

TSX:ONR



## Q3 REPORT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010

### FINANCIAL AND OPERATING HIGHLIGHTS

	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Petroleum and natural gas revenue <sup>(1)</sup>	\$ 9,833	\$ 5,901	\$ 32,518	\$ 18,949
Funds from operations	7,103	3,265	21,229	9,098
Per diluted share	0.12	0.12	0.35	0.34
Net loss	(1,337)	(2,389)	(3,014)	(5,620)
Per basic and diluted share	(0.02)	(0.09)	(0.05)	(0.21)
Net debt	59,357	38,845	59,357	38,845
Capital expenditures, net	\$ 7,279	\$ 5,176	\$ 42,625	\$ 19,828
Weighted average diluted shares outstanding	60,934	26,534	60,934	26,548
<b>Production</b>				
Natural gas (mcf per day)	20,139	12,612	20,653	12,444
Oil and NGL (bbls per day)	328	201	337	227
Total (@ 6:1) (boe per day)	3,685	2,303	3,779	2,301
<b>Realized average sales prices</b>				
Natural gas (\$ per mcf) <sup>(1)</sup>	4.29	4.23	4.70	4.71
Oil and NGL (\$ per bbl)	61.95	53.67	65.75	47.77
Combined average (\$ per boe)	29.01	27.85	31.52	30.16
Royalties (\$ per boe)	(2.75)	(0.74)	(3.14)	(3.73)
Operating costs (\$ per boe)	(4.18)	(6.03)	(4.91)	(5.72)
Transportation costs (\$ per boe)	(0.98)	(1.14)	(0.87)	(1.05)
Operating netback (\$ per boe)	21.10	19.94	22.60	19.66
G&A costs (\$ per boe)	(2.48)	(3.11)	(2.27)	(3.59)
Net interest expense (\$ per boe)	(1.58)	(1.43)	(1.36)	(1.16)
Corporate netback (\$ per boe)	17.04	15.40	18.97	14.91

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

## **CORPORATE HIGHLIGHTS**

During the three months ended September 30, 2010, Open Range:

- Had average production of 3,685 boe per day, an increase of 60 percent from third-quarter 2009 production of 2,303 boe per day and on-track to meet the Company's 2010 average production guidance;
- Generated funds from operations of \$7.1 million (\$0.12 per basic and diluted share), an increase of 118 percent over third-quarter 2009 funds flow thanks to higher average production and lower costs, bringing funds flow for the nine months ended September 30, 2010 to \$21.2 million (\$0.35 per basic and diluted share);
- Extended its track record of strong performance as a low-cost producer, with all-in cash costs (operating, transportation, interest and G&A) of \$9.22 per boe or \$1.54 per mcf of production, representing a decline of 21 percent from the third quarter of 2009;
- Drilled four gross (2.45 net) wells, including the Company's first (100 percent working interest) Wilrich horizontal well and one (100 percent working interest) six-zone vertical exploration well at its Ansell/Sundance Deep Basin core property, plus two (0.45 net) Cardium horizontal light oil wells at Pembina; and
- Brought on-production one (0.2 net) horizontal liquids-rich natural gas well in the Hoadley Glauconitic trend at an initial gross rate of 5.1 mmcf per day plus estimated natural gas liquids (NGL) of 40 bbls per mmcf.

Subsequent to the end of the quarter, Open Range:

- Hydraulically fractured, tested and tied-in its first 100 percent working interest Wilrich horizontal well at Ansell/Sundance. The well tested at up to 11 mmcf per day on cleanup. It was brought on-stream October 15 at 7.0 mmcf per day plus NGL and over the 18 days to November 3 had produced a cumulative 85 mmcf plus approximately 1,300 bbls of NGL;
- Reconfirmed its \$80 million borrowing base, attributable to the Company's high-quality asset base that continues to generate strong netbacks and cash flow; and
- Made plans for the initial phase of the Company's winter drilling program which will include two Wilrich horizontal wells at Ansell/Sundance, the first of which is expected to spud in early January.

## MESSAGE TO SHAREHOLDERS

Over the second and third quarters of 2010 Open Range continued testing the application of multi-stage-fractured horizontal wells to its extensive liquids-rich natural gas lands at Ansell/Sundance. The successful fracturing and tie-in early in the fourth quarter of our first Wilrich multi-stage-fractured horizontal well adds more than 800 boe per day of liquids-rich natural gas to Open Range's production stream, increasing our corporate volumes by over 20 percent during the well's flush production phase. Economic analysis suggests the well can generate high netbacks and strong rates of return at conservative natural gas prices.

The 14-27 Wilrich well is a breakthrough, achieving the high initial productivity that multi-stage-fractured horizontal wells have proved capable of in an immediately offsetting Wilrich play. This first Open Range Wilrich well sets up over 30 gross high-working-interest horizontal locations on Open Range's thoroughly mapped and 3D seismic-supported Wilrich fairway at Ansell/Sundance. We intend to spud our first two follow-up Wilrich horizontal wells in the coming winter season.

### *Deep Basin Wilrich Horizontal Play*

The 14-27 well spud in August and was drilled to 4,040 metres total measured depth, including a 1,060-metre horizontal leg. The Wilrich is a tight, aerially extensive marine sand lying at a depth of approximately 2,800 metres within the Cretaceous Deep Basin column. The 14-27 location offsets a multi-zone vertical exploration well which had an initial test rate from the Wilrich Formation of approximately 800 mcf per day.

The 14-27 well was completed in October with 10 fracture stages using a packer system. All 10 stages were successful, each placing 80-120 tonnes of sand proppant. On October 10 the 14-27 well was placed on test to clean up frac fluids. It was tested up 4 ½" casing, flowing at initial cleanup production rates of up to 11 mmcf per day. Flow rates over the last 36 hours of this cleanup test period averaged 6.8 mmcf per day plus NGL at a flowing pressure of 925 psi.

On October 15 the 14-27 well was tied into Open Range's adjoining gas processing plant, achieving a one-day turn-around from testing to on-stream, speaking to the efficiency gained from our strategic Company-operated facilities. Over the 18 days on-stream to November 3 the well averaged 4.7 mmcf per day plus 15 bbls of NGL per mmcf, at a flowing wellhead pressure averaging 1,450 psi. Particularly encouraging at this point is that this result is above the average initial productivity reported for a 10-well group of offsetting Wilrich horizontal wells to the north of Ansell/Sundance. Collectively more than 15 multi-stage-fractured Wilrich horizontal wells have now been completed and are on-stream in this region and competitor activity on this play continues to increase.

The application of multi-stage fractured horizontal wells is transformational to the Wilrich play's potential. We have thoroughly delineated our Wilrich lands using the more than 40 vertical well penetrations through the Wilrich formation at Ansell/Sundance. We have also performed independent production tests in three vertical wellbores in the region of our current horizontal targets, with test rates from the Wilrich Formation of 0.6-1.7 mmcf per day. Company mapping currently indicates a fully gas-charged marine sand with porosity of greater than 6 percent throughout the Company's 18-section (14 net) prospective Wilrich area.

The 14-27 well creates a strong low-risk development opportunity situated between the successful new horizontal well and competitor horizontal wells on-production to the north. We now have a minimum inventory of 25 net Wilrich horizontal locations at a density of up to two wells per section. No reserves are booked to the 14-27 well nor any horizontal Wilrich locations in inventory and there are only modest reserves attributed to the vertical Wilrich zones on-production.

### ***Strong Horizontal Wilrich Well Economics***

The Wilrich horizontal well type curve observed to date generates strong economics at current commodity prices. The cost to drill, complete and bring the 14-27 well on-stream was approximately \$5.2 million net of drilling royalty credits. Additional royalty incentives on production are worth \$2-\$3 million, depending on natural gas prices and the well's rate. With anticipated reserves of 3.5 bcf plus more than 50,000 barrels of NGL, we foresee full-cycle finding and development costs of under \$10.00 per boe or \$1.67 per mcfe.

Based on a typical Wilrich well's expected initial productivity of 4.0 mmcf per day plus associated NGL and a natural gas price of \$4 per mcf, and with continued low operating costs, a Wilrich well generates an expected netback of approximately \$24 per boe or \$4.00 per mcfe, yielding a payout period of 15 months and a recycle ratio of 3.0 times. We therefore realistically foresee this liquids-rich natural gas play generating a rate of return of nearly 100 percent under conservative natural gas prices.

Going forward we foresee opportunities for continued improvement of technical results and well completion costs, enhancing overall well economics throughout the commodity price curve. The scalable dimension of the Wilrich play also creates opportunity to reduce per well costs on a multi-well program basis. The strategic Company-operated processing capacity at Ansell/Sundance will enable the timely tie-in and efficient processing of new liquids-rich production. Our ongoing focus will be to create continual support for low costs and high netbacks while maintaining a strong balance sheet.

### ***Operational Update***

Third-quarter average production of 3,685 boe per day was down slightly from the second quarter due to new wells coming off flush production and limited summer tie-ins of new wells. In July we tied-in the horizontal Hoadley Glauconitic well (20 percent working interest) at Ferrier, which came on-stream at a very strong 5.1 mmcf per day gross plus 40 bbls of NGL per mmcf.

After spudding in the second quarter, the 8-7 vertical discovery well at Ansell/Sundance was fractured and completed in six zones early in the fourth quarter. The 8-7 is typical of our continued vertical well success at Ansell/Sundance, providing further well control for future horizontal development as well as generating multiple vertical follow-on locations and immediate production. The well lies close to our processing plant and is currently being tied-in.

The Company's core Ansell/Sundance Deep Basin property continues to perform well. Operating costs are at record lows, our facilities are operating efficiently and there is excess capacity from the recent gas plant expansion enabling prompt tie-in of our recent Wilrich horizontal well plus planned follow-up drilling.

The three previous horizontal wells drilled at Ansell/Sundance are performing well with low production declines. The 5-11 Notikewin well is currently at 1 mmcf per day after eight months on-production and has produced a cumulative 335 mmcf plus NGL. The 14-26 Notikewin well is currently at 1.6 mmcf per day after

seven months, having now produced 420 mmcf plus NGL. Our original Bluesky horizontal well continues to flow at 1.1 mmcf per day after 15 months on production, and has to date produced 700 mmcf plus NGL. In addition we have a total of 46 gross multi-zone vertical wells on production at Ansell/Sundance, providing a stable base of production.

### ***Quarterly Financial Results***

Open Range extended its track record of low cash costs during the third quarter, driven by the Company's enlarged base of high-quality, liquids-rich production and control of critical facilities. Quarterly funds flow of \$7.1 million or \$0.12 per share brought the Company's nine-month total to \$21.2 million or \$0.35 per share.

Importantly, the Company's banking syndicate maintained Open Range's combined bank lines at \$80 million despite the weaker natural gas price environment. This demonstrates the ability of the Company's high-quality asset base to generate strong netbacks and cash flow. We intend to apply proceeds from our completed and expected non-core asset sales against the debt, which was \$59.4 million at the end of the quarter.

The third quarter's financial results demonstrate the advantages of being a low-cost producer. Operating costs including transportation were \$5.16 per boe, our best-ever performance that extended a favourable trend of sequential quarter-over-quarter declines. Third-quarter G&A costs were \$2.48 per boe, up slightly from the low rate of \$2.03 per boe in the second quarter.

Operating costs (including transportation costs) at the Ansell/Sundance property were \$4.85 per boe or \$0.81 per mcf year-to-date, demonstrating the benefits of our high-quality Deep Basin production and the investments made in the Company-operated Ansell/Sundance gas plant. The recently expanded gas plant produces a stabilized condensate stream with separate NGL bullets, enabling us to capture premium pricing. The strong Wilrich well result will help to maintain the downward pressure on operating costs at Ansell/Sundance in the fourth quarter.

Along with interest costs of \$1.58 per boe, combined cash costs were only \$9.22 per boe in the third quarter, compared to \$8.84 per boe in the second quarter, which was down sharply from \$10.28 per boe in the first quarter of 2010.

Royalties remained low at 10 percent of revenue in the third quarter. Consequently, Open Range's operating netback averaged \$21.10 per boe or \$3.52 per mcf in the third quarter (now \$22.60 per boe or \$3.77 per mcf for the nine months ended September 30) despite an average third-quarter AECO gas price below \$3.50 per mcf. Operating netbacks per boe in both periods were up by 5-15 percent over the comparable 2009 periods. These are continued strong results within our peer group of natural gas-weighted junior producers.

Crude oil and natural gas liquids sales, which make up 9 percent of overall corporate volume, generated 21 percent of third-quarter oil and natural gas revenue. Open Range's hedging program, which includes a combination of put options, costless collars and fixed price swaps, generated \$0.9 million in hedging gains for the quarter, or 46 cents per mcf of natural gas sales. About 40 percent of forecast fourth-quarter production is hedged at an average floor price of \$4.60 per mcf.

### ***Asset Sale***

Open Range is continuing its asset strategy of focused operations through an initiative to divest of non-core assets. In October we closed our first transaction, selling approximately 115 boe per day of non-core production at Big Bend, the Company's only non-Deep Basin natural gas property. The sale raised \$3.5 million, which has been applied against debt in the fourth quarter. At present several other non-core asset sales are moving forward in negotiations and we are optimistic about favourable outcomes.

### ***Benefiting from Technology Innovation***

The new and unique fracturing fluid handling system that was pioneered by Open Range in recent quarters generated growing rental revenue during the third quarter. Following their initial application for fracturing operations at our own Ansell/Sundance wells, we have been offering the tank systems for use by other operators. There has been enthusiastic take-up at several plays across western Canada. Rental revenue grew from approximately \$300,000 in the second quarter to more than \$1.3 million in the third quarter. We are continuing to construct additional tank systems to meet increasing industry demand while advancing our patent application. This initiative is part of Open Range's drive to continually foster and apply technology innovations to keep delivering improved well results and reduced drilling and completions costs in order to maximize per-well economics.

### ***Outlook***

Current Company production is approximately 4,200 boe per day, accounting for the Big Bend asset sale. Given that we foresee divesting additional non-core production before year-end, our 2010 average production guidance remains unchanged at 3,700 boe per day.

We are currently surveying the locations for the two follow-up Wilrich horizontal wells at Ansell/Sundance, which have a combined budget to drill and complete of \$10.5 million, and we plan to spud the first of these two initial follow-on wells in early January. We are excited by the high-impact potential of our Wilrich play, which we believe will contribute materially to Open Range's exploration-based strategy to grow to 10,000 boe per day and beyond.

On behalf of the Board of Directors,

(signed) "A. Scott Dawson"

A. Scott Dawson  
President, Chief Executive Officer and Director  
November 4, 2010

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) is a review of operations, current financial position and outlook for Open Range Energy Corp. ("Open Range" or the "Corporation") for the three- and nine-month periods ended September 30, 2010 and 2009. This MD&A should be read in conjunction with the unaudited interim financial statements for the three and nine months ended September 30, 2010 and 2009, and the audited annual financial statements for the year ended December 31, 2009. This MD&A is dated and includes information current to November 4, 2010.

## Boe Presentation

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

## Non-GAAP Measurements

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

## Reconciliation of Cash Flow per GAAP to Funds from Operations

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

(thousands)	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Cash flow from operating activities (per GAAP)	\$ 6,617	\$ 4,211	\$ 21,412	\$ 12,584
Change in non-cash working capital	350	(997)	(561)	(3,660)
Asset retirement expenditures	136	51	378	174
Funds from operations	\$ 7,103	\$ 3,265	\$ 21,229	\$ 9,098

## Forward-Looking Statements

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

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

The Corporation has made a number of assumptions with respect to forward-looking statements contained in this MD&A. 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 in Alberta, Open Range's core operating region, will remain substantially unchanged. Certain or all of the foregoing assumptions may prove to be incorrect.

Open Range's actual results could differ materially from those anticipated in these forward-looking statements as a result of substantial known and unknown risks and uncertainties, certain of which are beyond the Corporation's control. Such risks and uncertainties include, without limitation: risks associated with oil and natural gas exploration, development, exploitation, production, marketing and transportation; loss of markets; volatility of commodity prices; counterparty credit risk; currency fluctuations; imprecision of reserve estimates; environmental risks; increased competition from other producers; inability to retain

drilling rigs and other services; delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient debt or capital from internal and external sources; the impact of general economic conditions in Canada, the United States and overseas; industry conditions; changes in laws and regulations (including the adoption of new environmental laws and regulations) and changes in how they are interpreted and enforced; changes in federal and provincial tax laws and legislation (including the adoption of new royalty regimes); the lack of availability of qualified personnel or management; fluctuations in foreign exchange or interest rates; and stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof. Readers are cautioned that the foregoing list of risks to Open Range's performance is not exhaustive and reference is made to the items under "Risk Factors" in the Corporation's Annual Information Form (AIF) for the year ended December 31, 2009. All subsequent forward-looking statements, whether written or oral, attributable to the Corporation or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Furthermore, the forward-looking statements contained in this MD&A are made as at the date hereof and the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

## DETAILED FINANCIAL ANALYSIS

### Production

	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Production				
Natural gas (mcf per day)	20,139	12,612	20,653	12,444
Oil and NGL (bbls per day)	328	201	337	227
Total (boe per day)	3,685	2,303	3,779	2,301
Total (mboe)	339	212	1,032	628
Natural gas ratio of production (%)	91	91	91	90

Open Range's production for the three and nine months ended September 30, 2010 increased significantly from the comparative periods in 2009. The increase was primarily the result of the Corporation's working-interest acquisition at Ansell/Sundance in November 2009 and the tie-in of two new 100 percent working interest horizontal wells in the first quarter of 2010 and one multi-zone vertical well at Ansell/Sundance in March 2010. Production in the three and nine months ended September 30, 2010 averaged 3,685 boe per day and 3,779 boe per day, respectively. This represented an increase of 60 percent and 64 percent, respectively, from the average production of 2,303 boe per day and 2,301 boe per day for the respective three and nine months ended September 30, 2009. Natural gas production in the three and nine months ended September 30, 2010 increased to 20,139 mcf per day and 20,653 mcf per day, respectively, from 12,612 mcf per day and 12,444 mcf per day, respectively, for the three and nine months ended September 30, 2009. Oil and natural gas liquids (NGL) production in the three and nine months ended September 30, 2010 increased to 328 barrels per day and 337 barrels per day, respectively, from 201 barrels per day and 227 barrels per day for the respective three- and nine-month periods in 2009. Open Range is forecasting average production of 3,700 boe per day in 2010, after accounting for non-core asset divestitures.

## Oil and Natural Gas Revenue

	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Revenue (thousands)				
Natural gas	\$ 7,104	\$ 3,631	\$ 24,958	\$ 13,824
Oil and NGL	1,869	994	6,041	2,964
Realized gain on commodity contracts	860	1,276	1,519	2,161
<b>Total</b>	<b>\$ 9,833</b>	<b>\$ 5,901</b>	<b>\$ 32,518</b>	<b>\$ 18,949</b>
Average realized price				
Natural gas (\$ per mcf)	3.83	3.13	4.43	4.07
Oil and NGL (\$ per bbl)	61.95	53.67	65.75	47.77
Realized gain on commodity contracts (\$ per mcf)	0.46	1.10	0.27	0.64
Combined average (\$ per boe)	29.01	27.85	31.52	30.16
Benchmark pricing				
Alberta Spot (Cdn\$ per mcf)	3.41	2.83	4.00	3.64
Edmonton Par (Cdn\$ per bbl)	73.45	71.74	76.28	62.82

Revenue, including realized gains on commodity contracts, for the three and nine months ended September 30, 2010 increased to \$9.8 million and \$32.5 million, respectively. This represented an increase of 67 percent and 72 percent, respectively, from \$5.9 million and \$18.9 million in the respective comparative periods in 2009. The increase in revenue was primarily a result of a 60 percent and 64 percent respective increase in production volumes from the comparative periods in 2009. 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 \$0.9 million and \$1.5 million, respectively, for the three and nine months ended September 30, 2010. These realized gains related to natural gas commodity contracts and amounted to additional revenue of \$0.46 per mcf and \$0.27 per mcf, respectively, on the Corporation's natural gas production for the three and nine months ended September 30, 2010.

### Unrealized Gain (Loss) on Commodity Contracts

Open Range's management utilizes commodity contracts as a risk management technique to reduce volatility in cash flows and mitigate the unpredictable commodity price environment. For the three months ended September 30, 2010, the Corporation recorded an unrealized loss on commodity contracts of \$0.3 million. For the nine months ended September 30, 2010 the Corporation recorded an unrealized gain on commodity contracts of \$1.0 million. These amounts represented the change in the fair value of the commodity contracts held by the Corporation during the three- and nine-month periods ended September 30, 2010.

Natural gas hedging contracts entered into as at September 30, 2010 and expired contracts presented for comparative purposes are as follows:

(thousands except as noted)

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 Sept. 30, 2010	Unrealized gain for the three months ended Sept. 30, 2009	Unrealized gain (loss) for the nine months ended Sept. 30, 2010	Unrealized gain (loss) for the nine months ended Sept. 30, 2009
Nov. 2008 to Mar. 2009	1,500	Costless Collar	\$ 6.75	\$ 11.09	\$ -	\$ -	\$ -	\$ (103)
Jan. to Dec. 2009	1,000	Costless Collar	\$ 6.50	\$ 9.00-13.00	-	(292)	-	(66)
Jul. to Dec. 2009	1,500	Swap	\$ 5.00	\$ 5.00	-	(213)	-	86
Apr. 2009 to Mar. 2010	5,000	Costless Collar	\$ 4.00	\$ 5.84	-	(250)	32	(61)
Apr. 2009 to Mar. 2010	1,000	Costless Collar	\$ 4.25	\$ 5.92	-	(73)	4	5
Jan. to Dec. 2010	1,500	Call Option	n/a	\$ 7.75	1	42	75	(148)
Apr. to Oct. 2010	3,000	Put Option	\$ 4.25 <sup>(1)</sup>	n/a	46	(203)	254	(203)
Apr. to Oct. 2010	1,000	Put Option	\$ 4.50 <sup>(2)</sup>	n/a	(13)	(28)	56	(28)
Apr. to Oct. 2010	1,500	Put Option	\$ 4.25 <sup>(3)</sup>	n/a	5	-	90	-
Apr. to Oct. 2010	1,000	Put Option	\$ 4.50 <sup>(4)</sup>	n/a	(11)	-	63	-
Jan. to Dec. 2010	1,500	Costless Collar	\$ 4.40	\$ 7.00	(27)	-	140	-
Apr. to Oct. 2010	1,500	Swap	\$ 5.51	\$ 5.51	(224)	-	38	-
Feb. to Dec. 2010	1,500	Costless Collar	\$ 4.00	\$ 6.89	(2)	-	76	-
Feb. to Dec. 2010	1,500	Costless Collar	\$ 4.25	\$ 6.95	(16)	-	109	-
Apr. to Oct. 2010	1,500	Put Option	\$ 4.50 <sup>(5)</sup>	n/a	(51)	-	41	-
					\$ (292)	\$ (1,017)	\$ 978	\$ (518)

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

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

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

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

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

For more details on these contracts refer to note 7, Financial Instruments, in the interim financial statements for the three and nine months ended September 30, 2010.

## Royalties

(thousands except per unit amounts and percentages)	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Royalty expense – natural gas	\$ 338	(95)	\$ 1,397	\$ 1,550
Royalty expense – oil & NGL	593	251	1,839	796
Total	\$ 931	156	\$ 3,236	\$ 2,346
Per boe (\$)	2.75	0.74	3.14	3.73
% of revenue <sup>(1)</sup>	10	3	10	14

<sup>(1)</sup> Revenue before the realized gains (losses) on commodity contracts.

Royalties totalled \$0.9 million and \$3.2 million for the third quarter and first nine months of 2010, respectively, compared to \$0.2 million and \$2.3 million, respectively, for the comparative periods in 2009. Royalties as a percentage of revenue increased in the three months ended September 30, 2010 over the third quarter of 2009 and decreased in the nine months ended September 30, 2010 from the first nine months of 2009, as the three new Ansell/Sundance horizontal wells brought on-production since the second quarter of 2009 took advantage of the 5 percent front-end royalty rate as part of the provincial royalty incentive program. On a per-unit-of production basis, royalty costs for the three months ended September 30, 2010 were up from the comparative quarter in 2009, mainly due to the impact of the temporary royalty incentives that were introduced in April 2009. Royalty costs per boe of production for the nine months ended September 30, 2010 were down by 16 percent from the comparative periods in 2009, mainly due to the impact of the 5 percent front-end royalty rate on the Corporation's natural gas wells brought on-production in 2010.

Open Range estimates that royalty rates for the balance of 2010 will amount to an average of 10 percent to 12 percent of revenue. This reflects the impact of current commodity prices resulting in lower royalty rates and the now-permanent 5 percent front-end royalty rate announced in June 2010.

## Operating & Transportation Costs

(thousands except per unit amounts)	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Operating costs	\$ 1,416	\$ 1,279	\$ 5,061	\$ 3,596
Transportation costs	332	241	906	660
Total	\$ 1,748	\$ 1,520	\$ 5,967	\$ 4,256
Operating costs (\$ per boe)	4.18	6.03	4.91	5.72
Transportation costs (\$ per boe)	0.98	1.14	0.87	1.05
Total (\$ per boe)	5.16	7.17	5.78	6.77

Operating costs were \$1.4 million and \$5.1 million, respectively, for the three and nine months ended September 30, 2010 compared to \$1.3 million and \$3.6 million, respectively, for the comparative periods in 2009. On a per unit of production basis, operating costs for the three and nine months ended September 30, 2010 were \$4.18 per boe and \$4.91 per boe, respectively. This represented a 31 percent and a 14 percent decrease, respectively, from \$6.03 per boe and \$5.72 per boe in the comparative periods in 2009. This reduction was due primarily to continued operating efficiencies being realized at Ansell/Sundance where, following the Corporation's working-interest acquisition in November 2009, increasing production volumes are handled at the Corporation-operated plant and facilities.

Transportation costs for the three and nine months ended September 30, 2010 were \$0.3 million or \$0.98 per boe and \$0.9 million or \$0.87 per boe, respectively. This compared to \$0.2 million or \$1.14 per boe and \$0.7 million or \$1.05 per boe, respectively, for the comparative periods in 2009. The period-over-period increases in operating and transportation costs in dollar terms mainly reflect higher rates of production throughput.

### Operating Netback

(\$ per boe)	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Average realized sales price	29.01	27.85	31.52	30.16
Royalty expenses	(2.75)	(0.74)	(3.14)	(3.73)
Operating costs	(4.18)	(6.03)	(4.91)	(5.72)
Transportation costs	(0.98)	(1.14)	(0.87)	(1.05)
Operating netback	21.10	19.94	22.60	19.66

The Corporation's operating netback for the three and nine months ended September 30, 2010 increased to \$21.10 per boe and \$22.60 per boe, respectively. This represented increases of 6 percent and 15 percent, respectively, from \$19.94 per boe and \$19.66 per boe for the respective comparative periods in 2009. The increase netbacks were mainly due to increased operating efficiencies resulting in lower operating costs per unit of production, lower royalties due to royalty holiday credits and the impact of the new 5 percent front-end royalty rate.

### General and Administrative (G&A) Costs

(thousands except per unit amounts)	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Gross G&A costs	\$ 1,622	\$ 1,388	\$ 4,837	\$ 4,718
Partner recovery	(105)	(148)	(426)	(469)
Capitalized	(677)	(580)	(2,069)	(1,990)
Net G&A costs	\$ 840	\$ 660	\$ 2,342	\$ 2,259
Per boe, net (\$)	2.48	3.11	2.27	3.59

Net G&A costs for the three and nine months ended September 30, 2010 totalled \$0.8 million and \$2.3 million, respectively, after overhead recoveries and capitalization of \$0.8 million and \$2.5 million, respectively. On a per boe basis G&A costs in the three and nine months ended September 30, 2010 decreased to \$2.48 per boe and \$2.27 per boe, respectively. This represented a decrease of 20 percent and 37 percent, respectively, from \$3.11 per boe and \$3.59 per boe for the respective periods in 2009. The reduction per boe in G&A costs was mainly due to increased production volumes as net G&A costs increased slightly. Capitalized G&A costs represented 42 and 43 percent, respectively, of gross G&A costs for the three and nine months ended September 30, 2010, as the Corporation continued to focus its efforts on future-oriented exploration activities and capitalized its exploration, geological and geophysical expenses. The Corporation's gross G&A costs for the three and nine months ended September 30, 2010 increased only slightly from the comparative periods in 2009, reflecting the Corporation's success at limiting overall G&A costs.

## OTHER INCOME

	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Fracturing fluid handling revenue (thousands)	\$ 1,325	\$ –	\$ 1,663	\$ –

The three months ended September 30, 2010 were the first full quarter that the Corporation received fracturing fluid handling revenue. Demand for the Corporation's fracturing fluid handling system has increased following the introduction of this innovative technology for initial application in fracturing operations at Ansell/Sundance in the first quarter of 2010. Fracturing fluid handling revenue contributed \$1.3 million and \$1.7 million to the Corporation's total revenue for the three and nine months ended September 30, 2010, respectively.

## Interest Expense

	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Net interest expense (thousands)	\$ 536	\$ 302	\$ 1,407	\$ 730
Per boe, net (\$)	1.58	1.43	1.36	1.16

Interest expense for the three and nine months ended September 30, 2010 was \$0.5 million or \$1.58 per boe and \$1.4 million or \$1.36 per boe, respectively. The increase in interest expense from the three and nine months ended September 30, 2009 was primarily the result of increased borrowings on the Corporation's credit facilities. The Corporation had \$55.0 million drawn on its extendable revolving credit facility at September 30, 2010 compared to \$39.5 million drawn at September 30, 2009. The Corporation continues to manage debt levels prudently and expects net interest expense to remain relatively flat for the remainder of 2010 as its remaining capital program will be funded primarily from cash flow from operations.

## Stock-Based Compensation

(thousands)	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Total stock-based compensation	\$ 466	\$ 245	\$ 1,495	\$ 710
Capitalized stock-based compensation	(237)	(117)	(775)	(342)
Stock-based compensation expense	\$ 229	\$ 128	\$ 720	\$ 368

During the third quarter of 2010, stock-based compensation of \$0.2 million was expensed and \$0.2 million was capitalized. This resulted in total stock-based compensation for the three months ended September 30, 2010 of \$0.5 million, compared to \$0.2 million for the third quarter of 2009. For the first nine months of 2010 stock-based compensation of \$0.7 million was expensed and \$0.8 million was capitalized. This resulted in total stock-based compensation expense of \$1.5 million for the first nine months of 2010, compared to \$0.7 million for the first nine months of 2009. The increase in stock-based compensation expense was mainly due to new stock options granted near the end of 2009. At September 30, 2010 there were 5.8 million stock options outstanding compared to 2.6 million outstanding at September 30, 2009.

## Depletion, Depreciation and Accretion

(thousands except per unit amounts)	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Depletion and depreciation	\$ 8,148	\$ 5,259	\$ 24,981	\$ 15,513
Accretion	57	43	167	128
<b>Total</b>	<b>\$ 8,205</b>	<b>\$ 5,302</b>	<b>\$ 25,148</b>	<b>\$ 15,641</b>
Depletion and depreciation (\$ per boe)	24.04	24.82	24.22	24.70
Accretion (\$ per boe)	0.17	0.20	0.16	0.20
<b>Total (\$ per boe)</b>	<b>24.21</b>	<b>25.02</b>	<b>24.38</b>	<b>24.90</b>

Depletion and depreciation are calculated based upon cumulative capital expenditures, production rates and reserves. Open Range recorded \$8.1 million or \$24.04 per boe in depletion and depreciation for the three months ended September 30, 2010 compared to \$5.3 million or \$24.82 per boe for the comparative period in 2009. Depletion and depreciation for the first nine months of 2010 increased on a total dollar basis to \$25.0 million from \$15.5 million for the comparative 2009 period, but decreased on a per-unit-of-production basis to \$24.22 per boe from \$24.70 per boe period-over-period. The period-over-period per boe decreases in depletion and depreciation for the three- and nine-month periods ended September 30, 2010 are due to reserve additions from the Corporation's successful 2010 drilling program.

Open Range estimates depletion on a quarterly basis throughout the year using independent inputs such as reserve and land reports when available. Undeveloped land, seismic and salvage value of \$34.7 million have been excluded from the calculation and future development costs of \$64.1 million have been included in the capital base used in the calculation.

## Income Taxes

Open Range did not incur any cash tax expense in 2009, nor does it expect to pay any cash taxes in 2010 based on current oil and natural gas prices, existing tax pools, planned capital expenditures and forecast taxable income. For the three and nine months ended September 30, 2010, future income tax reductions of \$0.3 million and \$0.6 million were recorded, respectively. The future income tax liability of \$1.8 million associated with the Corporation's \$7.0 million flow-through share issuance in 2009 was recorded in the first nine months of 2010.

The Corporation estimates that at September 30, 2010 tax pools of \$181.0 million are available for deduction against future taxable income.

## Net Loss

	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Net loss (thousands)	\$ (1,337)	\$ (2,389)	\$ (3,014)	\$ (5,620)
Loss per basic and diluted share	\$ (0.02)	\$ (0.09)	\$ (0.05)	\$ (0.21)

The Corporation recorded a net loss of \$3.0 million or \$0.05 per basic and diluted share for the nine months ended September 30, 2010, compared to a net loss of \$5.6 million or \$0.21 per basic and diluted share for the comparative period in 2009. The loss in the first nine months of 2010 is mainly attributable to weak natural gas prices.

## Funds from Operations and Cash Flow from Operating Activities

	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Funds from operations (thousands)	\$ 7,103	\$ 3,265	\$ 21,229	\$ 9,098
Funds from operations per boe	20.95	15.40	20.58	14.48
Funds from operations per basic and diluted share	0.12	0.12	0.35	0.34
Cash flow from operating activities (per GAAP) (thousands)	\$ 6,617	\$ 4,211	\$ 21,412	\$ 12,584

During the three months ended September 30, 2010, Open Range generated funds from operations of \$7.1 million or \$0.12 per diluted share compared to \$3.3 million or \$0.12 per diluted share for the comparative period in 2009. For the first nine months of 2010 funds from operations increased by 133 percent to \$21.2 million from \$9.1 million for the comparative period in 2009. The increase in funds from operations and cash flow from operating activities was primarily due to increased revenues driven by increased production volumes and lower royalties and operating costs.

## Capital Expenditures

(thousands)	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Drilling and completions	\$ 4,416	\$ 3,260	\$ 25,538	\$ 14,588
Equipment and facilities	1,797	525	8,239	2,243
Land	330	741	6,562	826
Capitalized G&A	677	521	2,069	1,821
Geological and geophysical	59	129	217	350
Total capital expenditures	7,279	5,176	42,625	19,828
Capital items not involving cash:				
Stock-based compensation, including related future tax liability	316	155	1,033	456
Asset retirement obligations	110	51	389	190
Total capital expenditures including non-cash items	\$ 7,705	\$ 5,382	\$ 44,047	\$ 20,474

Open Range's capital budget during the first nine months of 2010 was heavily focused on the Ansell/Sundance property and included drilling horizontal wells and two 100 percent working interest vertical wells, expanding the gross capacity of its natural gas plant from 20 mmcf per day to 40 mmcf per day, connecting newly completed wells to existing infrastructure, and acquiring additional Crown lands in the area. The Corporation also participated in the drilling and completion of three (0.8 net) horizontal Cardium oil wells in west central Alberta and one (0.2 net) horizontal natural gas well at its Ferrier property in the first nine months. The Corporation earned drilling royalty credits of \$2.1 million in the first nine months of 2010, of which \$1.6 million had been collected as at September 30, 2010.

	Three months ended Sept. 30, 2010		Three months ended Sept. 30, 2009		Nine months ended Sept. 30, 2010		Nine months ended Sept. 30, 2009	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Wells drilled								
Exploration	–	–	–	–	2	1.4	2	1.5
Development	4	2.5	–	–	8	5.3	–	–
Total	4	2.5	–	–	10	6.7	2	1.5
Average working interest		61%		–		67%		75%
Success rate		100%		–		100%		50%

## Share Capital

(thousands)	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Weighted average basic and diluted common shares outstanding	60,934	26,534	60,934	26,548

Options to purchase 5.8 million common shares as at September 30, 2010 were not included in the computation of weighted average diluted shares outstanding because they were anti-dilutive.

(thousands except percentages)	September 30, 2010	November 4, 2010
Outstanding securities		
Common shares	60,934	60,934
Stock options	5,762	5,762
Total outstanding securities	66,696	66,696
Proportion of outstanding securities held by officers and directors	11%	11%

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	\$ 6,200
Common shares	January 10, 2006	4.25	1,649	7,008
Flow-through common shares	May 16, 2006	5.70	1,000	5,700
Common shares	November 9, 2006	3.55	2,325	8,251
Flow-through common shares	February 22, 2007	4.00	3,000	12,000
Flow-through common shares	December 20, 2007	3.45	2,029	7,001
Common shares	April 4, 2008	4.20	3,095	13,000
Flow-through common shares	April 4, 2008	5.00	2,400	12,000
Flow-through common shares	November 4, 2009	2.30	3,050	7,015
Common shares	November 16, 2009	1.85	31,350	57,998
Total		\$ 2.62	51,898	\$ 136,173

<sup>(1)</sup> Initial private placement financing.

## RELATED-PARTY AND OFF-BALANCE SHEET TRANSACTIONS

During the nine months ended September 30, 2010, the Corporation incurred \$63,000 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. 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 period, none were included in accounts payable at September 30, 2010.

During the nine months ended September 30, 2010, the Corporation received \$72,000 in office rent from a private corporation in which the Chairman of the Board of Directors and the President and Chief Executive Officer were 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 rent received in the period, no amounts were included in accounts receivable at September 30, 2010.

Open Range was not involved in any off-balance-sheet transactions during the three and nine months ended September 30, 2010.

## LIQUIDITY AND CAPITAL RESOURCES

Open Range had a working capital deficiency, excluding the fair value of commodity contracts and future income taxes, of \$59.4 million at September 30, 2010. As at September 30, 2010, Open Range had available a \$70 million extendable revolving-credit facility and a \$10 million non-revolving acquisition and development facility with a syndicate of Canadian chartered banks. The interest rate on the extendable revolving facility is calculated using the syndicate's prime rate plus an applicable facility margin based on the Corporation's net-debt-to-cash flow ratio for the trailing calendar quarter. The interest rate on the non-revolving facility is calculated using the syndicate'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 trailing calendar quarter. The facilities are borrowing-base facilities that are determined based on, among other things, the Corporation's reserve report, production and operating results, and current and forecast commodity prices. Pursuant to the terms of the credit facilities, the Corporation has provided the covenant that at all times its working capital ratio shall be not less than 1 to 1. The working capital ratio is defined under the terms of the facilities as current assets, including the undrawn portion of the revolving credit facility, to current liabilities, excluding any current bank indebtedness. The Corporation was in compliance with this covenant as at September 30, 2010. As at September 30, 2010, \$55.0 million had been drawn on these facilities. The facilities are open for review semi-annually and were recently reconfirmed in October 2010. The next review is scheduled to occur in March 2011.

(thousands)	As at September 30, 2010
Bank lines available	\$ 80,000
Working capital deficiency, excluding fair value of commodity contracts and future income taxes	(59,357)
Capital resources available	\$ 20,643

During periods of commodity market instability Open Range actively manages its capital structure to ensure it maintains financial flexibility so as to preserve the ability to meet all of its financial obligations while continuing to finance the Corporation's future growth. The Corporation manages its capital structure in part by using the non-GAAP financial metric of net debt to annualized funds from operations ratio. The Corporation's objective is to maintain a ratio of not more than 2 to 1. As at September 30, 2010, the Corporation's ratio of net debt to annualized funds from operations was 2.1 to 1, which was only slightly above the targeted range established by the Corporation. The Corporation expects the ratio will remain flat during the remainder of 2010 as the Corporation anticipates utilizing cash flow from operations to fund the balance of its capital program. For more details on the calculation of this ratio refer to note 5, Capital Management, in the interim financial statements for the three and nine months ended September 30, 2010.

The Corporation's capital expenditure budget for 2010 is \$45 million, nearly all of which had been expended by September 30, 2010. The Corporation intends to initiate its winter 2010-2011 drilling program near year-end 2010, incurring the bulk of this program's expenditures in 2011. The details of the 2010 budget are as follows:

(thousands)	2010
Drilling and completions	\$ 27,000
Equipment and facilities	9,000
Land, seismic and capitalized G&A	9,000
<b>Total</b>	<b>\$ 45,000</b>

### SUBSEQUENT EVENTS

On October 12, 2010 the Corporation disposed of certain working interests in natural gas-weighted properties at Big Bend in north central Alberta for cash proceeds of \$3.5 million, subject to standard closing adjustments.

### SELECTED QUARTERLY INFORMATION

	2010				2009		2008	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Production</b>								
Natural gas (mcf/d)	<b>20,139</b>	22,120	19,695	15,814	12,612	12,078	12,642	13,164
Oil and NGL (bbls/d)	<b>328</b>	366	316	282	201	232	249	257
Total (boe/d)	<b>3,685</b>	4,053	3,598	2,918	2,303	2,245	2,356	2,451
Quarterly total (mboe)	<b>339</b>	369	324	268	212	204	212	225
% natural gas	<b>91</b>	91	91	90	91	90	89	90

### Financial

(thousands except per share amounts)

Revenue <sup>(1)</sup>	<b>9,833</b>	11,181	11,504	9,254	5,901	5,727	7,321	10,238
Net earnings (loss)	<b>(1,337)</b>	(2,495)	818	(517)	(2,389)	(1,927)	(1,304)	1,067
Per share (\$)								
Basic and diluted	<b>(0.02)</b>	(0.04)	0.01	(0.01)	(0.09)	(0.07)	(0.05)	0.04
Funds from operations	<b>7,103</b>	7,228	6,898	6,243	3,265	2,507	3,326	6,351
Per share (\$)								
Basic and diluted	<b>0.12</b>	0.12	0.11	0.14	0.12	0.09	0.13	0.23
Cash flow from operating activities	<b>6,617</b>	8,145	6,650	782	4,211	3,920	4,453	6,037
Total assets (end of period)	<b>224,065</b>	224,439	229,800	209,009	140,498	140,086	145,379	151,102
Capital expenditures, net	<b>7,279</b>	7,868	27,478	65,950	5,176	1,576	13,076	9,253
Weighted average								
basic shares (thousands)	<b>60,934</b>	60,934	60,934	44,132	26,534	26,534	26,576	27,111
Weighted average								
diluted shares (thousands)	<b>60,934</b>	60,934	60,934	44,132	26,534	26,534	26,576	27,111

### **Per Unit**

Natural gas revenue (\$ per mcf) <sup>(1)</sup>	<b>4.29</b>	4.48	5.36	5.29	4.23	4.29	5.60	7.35
Oil and NGL revenue (\$ per bbl)	<b>61.95</b>	64.97	70.70	60.09	53.67	48.13	42.57	56.40
Combined revenue (\$ per boe) <sup>(1)</sup>	<b>29.01</b>	30.32	35.52	34.47	27.85	28.03	34.53	45.41
Operating netback (\$ per boe)	<b>21.10</b>	21.83	25.04	26.91	19.94	18.84	20.15	31.01

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

Open Range's steady growth in production and total assets is attributable to successful exploration and development drilling at the Corporation's Deep Basin properties, particularly the Ansell/Sundance core area. Production growth in the first nine months of 2010 was primarily the result of the tie-in of two new horizontal wells and one new vertical well drilled in the first quarter at Ansell/Sundance and the Corporation's working-interest acquisition in that property in the fourth quarter of 2009.

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

(thousands) As at September 30, 2010		Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Bank indebtedness <sup>(1)</sup>	\$	<b>54,963</b>	\$ 54,963	\$ –	\$ –	\$ –
Office lease		<b>4,243</b>	790	2,470	983	–
Office equipment leases		<b>59</b>	15	38	6	–
Firm natural gas transportation agreements		<b>13,394</b>	1,237	7,451	3,896	810
<b>Total</b>	<b>\$</b>	<b>72,659</b>	<b>\$ 57,005</b>	<b>\$ 9,959</b>	<b>\$ 4,885</b>	<b>\$ 810</b>

<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 7, Financial Instruments, in the interim financial statements for the three and nine months ended September 30, 2010.

### **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

#### **TRANSITION PLAN**

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

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

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

The Corporation is in the process of preparing a balance sheet at January 1, 2010 on an IFRS basis. Calculations of the impact of the changes in accounting policies under IFRS are being finalized.

#### ***PETROLEUM AND NATURAL GAS ASSETS***

IFRS standards require that a corporation choose to report its petroleum and natural gas assets either at the amount which would have been recorded had the Corporation always followed current IFRS standards or at fair value on the date of adoption of IFRS. Alternatively, IFRS standards allow for a conversion exemption whereby petroleum and natural gas corporations can choose to record opening petroleum and natural gas properties at a deemed cost equal to historical cost as calculated under Canadian GAAP. Open Range currently intends to elect to record petroleum and natural gas assets at historical cost as calculated under Canadian GAAP on January 1, 2010.

Under Canadian GAAP, all petroleum and natural gas assets are accounted for under the full cost accounting guideline. Under IFRS, petroleum and natural gas assets will be divided into exploration and evaluation properties (“E&E assets”) and petroleum and natural gas properties and equipment (“development assets”). E&E assets will initially be capitalized and accumulated pending determination of technical feasibility and economic viability. E&E assets will not be depreciated and will be carried at cost less any accumulated impairment losses. E&E assets will initially be recorded at January 1, 2010 based on the Canadian GAAP historical cost of those assets. IFRS permits the remaining deemed cost of petroleum and natural gas assets at January 1, 2010 to be allocated to development assets on a pro rata basis using either reserve values or reserve volumes. Open Range currently intends to allocate the deemed cost to development assets on a pro rata basis using reserve values.

Both E&E assets and development assets will be assessed to determine whether impairment losses exist under IFRS as at January 1, 2010. These impairment tests will differ from the current Canadian GAAP full cost ceiling test in several significant ways. Assets will be allocated to cash generating units (CGU) and a separate impairment test will be completed for each CGU identified. Under current Canadian GAAP the ceiling test is a two-step test conducted over the single full cost pool for Open Range. The carrying value of assets is first compared to the undiscounted future cash flows. If the carrying value of the assets exceeds the undiscounted future cash flows of proved reserves, then the second step of the test is required whereby the assets are written down to the value of the discounted future cash flows of proved and probable reserves. Under IFRS, the impairment test compares the carrying value of the assets to the greater of the fair value of the assets and the value-in-use of the assets, which is a discounted cash flow measure. Future impairment tests will be required when management determines that indicators of impairment exist. Should impairment losses be recorded in accordance with IFRS, certain of those losses can be reversed in the future if facts and circumstances change. Open Range is in the process of completing an IFRS impairment test for each CGU as at January 1, 2010 and does not currently anticipate that any impairment will be recorded at January 1, 2010.

Depreciation under Canadian GAAP is calculated using a unit-of-production method based on total proved reserves for all accumulated costs, excluding unproved properties. Under IFRS, the net carrying value of development assets will still be depleted using a unit-of-production method; however, significant components with different useful lives will be accounted for as separate items and depreciated separately. Open Range is in the process of finalizing the components which will be used for the purpose of depreciating development assets. In addition, IFRS allows depreciation to be calculated using either proved reserves or proved plus probable reserves. Open Range currently intends to depreciate assets using proved plus probable reserves. Depreciation is expected to be lower on an IFRS basis than that recorded under Canadian GAAP.

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

Under Canadian GAAP, Open Range currently capitalizes general and administrative expenses to petroleum and natural gas assets including recoveries permitted under joint operating agreements. IFRS offers more guidance on amounts which should be capitalized. There is no impact of this change on petroleum and natural gas assets recorded at January 1, 2010 due to the conversion exemption which Open Range intends to elect.

The quantitative impact to Open Range of these changes to accounting for petroleum and natural gas assets has not been determined although progress has been made to quantify the impact of these policy choices during the quarter.

#### ***OTHER ITEMS***

Under IFRS, asset retirement obligations (referred to as “decommissioning liabilities” under IFRS) are likely to increase as a result of the change from a credit-adjusted risk-free rate to a risk-free rate in the discounting of the liabilities to their present value. In addition, any change in the discount rate would affect the entire liability and not just current-period additions. Open Range anticipates using a risk-free discount rate in calculating decommissioning liabilities that will result in an increase to the liability at January 1, 2010. The calculation is currently being finalized.

IFRS standards require stock-based awards that vest in instalments, such as on anniversaries of the grant date, to be accounted for as though each instalment or vesting date were a separate award. This will result in a change in the amount of stock-based compensation expense. Under IFRS, estimates of the number of stock-based awards expected to vest or expected to be forfeited prior to their expiry will have a quantitative impact on the amount of stock-based compensation expense recorded. Open Range is in the process of assessing and quantifying the impact of these differences.

### ***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 September 30, 2010 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 of its internal controls over financial reporting as at September 30, 2010. 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 September 30, 2010.

No material changes in the Corporation's internal controls over financial reporting, including identified weaknesses, were identified during the three months ended September 30, 2010 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

(thousands) (Unaudited)	As at September 30, 2010	As at December 31, 2009
<b>ASSETS</b>		
Current assets:		
Accounts receivable	\$ 6,122	\$ 10,501
Prepaid expenses and deposits	1,526	1,575
Fair value of commodity contracts (note 7)	544	–
Future income taxes	–	126
	<b>8,192</b>	<b>12,202</b>
Property, plant and equipment (note 2)	<b>215,873</b>	<b>196,807</b>
	<b>\$ 224,065</b>	<b>\$ 209,009</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Bank indebtedness (note 2)	\$ 54,963	\$ 40,065
Accounts payable and accrued liabilities	12,042	9,582
Fair value of commodity contracts (note 7)	–	434
Future income taxes	152	–
	<b>67,157</b>	<b>50,081</b>
Future income taxes	7,829	6,746
Asset retirement obligations (note 3)	3,364	3,186
Shareholders' equity:		
Share capital (note 4)	144,916	146,678
Contributed surplus (note 4)	7,429	5,934
Deficit	(6,630)	(3,616)
	<b>145,715</b>	<b>148,996</b>
Commitments (note 6)		
Subsequent events (note 1)		
	<b>\$ 224,065</b>	<b>\$ 209,009</b>

See accompanying notes to financial statements.

# STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

(thousands except per share amounts) (Unaudited)	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
<b>Revenues:</b>				
Petroleum and natural gas	\$ 8,973	\$ 4,625	\$ 30,999	\$ 16,788
Royalties	(931)	(156)	(3,236)	(2,346)
Other income	1,325	–	1,663	–
Realized gain on commodity contracts (note 7)	860	1,276	1,519	2,161
Unrealized gain (loss) on commodity contracts (note 7)	(292)	(1,017)	978	(518)
	<b>9,935</b>	<b>4,728</b>	<b>31,923</b>	<b>16,085</b>
<b>Expenses:</b>				
Operating	1,748	1,520	5,967	4,256
General and administrative	840	658	2,342	2,257
Bad debts	–	–	–	262
Stock-based compensation	229	127	720	367
Interest	536	302	1,407	730
Depletion and depreciation	8,148	5,260	24,981	15,514
Accretion of asset retirement obligations	57	44	167	128
	<b>11,558</b>	<b>7,911</b>	<b>35,584</b>	<b>23,514</b>
Loss before income taxes	<b>(1,623)</b>	<b>(3,183)</b>	<b>(3,661)</b>	<b>(7,429)</b>
Future income tax reduction	<b>(286)</b>	<b>(794)</b>	<b>(647)</b>	<b>(1,809)</b>
Net loss and comprehensive loss	<b>(1,337)</b>	<b>(2,389)</b>	<b>(3,014)</b>	<b>(5,620)</b>
Retained earnings (deficit), beginning of period	<b>(5,293)</b>	<b>(710)</b>	<b>(3,616)</b>	<b>2,521</b>
Deficit, end of period	<b>\$ (6,630)</b>	<b>\$ (3,099)</b>	<b>\$ (6,630)</b>	<b>\$ (3,099)</b>
<b>Loss per share (note 4):</b>				
Basic	<b>\$ (0.02)</b>	<b>\$ (0.09)</b>	<b>\$ (0.05)</b>	<b>\$ (0.21)</b>
Diluted	<b>\$ (0.02)</b>	<b>\$ (0.09)</b>	<b>\$ (0.05)</b>	<b>\$ (0.21)</b>

See accompanying notes to financial statements.

# STATEMENTS OF CASH FLOWS

(thousands) (Unaudited)	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Cash provided by (used in):				
Operating:				
Net loss	\$ (1,337)	\$ (2,389)	\$ (3,014)	\$ (5,620)
Items not involving cash:				
Depletion and depreciation	8,148	5,260	24,981	15,514
Accretion of asset retirement obligations	57	44	167	128
Future income tax reduction	(286)	(794)	(647)	(1,809)
Stock-based compensation	229	127	720	367
Unrealized loss (gain) on commodity contracts	292	1,017	(978)	518
Asset retirement expenditures	(136)	(51)	(378)	(174)
Change in non-cash working capital	(350)	997	561	3,660
	6,617	4,211	21,412	12,584
Financing:				
Bank indebtedness	(2,531)	3,334	14,898	8,125
Shares issue costs	5	-	(12)	-
Repurchase of common shares	-	-	-	(54)
	(2,526)	3,334	14,886	8,071
Investing:				
Acquisition of property, plant and equipment	(7,279)	(5,176)	(42,625)	(19,828)
Change in non-cash working capital	3,188	(2,369)	6,327	(827)
	(4,091)	(7,545)	(36,298)	(20,655)
Change in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ 559	\$ 302	\$ 1,120	\$ 794

Cash is defined as cash and cash equivalents.

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010

(all amounts in text and tabular format are stated in thousands, except per share amounts and other exceptions as noted)  
(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, 2009. 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 financial report for the year ended December 31, 2009. Certain comparative figures have been reclassified to conform to the current period’s presentation.

### 1. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2010	December 31, 2009
Petroleum and natural gas properties	\$ 300,274	\$ 256,245
Other assets	2,454	2,436
	302,728	258,681
Accumulated depletion and depreciation	(86,855)	(61,874)
Net book value	\$ 215,873	\$ 196,807

During the three and nine months ended September 30, 2010 the Corporation capitalized \$914 and \$2,844 (September 30, 2009 – \$642 and \$2,277), respectively, of overhead-related costs to petroleum and natural gas properties, of which \$237 and \$775 (September 30, 2009 – \$117 and \$342), respectively, related to stock-based compensation. During the three and nine months ended September 30, 2010, the future tax liability of \$79 and \$258 (September 30, 2009 – \$39 and \$114), respectively, associated with the capitalized stock-based compensation was also capitalized.

Costs associated with unproved properties, including undeveloped land and seismic, and salvage value excluded from costs subject to depletion at September 30, 2010 totalled \$34,736 (September 30, 2009 – \$15,909). Future development costs of proved reserves of \$64,147 at September 30, 2010 (September 30, 2009 – \$27,913) have been included in the depletion calculation.

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

On October 12, 2010 the Corporation disposed of certain working interests in natural gas-weighted properties at Big Bend in north central Alberta for cash proceeds of \$3,500, subject to standard closing adjustments.

## **2. BANK DEBT**

The Corporation has available a \$70,000 extendable revolving credit facility and a \$10,000 non-revolving acquisition/development demand facility as at September 30, 2010. These facilities are with a syndicate of Canadian chartered banks. The interest rate on the extendable revolving credit facility is calculated using the syndicate'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 syndicate'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 \$150,000 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 September 30, 2010. The facilities are open for review semi-annually and were reconfirmed in October 2010. The next review is scheduled to occur in March 2011. As the available lending limits of the facilities are based on the syndicate's interpretation of the Corporation's reserves and future commodity prices there can be no assurance as to the amount of available facilities that will be determined at each scheduled review.

As at September 30, 2010, \$54,963 (December 31, 2009 – \$40,065) has been drawn against the revolving credit facility. Letters of credit totalling \$580 (December 31, 2009 – \$580) are held against this facility. No amount (December 31, 2009 – \$nil) has been drawn against the non-revolving demand facility. The revolving facility had an effective interest rate of 4.5 percent at September 30, 2010 (December 31, 2009 – 4.75 percent).

## **3. 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 September 30, 2010 to be approximately \$11,846 (December 31, 2009 – \$10,640), to be incurred between 2010 and 2050. The majority of the costs will be incurred between 2020 and 2040. Credit-adjusted, risk-free rates of 8-10 percent (December 31, 2009 – 8-10 percent) were used to calculate the fair value of the various asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	September 30, 2010	December 31, 2009
Balance, beginning of period	\$ 3,186	\$ 2,475
Liabilities incurred	105	21
Change in estimates	284	468
Liabilities related to property acquisitions (note 1)	–	519
Liabilities settled	(378)	(475)
Accretion expense	167	178
Balance, end of period	\$ 3,364	\$ 3,186

#### 4. SHARE CAPITAL

##### (A) Common Shares Issued and Outstanding

	Number of shares	Amount
Balance, December 31, 2008	26,601	\$ 87,630
Issued pursuant to flow-through share offerings	3,050	7,015
Issued pursuant to common share offerings	31,350	57,997
Share issue costs (net of tax of \$986)	–	(2,745)
Share repurchases	(67)	(219)
Tax effect of flow-through shares issued in 2008	–	(3,000)
Balance, December 31, 2009	60,934	\$ 146,678
Share issue costs (net of tax of \$4)	–	(8)
Tax effect of flow-through shares issued in 2009	–	(1,754)
Balance, September 30, 2010	60,934	\$ 144,916

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 ended on October 27, 2009. Pursuant to the Bid, Open Range was entitled to purchase for cancellation, from time to time, up to a maximum of 1,367 common shares. As of December 31, 2009 the Corporation had purchased and cancelled 800 common shares under the Bid for total consideration of \$1,172. The excess of the average book value over the market price totalling \$1,462 is recorded as contributed surplus as of December 31, 2009.

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

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

## (B) Share Option Plan

Under the Corporation's share option plan it may grant options to its employees for up to 6,093 shares, of which 5,762 had been granted as at September 30, 2010 (December 31, 2009 – 5,793). 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.

	Nine months ended September 30, 2010		Year ended December 31, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Granted and outstanding, beginning of period	5,793	\$ 2.92	2,632	\$ 4.33
Granted	80	1.49	3,455	1.97
Forfeited	(111)	2.08	(294)	4.44
Granted and outstanding, end of period	5,762	\$ 2.91	5,793	\$ 2.92
Exercisable at period-end	2,183	\$ 4.15	1,786	\$ 4.19

The following table summarizes information about the fixed stock options outstanding at September 30, 2010:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number	Weighted average exercise price	Weighted average contractual life (years)	Number	Weighted average exercise price
\$ 1.44 - \$ 2.97	3,451	\$ 1.96	4.1	110	\$ 1.90
\$ 2.98 - \$ 4.52	880	3.47	1.3	835	3.47
\$ 4.53 - \$ 6.06	1,431	4.86	1.2	1,238	4.81
\$ 1.44 - \$ 6.06	5,762	\$ 2.91	2.9	2,183	\$ 4.15

## (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 nine-month period ended September 30, 2010: zero dividend yield, average expected volatility of 69 percent (December 31, 2009 – 71 percent), average risk-free interest rate of 2.75 percent (December 31, 2009 – 2.58 percent), and expected life of five years (December 31, 2009 – five years). The average fair value of stock options granted during the nine months ended September 30, 2010 was \$0.87 (December 31, 2009 – \$1.18) 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, 2008	\$	4,685
Stock-based compensation expense		1,084
Excess of book value over market value on share repurchases		165
<hr/>		
Balance, December 31, 2009	\$	5,934
Stock-based compensation expense		1,495
<hr/>		
Balance, September 30, 2010	\$	7,429

**(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:

	Three months ended Sept. 30, 2010	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009
Weighted average basic and diluted common shares outstanding	<b>60,934</b>	26,534	<b>60,934</b>	<b>26,548</b>

Options to purchase 5,762 common shares as at September 30, 2010 (September 30, 2009 – 2,599) were not included in the computation because they were anti-dilutive.

**5. CAPITAL MANAGEMENT**

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

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

	September 30, 2010	December 31, 2009
Shareholders' equity	\$ 145,715	\$ 148,996
Bank debt	54,963	40,065
Working capital (deficiency) excluding bank debt	\$ (4,394)	\$ 2,494

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

	September 30, 2010	December 31, 2009
Current liabilities, excluding fair value of commodity contracts and future income taxes	\$ 67,005	\$ 49,647
Current assets, excluding fair value of commodity contracts and future income taxes	(7,648)	(12,076)
Net debt	59,357	37,571
Quarterly cash flow from operating activities	6,617	782
Change in non-cash working capital	350	5,161
Asset retirement expenditures	136	300
Quarterly funds from operations	7,103	6,243
Annualized funds from operations	\$ 28,412	\$ 24,972
Net debt to annualized funds from operations ratio	2.1:1	1.5:1

As at September 30, 2010, the Corporation's ratio of net debt to annualized funds from operations was slightly above the targeted range established by the Corporation. The increase in the ratio from December 31, 2009 is primarily due to the Corporation funding a portion of its first nine months' 2010 capital program through borrowings, which was partially offset by the Corporation's larger base of cash flow from operations. The Corporation expects the ratio will remain flat during the remainder of 2010 as the Corporation anticipates utilizing cash flow from operations to fund the balance of its capital program, for which expenditures are anticipated to be modest through year-end.

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 2) and the Corporation is required to meet certain financial covenants to maintain the facilities. The Corporation has not paid or declared any dividends since the date of incorporation.

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

## 6. COMMITMENTS

### (A) Future Payments

In the normal course of business, the Corporation is obligated to make future payments. These obligations represent contracts and other commitments that are known to the Corporation as at September 30, 2010:

	Total	2010	2011	2012	2013	2014	Thereafter
Payments for office lease	\$ 4,243	\$ 188	\$ 803	\$ 813	\$ 824	\$ 843	\$ 772
Payments for office equipment leases	59	4	13	13	13	13	3
Firm natural gas transportation agreements	13,394	269	1,411	2,163	2,563	2,759	4,229
Total	\$ 17,696	\$ 461	\$ 2,227	\$ 2,989	\$ 3,400	\$ 3,615	\$ 5,004

### (B) Flow-Through Common Shares

On November 4, 2009 the Corporation issued 3,050 flow-through common shares for gross proceeds of \$7,015. Under the terms of the flow-through share agreements, the Corporation renounced \$7,015 of qualifying oil and natural gas expenditures effective December 31, 2009 under the look-back rule and has until December 31, 2010 to incur the expenditures. As at September 30, 2010 the Corporation had incurred \$7,015 of qualifying expenditures and is not required to incur any additional expenditures.

## 7. 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 September 30, 2010 the Corporation's receivables consisted of \$989 (December 31, 2009 – \$3,173) from joint venture partners, \$3,135 (December 31, 2009 – \$5,296) from purchasers of the Corporation's natural gas, crude oil and natural gas liquids and \$1,998 (December 31, 2009 – \$2,032) 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. 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.

The carrying amount of accounts receivable, cash and cash equivalents, when outstanding, and the fair value of commodity contracts, when outstanding, represent the maximum credit exposure. No uncollectible amounts were written off in the nine months ended September 30, 2010 (December 31, 2009 – \$94).

The Corporation considers its receivables to be aged as follows:

	September 30, 2010	December 31, 2009
Not past due (less than 120 days)	\$ 6,108	\$ 10,494
Past due (over 120 days)	14	7
<b>Total</b>	<b>\$ 6,122</b>	<b>\$ 10,501</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 following are the contractual maturities of financial liabilities as at September 30, 2010:

Financial Liability	Less than 1 year	1 to 2 years	Total
Accounts payable and accrued liabilities	\$ 12,042	\$ –	\$ 12,042
Bank indebtedness – principal only <sup>(1)</sup>	\$ 54,963	\$ –	\$ 54,963

<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.

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 September 30, 2010 and indicates the unrealized gains and realized gains for the nine months then ended:

Period	Volume (GJ/d)	Type of contract	Average AECO Spot floor (Cdn\$/GJ)	Average AECO Spot ceiling (Cdn\$/GJ)	Fair value of contract as at Sept. 30, 2010	Unrealized gain for the nine months ended Sept. 30, 2010	Realized gains for the nine months ended Sept. 30, 2010
Apr. 2009 to Mar. 2010	5,000	Costless Collar	\$ 4.00	\$ 5.84	\$ –	\$ 32	\$ –
Apr. 2009 to Mar. 2010	1,000	Costless Collar	\$ 4.25	\$ 5.92	–	4	–
Jan. to Dec. 2010	1,500	Call Option	n/a	\$ 7.75	–	75	–
Apr. to Oct. 2010	3,000	Put Option	\$ 4.25 <sup>(1)</sup>	n/a	29	254	52
Apr. to Oct. 2010	1,000	Put Option	\$ 4.50 <sup>(2)</sup>	n/a	21	56	83
Apr. to Oct. 2010	1,500	Put Option	\$ 4.25 <sup>(3)</sup>	n/a	21	90	63
Apr. to Oct. 2010	1,000	Put Option	\$ 4.50 <sup>(4)</sup>	n/a	19	63	76
Jan. to Dec. 2010	1,500	Costless Collar	\$ 4.40	\$ 7.00	129	140	222
Apr. to Oct. 2010	1,500	Swap	\$ 5.51	\$ 5.51	99	38	545
Feb. to Dec. 2010	1,500	Costless Collar	\$ 4.00	\$ 6.89	76	76	112
Feb. to Dec. 2010	1,500	Costless Collar	\$ 4.25	\$ 6.95	109	109	181
Apr. to Oct. 2010	1,500	Put Option	\$ 4.50 <sup>(5)</sup>	n/a	41	41	185
					\$ 544	\$ 978	\$ 1,519

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

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

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

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

<sup>(5)</sup> Cost of put option to the Corporation is \$0.235 per GJ and payment is due on the fifth business day following each contract month.

The Corporation had no forward exchange rate contracts or interest rate swap contracts in place as at or during the periods ended September 30, 2010 and 2009.

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 Corporation's net earnings:

	Net earnings impact Nine months ended September 30, 2010	
	Increase	Decrease
Natural gas price – change of 10%	\$ (64)	\$ 74
Interest rate – change of 10% <sup>(1)</sup>	\$ (101)	\$ 101

<sup>(1)</sup> As at September 30, 2010, a 10 percent change to the Corporation's effective interest rate would be equivalent to a change of 45 basis points or 0.45 percent in the rate charged by the Corporation's bank.

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

The Corporation's financial instruments as at September 30, 2010 and December 31, 2009 include accounts receivable, derivative contracts, accounts payable and accrued liabilities and bank debt. The fair value of accounts receivable and accounts payable and accrued liabilities approximates their carrying amounts due to their short terms to maturity.

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

The fair value of derivative contracts is determined by discounting the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes. As at September 30, 2010, the fair value of commodity contracts was determined using a forward price curve with a range of \$3.43 to \$3.82 per mcf of natural gas.

### **8. RELATED-PARTY TRANSACTIONS**

During the three and nine months ended September 30, 2010, the Corporation incurred \$26 and \$63 in legal costs (September 30, 2009 – \$11 and \$46), respectively, to a law firm in which the Chairman of the Board of Directors and the Corporate Secretary of the Corporation are partners. The legal costs incurred were in the normal course of operations and were based on the exchange value of the services provided. Of the legal costs incurred in the period, no amounts were included in accounts payable at September 30, 2010 (December 31, 2009 – \$10).

During the nine months ended September 30, 2010, the Corporation received \$72 in office rent (September 30, 2009 – \$287) from a private corporation in which the Chairman of the Board of Directors and the President and Chief Executive Officer were 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 rent received in the period, no amounts were included in accounts receivable at September 30, 2010 (December 31, 2009 – \$nil).

## **DIRECTORS**

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Executive Vice-President

John A. Mueller  
Vice-President, Engineering  
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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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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>GJ</b>	Gigajoule
<b>mboe</b>	thousand barrels of oil equivalent
<b>mcf</b>	thousand cubic feet
<b>mcfе</b>	thousand cubic feet equivalent
<b>mmcf</b>	million cubic feet
<b>NGL</b>	natural gas liquids



[www.openrangeenergy.com](http://www.openrangeenergy.com)