



## Q2 REPORT FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

### FINANCIAL AND OPERATING HIGHLIGHTS

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Petroleum and natural gas revenue <sup>(1)</sup>	\$ 5,726,932	\$ 11,280,829	\$ 13,047,989	\$ 20,447,727
Funds from operations <sup>(2)</sup>	2,769,891	7,242,093	6,095,479	12,841,761
Per diluted share	0.10	0.26	0.23	0.52
Net loss	(1,927,317)	(31,439)	(3,231,100)	(1,945,057)
Per basic and diluted share	(0.07)	-	(0.12)	(0.09)
Net debt	36,882,477	5,808,924	36,882,477	5,808,924
Capital expenditures, net	\$ 1,576,088	\$ 5,884,953	\$ 14,652,081	\$ 25,509,590
Weighted average shares outstanding				
Basic and diluted	26,534,341	27,131,143	26,555,283	24,465,119
Production				
Natural gas (mcf per day)	12,078	10,630	12,359	10,188
Oil and NGL (bbls per day)	232	225	240	220
Total (@ 6:1) (boe per day)	2,245	1,996	2,300	1,918
Realized average sales prices				
Natural gas (\$ per mcf) <sup>(1)</sup>	4.29	9.44	4.96	9.02
Oil and NGL (\$ per bbl)	48.13	105.18	45.26	92.65
Combined average (\$ per boe) <sup>(1)</sup>	28.03	62.10	31.34	58.57
Royalties (\$ per boe)	(3.22)	(12.65)	(5.26)	(10.76)
Operating costs (\$ per boe)	(4.89)	(5.88)	(5.56)	(6.37)
Transportation costs (\$ per boe)	(1.08)	(0.93)	(1.01)	(0.75)
Operating netback (\$ per boe)	18.84	42.64	19.51	40.69
G&A costs (\$ per boe)	(4.22)	(2.72)	(3.84)	(3.32)
Net interest expense (\$ per boe)	(1.06)	(0.06)	(1.03)	(0.59)
Corporate netback (\$ per boe)	13.56	39.86	14.64	36.78

<sup>(1)</sup> Includes the realized gain or loss on commodity contracts.

<sup>(2)</sup> Calculated using cash flow from operations before non-cash working capital, asset retirement expenditures and bad debts expense.

## **CORPORATE HIGHLIGHTS**

During the three months ended June 30, 2009, Open Range:

- Produced an average of 2,245 boe per day (90 percent natural gas), a 12 percent increase from the second quarter 2008 average;
- Realized funds from operations of \$2.8 million and funds from operations per diluted share of \$0.10, reflecting reduced revenues driven by lower commodity prices, partially offset by the Corporation's low cost structure and natural gas price hedges;
- Maintained its record of low cash costs, with second quarter cash costs of \$11.25 per boe, down slightly from the first quarter of 2009;
- Achieved a corporate netback of \$2.26 per mcf on an average realized sales price of \$3.75 per mcf of natural gas production;
- Repaid \$1.0 million of debt and exited the quarter with net debt of \$36.9 million;
- Reconfirmed its \$54 million borrowing base with the National Bank of Canada at unchanged capacity, as previously disclosed; and
- Undertook successful repairs of its Bluesky horizontal well at Ansell/Sundance following spring break-up. The Bluesky well accounted for nearly all of the quarter's capital spending of \$1.6 million. Subsequent to the end of the quarter, Open Range completed hydraulic fracturing, undertook well testing and commenced tie-in.

## **MESSAGE TO SHAREHOLDERS**

During the second quarter of 2009 Open Range carried out limited field activities and expenditures, as we continued to focus on cash conservation and balance sheet integrity to weather this extended period of weak natural gas prices. The Corporation delivered growth in quarterly production over the second quarter of 2008. Production was down slightly from the first quarter of 2009 due to previously announced maintenance turnarounds at a third-party gas plant, which shut in approximately 400 boe per day of our production for about three weeks. Production for the first half of 2009 was also up over the comparable 2008 period.

We were also pleased to maintain funds flow of almost \$1 million per month, thanks to Open Range's cost efficiencies, quality of our production base and the positive effects of our hedging program, which provided price support to approximately 50 percent of our natural gas production. Entering the second half of 2009 the Corporation remains solidly financed, with nearly one-third of its bank lines unutilized.

## Financial Discussion

Open Range's financial positioning remained solid throughout the second quarter, particularly given the constraints imposed by low commodity prices on natural gas producers. In April our bank lines with the National Bank of Canada were reconfirmed at \$54 million, with no reduction to our borrowing capacity, as previously disclosed. This was attributable to the Corporation nearly doubling its proved plus probable reserves to over 10 million boe at year-end 2008, and left us with a reserve of unutilized borrowing capacity.

The Corporation's price hedging program proved extremely helpful during the quarter. Entering the second quarter Open Range had hedged a total of 6.7 mmcf per day of natural gas (45-50 percent of our total production) through the first quarter of 2010 at an average floor price of about \$4.60 per mcf. During the quarter we added one more hedge of 1.4 mmcf per day at \$5.25 per mcf through year-end. With natural gas spot prices at AECO declining to barely \$3 per mcf during the second quarter, our hedges added almost \$0.6 million in quarterly revenue (\$0.9 million year-to-date) or \$0.54 per mcf on our natural gas production (\$0.40 per mcf year-to-date), lifting quarterly funds flow by 27 percent to \$2.8 million. In addition the high energy content of our production enabled us to achieve a premium over the AECO spot price of approximately \$0.40 per mcf through the quarter.

In keeping with the year's plan for a capital program weighted to the first quarter, we made only \$1.6 million in capital expenditures during the second quarter, repaying \$1.0 million of debt and exiting the quarter with net debt of \$36.9 million. All that remains of Open Range's planned capital program for the year are some well completion costs early in the third quarter.

The cost side was also very positive and was key to the Corporation delivering favourable quarterly results. Open Range remains a low-cost producer positioned in the most efficient quartile of its peer group. Tight control of costs represents a critical advantage during a period of low commodity prices, lower growth and restricted access to capital. The Corporation's combined cash costs (operating, transportation, G&A and interest) averaged \$11.25 per boe during the second quarter. This was a further decline from the first quarter average of \$11.61 per boe, thanks to operating costs falling to \$4.89 per boe from \$6.22 per boe quarter-over-quarter. G&A costs rose slightly due to reduced capital recoveries. In addition, royalties also declined on a quarterly basis, due mainly to lower commodity prices as well as the recent incentive programs, averaging only 13 percent of sales revenue.

## **Operational Update**

Open Range's operational focus in the second quarter was repairing and resuming completion operations on our first horizontal well at our core Ansell/Sundance property in west central Alberta. Our intent in utilizing horizontal drilling is to complement the successful vertical well program at Ansell/Sundance, which has totalled 40 gross wells over multiple drilling seasons. The objective of drilling horizontally is to intersect a much greater reservoir area through multiple-stage hydraulic fracturing, accelerating reserves recovery and accessing incremental reserves.

As previously reported this well is targeting the Bluesky Formation, a thick, extensive but generally tighter Cretaceous sandstone reservoir that includes areas of permeable shoreface sands that can deliver prolific production. Open Range's more than 4,000-metre-long horizontal well was drilled over the winter and qualified for over \$2.8 million in Alberta deep gas royalty credits. It encountered a casing failure during hydraulic fracturing in mid-March.

Following spring breakup, in mid-June we initiated repairs. This was a technical challenge performed at great depth and a 70-degree angle, and followed two months of research by our completions team. Open Range was successful in repairing the collapsed liner, then withdrew the casing string and replaced the failed joint.

Open Range is pleased with the efforts of its technical team in taking a damaged wellbore and transforming it into a natural gas producer amid acute risks that the well would have to be abandoned. In early July we resumed well completion, fracturing six new stages in addition to the two fractured before spring break-up, placing a total of 325 tonnes of sand using nitrified slick water.

The well was tested in late July at initial cleanup production rates of 1.4-2.1 mmcf per day. The well has been tied in for production and came on-stream earlier today. Removal of more of the remaining fracturing fluid must take place before we can estimate a stabilized production rate.

Open Range remains encouraged by the increasing number of Deep Basin operators close to Ansell/Sundance continuing to report strong success with horizontal drilling. The natural gas resource-in-place in the Bluesky alone is substantial, and at least four additional Deep Basin formations present at Ansell/Sundance appear amenable to horizontal drilling, holding tremendous potential future upside for Open Range.

## **Outlook**

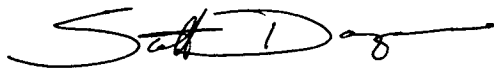
The Corporation's bearish view of natural gas prices has been borne out to date. While natural gas deliverability in the U.S. may have peaked, it did not set into an early decline as some optimists had hoped. At present the signs are uncertain and we need further months of data to determine how quickly continental production will roll over. Latest reports suggest that, while the overall U.S. rig count has virtually collapsed, the number of horizontal rigs drilling for natural gas is holding above 400 – almost 60 more than vertical rigs. On the consumption side, there has been little revival of industrial demand, while demand for gas-fired power generation was reportedly beginning to strengthen in July.

Gas prices rose slightly in July, even as natural gas storage reached nearly 3 trillion cubic feet at mid-month. This was the highest July storage level since the early 90s, well outside the five-year weekly range and nearly 500 billion cubic feet above the five-year average for the period. Despite speculation that some of the stored volume is linked to forward sales contracts, we consider such heavy storage bearish for short-term gas prices. In addition, if Canadian storage facilities reach capacity, there could be a regional price effect.

In summary, our read of the natural gas price situation is that the next several months will remain weak. That said, Open Range remains well-positioned to weather this period of commodity price uncertainty, thanks to a steady production base, low cash costs and solid downside support from our hedges. As we look longer-term there is significant potential developing for a strong recovery in natural gas prices as a result of the reduced North American drilling activity. Ultimately, this should have positive implications towards the rebalancing of natural gas supply and demand.

Despite the Corporation's cautious outlook and positioning, Open Range remains eager to resume its track record of value-creating exploration-based growth. There has been a substantial decline in service costs, which favourably shifts new well economics in the lower-price environment and could permit a resumption of drilling in the fourth quarter. Ansell/Sundance is an extremely high-quality multi-zone play that includes 100+ seismically defined vertical drilling locations and is capable of major production growth and strong rates of return at moderate natural gas prices.

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to read "Scott Dawson", with a long horizontal flourish extending to the right.

A. Scott Dawson  
President, Chief Executive Officer and Director  
August 5, 2009

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) is a review of operations, current financial position and outlook for Open Range Energy Corp. ("Open Range" or the "Corporation") for the three- and six-month periods ended June 30, 2009 and 2008. This MD&A should be read in conjunction with the unaudited interim financial statements for the three and six months ended June 30, 2009 and 2008, and the audited annual financial statements for the year ended December 31, 2008. This MD&A is dated August 5, 2009.

## 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:

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Cash flow from operating activities (per GAAP)	\$ 3,919,858	\$ 8,310,361	\$ 8,373,011	\$ 13,466,332
Change in non-cash working capital	<b>(1,416,468)</b>	(1,115,410)	<b>(2,662,576)</b>	(793,536)
Asset retirement expenditures	4,849	47,142	123,392	168,965
Funds from operations	<b>\$ 2,508,239</b>	\$ 7,242,093	<b>\$ 5,833,827</b>	\$ 12,841,761

## 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 levels of 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) commodity prices, exchange rates and interest rates; (l) the utilization and effectiveness of commodity price risk management techniques; (m) Open Range's ability to grow or sustain production and reserves through prudent management; (n) the Corporation's future operating and financial results; and (o) 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 untrue.

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, 2008. All subsequent forward-looking statements, whether written or oral, attributable to the Corporation or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Furthermore, the forward-looking statements contained in this MD&A are made as at the date hereof and the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

## DETAILED FINANCIAL ANALYSIS

### Production

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Production				
Oil and NGL (bbls/d)	232	225	240	220
Natural gas (mcf/d)	12,078	10,630	12,359	10,188
Total (boe/d)	2,245	1,996	2,300	1,918
Total (boe)	204,282	181,652	416,332	349,101
% natural gas	90	89	90	89

Open Range's production for the three and six months ended June 30, 2009 increased significantly from the comparative periods in 2008. The increase was the result of continued successful drilling in the second half of 2008 being partially offset by plant turn-around activity at Ansell/Sundance that saw a number of wells temporarily shut-in during the second quarter of 2009. Production in the three and six months ended June 30, 2009 averaged 2,245 boe per day and 2,300 boe per day, respectively. This represented an increase of 12 percent and 20 percent, respectively, from the average production of 1,996 boe per day and 1,918 boe per day for the respective three and six months ended June 30, 2008. Natural gas production in the three and six months ended June 30, 2009 increased to 12,078 mcf per day and 12,359 mcf per day, respectively, from 10,630 mcf per day and 10,188 mcf per day, respectively, for the three and six months ended June 30, 2008. Oil and natural gas liquids (NGL) production in the three and six months ended June 30, 2009 increased to 232 barrels per day and 240 barrels per day, respectively, from 225 barrels per day and 220 barrels per day for the respective three- and six-month periods in 2008. Open Range is forecasting average production of 2,400 boe per day in 2009.

## Oil and Natural Gas Revenue

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
<b>Revenue</b>				
Oil and NGL	\$ 1,015,371	\$ 2,149,680	\$ 1,969,577	\$ 3,712,350
Natural gas	4,120,857	10,377,537	10,193,216	17,788,418
Realized gain (loss) on commodity contracts	590,704	(1,246,388)	885,196	(1,053,041)
<b>Total</b>	<b>\$ 5,726,932</b>	<b>\$ 11,280,829</b>	<b>\$ 13,047,989</b>	<b>\$ 20,447,727</b>
<b>Average realized price</b>				
Oil and NGL (\$/bbl)	48.13	105.18	45.26	92.65
Natural gas (\$/mcf)	3.75	10.73	4.56	9.59
Realized gain (loss) on commodity contracts (\$/mcf)	0.54	(1.29)	0.40	(0.57)
<b>Combined average (\$/boe)</b>	<b>28.03</b>	<b>62.10</b>	<b>31.34</b>	<b>58.57</b>
<b>Benchmark pricing</b>				
Edmonton Par (Cdn\$/bbl)	66.11	126.55	58.25	112.36
Alberta Spot (Cdn\$/mcf)	3.30	10.10	4.05	8.94

Revenue, including realized gains on commodity contracts, for the three months ended June 30, 2009 decreased by 49 percent to \$5.7 million from \$11.3 million in the comparative period in 2008. The decrease in revenue was primarily a result of a 55 percent decrease in the combined average sales price partially offset by a 12 percent increase in production volumes from the second quarter of 2008. In the first half of 2009, revenue decreased by 36 percent to \$13.0 million from \$20.4 million in the comparative period in 2008. The decrease was due to a 46 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 June 30, 2009. These realized gains related to natural gas commodity contracts and amounted to additional revenue of \$0.54 per mcf on the Corporation's natural gas production for the second quarter of 2009. For the six months ended June 30, 2009, the Corporation realized gains on commodity contracts of \$0.9 million, which amounted to additional revenue of \$0.40 per mcf on the Corporation's natural gas production for the first half of 2009.

### Unrealized Gain (Loss) on Commodity Contracts

Open Range's management utilizes commodity contracts as a risk management technique to protect exploration and development economics, reduce volatility in cash flows and mitigate the unpredictable commodity price environment. For the three and six months ended June 30, 2009, the Corporation recorded an unrealized gain on commodity contracts of \$0.3 million and \$0.5 million, respectively. These amounts represented the change in the fair value of the commodity contracts held by the Corporation during the three- and six-month periods ended June 30, 2009.

Natural gas hedging contracts entered into as at June 30, 2009 and expired contracts presented for comparative purposes are as follows:

Period	Volume (Gj/d)	Type of contract	Average AECO Spot floor (Cdn\$/Gj)	Average AECO Spot ceiling (Cdn\$/Gj)	Unrealized gain (loss) for the three months ended June 30, 2009	Unrealized loss for the three months ended June 30, 2008	Unrealized gains (loss) for the six months ended June 30, 2009	Unrealized loss for the six months ended June 30, 2008
Apr. 2007 to Mar. 2008	1,000	Costless Collar	\$ 7.00	\$ 10.16	-	-	-	\$ (68,534)
Nov. 2007 to Mar. 2008	1,500	Costless Collar	\$ 7.50	\$ 10.67	-	-	-	(164,411)
Jan. 2008 to Dec. 2008	3,000	Costless Collar	\$ 6.75	\$ 7.50-9.12	-	\$ (830,852)	-	(2,465,341)
Apr. 2008 to Oct. 2008	1,500	Swap	\$ 6.46	\$ 6.46	-	(109,296)	-	(896,353)
Nov. 2008 to Dec. 2008	1,500	Swap	\$ 7.26	\$ 7.26	-	(232,159)	-	(424,136)
Apr. 2008 to Oct. 2008	1,500	Swap	\$ 6.50	\$ 6.50	-	(114,662)	-	(898,294)
Nov. 2008 to Mar. 2009	1,500	Costless Collar	\$ 6.75	\$ 11.09	-	(342,778)	\$ (102,614)	(485,475)
Jan. 2009 to Dec. 2009	1,000	Costless Collar	\$ 6.50	\$ 9.00-13.00	\$ (162,086)	(501,343)	226,025	(600,619)
Apr. 2009 to Mar. 2010	5,000	Costless Collar	\$ 4.00	\$ 5.84	265,860	-	188,618	-
Apr. 2009 to Mar. 2010	1,000	Costless Collar	\$ 4.25	\$ 5.92	40,466	-	78,694	-
Jul. 2009 to Dec. 2009	1,500	Swap	\$ 5.00	\$ 5.00	298,086	-	298,086	-
Jan. 2009 to Dec. 2010	1,500	Call Option	n/a	\$ 7.75	(190,124)	-	(190,124)	-
					\$ 252,202	\$ (2,131,090)	\$ 498,685	\$ (6,003,163)

For more details on these contracts refer to note 8, Financial Instruments, in the interim financial statements for the three and six months ended June 30, 2009.

## Royalties

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Royalty expense – oil & NGL	\$ 247,977	\$ 367,508	\$ 545,276	\$ 480,949
Royalty expense – natural gas	409,608	1,929,551	1,644,618	3,274,202
Total	\$ 657,585	\$ 2,297,059	\$ 2,189,894	\$ 3,755,151
Per boe (\$)	3.22	12.65	5.26	10.76
% of revenue <sup>(1)</sup>	13	18	18	17

<sup>(1)</sup> Revenue before the realized gain (loss) on commodity contracts.

Royalties totalled \$0.7 million and \$2.2 million for the second quarter and the first half of 2009, respectively, compared to \$2.3 million and \$3.8 million, respectively, for the comparative periods in 2008. Royalties as a percentage of revenue decreased in the three months ended June 30, 2009 as lower commodity prices resulted in lower royalty rates under the New Royalty Framework that came into effect January 1, 2009 and one new well was brought on production in the quarter taking advantage of the royalty incentive program announced by the Alberta government that began in April. On a per unit of production basis, royalty costs for the three and six months ended June 30, 2009 were down by 75 percent and 51 per cent, respectively, from the comparative periods in 2008, mainly due to lower commodity prices.

Open Range estimates that royalty rates for 2009 will amount to an average of 20 percent of revenue as a result of the NRF. This anticipated increase does not reflect the potential positive impact to the Corporation of the two-year incentive program announced by the Alberta government, as any additional benefits beyond the one well cited above that could be realized from this program would depend on the pace at which Open Range drills and ties-in new wells.

### Operating Costs

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Operating costs	\$ 998,863	\$ 1,067,879	\$ 2,317,118	\$ 2,220,603
Transportation costs	221,037	168,905	419,027	263,522
<b>Total</b>	<b>\$ 1,219,900</b>	<b>\$ 1,236,784</b>	<b>\$ 2,736,145</b>	<b>\$ 2,484,125</b>
Operating costs (\$/boe)	4.89	5.88	5.56	6.37
Transportation costs (\$/boe)	1.08	0.93	1.01	0.75
<b>Total (\$/boe)</b>	<b>5.97</b>	<b>6.81</b>	<b>6.57</b>	<b>7.12</b>

Operating costs were \$1.0 million and \$2.3 million, respectively, for the three and six months ending June 30, 2009 compared to \$1.1 million and \$2.2 million, respectively, for the comparative periods in 2008. On a per unit of production basis, operating costs for the three and six months ending June 30, 2009 were \$4.89 per boe and \$5.56 per boe, respectively. This represented a 17 percent and a 13 percent decrease, respectively, from \$5.88 per boe and \$6.37 per boe for the comparative periods in 2008. This reduction was due primarily to continued operating efficiencies being realized at Ansell/Sundance, where a majority of production is handled at the Corporation-operated plant and facilities. Transportation costs for the three and six ending June 30, 2009 were \$0.2 million or \$1.08 per boe and \$0.4 million or \$1.01 per boe, respectively, compared to \$0.2 million or \$0.93 per boe and \$0.3 million or \$0.75 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 increase on a per unit of production basis reflects changes in the pricing structure of the third-party transportation system the Corporation utilizes at Ansell/Sundance.

## Operating Netback

(\$/boe)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Average realized sales price	<b>28.03</b>	62.10	<b>31.34</b>	58.57
Royalty expenses	<b>(3.22)</b>	(12.65)	<b>(5.26)</b>	(10.76)
Operating costs	<b>(4.89)</b>	(5.88)	<b>(5.56)</b>	(6.37)
Transportation costs	<b>(1.08)</b>	(0.93)	<b>(1.01)</b>	(0.75)
<b>Operating netback</b>	<b>18.84</b>	42.64	<b>19.51</b>	40.69

The Corporation's operating netback for the three and six months ending June 30, 2009 decreased to \$18.84 per boe and \$19.51 per boe, respectively, from \$42.64 per boe and \$40.69 per boe for the respective periods in 2008. The operating netback decreased by 56 percent and 52 percent for the second quarter and first half 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 and lower royalties due to decreased commodity prices.

## General and Administrative Costs

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Gross G&A costs	<b>\$ 1,604,230</b>	\$ 1,531,563	<b>\$ 3,329,494</b>	\$ 2,895,029
Partner recovery	<b>(126,929)</b>	(387,615)	<b>(320,824)</b>	(508,919)
Capitalized	<b>(615,071)</b>	(650,277)	<b>(1,409,942)</b>	(1,226,131)
Net G&A costs	<b>\$ 862,230</b>	\$ 493,671	<b>\$ 1,598,728</b>	\$ 1,159,979
Per boe, net (\$)	<b>4.22</b>	2.72	<b>3.84</b>	3.32

Net G&A costs for the three months ended June 30, 2009 totalled \$0.9 million or \$4.22 per boe after overhead recoveries and capitalization of \$0.7 million. On a per boe basis G&A costs in the second quarter of 2009 increased by 55 percent to \$4.22 per boe from \$2.72 per boe in the second quarter of 2008. For the first half of 2009, net G&A costs per boe increased by 16 percent to \$3.84 per boe from \$3.32 per boe in the first half of 2008. The increases on a unit of production basis for both periods were mainly due to reduced exploration and development activity with partners resulting in decreased partner overhead recoveries. Capitalized G&A costs represented 38 percent and 42 percent of gross G&A costs for the three and six months ended June 30, 2009, respectively, as the Corporation continued to focus its efforts on exploration activities and capitalized its exploration, geological and geophysical expenses. The Corporation's gross G&A costs for the three and six months ending June 30, 2009 increased only slightly over the comparative periods in 2008, reflecting the Corporation's success at limiting G&A costs through the industry cycles.

## Net Interest Expense

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Net interest expense	\$ 217,326	\$ 11,222	\$ 427,743	\$ 206,711
Per boe, net (\$)	1.06	0.06	1.03	0.59

Net interest expense for the three and six months ended June 30, 2009 was \$0.2 million or \$1.06 per boe and \$0.4 million or \$1.03 per boe, respectively. The Corporation had \$36.2 million drawn on its extendable revolving credit facility at June 30, 2009 compared to no amount drawn at June 30, 2008. The Corporation continues to manage debt levels prudently and expects net interest expense to be relatively flat for the remainder of the year as the majority of its capital investment program will be funded from cash flow from operations.

## Stock-Based Compensation

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Total stock-based compensation	\$ 244,746	\$ 355,195	\$ 464,863	\$ 639,654
Capitalized stock-based compensation	(118,068)	(170,419)	(225,305)	(306,033)
Stock-based compensation expense	\$ 126,678	\$ 184,776	\$ 239,558	\$ 333,621

During the second quarter of 2009, stock-based compensation of \$0.1 million was expensed and \$0.1 million was capitalized. This resulted in total stock-based compensation for the three months ended June 30, 2009 of \$0.2 million, compared to \$0.4 million for the second quarter of 2008. For the first half of 2009 stock-based compensation of \$0.2 million was expensed and \$0.2 million was capitalized, compared to \$0.3 million expensed and \$0.3 million capitalized for the comparative period in 2008. The decrease in stock-based compensation expense was mainly due to stock options that were granted at the Corporation's inception in December 2005 being fully expensed as of December 31, 2008 partially offset by new stock options being granted near the end of the first half of 2009. At June 30, 2009 there were 2,612,833 stock options outstanding compared to 2,700,000 outstanding at June 30, 2008.

## Depletion, Depreciation and Accretion

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Depletion and depreciation	\$ 5,101,207	\$ 4,855,942	\$ 10,254,241	\$ 9,103,319
Accretion	42,210	39,911	84,578	81,334
Total	\$ 5,143,417	\$ 4,895,853	\$ 10,338,819	\$ 9,184,653
Depletion and depreciation (\$/boe)	24.97	26.73	24.63	26.08
Accretion (\$/boe)	0.21	0.22	0.20	0.23
Total (\$/boe)	25.18	26.95	24.83	26.31

Depletion and depreciation are calculated based upon cumulative capital expenditures, production rates and reserves. Open Range recorded \$5.1 million or \$24.97 per boe in depletion and depreciation for the three months ended June 30, 2009, compared to \$4.9 million or \$26.73 per boe for the comparative period in 2008. Depletion and depreciation for the first half of 2009 increased on a total dollar basis to \$10.3 million from \$9.1 million but decreased on a per unit of production basis to \$24.63 per boe from \$26.08 per boe. The period-over-period per boe decreases in depletion and depreciation for the three- and six-month periods ended June 30, 2009 are due to significant reserve additions from the Corporation's successful drilling program in the second half of 2008.

Open Range estimates depletion on a quarterly basis throughout the year using independent inputs such as reserve and land reports when available. Undeveloped land and seismic and salvage value of \$26.3 million have been excluded from the calculation and future development costs of \$30.9 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 for the balance of the year based on current oil and natural gas prices, existing tax pools, planned capital expenditures and forecast taxable income. For the quarter ended June 30, 2009, a future income tax reduction of \$0.6 million was recorded. In the six-month period ended June 30, 2009, a future income tax reduction of \$1.0 million was recorded. The future income tax liability of \$3.0 million associated with the Corporation's \$12 million flow-through share issuance in 2008 was recorded in the first half of 2009.

The Corporation estimates that at June 30, 2009 tax pools of \$100.5 million are available for deduction against future taxable income.

### Net Loss

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Loss	\$ 1,927,317	\$ 31,439	\$ 3,231,100	\$ 1,945,057
Loss per basic and diluted share	\$ 0.07	\$ -	\$ 0.12	\$ 0.08

The Corporation recorded a net loss of \$3.2 million or \$0.12 per basic and diluted share for the six months ended June 30, 2009, compared to a net loss of \$1.9 million or \$0.08 per basic and diluted share for the comparative period in 2008. The loss in the first half of 2009 is mainly attributable to sharply reduced commodity prices.

### Funds from Operations and Cash Flow from Operating Activities

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Funds from operations	\$ 2,508,239	\$ 7,242,093	\$ 5,833,827	\$ 12,841,761
Funds from operations per boe (\$)	12.28	39.87	14.01	36.79
Funds from operations per basic share (\$)	0.09	0.27	0.22	0.52
Funds from operations per diluted share (\$)	0.09	0.26	0.22	0.52
Cash flow from operating activities (per GAAP)	\$ 3,919,858	\$ 8,310,361	\$ 8,373,011	\$ 13,466,332

In the three months ended June 30, 2009, Open Range generated funds from operations of \$2.5 million or \$0.09 per diluted share compared to \$7.2 million or \$0.26 per diluted share for the comparative period in 2008. First-half 2009 funds from operations decreased by 55 percent to \$5.8 million from \$12.8 million for the comparative period in 2008. The decreases in funds from operations and cash flow from operating activities were primarily due to reduced revenues driven by lower commodity prices.

## Capital Expenditures

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Drilling and completions	\$ 1,103,149	\$ 4,805,878	\$ 11,327,423	\$ 14,805,142
Equipment and facilities	(148,371)	398,523	1,718,028	2,378,715
Land	28,674	19,609	85,079	6,407,087
Capitalized G&A	579,103	650,277	1,300,300	1,226,131
Geological and geophysical	13,533	10,666	221,251	692,515
Total capital expenditures	1,576,088	5,884,953	14,652,081	25,509,590
Capital items not involving cash:				
Stock-based compensation, including related future tax liability	157,423	230,296	300,406	413,558
Asset retirement obligations	4,690	–	138,766	44,546
Total capital expenditures including non-cash items	\$ 1,738,201	\$ 6,115,249	\$ 15,091,253	\$ 25,697,694

Open Range's capital budget during the first half of 2009 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. Second quarter activities focused almost entirely on resuming completion operations on the horizontal well.

	Three months ended June 30, 2009		Three months ended June 30, 2008		Six months ended June 30, 2009		Six months ended June 30, 2008	
Wells drilled	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration	–	–	–	–	2	1.5	5	2.6
Development	–	–	–	–	–	–	–	–
Total	–	–	–	–	2	1.5	5	2.6
Average working interest	–	–	–	–	75%		52.0%	
Success rate	–	–	–	–	50%		100%	

## Share Capital

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Weighted average basic common shares outstanding <sup>(1)</sup>	26,534,341	27,131,143	26,555,283	24,465,119
Stock option dilution	–	378,595	–	71,875
Weighted average diluted common shares outstanding <sup>(2)</sup>	26,534,341	27,509,738	26,555,283	24,536,994

<sup>(1)</sup> For purposes of calculating loss per basic and diluted share.

<sup>(2)</sup> For purposes of calculating funds from operations per diluted share only.

Options to purchase 2,612,833 common shares for the three and six months ended June 30, 2009 were not included in the computation of weighted average diluted shares outstanding because they were anti-dilutive.

Outstanding securities	June 30, 2009	August 5, 2009
Common shares	26,534,341	26,534,341
Stock options	2,612,833	2,612,833
<b>Total outstanding securities</b>	<b>29,147,174</b>	<b>29,147,174</b>
<b>Proportion of outstanding securities held by officers and directors</b>	<b>16%</b>	<b>16%</b>

Equity financings since inception	Date of issue	Issue price per share	Shares issued	Gross proceeds
Common shares <sup>(1)</sup>	November 29, 2005	\$ 3.10	2,000,000	\$ 6,200,000
Common shares	January 10, 2006	4.25	1,649,000	7,008,250
Flow-through common shares	May 16, 2006	5.70	1,000,000	5,700,000
Common shares	November 9, 2006	3.55	2,324,300	8,251,265
Flow-through common shares	February 22, 2007	4.00	3,000,000	12,000,000
Flow-through common shares	December 20, 2007	3.45	2,029,100	7,000,395
Common shares	April 4, 2008	4.20	3,095,300	13,000,260
Flow-through common shares	April 4, 2008	5.00	2,400,000	12,000,000
<b>Total</b>		<b>\$ 4.07</b>	<b>17,497,700</b>	<b>\$ 71,160,170</b>

<sup>(1)</sup> 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 will terminate on October 27, 2009. Pursuant to the Bid, Open Range is entitled to purchase for cancellation, from time to time, up to a maximum of 1,366,662 common shares. As of June 30, 2009 the Corporation had purchased and cancelled 799,900 common shares under the Bid at an average price of \$1.46 per share.

#### **RELATED-PARTY AND OFF-BALANCE SHEET TRANSACTIONS**

During the six months ended June 30, 2009, the Corporation incurred \$35,453 in legal costs to a law firm in which the Chairman of the Board of Directors and the Corporate Secretary of the Corporation are partners. Of the legal costs incurred in the period, no amounts were included in accounts payable at June 30, 2009.

During the six months ended June 30, 2009, the Corporation received \$191,442 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. Of the office rent received in the year, no amounts were included in accounts receivable at June 30, 2009.

Open Range was not involved in any off-balance-sheet transactions during the three and six months ended June 30, 2009.

## LIQUIDITY AND CAPITAL RESOURCES

Open Range had a working capital deficiency of \$36.3 million at June 30, 2009. As at June 30, 2009, Open Range had available a \$50 million extendable revolving-credit facility and a \$4 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-based 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 is in compliance with this covenant as at June 30, 2009. As at June 30, 2009, \$36.2 million had been drawn on these facilities. The facilities are open for review semi-annually with the next review occurring in September 2009.

	As at June 30, 2009
Bank lines available	\$ 54,000,000
Working capital deficiency	(36,267,054)
Capital resources available	\$ 17,732,946

During periods of financial and commodity market instability, such as that which continued into the second quarter of 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 and 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 June 30, 2009, the Corporation's ratio of net debt to annualized funds from operations was 3.6 to 1, which was above the target range established by the Corporation. This was a result of reduced cash flow from operations driven by weak commodity prices combined with the Corporation incurring some debt to fund a portion of its capital program. The Corporation expects the ratio will decrease during the remainder of 2009 as the Corporation anticipates reduced capital expenditures and utilizing the majority of its cash flow from operations to repay a portion of its debt over the balance of the year. For more details on the calculation of this ratio refer to note 6, Capital Management, in the interim financial statements for the three and six months ended June 30, 2009.

As a result of the current volatility in the commodity, credit and capital markets, Open Range has limited its capital investment program for 2009 to a level that allows it to be funded largely from cash flow from operations over the course of the year. In doing so, the Corporation maintains its financial flexibility, avoids issuing new equity on dilutive terms and preserves its extensive drilling inventory at Ansell/Sundance. As the Corporation gains more clarity on the near- to mid-term outlook for the financial and commodity markets, it may adjust its 2009 capital investment program accordingly.

The Corporation's capital expenditure budget for 2009 is \$18 million, of which \$15.1 million had been expended to June 30, 2009. The details of the 2009 budget is as follows:

(millions)	2009
Drilling and completions	\$ 11.8
Equipment and facilities	2.7
Land, seismic and capitalized G&A	3.5
<b>Total</b>	<b>\$ 18.0</b>

## SELECTED QUARTERLY INFORMATION

	2009			2008			2007	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>Production</b>								
Natural gas (mcf/d)	<b>12,078</b>	12,642	13,164	10,696	10,630	9,746	8,862	9,545
Oil and NGL (bbls/d)	<b>232</b>	249	257	209	225	216	171	225
Total (boe/d)	<b>2,245</b>	2,356	2,451	1,992	1,996	1,840	1,648	1,815
Total (boe)	<b>204,282</b>	212,050	225,450	183,242	181,652	167,448	151,660	167,009
% natural gas	<b>90</b>	89	90	89	89	88	90	88
<b>Financial</b>								
(\$000s except per share amounts and share numbers)								
Revenue <sup>(1)</sup>	<b>5,727</b>	7,321	10,238	9,646	11,281	9,167	7,097	6,823
Net earnings (loss)	<b>(1,927)</b>	(1,304)	1,067	3,676	(31)	(1,914)	(345)	611
Per share (\$)								
Basic and diluted	<b>(0.07)</b>	(0.05)	0.04	0.13	–	(0.09)	(0.02)	0.03
Funds from operations	<b>2,508</b>	3,326	6,351	4,757	7,242	5,600	4,583	4,413
Per share (\$)								
Basic	<b>0.09</b>	0.13	0.23	0.17	0.27	0.26	0.23	0.22
Diluted	<b>0.09</b>	0.13	0.23	0.17	0.26	0.26	0.23	0.22
Cash flow from operating activities	<b>3,920</b>	4,453	6,037	4,583	8,310	5,156	2,867	3,728
Total assets (end of period)	<b>140,086</b>	145,379	151,102	137,117	117,265	114,415	97,517	93,289
Capital expenditures, net	<b>1,576</b>	13,076	9,253	25,804	5,885	19,625	9,354	8,780
Weighted average basic shares (000s)	<b>26,534</b>	26,576	27,111	27,334	27,131	21,799	20,029	19,764
Weighted average diluted shares (000s)	<b>26,534</b>	26,576	27,111	27,557	27,131	21,799	20,029	19,764
<b>Per Unit</b>								
Oil and NGL (\$/bbl)	<b>48.13</b>	42.57	56.40	101.51	105.18	79.60	73.10	61.32
Natural gas (\$/mcf) <sup>(1)</sup>	<b>4.29</b>	5.60	7.35	7.82	9.44	8.58	7.29	6.33
Revenue (\$/boe) <sup>(1)</sup>	<b>28.03</b>	34.53	45.41	52.64	62.10	54.74	46.80	40.85
Operating netback (\$/boe)	<b>18.84</b>	20.15	31.01	31.81	42.64	38.58	35.75	30.43

<sup>(1)</sup> Includes the realized gain (loss) on commodity contracts.

Open Range's 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.

## CONTRACTUAL OBLIGATIONS<sup>(2), (3)</sup>

As at June 30, 2009	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Bank indebtedness <sup>(1)</sup>	\$ 36,209,982	\$ 36,209,982	–	–	–
Office lease	1,493,103	1,015,838	\$ 423,265	–	–
Office equipment leases	24,960	14,263	10,697	–	–
Firm natural gas transportation agreements	6,170,294	502,664	2,838,998	1,617,045	1,211,587
Total	\$ 43,844,339	\$ 37,742,747	\$ 3,272,960	\$ 1,617,045	\$ 1,211,587

<sup>(1)</sup> 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.

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

<sup>(3)</sup> The Corporation has entered into commodity contracts which are not included in this table. For a complete listing refer to note 8, Financial Instruments, in the interim financial statements for the three and six months ended June 30, 2009.

## ACCOUNTING POLICY UPDATES

In May 2009, the Canadian Institute of Chartered Accountants (CICA) amended its Handbook Section 3862, "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level One are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair values of assets and liabilities in Level Two include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Fair values in Level Three are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments will be effective for the Corporation's interim and annual financial statements beginning December 31, 2009.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the CICA Accounting Standards Board (AcSB) confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Corporation's reported financial position and reported results of operations.

In response, Open Range has completed the development of its IFRS changeover plan and established a preliminary timeline for the execution and completion of the conversion project. The changeover plan was determined following a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight into what are anticipated to be the most significant areas of difference applicable to Open Range.

The Corporation is currently performing an in-depth review of the significant areas of difference, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas being addressed are also being reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities including the effect, if any, on covenants and compensation arrangements. External advisors have been retained and are assisting management with the project on an as-needed basis. Staff training programs will be ongoing throughout 2009 as the project unfolds.

During the three and six months ended June 30, 2009 the Corporation worked on performing more detailed analysis of major areas impacted by IFRS, including cash-generating units in property, plant and equipment and stock-based compensation. The Corporation continues to monitor standard changes that may impact timing, nature or disclosure including accounting under IFRS.

### **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, 2008 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 that they 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**

The Chief Executive Officer and Chief Financial Officer of the Corporation are responsible for designing internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Corporation evaluated the design effectiveness of its internal controls over financial reporting as at December 31, 2008. 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 properly at December 31, 2008.

No material changes in the Corporation's internal controls over financial reporting, including identified weaknesses, were identified during the three months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal financial reporting processes.

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

# BALANCE SHEETS

(Unaudited)	As at June 30, 2009	As at December 31, 2008
<b>ASSETS</b>		
Current assets:		
Accounts receivable	\$ 1,761,804	\$ 18,463,201
Prepaid expenses and deposits	1,469,972	1,120,066
Fair value of commodity contracts (note 8)	866,794	368,109
	<b>4,098,570</b>	19,951,376
Property, plant and equipment (note 2)	135,987,865	131,150,853
	<b>\$ 140,086,435</b>	<b>\$ 151,102,229</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Bank indebtedness (note 3)	\$ 36,209,982	\$ 31,418,884
Accounts payable and accrued liabilities	3,904,271	16,050,717
Future income taxes	251,371	106,751
	<b>40,365,624</b>	47,576,352
Future income taxes	8,130,756	6,215,040
Asset retirement obligations (note 4)	2,574,638	2,474,686
Shareholders' equity:		
Share capital (note 5)	84,410,646	87,629,713
Contributed surplus (note 5)	5,314,544	4,685,111
Retained earnings (deficit)	(709,773)	2,521,327
	<b>89,015,417</b>	94,836,151
Commitments (note 7)		
	<b>\$ 140,086,435</b>	<b>\$ 151,102,229</b>

See accompanying notes to financial statements.

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

(Unaudited)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
<b>Revenues:</b>				
Petroleum and natural gas	\$ 5,136,228	\$ 12,527,217	\$ 12,162,793	\$ 21,500,768
Royalties	(657,585)	(2,297,059)	(2,189,894)	(3,755,151)
Interest	9	39,050	120	43,510
Realized gain (loss) on commodity contracts (note 8)	590,704	(1,246,388)	885,196	(1,053,041)
Unrealized gain (loss) on commodity contracts (note 8)	252,202	(2,131,090)	498,685	(6,003,163)
	<b>5,321,558</b>	<b>6,891,730</b>	<b>11,356,900</b>	<b>10,732,923</b>
<b>Expenses:</b>				
Operating	1,219,900	1,236,784	2,736,145	2,484,125
General and administrative	862,230	493,671	1,598,728	1,159,979
Bad debts (note 8)	261,652	-	261,652	-
Stock-based compensation	126,678	184,776	239,558	333,621
Interest	217,335	50,272	427,863	250,221
Depletion and depreciation	5,101,207	4,855,942	10,254,241	9,103,319
Accretion of asset retirement obligations	42,210	39,911	84,578	81,334
	<b>7,831,212</b>	<b>6,861,356</b>	<b>15,602,765</b>	<b>13,412,599</b>
Earnings (loss) before income taxes	(2,509,654)	30,374	(4,245,865)	(2,679,676)
Future income tax expense (reduction)	(582,337)	61,813	(1,014,765)	(734,619)
Net loss and comprehensive loss	(1,927,317)	(31,439)	(3,231,100)	(1,945,057)
Retained earnings (deficit), beginning of period	1,217,544	(2,189,964)	2,521,327	(276,346)
Deficit, end of period	\$ (709,773)	\$ (2,221,403)	\$ (709,773)	\$ (2,221,403)
<b>Loss per share (note 5):</b>				
Basic	\$ (0.07)	\$ -	\$ (0.12)	\$ (0.08)
Diluted	\$ (0.07)	\$ -	\$ (0.12)	\$ (0.08)

See accompanying notes to financial statements.

# STATEMENTS OF CASH FLOWS

(Unaudited)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Cash provided by (used in):				
Operating:				
Net loss	\$ (1,927,317)	\$ (31,439)	\$ (3,231,100)	\$ (1,945,057)
Items not involving cash:				
Depletion and depreciation	5,101,207	4,855,942	10,254,241	9,103,319
Accretion of asset retirement obligations	42,210	39,911	84,578	81,334
Future income tax expense (reduction)	(582,337)	61,813	(1,014,765)	(734,619)
Stock-based compensation	126,678	184,776	239,558	333,621
Unrealized loss (gain) on commodity contracts	(252,202)	2,131,090	(498,685)	6,003,163
Asset retirement expenditures	(4,849)	(47,142)	(123,392)	(168,965)
Change in non-cash working capital	1,416,468	1,115,410	2,662,576	793,536
	<b>3,919,858</b>	<b>8,310,361</b>	<b>8,373,011</b>	<b>13,466,332</b>
Financing:				
Bank indebtedness	4,108,611	(21,878,434)	4,791,098	(12,855,623)
Issue of common shares, net of issue costs	–	23,617,167	–	23,668,803
Repurchase of common shares	–	–	(54,497)	–
	<b>4,108,611</b>	<b>1,738,733</b>	<b>4,736,601</b>	<b>10,813,180</b>
Investing:				
Acquisition of property, plant and equipment	(1,576,088)	(5,884,953)	(14,652,081)	(25,509,590)
Change in non-cash working capital	(6,452,381)	(1,448,614)	1,542,469	3,945,605
	<b>(8,028,469)</b>	<b>(7,333,567)</b>	<b>(13,109,612)</b>	<b>(21,563,985)</b>
Change in cash	–	2,715,527	–	2,715,527
Cash, beginning of period	–	–	–	–
Cash, end of period	\$ –	\$ 2,715,527	\$ –	\$ 2,715,527
Interest received	\$ 9	\$ 39,050	\$ 120	\$ 43,510
Interest paid	\$ 297,423	\$ 50,272	\$ 491,777	\$ 250,221

Cash is defined as cash and cash equivalents.

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

(Unaudited)

The interim financial statements of Open Range Energy Corp. (“Open Range” or the “Corporation”) have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the year ended December 31, 2008. The following disclosure is incremental to the disclosure included with the annual financial statements. These interim financial statements should be read in conjunction with the financial statements and notes thereto in the Corporation’s annual release for the year ended December 31, 2008. Certain comparative figures have been reclassified to conform to the current period’s presentation.

### 1. CHANGE IN ACCOUNTING POLICIES

In May 2009, the Canadian Institute of Chartered Accountants amended Section 3862, “Financial Instruments – Disclosures,” to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level One are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair values of assets and liabilities in Level Two include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Fair values in Level Three are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments will be effective for the Corporation’s interim and annual financial statements beginning December 31, 2009.

### 2. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2009	December 31, 2008
Petroleum and natural gas properties	\$ 183,860,203	\$ 168,771,963
Other assets	2,417,230	2,414,217
	<b>186,277,433</b>	171,186,180
Accumulated depletion and depreciation	<b>(50,289,568)</b>	(40,035,327)
Net book value	<b>\$ 135,987,865</b>	\$ 131,150,853

During the three- and six-month periods ended June 30, 2009, the Corporation capitalized \$733,139 and \$1,635,247 (June 30, 2008 – \$820,696 and \$1,532,164), respectively, of overhead-related costs to petroleum and natural gas properties, of which \$118,068 and \$225,305 (June 30, 2008 – \$170,419 and \$306,033), respectively, related to stock-based compensation. During the three and six months ended June 30, 2009, the future tax liability of \$39,355 and \$75,101 (June 30, 2008 – \$59,877 and \$107,525), respectively, associated with the capitalized stock-based compensation was also capitalized.

Costs associated with unproved properties excluded from costs subject to depletion for the period ended June 30, 2009 totalled \$16,519,000 (June 30, 2008 – \$15,926,000). Future development costs of proved reserves of \$30,927,000 at June 30, 2009 (June 30, 2008 – \$3,733,000) have been included in the depletion calculation.

During the year ended December 31, 2008, the Corporation disposed of certain interests in petroleum and natural gas properties for proceeds of \$20,000, with associated asset retirement obligations of \$213,230 also eliminated.

### **3. BANK DEBT**

The Corporation has a \$50,000,000 extendable revolving credit facility and a \$4,000,000 non-revolving acquisition/development demand facility. These facilities are with a Canadian chartered bank. The interest 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 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 \$100,000,000 and a general security agreement. Pursuant to the terms of the credit facilities, the Corporation has provided the covenant that at all times its working capital ratio shall be not less than 1 to 1. The working capital ratio is defined under the terms of the facilities as current assets, including the undrawn portion of the revolving credit facility, to current liabilities, excluding any current bank indebtedness. The Corporation is in compliance with this covenant as at June 30, 2009. The facilities are open for review semi-annually with the next review occurring in September 2009. 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 credit that will be made available at each scheduled review.

As at June 30, 2009, \$36,209,982 (December 31, 2008 – \$31,418,884) has been drawn against the revolving credit facility. Letters of credit totaling \$580,100 are held against this facility (December 31, 2008 – \$550,000). No amount (December 31, 2008 – \$nil) has been drawn against the non-revolving demand facility. The revolving facility had an effective interest rate of 3 percent at June 30, 2009 (December 31, 2008 – 3.5 percent).

### **4. ASSET RETIREMENT OBLIGATIONS**

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at June 30, 2009 to be approximately \$7,406,000 (December 31, 2008 – \$7,238,000), to be incurred between 2009 and 2041. The majority of the costs will be incurred between 2020 and 2040. A credit-adjusted, risk-free rate of 8 to 10 percent (December 31, 2008 – 8 to 10 percent) was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	June 30, 2009	December 31, 2008
Balance, beginning of period	\$ 2,474,686	\$ 2,342,760
Liabilities incurred	14,177	118,143
Change in estimates	124,589	546,432
Dispositions (note 1)	–	(213,230)
Liabilities settled	(123,392)	(477,955)
Accretion expense	84,578	158,536
Balance, end of period	\$ 2,574,638	\$ 2,474,686

## 5. SHARE CAPITAL

### (A) Common Shares Issued and Outstanding

	Number of shares	Amount
Balance, December 31, 2007	21,792,941	\$70,884,500
Issued pursuant to flow-through share offerings	2,400,000	12,000,000
Issued pursuant to common share offerings	3,095,300	13,000,260
Issued pursuant to private placements	40,000	178,600
Exercise of stock options	6,000	18,250
Stock-based compensation on exercise of stock options	–	7,453
Share issue costs (net of tax of \$414,170)	–	(1,104,437)
Share repurchases	(733,400)	(2,414,810)
Tax effect of flow-through shares issued in 2007	–	(4,940,103)
Balance, December 31, 2008	26,600,841	\$ 87,629,713
Share repurchases	(66,500)	(219,067)
Tax effect of flow-through shares issued in 2008	–	(3,000,000)
Balance, June 30, 2009	26,534,341	\$84,410,646

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 will terminate on October 27, 2009. Pursuant to the Bid, Open Range is entitled to purchase for cancellation, from time to time, up to a maximum of 1,366,662 common shares. As of June 30, 2009 the Corporation has purchased and cancelled 799,900 common shares under the Bid (December 31, 2008 – 733,400) for total consideration of \$1,171,784 (December 31, 2008 – \$1,117,287). The excess of the average book value over the market price totaling \$1,462,093 is recorded as contributed surplus as of June 30, 2009 (December 31, 2008 – \$1,297,523).

## (B) Share Option Plan

Under the Corporation's share option plan it may grant options to its employees for up to 2,653,434 shares, of which 2,612,833 were outstanding as at June 30, 2009 (December 31, 2008 – 2,632,000). The exercise price of each option equals the market price of the Corporation's stock on the date of grant. Options have terms of five years and vest as to one-third on each of the first, second and third anniversaries of the grant date.

	Six months ended June 30, 2009		Year ended December 31, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Granted and outstanding, beginning of period	2,632,000	\$ 4.33	1,926,500	\$ 4.08
Granted	261,000	1.71	779,500	4.93
Exercised	–	–	(6,000)	3.04
Forfeited	(280,167)	4.45	(13,000)	4.33
Expired	–	–	(55,000)	4.31
Granted and outstanding, end of period	2,612,833	4.06	2,632,000	4.33
Exercisable at period-end	1,677,664	\$ 4.28	1,516,833	\$ 4.22

The following table summarizes information about the fixed stock options outstanding at June 30, 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 – \$2.98	285,000	\$ 1.78	4.8	14,666	\$ 2.63
\$2.99 – \$4.52	884,166	3.47	2.5	599,332	3.52
\$4.53 – \$6.06	1,443,667	4.86	2.4	1,053,666	4.73
\$1.44 – \$6.06	2,612,833	\$ 4.06	2.7	1,667,664	\$ 4.28

## (C) Stock-Based Compensation

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in the six-month period ended June 30, 2009: zero dividend yield, average expected volatility of 71 percent (December 31, 2008 – 58 percent), average risk-free interest rate of 2.57 percent (December 31, 2008 – 3.14 percent), and expected life of five years (December 31, 2008 – five years). The average fair value of stock options granted during the period was \$1.03 (December 31, 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.

**(D) Contributed Surplus**

Balance, December 31, 2007	\$ 1,875,405
Stock-based compensation expense	1,519,636
Excess of book value over market value on share repurchases	1,297,523
Transfer to share capital on exercise of stock options	(7,453)
<hr/>	
Balance, December 31, 2008	\$ 4,685,111
Stock-based compensation expense	464,863
Excess of book value over market value on share repurchases	164,570
<hr/>	
Balance, March 31, 2009	\$ 5,314,544

**(E) Per Share Amounts**

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

(Unaudited)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Weighted average basic and diluted common shares outstanding	<b>26,534,341</b>	27,131,143	<b>26,555,283</b>	24,465,119

Options to purchase 2,612,833 common shares as at June 30, 2009 (June 30, 2008 – 2,700,000) were not included in the computation of weighted average diluted common shares outstanding because they were anti-dilutive.

**6. CAPITAL MANAGEMENT**

The Corporation's objectives in 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, each of which are depicted 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.

	June 30, 2009	December 31, 2008
Shareholders' equity	\$ <b>89,015,417</b>	\$ 94,836,151
Bank debt	<b>36,209,982</b>	31,418,884
Working capital (deficiency) excluding bank debt	\$ <b>(57,072)</b>	\$ 3,793,908

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

	June 30, 2009	December 31, 2008
Current liabilities	<b>\$ 40,365,624</b>	\$ 47,576,352
Current assets	<b>(4,098,570)</b>	(19,951,376)
Net debt	<b>36,267,054</b>	27,624,976
Quarterly cash flow from operating activities	<b>3,919,858</b>	6,037,292
Change in non-cash working capital	<b>(1,416,468)</b>	13,232
Asset retirement expenditures	<b>4,849</b>	300,438
Quarterly funds from operations	<b>2,508,239</b>	6,350,962
Annualized funds from operations	<b>\$ 10,032,956</b>	\$ 25,403,848
Net debt to annualized funds from operations ratio	<b>3.6:1</b>	1.1:1

As at June 30, 2009, the Corporation's ratio of net debt to annualized funds from operations was above the acceptable range established by the Corporation. This was a result of reduced cash flow from operations driven by weakening commodity prices combined with the Corporation funding a portion of its capital program through borrowings. The Corporation expects net debt to be reduced by a portion of cash flow from operations over the remainder of the year. Accordingly, the Corporation expects the ratio will decrease slightly during the remainder of 2009 as the Corporation anticipates reduced capital expenditures and utilizing cash flow from operations to repay a portion of debt over the balance of the year. As a result of the current volatility in the commodity, credit and capital markets, Open Range has limited its capital investment program for 2009 to a level that allows it to be funded with minimal additional borrowings.

The Corporation's share capital is not subject to external restrictions; however, the bank debt facilities are based on petroleum and natural gas reserves (see note 3) and are required to maintain certain financial covenants. 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 period.

## 7. COMMITMENTS

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 June 30, 2009:

	Total	2009	2010	2011	Thereafter
Payments for office lease	\$ 1,439,103	\$ 507,919	\$ 931,184	–	–
Payments for office equipment leases	24,960	7,131	14,263	\$ 3,566	–
Firm natural gas transportation agreements	6,170,294	243,460	547,194	872,768	\$ 4,506,872
Total	\$ 7,634,357	\$ 758,510	\$ 1,492,641	\$ 876,334	\$ 4,506,872

## 8. FINANCIAL INSTRUMENTS

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

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

### (A) Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from purchasers of the Corporation's natural gas, crude oil and natural gas liquids and from joint venture partners. As at June 30, 2009 the Corporation's receivables consisted of \$548,651 (December 31, 2008 – \$14,352,119) from joint venture partners, \$1,087,387 (December 31, 2008 – \$3,213,683) from purchasers of the Corporation's natural gas, crude oil and natural gas liquids and \$125,766 (December 31, 2008 – \$897,399) 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, and one of its purchasers of crude oil, SemCanada Crude Company. Both companies are Canadian subsidiaries 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 June 30, 2009, the Corporation is owed \$949,462 and \$97,146 from SemCanada Energy Company and SemCanada Crude Company (December 31, 2008 – \$949,462 and \$97,146), respectively. As a result of proposed Plans of Compromise filed in the Alberta Court of Queen's Bench in July 2009 by SemCanada Energy Company and SemCanada Crude Company, the Corporation has recorded a provision for bad debts of \$1,046,608 as of June 30, 2009 (December 31, 2008 – \$784,956), which represents all of the outstanding amounts.

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 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 represent the maximum credit exposure. The Corporation has an allowance for doubtful accounts as at June 30, 2009 in the amount of \$1,046,608 (December 31, 2008 – \$784,956) which represents all of the amounts owed it by SemCanada Energy Company and SemCanada Crude Company.

The Corporation considers its receivables to be aged as follows:

	June 30, 2009	December 31, 2008
Not past due (less than 120 days)	\$ 1,733,756	\$ 18,040,718
Past due (over 120 days)	28,048	422,483
<b>Total</b>	<b>\$ 1,761,804</b>	<b>\$ 18,463,201</b>

## (B) Liquidity Risk

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

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

The following are the contractual maturities of financial liabilities as at June 30, 2009:

Financial Liability	Less than 1 year	1 to 2 years	Total
Accounts payable and accrued liabilities	\$ 3,904,271	\$ –	\$ 3,904,271
Bank indebtedness – principal only <sup>(1)</sup>	\$ 36,209,982	\$ –	\$ 36,209,982

<sup>(1)</sup> 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 June 30, 2009 and indicates the unrealized gains or losses and realized gains on natural gas contracts for the six-month period then ended:

Period	Volume (GJ/d)	Type of contract	AECO Spot floor (Cdn\$/GJ)	Average AECO Spot ceiling (Cdn\$/GJ)	Fair value contract as at June 30, 2009	Unrealized gains (losses) for the six months ended June 30, 2009	Realized gains for the six months ended June 30, 2009
Nov. 2008 to Mar. 2009	1,500	Costless Collar	\$ 6.75	\$ 11.09	–	\$ (102,614)	190,195
Jan. to Dec. 2009	1,000	Costless Collar	\$ 6.50	\$ 9.00-13.00	\$ 491,520	226,025	380,433
Apr. 2009 to Mar. 2010	5,000	Costless Collar	\$ 4.00	\$ 5.84	188,618	188,618	243,182
Apr. 2009 to Mar. 2010	1,000	Costless Collar	\$ 4.25	\$ 5.92	78,694	78,694	71,386
Jul. to Dec. 2009	1,500	Swap	\$ 5.00	\$ 5.00	298,086	298,086	–
Jan. 2009 to Dec. 2010	1,500	Call Option	n/a	\$ 7.75	(190,124)	(190,124)	–
					\$ 866,794	\$ 498,685	\$ 885,196

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 currencies.

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

The Corporation had no forward exchange rate contracts or interest rate swap contracts in place as at or during the period ended June 30, 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 Six months ended June 30, 2009	
	Price/rate increase	Price/rate decrease
Natural gas price – change of 10%	\$ (591,773)	\$ 567,693
Interest rate – change of 10% <sup>(1)</sup>	\$ (15,430)	\$ 15,430

<sup>(1)</sup> As at June 30, 2009, a 10 percent change to the Corporation's effective interest rate would be equivalent to a change of 30 basis points or 0.3 percent in the rate charged by the Corporation's bank.

#### (D) Fair Value of Financial Instruments

The Corporation's financial instruments as at June 30, 2009 and December 31, 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.

The fair value of derivative contracts is determined by discounting the difference between the contracted price and published forward price curves, including volatility in these price curves, as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes. As at June 30, 2009, the fair value of commodity contracts was determined using a forward price curve with a range of \$3.29 to \$7.18 per mcf of natural gas (December 31, 2008 – \$6.23 to \$7.79 per mcf).

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

### 9. RELATED-PARTY TRANSACTIONS

During the three and six months ended June 30, 2009, the Corporation incurred \$13,348 and \$35,453, respectively, in legal costs (December 31, 2008 – \$142,211) to a law firm in which the Chairman of the Board of Directors and the Corporate Secretary of the Corporation are partners. The legal costs incurred were in the normal course of operations and were based on the exchange value of the services provided. Of the legal costs incurred in the six months ended June 30, 2009, no amounts were included in accounts payable at June 30, 2009 (December 31, 2008 – \$8,857).

During the three and six months ended June 30, 2009, the Corporation received \$95,721 and \$191,442, respectively, in office rent (December 31, 2008 – \$359,584) 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 the period, no amounts were included in accounts receivable at June 30, 2009 (December 31, 2008 – \$nil).

## DIRECTORS

Harley L. Winger  
Chairman  
Partner, Burstall Winger LLP  
Calgary, Alberta

A. Scott Dawson  
President and  
Chief Executive Officer  
Open Range Energy Corp.  
Calgary, Alberta

Kenneth J. Faircloth  
Independent Businessman  
Calgary, Alberta

Dean R. Jensen  
Partner  
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## OFFICERS

A. Scott Dawson  
President and  
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  
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## CORPORATE SECRETARY

Jarrod J. Isfeld  
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Toronto Stock Exchange  
Symbol: ONR

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## ABBREVIATIONS

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