views as to the amounts and disclosures in the financial statements.

The Audit Committee of the Corporation's Board of Directors, consisting exclusively of independent directors, has reviewed in detail the financial statements with management and the external auditors and has recommended their approval to the Board of Directors.

The Board of Directors has approved the financial statements and information as presented in this annual release.

"signed" A. Scott Dawson

"signed" Lyle D. Michaluk

A. Scott Dawson
President and Chief Executive Officer

Lyle D. Michaluk
Vice-President, Finance and Chief Financial Officer

March 17, 2010

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Open Range Energy Corp. as at December 31, 2009 and 2008 and the statements of operations, comprehensive income (loss) and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“signed” KPMG LLP

KPMG LLP
Chartered Accountants
Calgary, Canada

March 17, 2010

BALANCE SHEETS

(thousands) December 31,	2009	2008
ASSETS		
Current assets:		
Accounts receivable	\$ 10,501	\$ 18,463
Prepaid expenses and deposits	1,575	1,120
Fair value of commodity contracts (note 11)	–	368
Future income taxes (note 7)	126	–
	12,202	19,951
Property, plant and equipment (note 4)	196,807	131,151
	\$ 209,009	\$ 151,102
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (note 5)	\$ 40,065	\$ 31,419
Accounts payable and accrued liabilities	9,582	16,050
Fair value of commodity contracts (note 11)	434	–
Future income taxes (note 7)	–	107
	50,081	47,576
Future income taxes (note 7)	6,746	6,215
Asset retirement obligations (note 6)	3,186	2,475
Shareholders' equity:		
Share capital (note 8)	146,678	87,630
Contributed surplus (note 8)	5,934	4,685
Retained earnings (deficit)	(3,616)	2,521
	148,996	94,836
Commitments (note 10)		
	\$ 209,009	\$ 151,102

See accompanying notes to financial statements.

STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)

(thousands, except per share amounts)
Years ended December 31,

	2009	2008
Revenues:		
Petroleum and natural gas	\$ 25,458	\$ 41,822
Royalties	(2,763)	(8,117)
Interest	3	69
Realized gain (loss) on commodity contracts (note 11)	2,745	(1,491)
Unrealized loss on commodity contracts (note 11)	(802)	(345)
	24,641	31,938
Expenses:		
Operating	5,868	5,185
General and administrative	2,774	1,971
Bad debts (note 11)	258	785
Stock-based compensation	552	792
Interest	1,202	393
Depletion and depreciation	21,839	18,959
Accretion of asset retirement obligations	178	159
	32,671	28,244
Earnings (loss) before income taxes	(8,030)	3,694
Future income tax expense (reduction) (note 7)	(1,893)	897
Net earnings (loss) and comprehensive income (loss)	(6,137)	2,797
Retained earnings (deficit), beginning of year	2,521	(276)
Retained earnings (deficit), end of year	\$ (3,616)	\$ 2,521
Earnings (loss) per share (note 8):		
Basic	\$ (0.20)	\$ 0.11
Diluted	\$ (0.20)	\$ 0.11

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

(thousands) Years ended December 31,	2009	2008
Cash provided by (used in):		
Operating:		
Net earnings (loss)	\$ (6,137)	\$ 2,797
Items not involving cash:		
Depletion and depreciation	21,839	18,959
Accretion of asset retirement obligations	178	159
Future income tax expense (reduction)	(1,893)	897
Stock-based compensation	552	792
Unrealized loss on commodity contracts	802	345
Asset retirement expenditures	(475)	(478)
Change in non-cash working capital	(1,501)	616
	13,365	24,087
Financing:		
Issue of common shares, net of issue costs	61,281	23,662
Repurchase of common shares	(54)	(1,118)
Bank indebtedness	8,646	18,563
	69,873	41,107
Investing:		
Acquisition of property, plant and equipment	(27,262)	(61,837)
Acquisition of properties	(58,516)	-
Disposition of properties	-	1,270
Change in non-cash working capital	2,540	(4,627)
	(83,238)	(65,194)
Change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -
Interest received	\$ 3	\$ 69
Interest paid	\$ 1,304	\$ 439

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

(all amounts in text and tabular format are stated in thousands, except per share amounts and other exceptions as noted)

1. NATURE OF BUSINESS

Open Range Energy Corp. (“Open Range” or the “Corporation”) is incorporated under the laws of the province of Alberta. The Corporation is engaged in the acquisition of, exploration for and development of oil and natural gas in the Western Canada Sedimentary Basin.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements include the accounts of the Corporation and have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the statements and accompanying notes. As a result, actual amounts could differ from estimated amounts.

Specifically, the amounts recorded for depletion and depreciation of petroleum and natural gas properties and the provision for asset retirement obligations and abandonment costs are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. The amounts for stock-based compensation are based on estimates of risk-free rates, expected lives and volatility. The fair-value estimates for derivatives are based on expected future petroleum and natural gas prices and volatility in those prices. Future income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(A) Property, Plant and Equipment

The Corporation’s activities are related to the acquisition of, exploration for and development of petroleum and natural gas properties. The Corporation follows the full cost method of accounting for petroleum and natural gas operations.

All costs of exploring for and developing petroleum and natural gas properties and related reserves are capitalized into a cost centre. Such costs include those related to lease acquisition, geological and geophysical activities, lease rentals on non-producing properties, drilling of productive and non-productive wells, tangible production equipment, asset retirement costs, and that portion of general and administrative expenses directly attributable to exploration and development activities. Proceeds received from the disposal of properties are normally deducted from the full cost pool without recognition of a gain or loss. When a significant portion of properties is sold, resulting in a change to the depletion rate of 20 percent or more, a gain or loss is recorded and reflected in the statement of operations.

Depletion of petroleum and natural gas properties and depreciation of production equipment, excluding costs related to unproved properties, are calculated using the unit-of-production method based upon estimated proved reserves, before royalties, as determined by independent petroleum engineers. For purposes of the calculation, natural gas reserves and production are converted to equivalent volumes of petroleum based upon relative energy content.

Costs of acquiring unproved properties are initially excluded from the full cost pool and are assessed at each reporting period to ascertain whether impairment has occurred. When proved reserves are assigned to the property or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the full cost pool.

Petroleum and natural gas properties are evaluated in each reporting period to determine whether the carrying amount in a cost centre is recoverable and does not exceed the fair value of the properties in the cost centre (the “ceiling test”).

The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market of unproved properties and the cost of major development projects exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves, the lower of cost and market of unproved properties and the cost of major development projects of the cost centre. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.

Other assets are recorded at cost and depreciated on a declining-balance basis using the following annual rates:

Computer hardware	30%
Office furniture and fixtures	20%
Other assets	20%

(B) Interests In Joint Operations

A portion of the Corporation’s exploration and development activities is conducted jointly with others and, accordingly, the financial statements reflect only the Corporation’s proportionate interest in such activities.

(C) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and all investments that are highly liquid in nature and generally have a maturity date of three months or less.

(D) Asset Retirement Obligations

The Corporation uses the asset retirement obligation method of recording the future cost associated with removal, site restoration and asset retirement costs. The fair value of the liability for the Corporation's asset retirement obligation is recorded in the period in which it is incurred, discounted to its present value using the Corporation's credit-adjusted, risk-free interest rate and the corresponding amount is recognized by increasing the carrying amount of petroleum and natural gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

(E) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including all derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available for sale and other liabilities. The Corporation has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and bank debt are classified as other liabilities, which are measured at amortized cost, which is determined using the effective interest rate method.

The Corporation will assess at each reporting period whether a financial asset is impaired with any impairment recorded in earnings.

The Corporation uses risk management contracts from time to time to manage its exposure to fluctuations in commodity prices. The Corporation does not enter into risk management contracts for trading or speculative purposes.

The risk management contracts are executed within the guidelines of the Corporation's risk management procedures. The contracts, when deemed appropriate, are entered into with commodities trading institutions and may include costless collars, put options or fixed-price contracts. The Corporation has elected not to designate any of its risk management activities as accounting hedges and, accordingly, accounts for all derivatives using the fair value method. Under this method, gains and losses resulting from changes in the fair value of the unrealized portion of such risk management contracts are recognized in earnings when those changes occur. The fair value is based on an estimate of the amounts that would have been paid to or received from counter-parties to settle these instruments given future market prices and other relevant factors. Proceeds and costs realized from holding the contracts are recognized in earnings at the time that each transaction under a contract is settled.

The Corporation has elected to account for its physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts on an accrual basis rather than as non-financial derivatives.

The Corporation measures and recognizes embedded derivatives separately from the host contracts when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, when the embedded derivative meets the definition of a derivative and when the entire contract is not measured at fair value. Embedded derivatives are recorded at fair value.

The Corporation nets all transaction costs incurred, in relation to the acquisition of a financial asset or liability, against the related financial asset or liability. Bank debt is presented net of deferred interest payments, with interest recognized in net earnings on an effective interest rate basis.

The Corporation applies trade-date accounting for the recognition of a purchase or sale of cash equivalents and derivative contracts.

(F) Future Income Taxes

The Corporation uses the asset and liability method for calculating future income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and the carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using the currently enacted, or substantively enacted, tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(G) Flow-Through Shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. The future tax liability and share capital are adjusted by the estimated cost of the renounced tax deductions when the expenditures are renounced.

(H) Stock-Based Compensation Plans

The Corporation uses the fair value method for valuing stock option grants. Under this method, compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(I) Revenue Recognition

Petroleum and natural gas revenues are recognized when the title and risks pass to the purchaser.

(J) Per Share Amounts

Basic per share information is computed by dividing income by the weighted average number of common shares outstanding for the period. The treasury stock method is used to determine the diluted per share amounts, whereby any proceeds from the stock options, warrants or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(K) Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

(a) Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations". This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Corporation. Early adoption of this section is permitted. This section replaces Section 1581, "Business Combinations" and harmonizes the Canadian standards with IFRS.

(b) Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the Accounting Standards Board issued Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests", which together replace Section 1600, "Consolidated Financial Statements", and harmonize the Canadian standards with IFRS. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections are effective on or after the beginning of the first reporting period beginning on or after January 1, 2011. Early adoption is permitted.

4. PROPERTY, PLANT AND EQUIPMENT

December 31,	2009	2008
Petroleum and natural gas properties	\$ 256,245	\$ 168,772
Other assets	2,436	2,414
	258,681	171,186
Accumulated depletion and depreciation	(61,874)	(40,035)
Net book value	\$ 196,807	\$ 131,151

During 2009 the Corporation capitalized \$3,225 (2008 – \$3,230) of overhead-related costs to petroleum and natural gas properties, of which \$532 (2008 – \$745) related to stock-based compensation. The future tax liability of \$177 (2008 – \$248) associated with the capitalized stock-based compensation was also capitalized.

Costs associated with unproved properties, including undeveloped land and seismic, and salvage value excluded from costs subject to depletion at December 31, 2009 totalled \$32,903 (2008 – \$26,534). Future development costs of proved reserves of \$69,155 at December 31, 2009 (2008 – \$38,463) have been included in the depletion calculation.

On November 16, 2009 the Corporation acquired certain working interests in petroleum and natural gas properties for cash consideration of \$58,516 and recognized \$519 in associated asset retirement obligations.

During 2008 the Corporation disposed of certain interests in petroleum and natural gas properties for cash of \$20, with associated asset retirement obligations of \$213 also eliminated.

The Corporation performed a ceiling test calculation at December 31, 2009 to assess the recoverable value of the petroleum and natural gas assets. As at December 31, 2009 there was no impairment required. For purposes of the ceiling test calculation, the Corporation used the January 1, 2010 commodity price forecast of its independent reserve evaluators. The following table summarizes the benchmark prices used in the calculation:

	Currency exchange rate (US\$/Cdn\$)	W.T.I. crude oil (\$US/bbl)	Edmonton Par crude oil (Cdn\$/bbl)	Open Range oil & NGL price (Cdn\$/bbl)	AECO natural gas (Cdn\$/mcf)	Open Range natural gas price (Cdn\$/mcf)
2010	\$ 0.950	\$ 80.00	\$ 83.26	\$ 69.75	\$ 5.96	\$ 6.35
2011	0.950	83.00	86.42	73.09	6.79	7.24
2012	0.950	86.00	89.58	75.90	6.89	7.35
2013	0.950	89.00	92.74	78.70	6.95	7.41
2014	0.950	92.00	95.90	81.65	7.05	7.52
2015	0.950	93.84	97.84	83.63	7.16	7.64
2016	0.950	95.72	99.81	85.44	7.42	7.92
2017	0.950	97.64	101.83	87.27	7.95	8.48
2018	0.950	99.59	103.88	89.02	8.52	9.10
2019	0.950	101.58	105.98	90.95	8.69	9.29
2020	0.950	\$ 103.61	\$ 108.10	92.87	\$ 8.86	9.47
2021 and thereafter	\$ 0.950	+2.0%/yr	+2.0%/10	\$ 94.84	+2.0%/yr	\$ 9.66

5. BANK DEBT

The Corporation has a \$70,000 extendable revolving credit facility and a \$5,000 non-revolving acquisition/development demand facility. These facilities are with a Canadian chartered bank. The interest rate on the extendable revolving credit facility is 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 interest rate on the non-revolving facility is calculated using the bank's prime rate plus 50 basis points above the 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 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 December 31, 2009. The facilities are open for review semi-annually with the next review occurring in April 2010. As the available lending limits of the facilities are based on the bank's interpretation of the Corporation's reserves and future commodity prices there can be no assurance as to the amount of available facilities that will be determined at each scheduled review.

As at December 31, 2009, \$40,065 (2008 – \$31,419) has been drawn against the revolving credit facility. Letters of credit totaling \$580 are held against this facility. No amount (2008 – \$nil) has been drawn against the non-revolving demand facility. The revolving facility had an effective interest rate of 4.75 percent at December 31, 2009 (2008 – 3.5 percent).

6. 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 December 31, 2009 to be approximately \$10,640 (2008 – \$7,238), to be incurred between 2010 and 2050. The majority of the costs will be incurred between 2020 and 2040. A credit-adjusted, risk-free rate of 8-10 percent (2008 – 8-10 percent) was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	2009	2008
Balance, beginning of year	\$ 2,475	\$ 2,343
Liabilities incurred	21	118
Change in estimates	468	546
Liabilities related to property acquisitions (note 4)	519	–
Liabilities related to property dispositions (note 4)	–	(213)
Liabilities settled	(475)	(478)
Accretion expense	178	159
Balance, end of year	\$ 3,186	\$ 2,475

7. INCOME TAXES

The difference between the expected tax provision obtained by applying the combined federal and provincial income tax rate for 2009 of 29 percent (2008 – 29.5 percent) to earnings (loss) before income taxes and the reported income tax provision is summarized below:

Years ended December 31,	2009	2008
Earnings (loss) before income taxes	\$ (8,030)	\$ 3,694
Statutory tax rate	29%	29.5%
Computed income taxes (reduction) at the statutory tax rate	\$ (2,329)	\$ 1,090
Increase (decrease) in taxes resulting from:		
Non-deductible expenses	9	16
Stock-based compensation	160	234
Future tax rate changes and other	267	(443)
Future income tax expense (reduction)	\$ (1,893)	\$ 897

The components of the net future income tax liability are as follows:

December 31,	2009	2008
Future tax assets:		
Asset retirement obligations	\$ 808	\$ 629
Share issue costs	1,231	694
Fair value of commodity contracts	126	–
	2,165	1,323
Future tax liabilities:		
Fair value of commodity contracts	–	(107)
Property, plant and equipment	(8,785)	(7,538)
	(8,785)	(7,645)
Future income tax liability	\$ (6,620)	\$ (6,322)

No taxes were paid during the years ended December 31, 2009 or 2008.

8. SHARE CAPITAL

(A) Authorized

The authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of first preferred shares.

(B) Common Shares Issued And Outstanding

	Number of Shares	Amount
Balance, December 31, 2007	21,793	\$ 70,885
Issued pursuant to flow-through share offerings	2,400	12,000
Issued pursuant to common share offerings	3,095	13,000
Issued pursuant to private placements	40	179
Exercise of stock options	6	18
Stock-based compensation on exercise of stock options	–	7
Share issue costs (net of tax of \$414)	–	(1,104)
Share repurchases	(733)	(2,415)
Tax effect of flow-through shares issued in 2007	–	(4,940)
Balance, December 31, 2008	26,601	\$ 87,630
Issued pursuant to flow-through share offerings	3,050	7,015
Issued pursuant to common share offerings	31,350	57,997
Share issue costs (net of tax of \$986)	–	(2,745)
Share repurchases	(67)	(219)
Tax effect of flow-through shares issued in 2008	–	(3,000)
Balance, December 31, 2009	60,934	\$ 146,678

During 2008 Open Range closed two private placement common share issuances for a total of 40 common shares with new employees of the Corporation for gross proceeds of \$162 plus stock-based compensation of \$17.

On April 4, 2008 the Corporation issued 2,400 flow-through common shares and 3,095 common shares at prices of \$5.00 and \$4.20 per share, respectively, for combined gross proceeds of \$25,000. Certain officers of Open Range purchased 5 common shares for total gross proceeds of \$21 from these issuances.

On October 23, 2008 the Corporation received regulatory approval under Canadian securities laws to purchase common shares under a Normal Course Issuer Bid (the “Bid”) which commenced on October 28, 2008 and terminated on October 27, 2009. Pursuant to the Bid, Open Range was entitled to purchase for cancellation, from time to time, up to a maximum of 1,367 common shares. As of December 31, 2009 the Corporation had purchased and cancelled 800 common shares under the Bid (2008 – 733) for total consideration of \$1,172 (2008 – \$1,118). The excess of the average book value over the market price totalling \$1,462 is recorded as contributed surplus as of December 31, 2009 (2008 – \$1,297).

On November 4, 2009, following filing and obtaining receipt for its short-form prospectus, the Corporation issued 3,050 flow-through common shares upon the deemed exercise of an equivalent number of flow-through special warrants that were previously issued at a price of \$2.30 per special warrant for gross proceeds of \$7,015. Certain officers and directors of Open Range purchased 26 flow-through special warrants for total gross proceeds of \$60 from this issuance.

On November 16, 2009, following receipt of all customary regulatory and shareholder approvals, the Corporation issued 31,350 common shares upon the deemed exercise of an equivalent number of subscription receipts that were previously issued at a price of \$1.85 per subscription receipt for gross proceeds of \$57,997. Certain officers and directors of Open Range purchased 56 subscription receipts for total gross proceeds of \$104 from this issuance.

(C) Share Option Plan

Under the Corporation’s share option plan it may grant options to its employees for up to 6,093 shares, of which 5,793 had been granted as at December 31, 2009 (2008 – 2,632). 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.

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Granted and outstanding, beginning of year	2,632	\$ 4.33	1,927	\$ 4.08
Granted	3,455	1.97	779	4.93
Exercised	–	–	(6)	3.04
Forfeited	(294)	4.44	(13)	4.33
Expired	–	–	(55)	4.31
Granted and outstanding, end of year	5,793	\$ 2.92	2,632	\$ 4.33
Exercisable at year-end	1,786	\$ 4.19	1,517	\$ 4.22

The following table summarizes information about the fixed stock options outstanding at December 31, 2009:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number	Weighted average exercise price	Weighted average contractual life (years)	Number	Weighted average exercise price
\$1.44 – \$2.97	3,480	\$ 1.97	4.8	16	\$ 2.61
\$2.98 – \$4.52	880	3.47	2.0	727	3.45
\$4.53 – \$6.06	1,433	4.86	1.9	1,043	4.73
\$1.44 – \$6.06	5,793	\$ 2.92	3.7	1,786	\$ 4.19

(D) 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 year ended December 31, 2009: zero dividend yield, average expected volatility of 71 percent (2008 – 58 percent), average risk-free interest rate of 2.58 percent (2008 – 3.14 percent), and expected life of five years (2008 – five years). The average fair value of stock options granted during the year was \$1.18 (2008 – \$2.57) 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.

(E) Contributed Surplus

Balance, December 31, 2007	\$ 1,875
Stock-based compensation expense	1,520
Excess of book value over market value on share repurchases	1,297
Transfer to share capital on exercise of stock options	(7)
Balance, December 31, 2008	\$ 4,685
Stock-based compensation expense	1,084
Excess of book value over market value on share repurchases	165
Balance, December 31, 2009	\$ 5,934

(F) 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:

	2009	2008
Weighted average basic common shares outstanding	30,980	25,852
Stock option dilution	–	150
Weighted average diluted common shares outstanding	30,980	26,002

Options to purchase 5,793 common shares for the year ended December 31, 2009 (2008 – 2,197) were not included in the computation because they were anti-dilutive.

9. 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 and is shown in the table below. 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.

December 31,	2009	2008
Shareholders' equity	\$ 148,996	\$ 94,836
Bank debt	40,065	31,419
Working capital excluding bank debt	\$ 2,186	\$ 3,794

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 and excluding the fair value of commodity contracts and the current portion of future income taxes, 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:

December 31,	2009	2008
Current liabilities, excluding fair value of commodity contracts and future income taxes	\$ 49,647	\$ 47,469
Current assets, excluding fair value of commodity contracts and future income taxes	(12,076)	(19,583)
Net debt	37,571	27,886
Quarterly cash flow from operating activities	782	6,037
Change in non-cash working capital	5,161	13
Asset retirement expenditures	300	301
Quarterly funds from operations	6,243	6,351
Annualized funds from operations	\$ 24,972	\$ 25,404
Net debt to annualized funds from operations ratio	1.5:1	1.1:1

As at December 31, 2009 and 2008, the Corporation's ratio of net debt to annualized funds from operations was within the targeted range established by the Corporation. The increase in the ratio from December 31, 2008 to December 31, 2009 is primarily due to reduced cash flow from operations driven by weak commodity prices combined with the Corporation funding a portion of its 2009 capital program through borrowings. Subsequent to the year ended December 31, 2009, the Corporation expects the ratio will increase during the first half of 2010 as the Corporation anticipates some indebtedness to be incurred as a result of expenditures under the first half 2010 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 5) and the Corporation is required to meet certain financial covenants to maintain the facilities. The Corporation has not paid or declared any dividends since the date of incorporation.

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

10. COMMITMENTS

(A) Future Payments

In the normal course of business, the Corporation is obligated to make future payments. These obligations represent contracts and other commitments that are known to the Corporation as at December 31, 2009:

	Total	2010	2011	2012	2013	2014	Thereafter
Payments for office lease	\$ 931	\$ 931	\$ -	\$ -	\$ -	\$ -	\$ -
Payments for office equipment leases	70	15	14	13	13	13	2
Firm natural gas transportation agreements	15,342	1,109	1,709	2,459	2,799	2,824	4,442
Total	\$ 16,343	\$ 2,055	\$ 1,723	\$ 2,472	\$ 2,812	\$ 2,837	\$ 4,444

(B) Flow-Through Common Shares

On April 4, 2008 the Corporation issued 2,400 flow-through common shares for gross proceeds of \$12,000. Under the terms of the flow-through share agreements, the Corporation renounced \$12,000 of qualifying oil and natural gas expenditures effective December 31, 2008 and had until December 31, 2009 to incur the expenditures. As at December 31, 2009 the Corporation had incurred \$12,000 of qualifying expenditures and is not required to incur any additional expenditures.

On November 4, 2009 the Corporation issued 3,050 flow-through common shares for gross proceeds of \$7,015. Under the terms of the flow-through share agreements, the Corporation renounced \$7,015 of qualifying oil and natural gas expenditures effective December 31, 2009 under the look-back rule and has until December 31, 2010 to incur the expenditures. As at December 31, 2009 the Corporation had not incurred any qualifying expenditures and is required to incur \$7,015 of expenditures in 2010.

11. 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 December 31, 2009 the Corporation's receivables consisted of \$3,173 (2008 – \$14,352) from joint venture partners, \$5,296 (2008 – \$3,214) from purchasers of the Corporation's natural gas, crude oil and natural gas liquids and \$2,032 (2008 – \$897) 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. In the third quarter of 2008, the Corporation experienced a collection issue with one of its purchasers of natural gas, SemCanada Energy Company. The company is a Canadian subsidiary of SemGroup, L.P., which in July 2008 filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code in the United States. As of December 31, 2009, the Corporation is owed \$949 from SemCanada Energy Company (2008 – \$949). As a result of a proposed Plan of Compromise filed in the Alberta Court of Queen's Bench in July 2009 by SemCanada Energy Company, the Corporation has recorded a provision for bad debts of \$949 as of December 31, 2009 (2008 – \$785), which represents the entire outstanding amount.

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 amounts outstanding 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 has 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.

Derivative assets, when outstanding, consist of commodity contracts used to manage the Corporation's exposure to fluctuations in commodity prices. The Corporation manages the credit risk exposure related to derivative assets by selecting counter-parties based on credit ratings and financial stability.

The carrying amount of accounts receivable, cash and cash equivalents, when outstanding, and the fair value of commodity contracts, when outstanding, represent the maximum credit exposure. The Corporation has an allowance for doubtful accounts as at December 31, 2009 in the amount of \$949 (2008 – \$785) which represents the entire amount owed to it by SemCanada Energy Company. In addition, miscellaneous uncollectible amounts totalling \$94 have been written off in the year ended December 31, 2009.

As at December 31, 2009 the Corporation considers its receivables to be aged as follows:

Not past due (less than 120 days)	\$ 10,494
Past due (over 120 days)	7
Total	\$ 10,501

(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 9, 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 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, disclosed in note 5, 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 day of each month.

The following are the contractual maturities of financial liabilities as at December 31, 2009:

Financial Liability	Less than 1 year	1 to 2 years	Total
Accounts payable and accrued liabilities	\$ 9,582	\$ –	\$ 9,582
Commodity contracts	434	–	434
Bank indebtedness – principal only ⁽¹⁾	\$ 40,065	\$ –	\$ 40,065

⁽¹⁾ Amount is drawn against the Corporation's extendable revolving demand facility. As the facility is demand in nature amounts outstanding are classified as current liabilities implying they are due in one year or less. Management fully expects the term of the facility to be extended.

(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 of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian and United States dollars, 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 December 31, 2009 and indicates the unrealized gains or losses and realized gains on natural gas contracts for the year 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 Dec. 31, 2009	Unrealized gain (loss) for the year ended Dec. 31, 2009	Realized gain for the year ended Dec. 31, 2009
Nov. 2008 to Mar. 2009	1,500	Costless Collar	\$ 6.75	\$ 11.09	\$ -	\$ (103)	\$ 190
Jan. to Dec. 2009	1,000	Costless Collar	\$ 6.50	\$ 9.00 - 13.00	-	(265)	944
Apr. 2009 to Mar. 2010	5,000	Costless Collar	\$ 4.00	\$ 5.84	(32)	(32)	939
Apr. 2009 to Mar. 2010	1,000	Costless Collar	\$ 4.25	\$ 5.92	(4)	(4)	241
Jul. to Dec. 2009	1,500	Swap	\$ 5.00	\$ 5.00	-	-	431
Jan. to Dec. 2010	1,500	Call Option	n/a	\$ 7.75	(75)	(75)	-
Apr. to Oct. 2010	3,000	Put Option	\$ 4.25 ⁽¹⁾	n/a	(225)	(225)	-
Apr. to Oct. 2010	1,000	Put Option	\$ 4.50 ⁽²⁾	n/a	(35)	(35)	-
Apr. to Oct. 2010	1,500	Put Option	\$ 4.25 ⁽³⁾	n/a	(69)	(69)	-
Apr. to Oct. 2010	1,000	Put Option	\$ 4.50 ⁽⁴⁾	n/a	(44)	(44)	-
Jan. to Dec. 2010	1,500	Costless Collar	\$ 4.40	\$ 7.00	(11)	(11)	-
Apr. to Oct. 2010	1,500	Swap	\$ 5.51	\$ 5.51	61	61	-
					\$ (434)	\$ (802)	\$ 2,745

⁽¹⁾ Cost of put option to the Corporation is \$0.565 per GJ and payment is due on the fifth business day following each contract month.

⁽²⁾ Cost of put option to the Corporation is \$0.455 per GJ and payment is due on the fifth business day following each contract month.

⁽³⁾ Cost of put option to the Corporation is \$0.430 per GJ and payment is due on the fifth business day following each contract month.

⁽⁴⁾ Cost of put option to the Corporation is \$0.495 per GJ and payment is due on the fifth business day following each contract month.

The Corporation has also entered into the following natural gas hedging transaction subsequent to December 31, 2009:

Period	Volume (GJ/d)	Type of contract	Average AECO Spot floor (Cdn\$/GJ)	Average AECO Spot ceiling (Cdn\$/GJ)
Feb. to Dec. 2010	1,500	Costless Collar	\$ 4.00	\$ 6.89
Feb. to Dec. 2010	1,500	Costless Collar	\$ 4.25	\$ 6.95
Apr. to Oct. 2010	1,500	Put Option	\$ 4.50 ⁽¹⁾	n/a

⁽¹⁾ Cost of put option to the Corporation is \$0.235 per GJ and payment is due on the fifth business day following each contract month.

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 currency.

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 years ended December 31, 2009 and 2008.

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 in interest rates could have had the following impact on the net earnings:

	Net earnings impact	
	Year ended December 31, 2009	
	Rate increase	Rate decrease
Natural gas price – change of 10%	\$ (404)	\$ 424
Interest rate – change of 10% ⁽¹⁾	\$ (85)	\$ 85

⁽¹⁾ As at December 31, 2009, 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 December 31, 2009 and 2008 include accounts receivable, derivative contracts, accounts payable and accrued liabilities and bank debt. The fair value of accounts receivable and accounts payable and accrued liabilities approximates their carrying amounts due to their short terms to maturity.

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

The Corporation's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Corporation's commodity contracts are the only financial instruments recorded at fair value as at December 31, 2009 and are attributable to the following fair value hierarchy:

Financial instrument	Fair value	Level 1	Level 2	Level 3
Derivative contracts	\$ 434	–	\$ 434	–

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. As at December 31, 2009, the fair value of commodity contracts was determined using a forward price curve with a range of \$5.43 to \$6.69 per mcf of natural gas.

12. RELATED-PARTY TRANSACTIONS

During the year ended December 31, 2009, the Corporation incurred \$276 in legal costs (2008 – \$142) 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 2009, \$10 was included in accounts payable at December 31, 2009 (2008 – \$9).

During the year ended December 31, 2009, the Corporation received \$383 in office rent (2008 – \$360) from a private corporation in which the Chairman of the Board of Directors and the President and Chief Executive Officer are directors. The office rent received was in the normal course of operations and was based on the market value of the office space provided. Of the office rent received in 2009, no amounts were included in accounts receivable at December 31, 2009 (2008 – \$nil).

During 2009 certain officers and directors of the Corporation purchased 82 shares for total gross proceeds of \$164.

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Chief Executive Officer
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Calgary, Alberta

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Independent Businessman
Calgary, Alberta

Dean R. Jensen
Partner
Toscana Capital Corporation
Calgary, Alberta

W.C. (Mike) Seth
President
Seth Consultants Ltd.
Calgary, Alberta

OFFICERS

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Chief Executive Officer

Gerald R. Costigan
Executive Vice-President

John A. Mueller
Vice-President, Engineering
and Chief Operating Officer

Lyle D. Michaluk
Vice-President, Finance
and Chief Financial Officer

James F. Bland
Vice-President, Exploration

James L. Beninger
Vice-President, Land

David M. Griffith
Vice-President and
Chief Geophysicist

CORPORATE SECRETARY

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Toronto Stock Exchange
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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
GJ	Gigajoule
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mcf_e	thousand cubic feet equivalent
mmcf	million cubic feet
NGL	natural gas liquids



www.openrangeenergy.com