



## Q2 REPORT FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

### FINANCIAL AND OPERATING HIGHLIGHTS

#### Consolidated Highlights

(in thousands except per share amounts)	Three months ended June 30, 2011 <sup>(1)</sup>	Three months ended June 30, 2010 <sup>(1)</sup>	Six months ended June 30, 2011 <sup>(1)</sup>	Six Months ended June 30, 2010 <sup>(1)</sup>
Revenue <sup>(2)</sup>	\$ 20,781	\$ 11,181	\$ 40,296	\$ 22,685
Funds from operations <sup>(3)</sup>	15,534	7,538	30,587	14,818
Per basic share	0.23	0.12	0.47	0.24
Per diluted share	0.22	0.12	0.46	0.24
Net income	5,921	(342)	11,400	2,264
Per basic share	0.09	(0.01)	0.18	0.04
Per diluted share	0.08	(0.01)	0.17	0.04
Net debt (end of period)	44,251	59,050	44,251	59,050
Capital expenditures, net	\$ 9,081	\$ 7,769	\$ 43,122	\$ 35,171
Weighted average shares outstanding				
Per basic share	68,240	60,934	65,044	60,934
Per diluted share	70,805	60,934	66,660	60,934

#### Exploration & Production Highlights

	Three months ended June 30, 2011 <sup>(1)</sup>	Three months ended June 30, 2010 <sup>(1)</sup>	Six months ended June 30, 2011 <sup>(1)</sup>	Six Months ended June 30, 2010 <sup>(1)</sup>
Production				
Natural gas (mcf per day)	24,363	22,120	22,420	20,915
Oil and NGL (bbls per day)	335	366	309	341
Total (@ 6:1) (boe per day)	4,396	4,053	4,046	3,827
Realized average sales prices				
Natural gas (\$ per mcf) <sup>(2)</sup>	4.33	4.48	4.29	4.89
Oil and NGL (\$ per bbl)	88.82	64.97	82.72	67.61
Combined average (\$ per boe)	30.79	30.32	30.10	32.75
Royalties (\$ per boe)	(2.69)	(2.79)	(2.82)	(3.33)
Operating costs (\$ per boe)	(3.69)	(4.86)	(3.69)	(5.26)
Transportation costs (\$ per boe)	(0.76)	(0.84)	(0.77)	(0.83)
Operating netback (\$ per boe)	23.65	21.83	22.82	23.33
G&A costs (\$ per boe)	(1.91)	(2.23)	(2.11)	(2.38)
Net interest expense (\$ per boe)	(1.69)	(1.11)	(1.83)	(1.25)
Corporate netback (\$ per boe)	20.05	18.35	18.88	19.62

## Poseidon Concepts Highlights

(in thousands except percentages)	Three months ended June 30, 2011 <sup>(1)</sup>	Three months ended June 30, 2010 <sup>(1)</sup>	Six months ended June 30, 2011 <sup>(1)</sup>	Six Months ended June 30, 2010 <sup>(1)</sup>
Fracturing fluid handling tank rental revenue	\$ 8,889	\$ 334	\$ 18,907	\$ 334
Operating costs	(634)	(2)	(1,025)	(2)
G&A costs	(1,054)	(25)	(1,779)	(25)
Operating earnings (EBITDA)	\$ 7,201	\$ 307	\$ 16,103	\$ 307
Operating margin	81%	92%	85%	92%

<sup>(1)</sup> Open Range's transition date to International Financial Reporting Standards (IFRS) was January 1, 2010; therefore, information above including comparative information was calculated in accordance with IFRS.

<sup>(2)</sup> Includes the realized gain or loss on commodity contracts.

<sup>(3)</sup> Funds from operations is calculated using cash flow from operations before the change in non-cash working capital and decommissioning expenditures and excludes interest and finance expenses as presented under the Corporation's IFRS-based interim consolidated statements of cash flows for the three and six months ended June 30, 2011.

## CORPORATE HIGHLIGHTS

In the three months ended June 30, 2011, Open Range:

- Generated consolidated funds from operations of \$15.5 million, an increase of 106 percent from \$7.5 million in the second quarter of 2010 and a new Company record;
- Generated consolidated funds from operations of \$0.22 per diluted share, an increase of 83 percent over the second quarter of 2010;
- Had EBITDA of \$7.2 million from its Poseidon Concepts fracturing fluid handling business unit (included in consolidated funds from operations), achieving an operating margin of 81 percent;
- Had average production of 4,396 boe per day, an increase of 19 percent over first-quarter volumes and of 16 percent over the second quarter of 2010 (prior to disposition of non-core production of approximately 307 boe per day);
- Made consolidated capital expenditures of approximately \$9.1 million to complete the Company's first-half capital program, with activities focused on completing and tying-in recently drilled Wilrich horizontal wells at the Company's core Ansell/Sundance Deep Basin property and manufacturing additional fracturing fluid tank systems;
- Continued on its track of increasing operating efficiencies, with operating costs of \$3.69 per boe plus transportation costs of \$0.76 per boe, for a total of \$4.45 per boe (\$0.74 per mcfe), compared to a total of \$5.70 per boe (\$0.95 per mcfe) in the second quarter of 2010, an improvement of 22 percent;
- Incurred all-in cash costs (operating, transportation, G&A, interest) of \$8.05 per boe of production, a reduction of 11 percent from the second quarter of 2010; and
- Exited the quarter with net debt of \$44.3 million, down by 25 percent from June 30, 2010.

## **GUIDANCE REVISION**

Open Range hereby revises 2011 guidance, with key targets including:

- Consolidated funds from operations of \$80 million (\$1.20 per basic share and \$1.16 per diluted share), an increase of \$10 million from previous guidance of \$70 million. Funds from operations are expected to be comprised of Poseidon EBITDA of \$55 million (an increase of \$10 million from previous guidance) and exploration and production funds from operations of \$25 million (unchanged);
- Year-end net debt of approximately \$50 million, reduced from previous guidance of \$60 million;
- A year-end net debt to annualized fourth quarter funds from operations ratio of 0.5:1, compared to 0.6:1 under previous guidance;
- Average production unchanged at 4,500 boe per day;
- Exit production unchanged at 6,200 boe per day; and
- Capital expenditures unchanged at \$100 million.

## **MESSAGE TO SHAREHOLDERS**

Open Range had a strong quarter in both its business segments. Despite an extended wet spring we showed quarterly production growth over the first quarter of 2011 and the second quarter of 2010, driven by the consistent success of Wilrich horizontal drilling at our core Ansell/Sundance Deep Basin property. The Poseidon Concepts fracturing fluid handling business continued to increase in tank rental activity, driven by ongoing uptake from customers in established operating areas plus entry into several new unconventional oil and liquids-rich natural gas plays across the United States.

With current production of approximately 4,300 boe per day, we remain confident in our production forecasts for 2011, including our target exit rate of 6,200 boe per day. For the medium term we remain closely focused on the Company's primary goal of achieving 10,000 boe per day by year-end 2012. We are leveraging the strong support from Poseidon's free cash flow to help grow Open Range's exploration and production business – without limiting the further growth of Poseidon.

### ***Exploration and Production (E&P) Operations***

All four Wilrich wells drilled in the Company's first-half capital program are on-stream, along with the initial Wilrich well drilled last fall. We performed a significant amount of technical work during completion of these wells, including a micro-seismic study. Detailed analysis of this proprietary data was employed to refine our completions program. The resulting optimization included a reduction in the amount of sand proppant used in each fracturing stage as well as in the number of stages, and an alteration of the fracturing fluid to increase the amount of sand placed. With these changes we achieved as good or better overall results at lower costs. Completions costs on the fifth well were \$500,000 lower than for the prior Wilrich well, a substantial savings that alone improves overall well economics. This well demonstrated excellent initial productivity and is currently producing 3.1 mmcf per day plus liquids after nearly 120 days on-stream.

Initial performance from our Wilrich wells supports our horizontal type curve that was based on regional Wilrich well results. Our commitment to drill multiple horizontal wells has also improved pricing from some of our service providers. Overall the Wilrich play continues to be one of the most economic and active liquids-rich natural gas projects in western Canada.

Expansion of the Company-operated Ansell/Sundance gas plant is expected to commence in late August. Capacity will increase by 50 percent to 60 mmcf per day and our working interest increases to 69 percent. The \$6.5 million expansion is expected to come on-stream in the fourth quarter to accommodate anticipated new production. In addition we are constructing a pipeline to our western land base in anticipation of future drilling. Planning is underway to build a second gas plant in the first quarter of 2012 to service our northeastern lands at Ansell/Sundance, production from which is currently tied-in to a third-party facility. Having the ability to process large increments of horizontal production through Company-owned infrastructure in that area will significantly reduce operating costs and further improve well economics.

### ***Poseidon Concepts***

The rollout of our Poseidon Concepts fracturing fluid handling system continues to be accepted by producers and regulators, and we are very pleased at the growth of Poseidon's activity across western Canada and in the United States. We are now operating in seven U.S. states and expect to be deployed in 10 by September, representing many of North America's most active unconventional oil and liquids-rich natural gas plays. We recently received our first commitments to deploy tanks to the Utica Shale play in Ohio and the Haynesville Shale play in Louisiana.

Operating margins averaged 81 percent on second-quarter tank rental revenues of \$8.9 million which was down slightly from the first quarter due to the normal effects of spring break-up. Since the end of spring break-up in western Canada utilization has increased to over 85 percent fleet-wide, with 120 of 140 tanks currently out on rental. This includes 40 of the 41,000-barrel-capacity Atlantis model currently on active leases.

Despite the rapid growth of Poseidon since the first commercial job in June 2010, we see strong opportunity to increase our market penetration. In the first half of 2011 Poseidon systems were used on approximately 5 percent of estimated horizontal well completions in western Canada and less than 1 percent of estimated horizontal well completions in the U.S. Our build of new tanks is slightly ahead of schedule in bringing the combined fleet to at least 150 systems by the end of the third quarter.

We continue to use first-mover advantages to establish our brand with producers and scale up in shale oil and liquids-rich gas plays. The number and value of minimum commitment contracts anchoring our go-forward revenues continue to grow, and we will release further details in the coming weeks. In response to these positive drivers, we have increased 2011 EBITDA guidance for Poseidon, as detailed above. We foresee continued strong operating margins as we scale up the Poseidon team and add operating infrastructure, including field operating bases in Alberta and North Dakota, and a field office in Dickinson, North Dakota.

### ***Financial Results***

Open Range had excellent financial results for the second quarter and first half of 2011. The strong performance was driven by the Company's continued top-decile cost performance plus growing production on the E&P side, and continued strong Poseidon Concepts revenue.

Growth in our liquids-rich production at Ansell/Sundance, nearly all of which is fed into our operated processing capacity, has established a virtuous cycle of quarterly declines in cash costs per unit of production, which approached \$8 per boe in the second quarter. Cost-efficiency is essential to maintaining reasonable netbacks and, in turn, funds from operations in a weaker price environment. Our G&A expenses are now under \$2 per boe.

Combining our low cash costs with low overall royalty rates of less than 10 percent – including only 5 percent on new horizontal wells – we were actually able to increase our second-quarter 2011 operating netback by almost \$2 per boe over the first quarter, to \$23.65 per boe. These netbacks demonstrate that for Open Range current commodity prices are no deterrent to generating solid returns from high-rate new horizontal wells.

Net debt is also on a downward trend, with quarter-end net debt coming in at \$44 million. Despite a significant capital program in the second half, we expect net debt at year-end to come in at approximately \$50 million, leaving over 40 percent of the Company's bank lines undrawn.

### ***Outlook***

Drilling for our second-half capital program is underway, with two rigs operating at Ansell/Sundance. The first well spud in late July and the second in early August, both targeting the Wilrich. The extended wet weather in late spring delayed drilling by about one month, but we are confident about meeting the Company's 2011 production forecasts. Our second-half program comprises five (3.8 net) wells targeting the Wilrich, two (1.9 net) targeting the Notikewin, one (0.6 net) targeting the Cardium and potentially one targeting Montney light oil at Waskahigan. All will be horizontal wells completed with multi-stage fracturing. This will bring our 2011 capital program to 14 gross (11.1 net) horizontal wells.

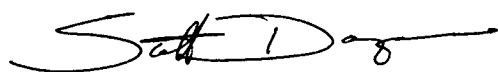
Along with the Montney and Wilrich, the Notikewin is one of the most economical horizontal natural gas plays in western Canada. The Notikewin has an estimated 20 bcf of original-gas-in-place in a full channel sand section. Commonly occurring across the Deep Basin, the Notikewin is currently being validated as a horizontal play by a number of competitors, with activity accelerating and wells being licensed directly offsetting Open Range lands. Recent Notikewin wells have had encouraging initial productivity and performance. Research from competitor results, the experience gained with our previous two Notikewin horizontal wells, plus completion refinements tested in our Wilrich wells, will guide our approach to the Notikewin. We're excited by the potential on our more than 20 net prospective sections.

The Cardium is also exciting. The Cardium anchored several historical Deep Basin fields developed vertically, and produces in a number of Open Range's vertical wellbores. It is shallower and less costly to drill and complete than our other horizontal targets. Initial productivity is typically somewhat lower than for the Wilrich, but the liquids content is high, averaging 30-40 bbls per mmcf in vertical wellbores. Open Range has 10 sections high-graded for potential Cardium horizontal drilling.

We continue to evaluate our six-section, 100 percent working interest Montney oil play at Waskahigan. We are watching offsetting production results and the effects of various technology applications, and will decide in the coming weeks whether to spud before year-end.

We are comfortable with the state of equipment and services. One rig is contracted to Open Range for the next year, the other rig for a number of wells, and completions services, including fracturing dates, have been lined up. We are actively licensing and building well site leases to prepare for continuous drilling and completion activity over the next year.

On behalf of the Board of Directors,

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

A. Scott Dawson  
President, Chief Executive Officer and Director  
August 10, 2011

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) is a review of operations, current financial position and outlook for Open Range Energy Corp. ("Open Range" or the "Corporation") for the three and six-month periods ended June 30, 2011 and 2010. This MD&A should be read in conjunction with the unaudited interim financial statements for the three and six months ended June 30, 2011 and 2010, and the audited financial statements for the year ended December 31, 2010. This MD&A is dated August 10, 2011.

## **Basis of Presentation**

The interim consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards (IFRS). Open Range adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Previously, the Corporation prepared its interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP). Open Range has provided IFRS accounting policies and prepared reconciliations between GAAP and IFRS in note 3 and note 17, respectively, to its March 31, 2011 and June 30, 2011 interim consolidated financial statements. Further information on the IFRS impacts is provided in the "International Financial Reporting Standards" section in this document.

The terms "funds from operations", "funds from operations per share", "operating netback", "operating earnings" and "operating margin" in this discussion are not recognized measures under IFRS or previous Canadian GAAP. Open Range management believes that in addition to net earnings and cash flow from operations as per IFRS and previous Canadian GAAP, funds from operations, operating netback, operating earnings and operating margin 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 decommissioning 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. Operating earnings are defined as operating income before depletion and depreciation, stock-based compensation and unrealized gain (loss) on commodity contracts. Operating earnings and operating margin provide an indication of the results generated by the Corporation's fracturing fluid tank rental activities prior to consideration of how those activities are financed or how the results are taxed. Users are cautioned, however, that these measures should not be construed as an alternative to net earnings determined in accordance with IFRS and previous Canadian GAAP as an indication of Open Range's performance.

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 IFRS and previous Canadian GAAP before the change in non-cash working capital related to operating activities and decommissioning 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)	<b>Three months ended June 30, 2011</b>	Three months ended June 30, 2010	<b>Six months ended June 30, 2011</b>	Six Months ended June 30, 2010
Cash flow from operating activities (per IFRS)	\$ 12,017	\$ 8,385	\$ 17,944	\$ 15,181
Change in non-cash working capital	3,416	(949)	12,373	(605)
Decommissioning expenditures	101	102	270	242
Funds from operations	<b>\$ 15,534</b>	\$ 7,538	<b>\$ 30,587</b>	\$ 14,818

### 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.

### Forward-Looking Statements

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

This MD&A contains 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 decommissioning obligations; (e) future liquidity and the ability to raise capital to continually add to reserves through exploration, development and/or acquisition; (f) the future tax horizon of the Corporation; (g) the impact of the adoption of various new accounting policies and standards; (h) the performance characteristics of the Corporation's oil and natural gas properties; (i) estimates of future cash flows from operations; (j) drilling plans and timing of drilling, completion and tie-in of wells; (k) commodity prices, exchange rates and interest rates; (l) the utilization and effectiveness of commodity price risk management techniques; (m) Open Range's ability to grow or sustain production and reserves through prudent management; (n) the Corporation's future operating and financial results; and (o) treatment under governmental and other regulatory regimes and tax, environmental and other laws.

With respect to forward-looking statements contained in this MD&A, the Corporation has made a number of assumptions. The key assumptions underlying the aforementioned forward-looking statements include but are not limited to: (i) future oil and natural gas prices will not deteriorate significantly; (ii) debt and equity 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 renew its credit facilities on acceptable terms; (vi) Open Range will be able to continue to add production and reserves through exploration and development activities at a satisfactory rate; and (vii) the current tax and regulatory regimes 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 equity capital from internal and external sources; the limited operating history of the Poseidon Concepts business unit; demand for fracturing fluid handling systems; risks associated with the manufacture and supply of fracturing fluid handling systems; competition from other fluid handling system suppliers; the ability of the Poseidon Concepts business unit to attract and retain clientele; the ability of the Poseidon Concepts business unit to fund its ongoing capital requirement from cash flow from operations; 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 in Canada or the United States) and changes in how they are interpreted and enforced; changes in federal and provincial tax laws and legislation (including the adoption of new royalty regimes); the lack of availability of qualified personnel or management; fluctuations in foreign exchange or interest rates; stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof; and obtaining required approvals of regulatory authorities in Canada or the United States. 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, 2010, which is filed on SEDAR and available for review at [www.sedar.com](http://www.sedar.com). 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.

## EXPLORATION & PRODUCTION OPERATIONS (E&P)

### Production

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Production				
Natural gas (mcf per day)	24,363	22,120	22,420	20,915
Oil and NGL (bbls per day)	335	366	309	341
Total (boe per day)	4,396	4,053	4,046	3,827
Total (mboe)	400	369	732	693
Natural gas % of production	92	91	92	91

Open Range's production for the three and six months ended June 30, 2011 increased from the comparative periods in 2010. The increases were primarily due to the tie-in of new horizontal wells drilled at Ansell/Sundance more than offsetting the divestiture of certain non-core holdings in the fourth quarter of 2010 and the natural production declines from existing wells. Production in the three and six months ended June 30, 2011 averaged 4,396 boe per day and 4,046 boe per day, respectively. This represented an increase of 8 percent and 6 percent, respectively, from the average production of 4,053 boe per day and 3,827 boe per day for the respective three and six months ended June 30, 2010. Natural gas production in the three and six months ended June 30, 2011 increased to 24,363 mcf per day and 22,420 mcf per day, respectively, from 22,120 mcf per day and 20,915 mcf per day, respectively, for the three and six months ended June 30, 2010. Oil and natural gas liquids (NGL) production in the three and six months ended June 30, 2011 decreased slightly to 335 barrels per day and 309 barrels per day, respectively, from 366 barrels per day and 341 barrels per day for the respective three- and six-month periods in 2010. With several new horizontal wells tied-in during the second quarter, and an accelerated drilling program announced for the balance of 2011, Open Range is forecasting an exit rate of 6,200 boe per day for 2011.

### Oil and Natural Gas Revenues

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Revenue (thousands)				
Natural gas	\$ 9,561	\$ 8,359	\$ 17,121	\$ 17,854
Oil and NGL	2,710	2,163	4,634	4,172
Realized gain on commodity contracts	45	659	286	659
Total	\$ 12,316	\$ 11,181	\$ 22,041	\$ 22,685
Average realized price				
Natural gas (\$ per mcf)	4.31	4.15	4.22	4.72
Oil and NGL (\$ per bbl)	88.82	64.97	82.72	67.61
Realized gain on commodity contracts (\$ per mcf)	0.02	0.33	0.07	0.17
Combined average (\$ per boe)	30.79	30.32	30.10	32.75
Benchmark pricing				
Alberta Spot (Cdn\$ per mcf)	3.84	3.77	3.74	4.30
Edmonton Par (Cdn\$ per bbl)	102.63	75.12	95.42	77.72

Revenue, including realized gains on commodity contracts, for the three months ended June 30, 2011 increased by 10 percent to \$12.3 million from \$11.2 million in the second quarter of 2010. For the six months ended June 30, 2011 revenue, including realized gains on commodity contracts, decreased by 3 percent to \$22 million from \$22.7 million in the respective period in 2010. The change in revenue was primarily a result of 8 percent and 6 percent respective increases in production volumes from the comparative periods in 2010, offset by a 2 percent increase and an 8 percent decrease in the combined average realized price from the respective comparative periods in 2010. 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.

For the three and six months ended June 30, 2011, Open Range realized gains on commodity contracts of \$45 thousand and \$0.3 million, respectively. These realized gains related to commodity contracts and amounted to additional revenue of \$0.02 per mcf and \$0.07 per mcf, respectively, on the Corporation's natural gas production for the three and six months ended June 30, 2011.

#### **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 June 30, 2011, the Corporation recorded an unrealized gain on commodity contracts of \$0.8 million and for the six months ended June 30, 2011 the Corporation recorded an unrealized loss on commodity contracts of \$0.2 million. This amount represented the change in the fair value of the commodity contracts held by the Corporation during the three- and six-month periods ended June 30, 2011.

Natural gas and crude oil hedging contracts entered into as at June 30, 2011 and expired contracts presented for comparative purposes are as follows:

Period	Volume (GJ/d)	Type of contract	Average AECO spot floor (Cdn\$/GJ)	Average AECO spot ceiling (Cdn\$/GJ)	Unrealized loss for the three months ended June 30, 2011 (thousands)	Unrealized gain (loss) for the three months ended June 30, 2010 (thousands)	Unrealized gain (loss) for the six months ended June 30, 2011 (thousands)	Unrealized gain for the six months ended June 30, 2010 (thousands)
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	-	2	-	74
Apr. to Oct. 2010	3,000	Put Option	\$ 4.25	n/a	-	(118)	-	208
Apr. to Oct. 2010	1,000	Put Option	\$ 4.50	n/a	-	(69)	-	69
Apr. to Oct. 2010	1,500	Put Option	\$ 4.25	n/a	-	(78)	-	85
Apr. to Oct. 2010	1,000	Put Option	\$ 4.50	n/a	-	(66)	-	74
Jan. to Dec. 2010	1,500	Costless Collar	\$ 4.40	\$ 7.00	-	(157)	-	167
Apr. to Oct. 2010	1,500	Swap	\$ 5.51	\$ 5.51	-	(293)	-	262
Feb. to Dec. 2010	1,500	Costless Collar	\$ 4.00	\$ 6.89	-	(109)	-	78
Feb. to Dec. 2010	1,500	Costless Collar	\$ 4.25	\$ 6.95	-	(139)	-	125
Apr. to Oct. 2010	1,500	Put Option	\$ 4.50	n/a	-	(134)	-	92
Jan. to Dec. 2011	2,000	Swap	\$ 5.33	\$ 5.33	(283)	-	(409)	-
Jan. to Dec. 2011	2,000	Put Option	\$ 3.80 <sup>(1)</sup>	n/a	(13)	-	8	-
Jan. to Dec. 2011	2,000	Swap	\$ 3.80	\$ 3.80	(4)	-	46	-
Jan. to Dec. 2011	2,000	Swap	\$ 3.80	\$ 3.80	(4)	-	46	-
Jan. to Dec. 2011	2,000	Put Option	\$ 3.80 <sup>(2)</sup>	n/a	(9)	-	15	-
Jan. to Dec. 2011	2,000	Put Option	\$ 3.80 <sup>(3)</sup>	n/a	(25)	-	(31)	-
					\$ (338)	\$ (1,161)	\$ (325)	\$ 1,270

<sup>(1)</sup> Cost of put option to the Corporation is \$0.422 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 \$0.440 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 \$0.355 per GJ and payment is due on the fifth business day following each contract month.

Period	Volume (Gj/d)	Type of contract	Average WTI-Nymex floor (US\$/bbl)	Average WTI-Nymex ceiling (US\$/bbl)	Unrealized gain for the three months ended June 30, 2011 (thousands)	Unrealized gain (loss) for the three months ended June 30, 2010 (thousands)	Unrealized gain for the six months ended June 30, 2011 (thousands)	Unrealized gain (loss) for the six months ended June 30, 2010 (thousands)
Jan. 2011 to Dec. 2012	200	Call Option	n/a	\$ 90.00	\$ 1,160	\$ –	\$ 95	\$ –
					\$ 1,160	\$ –	\$ 95	\$ –

For more details on these contracts refer to note 14, Financial Risk Management, to the interim consolidated financial statements for the three and six months ended June 30, 2011.

## Royalties

(thousands except per unit amounts)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Royalty expense – natural gas	\$ 546	\$ 329	\$ 1,217	\$ 1,059
Royalty expense – oil & NGL	531	699	850	1,246
Total	\$ 1,077	\$ 1,028	\$ 2,067	\$ 2,305
Per boe (\$)	2.69	2.79	2.82	3.33
% of revenue <sup>(1)</sup>	9	10	10	10

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

Royalties totalled \$1.1 million and \$2.1 million for the second quarter and first half of 2011, respectively, compared to \$1 million and \$2.3 million, respectively, for the comparative periods in 2010. Royalties as a percentage of revenue decreased slightly in the three months ended June 30, 2011 from the comparative period in 2010. On a per-unit-of production basis, royalty costs for the three and six months ended June 30, 2011 were down by 4 percent and 15 percent, respectively, from the comparative periods in 2010, mainly due to the impact of the 5 percent front-end royalty rate on the Corporation's natural gas wells brought on-production in the first quarter of 2011.

Open Range estimates that royalty rates for 2011 will amount to an average of 8-10 percent of revenue. This reflects the impact of current commodity prices resulting in lower royalty rates and the impact of the now-permanent 5 percent front-end royalty rate on newly tied-in wells.

## Operating Costs

(thousands except per unit amounts)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Operating costs	\$ 1,477	\$ 1,791	\$ 2,700	\$ 3,643
Transportation costs	303	309	563	574
Total	\$ 1,780	\$ 2,100	\$ 3,263	\$ 4,217
Operating costs (\$ per boe)	3.69	4.86	3.69	5.26
Transportation costs (\$ per boe)	0.76	0.84	0.77	0.83
Total (\$ per boe)	4.45	5.70	4.46	6.09

Operating costs were \$1.5 million and \$2.7 million, respectively, for the three and six months ended June 30, 2011 compared to \$1.8 million and \$3.6 million, respectively, for the comparative periods in 2010. On a per-unit-of-production basis, operating costs for the three and six months ended June 30, 2011 were \$3.69 per boe. This represented a 24 percent and a 30 percent decrease, respectively, from \$4.86 per boe and \$5.26 per boe in the comparative periods in 2010. This reduction was due primarily to continued operating efficiencies being realized at Ansell/Sundance, where increasing production volumes are handled at the Corporation-operated plant and facilities, and the divestiture of certain higher-cost non-operated holdings in the fourth quarter of 2010.

Transportation costs for the three and six months ended June 30, 2011 were \$0.3 million or \$0.76 per boe and \$0.6 million or \$0.77 per boe, respectively. This compared to \$0.3 million or \$0.84 per boe and \$0.6 million or \$0.83 per boe, respectively, for the respective periods in 2010.

### Operating Netback

(\$ per boe)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Average realized sales price	30.79	30.32	30.10	32.75
Royalty expenses	(2.69)	(2.79)	(2.82)	(3.33)
Operating costs	(3.69)	(4.86)	(3.69)	(5.26)
Transportation costs	(0.76)	(0.84)	(0.77)	(0.83)
Operating netback	23.65	21.83	22.82	23.33

The Corporation's operating netback for the three months ended June 30, 2011 increased by 8 percent to \$23.65 per boe from \$21.83 per boe in the second quarter of 2010. The Corporation's operating netback for the first half of 2011 decreased by 2 percent to \$22.82 per boe from \$23.33 per boe for the respective period in 2010. The period-over-period changes were mainly due to decreases in natural gas prices driving down the Corporation's average realized sales price while being either wholly or partially offset by lower royalty expenses and operating costs per unit of production.

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

(thousands except per unit amounts)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Gross G&A costs	\$ 1,420	\$ 1,553	\$ 2,849	\$ 3,190
Partner recovery	(109)	(136)	(200)	(321)
Capitalized	(546)	(595)	(1,102)	(1,217)
Net G&A costs	\$ 765	\$ 822	\$ 1,547	\$ 1,652
Per boe, net (\$)	1.91	2.23	2.11	2.38

Net G&A costs for the three and six months ended June 30, 2011 totalled \$0.8 million and \$1.5 million, respectively, after overhead recoveries and capitalization of \$0.7 million and \$1.3 million, respectively. On a per boe basis G&A costs in the three and six months ended June 30, 2011 decreased to \$1.91 per boe and \$2.11 per boe, respectively. This represented a decrease of 14 percent and 11 percent, respectively, from \$2.23 per boe and \$2.38 per boe for the respective periods in 2010. Net G&A costs per boe decreased slightly period-over-period. The Corporation continues to focus its efforts on future-oriented exploration and development activities and will continue to capitalize any costs directly attributable to its exploration, geological and geophysical activities. The Corporation's gross G&A costs for the three and six months ended June 30, 2011 decreased by 9 percent and 11 percent, respectively, from the comparative periods of 2010, as a result of the administrative synergies realized from combining the day-to-day management of the E&P and Poseidon Concepts business units.

### Capital Expenditures

(thousands)	Three months ended June 30, 2011		Three months ended June 30, 2010		Six months ended June 30, 2011		Six Months ended June 30, 2010	
Drilling and completions	\$	1,934	\$	2,344	\$	25,005	\$	21,122
Equipment and facilities		5,038		1,076		12,312		6,442
Land		1,563		199		4,392		1,107
Exploration and evaluation		–		3,544		311		5,260
Capitalized G&A		546		595		1,102		1,217
Geological and geophysical		–		11		–		23
<b>Total capital expenditures</b>		<b>9,081</b>		<b>7,769</b>		<b>43,122</b>		<b>35,171</b>
Capital items not involving cash:								
Stock-based compensation		347		362		591		743
Decommissioning obligations		239		77		610		611
<b>Total capital expenditures including non-cash items</b>	\$	<b>9,667</b>	\$	<b>8,208</b>	\$	<b>44,323</b>	\$	<b>36,525</b>

Open Range's capital budget during the first half of 2011 was heavily focused at Ansell/Sundance and included drilling, completing and bringing on-production four (3.6 net) horizontal natural gas wells and acquiring additional Crown lands in the area. The Corporation also participated in the drilling and completion of one (0.2 net) horizontal Glauconitic natural gas well at Ferrier in west central Alberta.

(thousands)	Three months ended June 30, 2011		Three months ended June 30, 2010		Six months ended June 30, 2011		Six Months ended June 30, 2010	
<b>Wells drilled</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
Exploration	–	–	–	–	–	–	2	1.4
Development	–	–	–	–	5	3.8	4	2.8
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>5</b>	<b>3.8</b>	<b>6</b>	<b>4.2</b>
Average working interest	–	–	–	–	76%	76%	70%	70%
Success rate	–	–	–	–	100%	100%	100%	100%

## Depletion, Depreciation and Accretion

(thousands except per unit amounts)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Depletion and depreciation	\$ 6,969	\$ 5,706	\$ 12,655	\$ 10,413
Accretion of decommissioning obligations	28	52	56	101
<b>Total</b>	<b>\$ 6,997</b>	<b>\$ 5,758</b>	<b>\$ 12,711</b>	<b>\$ 10,514</b>
Depletion and depreciation (\$ per boe)	17.42	15.47	17.29	15.03
Accretion of decommissioning obligations (\$ per) boe)	0.07	0.14	0.08	0.15
<b>Total (\$ per boe)</b>	<b>17.49</b>	<b>15.61</b>	<b>17.37</b>	<b>15.18</b>

Depletion and depreciation are calculated based upon cumulative capital expenditures, production rates, proved plus probable reserves and estimated useful lives. Open Range recorded \$7 million or \$17.42 per boe in depletion and depreciation for the three months ended June 30, 2011 compared to \$5.7 million or \$15.47 per boe for the comparative period in 2010. Depletion and depreciation for the first half of 2011 increased to \$12.7 million on a total dollar basis or \$17.29 per boe from \$10.4 million or \$15.03 per boe in the comparative period in 2010. The period-over-period increases in depletion and depreciation for the three- and six-month periods ended June 30, 2011 are due to increased production volumes partially offset by reserve additions from the successful first-half 2011 drilling program.

Open Range estimates depletion on a quarterly basis using independent inputs such as reserve and land reports when available. Costs associated with unproved properties under development, including \$21.7 million of undeveloped land, seismic and salvage value, have been excluded from the calculation and future development costs of \$115.4 million have been included in the capital base used in the calculation.

## Poseidon Concepts

(thousands except percentages)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Fracturing fluid handling tank rental revenue	\$ 8,889	\$ 334	\$ 18,907	\$ 334
Operating costs	(634)	(2)	(1,025)	(2)
G&A costs	(1,054)	(25)	(1,779)	(25)
<b>Operating earnings</b>	<b>\$ 7,201</b>	<b>\$ 307</b>	<b>\$ 16,103</b>	<b>\$ 307</b>
<b>Operating margin</b>	<b>81%</b>	<b>92%</b>	<b>85%</b>	<b>92%</b>

<sup>(1)</sup> Includes inter-corporate activities that have been eliminated upon consolidation.

During the three and six months ended June 30, 2011 the Corporation continued to expand the rental offering of its innovative fracturing fluid handling system to exploration and production companies in western Canada and the United States through its wholly-owned business unit, Poseidon Concepts. Demand for the Corporation's fracturing fluid handling system increased sharply during the first half of 2011 and the business unit was engaged at leases in central and northwest Alberta, northeast B.C., North Dakota, Montana, Colorado, Wyoming, Oklahoma and Pennsylvania. Fracturing fluid handling tank rental revenue of \$8.9 million and \$18.9 million was recognized for the three and six months ended June 30, 2011, respectively. Operating earnings in the three and six months ended June 30, 2011 were \$7.2 million and \$16.1 million, respectively, generating operating margins of 81 percent and 85 percent. The solid operating margins were driven by a strong operating environment for fracturing services and related equipment resulting in a high utilization rate for the Corporation's expanding tank fleet, driven mainly by the cost advantages and operating efficiencies of the Poseidon system over conventional steel tanks, combined with low internal costs.

## CORPORATE ACTIVITIES

### Net Interest and Finance Expenses

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Net interest expense (thousands)	675	409	\$ 1,336	\$ 867

Net interest expense for the three and six months ended June 30, 2011 was \$0.7 million or \$1.69 per boe and \$1.3 million or \$1.83 per boe, respectively. The increase in net interest expense from the three and six months ended June 30, 2010 was primarily the result of increased borrowings on the Corporation's credit facilities and annual facility renewal fees. The Corporation had \$60.3 million drawn on its extendable revolving credit facility at June 30, 2011. The Corporation continues to manage debt levels prudently and expects net interest expense to remain relatively flat with first-half levels through the balance of 2011 as its planned capital investment program will be funded from a combination of cash flow from operations and some additional borrowings.

### Stock-Based Compensation

(thousands)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Total stock-based compensation	\$ 834	\$ 698	\$ 1,385	\$ 1,420
Capitalized stock-based compensation	(347)	(362)	(591)	(743)
Stock-based compensation expense	\$ 487	\$ 336	\$ 794	\$ 677

During the second quarter of 2011, stock-based compensation of \$0.5 million was expensed and \$0.3 million was capitalized. This resulted in total stock-based compensation for the three months ended June 30, 2011 of \$0.8 million, compared to \$0.7 million for the second quarter of 2010. For the first half of 2011 stock-based compensation of \$0.8 million was expensed and \$0.6 million was capitalized. This resulted in total stock-based compensation for the first half of 2011 of \$1.4 million, compared to \$1.4 million for the first six months of 2010. At June 30, 2011 there were 6.5 million stock options outstanding compared to 6.1 million outstanding at June 30, 2010.

## Income Taxes

Open Range did not incur any cash tax expense in 2010, nor does it expect to pay any cash taxes in 2011 based on current oil and natural gas prices, existing tax pools, planned capital expenditures and forecast earnings before income taxes. Deferred tax expense of \$2.3 million and \$4.2 million was recorded for the three and six months ended June 30, 2011, respectively.

The Corporation estimates that at June 30, 2011 tax pools of \$185 million are available for deduction against future taxable income.

## Net Income (Loss)

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Net income (loss) (thousands)	\$ 5,921	\$ (342)	\$ 11,400	\$ 2,264
Net income (loss) per basic share	\$ 0.09	\$ (0.01)	\$ 0.18	\$ 0.04
Net income (loss) per diluted share	\$ 0.08	\$ (0.01)	\$ 0.17	\$ 0.04

For the six months ended June 30, 2011 the Corporation recorded net income of \$11.4 million or \$0.18 per basic share and \$0.17 per diluted share compared to net income of \$2.3 million or \$0.04 per basic and diluted share for the comparative period in 2010. For the three months ended June 30, 2011 the Corporation recorded net income of \$5.9 million or \$0.09 per basic and \$0.08 per diluted share compared to a net loss of \$0.3 million or \$0.01 per basic and diluted share for the second quarter of 2010. The increase in net income in 2011 is mainly attributable to growing operating earnings from the Corporation's Poseidon Concepts business unit and continued strong operating netbacks on increased production volumes.

## Funds from Operations and Cash Flow from Operating Activities

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Funds from operations (thousands)	\$ 15,534	\$ 7,538	\$ 30,587	\$ 14,818
Funds from operations per basic share	\$ 0.23	\$ 0.12	\$ 0.47	\$ 0.24
Funds from operations per diluted share	\$ 0.22	\$ 0.12	\$ 0.46	\$ 0.24
Cash flow from operating activities (per IFRS) (thousands)	\$ 12,017	\$ 8,385	\$ 17,944	\$ 15,181

During the three months ended June 30, 2011, Open Range generated funds from operations of \$15.5 million or \$0.23 per basic share and \$0.22 per diluted share compared to \$7.5 million or \$0.12 per basic and diluted share for the comparative period in 2010. First-half 2011 funds from operations increased by 106 percent to \$30.6 million from \$14.8 million for the comparative period in 2010. The increase in funds from operations was primarily due to growing revenues from the rental of fracturing fluid handling systems and higher revenues from increased production volumes.

## Share Capital

(thousands)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Weighted average basic common shares outstanding	68,240	60,934	65,044	60,934
Stock option dilution	2,565	–	1,616	–
Weighted average diluted common shares outstanding	70,805	60,934	66,660	60,934

Options to purchase 1.5 million common shares as at June 30, 2011 were not included in the computation of weighted average diluted shares outstanding because they were anti-dilutive.

Outstanding securities (thousands except percentages)	June 30, 2011	August 10, 2011
Common shares	68,350	68,458
Stock options	6,460	6,242
Total outstanding securities	74,810	74,700
Proportion of outstanding securities held by officers and directors	11%	11%

Under the Corporation's share option plan, 6.5 million options to purchase shares had been granted to employees, consultants, officers and directors as at June 30, 2011. The exercise price of each option equals the market price of the Corporation's stock on the date of grant.

On November 8, 2010, one of the Corporation's wholly owned subsidiaries entered into certain performance warrant agreements with employees, officers and directors. The Corporation had granted 0.7 million performance warrants with exercise prices ranging from \$1.00-\$20.00 as at June 30, 2011. Performance warrants are exercisable into units of the subsidiary.

Equity financings since inception	Date of issuance	Issue price per share	Shares issued (thousands)	Gross proceeds (thousands)
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	2,324	8,251
Flow-through common shares	February 22, 2007	4.00	3,000	12,000
Flow-through common shares	December 20, 2007	3.45	2,029	7,000
Common shares	April 4, 2008	4.20	3,095	13,000
Flow-through common shares	April 4, 2008	5.00	2,400	12,000
Flow-through common shares	November 4, 2009	2.30	3,050	7,015
Common shares	November 16, 2009	1.85	31,350	57,997
Common shares	March 21, 2011	2.85	7,025	20,021
Total		\$ 2.65	58,922	\$ 156,192

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

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

During the three and six months ended June 30, 2011, the Corporation incurred \$84 thousand and \$196 thousand, respectively, 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.

Open Range was not involved in any off-balance-sheet transactions during the three and six months ended June 30, 2011.

## LIQUIDITY AND CAPITAL RESOURCES

Open Range had a working capital deficiency, excluding the fair value of commodity contracts, of \$44.3 million at June 30, 2011. Open Range had available a \$90 million extendable revolving credit facility, which includes a \$2 million U.S. operating facility, with a syndicate of banks. The facility is available on a revolving basis for a 364-day period until June 19, 2012. The Corporation may request that the facility be extended for an additional 364-day period at the lenders' option. The interest rate on the facility is calculated using the syndicate's prime rate plus an applicable margin based on the Corporation's net-debt-to-cash-flow ratio for the trailing calendar quarter. The facility is a borrowing-based facility that is determined based on, among other things, the Corporation's reserves, production, operating results, current and forecast commodity prices, and Poseidon Concepts' earnings before interest, taxes, depreciation and amortization (EBITDA). Pursuant to the terms of the credit facility, the Corporation has provided the covenants that at all times its working capital ratio shall be not less than 1.2 to 1 and that the ratio of Poseidon Concepts debt to EBITDA for the trailing 12 months is not greater than 1.5 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 these covenants as at June 30, 2011. As at June 30, 2011, \$60.3 million had been drawn on the facility.

(thousands)	As at June 30, 2011
Bank lines available	\$ 90,000
Working capital deficiency excluding fair value of commodity contracts	44,251
Capital resources available	\$ 45,749

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-IFRS financial metric of net debt to the trailing quarter's annualized funds from operations ratio. The Corporation's strategy is to maintain a ratio of no more than 2 to 1. As at June 30, 2011, the Corporation's ratio of net debt to second-quarter 2011 annualized funds from operations was 0.7 to 1, which was within the range targeted by the Corporation. The Corporation expects the ratio will continue to decrease during 2011 as it anticipates increased funds from operations driven by strong operating netbacks and increased fracturing fluid handling tank rental revenues, combined with only modest additional borrowings required to carry out the balance of the year's capital program. For more details on the calculation of this ratio refer to note 12, Capital Management, to the interim consolidated financial statements for the three and six months ended June 30, 2011. The Corporation's capital expenditure budget for 2011 is \$100 million.

The Corporation considers itself to have sufficient liquidity and capital resources based on the available bank line shown above, the \$20 million equity financing that closed in March 2011 and its ability to accelerate or defer capital projects to reflect changing market or industry conditions.

## SELECTED QUARTERLY INFORMATION

	2011			2010			2009	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4 <sup>(3)</sup>	Q3 <sup>(3)</sup>
<b>Production</b>								
Natural gas (mcf per day)	<b>24,363</b>	20,455	20,467	20,139	22,120	19,695	15,814	12,612
Oil and NGL (bbls per day)	<b>335</b>	283	386	328	366	316	282	201
Total (boe per day)	<b>4,396</b>	3,693	3,797	3,685	4,053	3,598	2,918	2,303
Quarterly total (mboe)	<b>400</b>	332	349	339	369	324	268	212
% natural gas	<b>92</b>	92	90	91	91	91	90	91
<b>Financial</b> (\$ thousands except as noted)								
Revenue <sup>(1) (2)</sup>	<b>20,781</b>	19,515	13,796	11,158	11,514	11,504	9,254	5,901
Net income (loss)	<b>5,921</b>	5,479	3,926	681	(340)	2,606	(517)	(2,389)
Per share (\$)								
– basic	<b>0.09</b>	0.09	0.06	0.01	(0.01)	0.04	(0.01)	(0.09)
– diluted	<b>0.08</b>	0.09	0.06	0.01	(0.01)	0.04	(0.01)	(0.09)
Funds from operations	<b>15,534</b>	15,053	9,712	7,539	7,538	7,280	6,243	3,264
Per share (\$)								
– basic	<b>0.23</b>	0.24	0.16	0.12	0.12	0.12	0.14	0.12
– diluted	<b>0.22</b>	0.24	0.16	0.12	0.12	0.12	0.14	0.12
Cash flow from								
operating activities	<b>12,017</b>	5,927	6,082	7,077	8,385	6,796	782	4,210
Total assets (end of period)	<b>278,234</b>	271,276	231,994	233,904	231,295	233,334	209,009	140,498
Capital expenditures, net	<b>9,081</b>	34,041	(445)	7,180	7,769	27,402	65,950	5,176
Weighted average								
shares outstanding (thousands)								
– basic	<b>68,240</b>	61,814	60,936	60,934	60,934	60,934	44,132	26,534
– diluted	<b>70,805</b>	63,256	60,936	60,934	60,934	60,937	44,132	26,534
<b>Per Unit</b>								
Oil and NGL revenue (\$ per bbl)	<b>88.82</b>	75.43	64.93	61.95	64.97	70.70	60.09	53.67
Natural gas revenue (\$ per mcf) <sup>(2)</sup>	<b>4.33</b>	4.24	4.24	4.29	4.48	5.36	5.29	4.23
Combined revenue (\$ per boe) <sup>(2)</sup>	<b>30.79</b>	29.26	29.43	29.01	30.32	35.52	34.47	27.85
Operating netback (\$ per boe)	<b>23.65</b>	21.81	22.27	21.10	21.83	25.04	26.91	19.94

<sup>(1)</sup> Includes fracturing fluid handling tank rental revenue.

<sup>(2)</sup> Includes the realized gain or loss on commodity contracts.

<sup>(3)</sup> Open Range's IFRS transition date was January 1, 2010; therefore, 2009 comparative information above was calculated in accordance with previous Canadian GAAP and has not been restated.

Open Range's steady growth in funds from operations and total assets is attributable to successful exploration and development drilling at the Corporation's Deep Basin properties, particularly the Ansell/Sundance core area, and the rental of fracturing fluid handling systems beginning in late 2010 and accelerating in 2011. Production growth in 2011 is primarily the result of the drilling, completion and tie-in of four (3.6 net) horizontal wells at Ansell/Sundance.

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

(thousands) As at June 30, 2011	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Bank indebtedness <sup>(1)</sup>	\$ 60,305	\$ 60,305	–	–	–
Office lease	3,347	628	\$ 1,591	\$ 1,128	–
Office equipment leases	45	13	25	7	–
Firm natural gas transportation agreements	12,993	1,695	5,843	4,335	\$ 1,120
<b>Total</b>	<b>\$ 76,690</b>	<b>\$ 62,641</b>	<b>\$ 7,459</b>	<b>\$ 5,470</b>	<b>\$ 1,120</b>

<sup>(1)</sup> Amount is drawn against the Corporation's extendable revolving facility. As the facility is available on a revolving basis for a 364 day period and would be due immediately if not extended, amounts outstanding are classified as current liabilities. 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 14, Financial Risk Management, to the interim consolidated financial statements for the three and six months ended June 30, 2011.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS**

On January 1, 2011, IFRS became the generally accepted accounting principles in Canada for profit-oriented publicly accountable enterprises. Open Range adopted IFRS for financial reporting purposes using a transition date of January 1, 2010. The adoption of IFRS required the restatement, for comparative purposes, of amounts reported by the Corporation for the three and six months ended June 30, 2010. The Corporation's financial results for the three and six months ended June 30, 2011 and comparative periods are reported under IFRS while historical data prior to January 1, 2010 continues to be reported under previous Canadian GAAP.

An explanation of how the transition to IFRS affected the reported consolidated financial position, financial performance and cash flows of the Corporation is provided in note 17, Reconciliation of Previous GAAP with IFRS, to the interim consolidated financial statements for the three and six months ended June 30, 2011, which provides information for the three and six months ended June 30, 2010. This note also includes reconciliations of equity and comprehensive income (loss) for comparative periods reported under previous Canadian GAAP to those under IFRS, along with details of the IFRS 1 exemptions applied. The adoption of IFRS did not impact the underlying economics of Open Range's operations.

The Corporation prepared its interim consolidated financial statements and related MD&A for the three and six months ended June 30, 2011 in accordance with IFRS and interpretations currently provided and expected to be in effect at the end of Open Range's first annual IFRS reporting period, which will be December 31, 2011.

The adoption of IFRS resulted in the following adjustments for the three and six months ended June 30, 2010:

- Petroleum and natural gas assets – There was no impairment of PP&E or exploration and evaluation assets at June 30, 2010. At June 30, 2010, a total of \$3.5 million was reclassified from PP&E to exploration and evaluation assets;
- Depletion – Under IFRS, depletion is calculated on a unit-of-production basis using total proved plus probable reserves as compared to total proved reserves under previous GAAP. As a result of this change, the depletion expense decreased by approximately \$14.3 million and \$6.4 million, respectively for the three and six months ended June 30, 2010;

- Decommissioning obligations – Under previous Canadian GAAP decommissioning obligations were discounted at a credit-adjusted risk-free rate of 8-10 percent. Under IFRS, the estimated cash flows to abandon and remediate the wells and facilities has been risk-adjusted and, therefore, the provision is discounted at the risk-free rate in effect at the end of each reporting period. The change in the decommissioning obligations in each period as a result of the changes in the discount rate will result in an offsetting charge to PP&E. As at June 30, 2010 the decommissioning obligations were \$2.4 million higher than under previous GAAP due to the change in discount rate and its impact on the liabilities incurred or acquired during the period;
- Deferred taxes – Under IFRS, deferred taxes are reported as a non-current liability, resulting in a reclassification of the \$0.2 million current deferred tax liability to long-term at June 30, 2010;
- Flow-through shares – Under IFRS, flow-through shares issued are recorded in share capital at the fair value of common shares on the date of issue. The premium received on issuing flow-through shares is initially recorded as a deferred credit and then, as qualifying expenditures are incurred, the deferred premium is reversed and a deferred tax liability is recorded for the foregone tax benefit of the flow-through. The net amount is then recognized as deferred tax expense. The impact of the flow-through share change in accounting policy resulted in a transitional adjustment to share capital of \$1.6 million, a deferred flow-through share premium liability of \$1.4 million and an adjustment to the deficit of \$3 million. The premium liability was reversed fully in the first half of 2010 as qualifying expenditures were incurred and the tax impact of the flow-through share issuance of \$1.8 million was reclassified from share capital to deferred tax expense; and
- Stock-based compensation – Under previous GAAP, the Corporation recognized an expense related to the stock-based compensation on a straight-line basis through the date of the full vesting and did not incorporate a forfeiture rate. Under IFRS, the Corporation is required to recognize the expense over the individual vesting periods for the graded vesting awards, estimate a forfeiture rate at the date of grant and to update it throughout the vesting period. The three and six months ended, June 30, 2010 saw an increase to stock-based compensation expense of \$0.1 million and \$0.2 million with capitalized portions of \$0.1 million and \$0.2 million, respectively.

## **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 (CEO) and Chief Financial Officer (CFO) concluded based on their evaluation as at June 30, 2011 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 CEO and CFO believe that disclosure controls and procedures provide a reasonable level of assurance and are effective, they do not expect that the disclosure controls and procedures would prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

## **FINANCIAL REPORTING**

Open Range's CEO and CFO 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 IFRS and previous Canadian GAAP. Such officers of the Corporation are also responsible for evaluating, or causing to be evaluated under their supervision, the operating effectiveness of Open Range's internal controls over financial reporting at the financial year-end of the Corporation.

The Corporation evaluated the design of its internal controls over financial reporting as at June 30, 2011. During this evaluation the Corporation identified weaknesses due to the limited number of finance and accounting personnel at the Corporation dealing with complex and non-routine accounting transactions that may arise. Notwithstanding the weaknesses identified with regards to complex and non-routine accounting matters, the Corporation concluded that all other of its internal controls over financial reporting have been designed properly at June 30, 2011.

No material changes in the design of the Corporation's internal controls over financial reporting, including identified weaknesses, were identified during the three months ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal financial reporting processes. There were no material changes in the Corporation's internal controls over financial reporting as a result of the transition to IFRS.

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

## **RISK FACTORS AND ADDITIONAL INFORMATION**

The Corporation is subject to multiple business and other risks that are similar to those experienced by other entities involved in the energy sector. Open Range's financial position, results of operations and funds from operations are directly impacted by several risk factors and uncertainties.

For a detailed discussion of the risks and uncertainties associated with Open Range's business and operations, refer to the Corporation's Annual Information Form (AIF), which is available on SEDAR at [www.sedar.com](http://www.sedar.com), or the Corporation's website at [www.openrangeenergy.com](http://www.openrangeenergy.com).

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousands) (Unaudited)	As at June 30, 2011	As at December 31, 2010
<b>ASSETS</b>		
Current assets:		
Accounts receivable	\$ 23,314	\$ 9,668
Prepaid expenses and deposits	3,430	2,291
Fair value of commodity contracts (note 14)	–	213
	<b>26,744</b>	12,172
Exploration and evaluation assets (note 6)	14,760	14,634
Property, plant and equipment (note 7)	236,730	205,188
	<b>\$ 278,234</b>	<b>\$ 231,994</b>
<b>LIABILITIES</b>		
Current liabilities:		
Bank indebtedness (note 8)	\$ 60,305	\$ 51,053
Accounts payable and accrued liabilities	10,690	10,726
Fair value of commodity contracts (note 14)	461	–
	<b>71,456</b>	61,779
Fair value of commodity contracts (note 14)	458	902
Deferred taxes	14,586	10,702
Decommissioning obligations (note 9)	3,207	2,811
	<b>89,707</b>	76,194
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 10)	168,657	148,269
Contributed surplus	10,017	9,078
Retained earnings (deficit)	9,853	(1,547)
	<b>188,527</b>	155,800
Commitments (note 13)		
	<b>\$ 278,234</b>	<b>\$ 231,994</b>

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(thousands, except per share amounts) (unaudited)	<b>Three months ended June 30, 2011</b>	Three months ended June 30, 2010 <small>(note 17)</small>	<b>Six months ended June 30, 2011</b>	Six Months ended June 30, 2010 <small>(note 17)</small>
<b>Revenues:</b>				
Petroleum and natural gas	\$ 12,271	\$ 10,522	\$ 21,755	\$ 22,026
Royalties	(1,077)	(1,028)	(2,067)	(2,305)
Fracturing fluid tank rentals	8,465	334	18,255	334
	<b>19,659</b>	9,828	<b>37,943</b>	20,055
Realized gain on commodity contracts (note 14)	45	659	286	659
Unrealized gain (loss) on commodity contracts (note 14)	822	(1,161)	(230)	1,270
	<b>20,526</b>	9,326	<b>37,999</b>	21,984
<b>Expenses:</b>				
Operating	2,357	2,102	4,232	4,219
General and administrative	1,819	847	3,326	1,677
Stock-based compensation (note 10)	487	336	794	677
Depletion and depreciation (note 7)	6,969	5,706	12,655	10,413
	<b>11,632</b>	8,991	<b>21,007</b>	16,986
Operating income	<b>8,894</b>	335	<b>16,992</b>	4,998
<b>Other expense items:</b>				
Accretion of decommissioning obligations (note 9)	28	52	56	101
Interest and finance expenses	675	409	1,336	867
Income (loss) before income taxes	<b>8,191</b>	(126)	<b>15,600</b>	4,030
Deferred tax expense	2,270	216	4,200	1,766
Net income (loss) and comprehensive income (loss)	<b>\$ 5,921</b>	\$ (342)	<b>\$ 11,400</b>	\$ 2,264
<b>Income (loss) per share (note 10):</b>				
Basic	<b>\$ 0.09</b>	\$ (0.01)	<b>\$ 0.18</b>	\$ 0.04
Diluted	<b>\$ 0.08</b>	\$ (0.01)	<b>\$ 0.17</b>	\$ 0.04

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(thousands) (Unaudited)	Common shares	Share capital	Contributed surplus	Retained earnings (deficit)	Total equity
Balance at January 1, 2011	60,949	\$ 148,269	\$ 9,078	\$ (1,547)	\$ 155,800
Net income for the period	–	–	–	11,400	11,400
Stock-based compensation expensed	–	–	794	–	794
Stock-based compensation capitalized	–	–	591	–	591
Issuance of common shares on exercise of options	354	838	–	–	838
Transfer of stock-based compensation on option exercises	–	446	(446)	–	–
Issuance of common shares	7,047	20,071	–	–	20,071
Share issuance costs, net of tax of \$316	–	(967)	–	–	(967)
<b>Balance at June 30, 2011</b>	<b>68,350</b>	<b>\$ 168,657</b>	<b>\$ 10,017</b>	<b>\$ 9,853</b>	<b>\$ 188,257</b>
Balance at January 1, 2010	60,934	\$ 148,253	\$ 6,452	\$ (8,420)	\$ 146,285
Net income for the period	–	–	–	2,264	2,264
Share issuance costs, net of tax of \$4	–	(12)	–	–	(12)
Stock-based compensation expensed	–	–	677	–	677
Stock-based compensation capitalized	–	–	743	–	743
<b>Balance at June 30, 2010</b>	<b>60,934</b>	<b>\$ 148,241</b>	<b>\$ 7,872</b>	<b>\$ (6,156)</b>	<b>\$ 149,957</b>

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands, except per share amounts) (unaudited)	<b>Three months ended June 30, 2011</b>	Three months ended June 30, 2010 <small>(note 17)</small>	<b>Six months ended June 30, 2011</b>	Six Months ended June 30, 2010 <small>(note 17)</small>
Cash provided by (used in):				
Operating:				
Net income	\$ 5,921	\$ (342)	\$ 11,400	\$ 2,264
Items not involving cash:				
Depletion and depreciation	6,969	5,706	12,655	10,413
Accretion of decommissioning obligations	28	52	56	101
Deferred tax expense	2,270	216	4,200	1,766
Stock-based compensation	487	336	794	677
Unrealized (gain) loss on commodity contracts	(822)	1,161	230	(1,270)
Interest and financing expenses	681	409	1,252	867
Decommissioning expenditures	(101)	(102)	(270)	(242)
Change in non-cash working capital (note 11)	(3,416)	949	(12,373)	605
	<b>12,017</b>	<b>8,385</b>	<b>17,944</b>	<b>15,181</b>
Financing:				
Bank indebtedness	16,244	13,116	9,252	17,429
Issuance of common shares, net of issuance costs	–	(2)	18,788	(17)
Proceeds from exercise of options	838	–	838	–
Interest paid	(521)	(339)	(773)	(561)
	<b>16,561</b>	<b>12,775</b>	<b>28,105</b>	<b>16,851</b>
Investing:				
Property, plant and equipment expenditures	(9,081)	(4,225)	(42,811)	(29,911)
Exploration and evaluation expenditures	–	(3,544)	(311)	(5,260)
Change in non-cash working capital (note 11)	(19,497)	(13,391)	(2,927)	3,139
	<b>(28,578)</b>	<b>(21,160)</b>	<b>(46,049)</b>	<b>(32,032)</b>
Change in cash	–	–	–	–
Cash, beginning of period	–	–	–	–
Cash, end of period	\$ –	\$ –	\$ –	\$ –

Cash is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011**

(Unaudited)

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

## **1. REPORTING ENTITY**

Open Range Energy Corp. (“Open Range” or the “Corporation”) is organized under the laws of the province of Alberta. The Corporation is engaged in the acquisition of, exploration for and development of oil and natural gas in the Western Canada Sedimentary Basin. The Corporation also rents fracturing fluid handling tanks primarily used in well completion operations in the oil and natural gas industry in western Canada and the United States.

These consolidated financial statements include the accounts of the Corporation and the following wholly-owned subsidiaries: Poseidon Concepts Corp., a corporation organized under the laws of the province of Alberta; Poseidon Concepts Inc., a corporation organized under the laws of the state of Delaware; and Poseidon Concepts Limited Partnership, a partnership organized under the laws of the province of Alberta. All inter-entity balances and transactions have been eliminated.

## **2. BASIS OF PRESENTATION**

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 – “Interim Financial Reporting”. These are Open Range’s second interim consolidated financial statements based on International Financial Reporting Standards (IFRS) and cover part of the period that will be covered by the first IFRS-based annual consolidated financial statements. The Corporation has applied IFRS 1 – “First-time Adoption of International Financial Reporting Standards” in these interim consolidated financial statements, which do not include all of the information required for full annual financial statements.

For information on the basis of measurement, functional and presentation currency and use of estimates and judgements refer to note 2 to the interim consolidated financial statements for the three months ended March 31, 2011.

The interim consolidated financial statements were authorized for issuance by the Corporation’s Board of Directors on August 10, 2011.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

These interim consolidated financial statements have been prepared by management in accordance with IFRS. The Corporation has consistently applied the same accounting policies and methods of computation for these interim consolidated financial statements as were applied in the preparation of the interim consolidated financial statements for the three months ended March 31, 2011. Refer to note 3 to the interim consolidated financial statements for the three months ended March 31, 2011 for Open Range’s significant accounting policies under IFRS. Certain comparative amounts have been reclassified to conform to the current period’s presentation.

#### **4. CHANGES IN ACCOUNTING POLICIES**

The following pronouncements from the International Accounting Standards Board (IASB) will become effective for financial reporting periods beginning on or after January 1, 2013 and have not yet been adopted by the Corporation. All of these new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application:

- “IFRS 9 – Financial Instruments” addresses the classification and measurement of financial assets;
- “IFRS 10 – Consolidated Financial Statements” builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the parent company;
- “IFRS 11 – Joint Arrangements” establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled;
- “IFRS 13 – Fair Value Measurement” defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within IFRS; and
- “IAS 27 – Separate Financial Statements” revises the existing standard which addresses the presentation of parent company financial statements that are not consolidated financial statements.

The Corporation has not completed its evaluation of the effect of adopting these standards on its financial statements.

#### **5. DETERMINATION OF FAIR VALUES**

A number of the Corporation’s accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

##### **(A) Property, Plant and Equipment (PP&E) and Exploration & Evaluation (E&E) Assets**

The fair value of PP&E and E&E assets recognized in an acquisition is based on market values. The market value of PP&E and E&E assets is the estimated amount for which PP&E and E&E assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in PP&E) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of PP&E and E&E assets is based on the quoted market prices for similar items.

**(B) Cash and Cash Equivalents, Accounts Receivable and Payable, and Bank Debt**

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At June 30, 2011 and December 31, 2010, the fair value of these balances approximated their carrying value due to their short term to maturity. Bank debt bears a floating rate of interest and, therefore, carrying value approximates fair value.

**(C) Derivatives**

The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

**(D) Stock Options and Performance Warrants**

The fair value of employee stock options and performance warrants is measured using the Black-Scholes option pricing model. Measurement inputs include the share or unit price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option-holder's behaviour), expected dividends, and the risk-free interest rate (based on Government of Canada bonds).

**6. EXPLORATION AND EVALUATION ASSETS**

		Total
Balance at January 1, 2010	\$	9,013
Additions		5,621
Balance at December 31, 2010	\$	14,634
Additions		311
Lease expiries		(185)
Balance at June 30, 2011	\$	14,760

E&E assets consist of the Corporation's exploration projects which are pending the determination of proved or probable reserves. Costs primarily consist of undeveloped land and drilling costs until the drilling of the well is complete and results have been evaluated. The cost of undeveloped land that expires during a period and any impairment of intangible exploration assets is recognized as additional depletion and depreciation expense. Any reversal in a previous impairment charge would be recognized as a reduction to depletion and depreciation expense.

## 7. PROPERTY, PLANT AND EQUIPMENT

<b>Cost or deemed cost</b>		Total
Balance at January 1, 2010	\$	188,049
Additions		48,019
Capitalized stock-based compensation		1,344
Dispositions		(15,958)
Changes in decommissioning obligations		956
Balance at December 31, 2010		222,410
Additions		42,901
Capitalized stock-based compensation		591
Dispositions		(90)
Changes in decommissioning obligations		610
Balance at June 30, 2011	\$	266,422
<b>Accumulated depletion and depreciation</b>		Total
Balance at January 1, 2010	\$	–
Depletion and depreciation expense		(21,162)
Disposals		3,940
Balance at December 31, 2010		(17,222)
Depletion and depreciation		(12,470)
Balance at June 30, 2011	\$	(29,692)
<b>Net book value</b>		Total
Balance at January 1, 2010	\$	188,049
Balance at December 31, 2010		205,188
Balance at June 30, 2011	\$	236,730

During the six months ended June 30, 2011 the Corporation capitalized \$1,111 (June 30, 2010 – \$595) of general and administrative costs directly attributable to exploration activities.

Costs associated with unproved properties under development, including undeveloped land and seismic, and salvage value excluded from costs subject to depletion at June 30, 2011 totalled \$21,673 (June 30, 2010 – \$33,108). Future development costs of proved plus probable reserves of \$115,372 at June 30, 2011 (June 30, 2010 – \$81,203) have been included in the depletion calculation.

## 8. BANK DEBT

The Corporation has available a \$90,000 extendable revolving credit facility, which includes a \$2,000 U.S. operating facility, with a syndicate of banks. The facility is available on a revolving basis for a 364 day period until June 19, 2012. The Corporation may request that the facility be extended for an additional 364 day period at the lenders' option. In the event the facility is not extended amounts outstanding would be due and payable on June 19, 2012. The interest rate on the 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 credit facility is 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 facility, the Corporation has provided the covenants that at all times its working capital ratio shall be not less than 1.2 to 1 and that the ratio of Poseidon Concepts debt to earnings before interest, taxes, depreciation and amortization (EBITDA) for the trailing 12 months is not greater than 1.5 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 these covenants as at June 30, 2011. The facility is open for review semi-annually with the next review occurring in October 2011. As the available lending limits of the facility is based on the syndicate's interpretation of the Corporation's reserves and future commodity prices, and Poseidon Concepts' trailing 12-month EBITDA, among other factors, there can be no assurance as to the amount of available facilities that will be determined at each scheduled review.

As at June 30, 2011, \$60,305 (December 31, 2010 – \$51,053) has been drawn against the credit facility and no amount (December 31, 2010 – \$nil) has been drawn against the U.S. operating facility. Letters of credit totalling \$580 are held against this facility (December 31, 2010 – \$580). The credit facility had an effective interest rate of 4.5 percent at June 30, 2011 (December 31, 2010 – 4.5 percent).

## 9. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning 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 decommissioning obligations at June 30, 2011 to be approximately \$6,803 (December 31, 2010 – \$6,477), to be incurred between 2011 and 2050. The majority of the costs will be incurred between 2020 and 2040. A risk-free rate of 3.55 percent (2010 – 4 percent) was used to calculate the fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	June 30, 2011	December 31, 2010
Balance at beginning of period	\$ 2,811	\$ 5,310
Liabilities incurred	93	491
Change in estimates	517	465
Liabilities related to property dispositions (note 7)	–	(3,120)
Liabilities settled	(270)	(515)
Accretion expense	56	180
Balance at end of period	\$ 3,207	\$ 2,811

## 10. SHARE CAPITAL

### (A) Authorized

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

### (B) 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 June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Weighted average basic common shares outstanding	68,240	60,934	65,044	60,934
Stock option dilution	2,565	–	1,616	–
Weighted average diluted common shares outstanding	70,805	60,934	66,660	60,934

Options to purchase 1,494 common shares as at June 30, 2011 (June 30, 2010 – 5,873) were not included in the computation because they were anti-dilutive.

### (C) Stock Options and Performance Warrants

Under the Corporation's stock option plan the Corporation may grant options to its employees for up to 6,835 shares, of which 6,460 had been granted as at June 30, 2011 (December 31, 2010 – 6,087). The exercise price of each option equals the market price of the Corporation's shares on the date of grant. Options have terms of five years and vest as to one-third on each of the first, second and third anniversaries of the grant date.

	Six months ended June 30, 2011		Year ended December 31, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Granted and outstanding at beginning of period	6,087	\$ 2.43	5,793	\$ 2.92
Granted	1,012	4.09	1,416	1.79
Exercised	(354)	2.37	–	–
Forfeited	(53)	2.34	(117)	2.24
Cancelled	–	–	(222)	3.42
Expired	(232)	4.21	(783)	4.61
Granted and outstanding at end of period	6,460	\$ 2.63	6,087	\$ 2.43
Exercisable at end of period	2,042	\$ 3.12	2,318	\$ 3.03

The following table summarizes information about the fixed share options outstanding at June 30, 2011:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted average exercise price	Weighted average contractual life (years)	Number exercisable	Weighted average exercise price
\$ 1.44 – \$ 2.69	4,483	\$ 1.93	3.7	972	\$ 1.96
\$ 2.70 – \$ 3.95	598	3.37	0.8	598	3.37
\$ 3.96 – \$ 5.20	1,379	4.58	3.8	472	5.20
\$ 1.44 – \$ 5.20	6,460	\$ 2.63	3.5	2,042	\$ 3.12

On November 8, 2010, one of the Corporation's wholly owned subsidiaries entered into certain performance warrant agreements with its employees, officers and directors. The performance warrants have terms of five years and vest as to one-third on each of the first, second and third anniversaries of the grant date. Performance warrants are exercisable into units of the subsidiary. In the six months ended June 30, 2011, the Corporation granted 82 performance warrants with exercise prices ranging from \$5.00-\$20.00 for a total of 657 warrants outstanding at the end of the quarter with exercise prices ranging from \$1.00-\$20.00 and with none exercisable.

#### **(D) Stock-Based Compensation**

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in the six-month period ended June 30, 2011: zero dividend yield, average expected volatility of 68 percent, average risk-free interest rate of 2.72 percent, and expected life of five years. The average fair value of stock options granted during the six months ended June 30, 2011 was \$2.39 per option.

The fair value of each performance warrant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in the six-month period ended June 30, 2011: zero dividend yield, average expected volatility of 50 percent, average risk-free interest rate of 2.52 percent, and expected life of five years. The average fair value of the performance warrants granted during the six months ended June 30, 2011 was \$2.12 per performance warrant.

The Corporation has not re-priced any stock options or performance warrants. A forfeiture rate of 3.84 percent (June 30, 2010 – 3.44 percent) is used when recording stock-based compensation. This estimate is adjusted to the actual forfeiture rate. Stock-based compensation of \$794 (June 30, 2010 – \$677) was expensed during the six months ended June 30, 2011. In addition, stock-based compensation of \$591 (June 30, 2010 – \$743) was capitalized during the six months ended June 30, 2011.

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six Months ended June 30, 2010
Source (use) of cash:				
Accounts receivable	\$ (3,854)	\$ 3,707	\$ (13,882)	\$ 5,008
Prepaid expenses and deposits	(600)	(329)	(1,139)	(219)
Accounts payable and accrued liabilities	(18,459)	(15,820)	(279)	(1,045)
	<b>\$ (22,913)</b>	<b>\$ (12,442)</b>	<b>\$ (15,300)</b>	<b>\$ 3,744</b>
Related to operating activities	\$ (3,416)	\$ 949	\$ (12,373)	\$ 605
Related to investing activities	(19,497)	(13,391)	(2,927)	3,139
	<b>\$ (22,913)</b>	<b>\$ (12,442)</b>	<b>\$ (15,300)</b>	<b>\$ 3,744</b>

## 12. CAPITAL MANAGEMENT

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

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, dispose of non-core properties and adjust its capital spending to manage current and forecast debt levels.

	June 30, 2011	December 31, 2010
Shareholders' equity	\$ 188,527	\$ 155,800
Bank debt	60,305	51,053
Working capital excluding bank debt	\$ 15,593	\$ 1,446

The Corporation manages its capital and financing requirements using the non-IFRS financial metric of 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, 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 decommissioning expenditures incurred, multiplied by four. The Corporation's strategy is to maintain a ratio of no more than 2 to 1. This ratio may increase at certain times as a result of acquisitions. This ratio is calculated as follows:

	June 30, 2011	December 31, 2010
Current liabilities, excluding fair value of commodity contracts	\$ 70,995	\$ 61,779
Current assets, excluding fair value of commodity contracts	26,744	(11,959)
Net debt	44,251	49,820
Quarterly cash flow from operating activities	12,017	5,381
Change in non-cash working capital	3,416	3,775
Decommissioning expenditures	101	137
Quarterly funds from operations	15,534	9,293
Annualized funds from operations	\$ 62,136	\$ 37,172
Net debt to annualized funds from operations ratio	0.7:1	1.3:1

As at June 30, 2011, the Corporation's ratio of net debt to annualized funds from operations was within the targeted range established by the Corporation. The decrease in the ratio from December 31, 2010 to June 30, 2011 is primarily due to increased cash flow from operations driven by increased revenues due to increased production volumes and fracturing fluid tank rental revenues, combined with continued declines in certain costs.

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 8) 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.

### 13. 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 June 30, 2011:

	Total	2011	2012	2013	2014	2015	Thereafter
Payments for office lease	\$ 3,347	\$ 307	\$ 719	\$ 796	\$ 796	\$ 729	\$ -
Payments for office equipment leases	45	5	13	13	13	1	-
Firm natural gas transportation agreements	12,993	744	2,222	2,944	3,111	2,157	1,815
Total	\$ 16,385	\$ 1,056	\$ 2,954	\$ 3,753	\$ 3,920	\$ 2,887	\$ 1,815

#### 14. FINANCIAL RISK MANAGEMENT

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 NGL, all but one of the Corporation's current commodity contracts are for natural gas.

The following tables indicate the fair value of natural gas and crude oil hedging contracts outstanding as at June 30, 2011 and indicate the unrealized gains or losses and realized gains on natural gas and crude oil contracts for the period then ended:

Period	Volume (GJ/d)	Type of contract	Average AECO spot floor (Cdn\$/GJ)	Average AECO spot ceiling (Cdn\$/GJ)	Fair value of contract as at June 30, 2011	Unrealized gain (loss) for the period ended June 30, 2011	Realized gain (loss) for the period ended June 30, 2011
Jan. to Dec. 2011	2,000	Swap	\$ 5.33	\$ 5.33	\$ 703	\$ (409)	\$ 620
Jan. to Dec. 2011	2,000	Put Option	\$ 3.80 <sup>(1)</sup>	n/a	(56)	8	(65)
Jan. to Dec. 2011	2,000	Swap	\$ 3.80	\$ 3.80	50	46	65
Jan. to Dec. 2011	2,000	Swap	\$ 3.80	\$ 3.80	50	46	65
Jan. to Dec. 2011	2,000	Put Option	\$ 3.80 <sup>(2)</sup>	n/a	(63)	15	(72)
Jan. to Dec. 2011	2,000	Put Option	\$ 3.80 <sup>(3)</sup>	n/a	(32)	(31)	(27)
					\$ 652	\$ (325)	\$ 586

<sup>(1)</sup> Cost of put option to the Corporation is \$0.422 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 \$0.440 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 \$0.355 per GJ and payment is due on the fifth business day following each contract month.

Period	Volume (bbls/d)	Type of contract	Average WTI-Nymex floor (US\$/bbl)	Average WTI-Nymex ceiling (US\$/bbl)	Fair value of contract as at June 30, 2011	Unrealized gain for the period ended June 30, 2011	Realized loss for the period ended June 30, 2011
Jan. 2011 to Dec. 2012	200	Call Option	\$ n/a	\$ 90.00	\$ (1,571)	\$ 95	\$ (300)
					\$ (1,571)	\$ 95	\$ (300)

The following table summarizes the sensitivity of the fair value of the Corporation's market risk management positions to fluctuations in natural gas and crude oil prices and interest rates. All 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 and crude oil prices, which would impact the mark-to-market calculation of commodity contracts, and in interest rates could have had the following impact on the net earnings:

	Net earnings impact Six months ended June 30, 2011	
	Increase	Decrease
Natural gas price – change of 10%	\$ (398)	\$ 473
Crude oil price – change of 10%	\$ (634)	\$ 526
Interest rate – change of 10% <sup>(1)</sup>	\$ (75)	\$ 75

<sup>(1)</sup> As at June 30, 2011, a 10 percent change to the Corporation's effective interest rate would be equivalent to a change of 38 basis points or 0.38 percent in the rate charged by the Corporation's banking syndicate.

## 15. RELATED-PARTY TRANSACTIONS

During the three and six months ended June 30, 2011, the Corporation incurred \$84 and \$196 in legal costs (June 30, 2010 – \$14 and \$37), 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 June 30, 2011 (December 31, 2010 – \$3).

## 16. SEGMENTED INFORMATION

The Corporation operates in two main industry segments. These segments are Exploration and Production Operations (E&P), which includes the exploration, development and production of oil and natural gas in the Western Canada Sedimentary Basin, and Poseidon Concepts, which includes the design, manufacture and rental of fracturing fluid handling tanks primarily used in well completion operations in the oil and natural gas industry. This segment's operations are focused in western Canada and the United States. The segmented amounts are as follows:

	Three months ended June 30, 2011				Three months ended June 30, 2010			
	E&P	Poseidon Concepts	Other <sup>(1)</sup>	Total	E&P	Poseidon Concepts	Other <sup>(1)</sup>	Total
Revenues <sup>(2) (3)</sup>	11,239	8,889	(424)	19,704	11,181	334	–	11,515
Operating earnings <sup>(4)</sup>	8,327	7,201	–	15,528	7,231	307	–	7,538

	Six months ended June 30, 2011				Six months ended June 30, 2010			
	E&P	Poseidon Concepts	Other <sup>(1)</sup>	Total	E&P	Poseidon Concepts	Other <sup>(1)</sup>	Total
Revenues <sup>(2) (3)</sup>	19,974	18,907	(652)	38,229	22,685	334	–	23,019
Operating earnings <sup>(4)</sup>	14,633	16,103	(65)	30,671	14,511	307	–	14,818

<sup>(1)</sup> Other includes the Corporation's corporate activities and consolidation adjustments in the period.

<sup>(2)</sup> Revenues are net of royalties and include realized gains on commodity contracts.

<sup>(3)</sup> For the three and six months ended June 30, 2011, Poseidon Concepts revenues included \$6,669 and \$9,093, respectively, from tank rentals in the United States.

<sup>(4)</sup> Operating earnings are defined as operating income before depletion and depreciation, stock-based compensation and unrealized gain (loss) on commodity contracts.

## 17. RECONCILIATION OF PREVIOUS GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) WITH IFRS

The adoption of IFRS requires the application of IFRS 1. IFRS 1 generally requires that an entity retrospectively apply all IFRS effective at the end of its first IFRS reporting period, while including certain mandatory exceptions and limited optional exemptions. Certain IFRS 1 optional exemptions have been applied including:

- Deemed cost exemption for full cost oil and gas entities;
- Decommissioning obligation exemption that allows any changes in decommissioning obligations on transition to IFRS to be adjusted through opening deficit;
- Stock-based compensation exemption that allows a corporation to evaluate only stock-based compensation awards that were unvested as of the date of transition; and
- Business combinations exemption that allows a corporation not to restate any business combinations that occurred prior to the date of transition.

The accounting policies referred to in note 3 to the interim consolidated financial statements for the three months ended March 31, 2011 have been applied in preparing the interim consolidated financial statements for the three and six months ended June 30, 2011 and the comparative information for the three and six months ended June 30, 2010.

In preparing the comparative information for the three and six months ended June 30, 2010, the Corporation adjusted amounts previously reported in financial statements prepared in accordance with previous GAAP. A financial summary and explanation of how the transition from previous GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows are set out in the following tables and accompanying notes.

### (A) Consolidated Statement of Financial Position (Reconciliation of Equity)

As at June 30, 2010	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
<b>ASSETS</b>			
Current assets:			
Accounts receivable	\$ 5,493	\$ –	\$ 5,493
Prepaid expenses and deposits	1,794	–	1,794
Fair value of commodity contracts	836	–	836
	8,123	–	8,123
Exploration and evaluation assets <sup>(a)</sup>	–	14,272	14,272
Property, plant and equipment <sup>(a)</sup>	216,316	(7,416)	208,900
	\$ 224,439	\$ 6,856	\$ 231,295
<b>LIABILITIES</b>			
Current liabilities:			
Bank indebtedness	\$ 57,494	\$ –	\$ 57,494
Accounts payable and accrued liabilities	8,843	–	8,843
Deferred taxes <sup>(c)</sup>	234	(234)	–
	66,571	(234)	66,337
Deferred taxes <sup>(c)</sup>	7,953	1,269	9,222
Decommissioning obligations <sup>(b)</sup>	3,333	2,446	5,779
	77,857	3,481	81,338
<b>SHAREHOLDERS' EQUITY</b>			
Share capital <sup>(d)</sup>	144,912	3,329	148,241
Contributed surplus <sup>(e)</sup>	6,963	909	7,872
Deficit	(5,293)	(863)	(6,156)
	146,582	3,375	149,957
	\$ 224,439	\$ 6,856	\$ 231,295

## (B) Consolidated Statement of Income and Comprehensive Income

Three months ended June 30, 2010	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenues:</b>			
Petroleum and natural gas	\$ 10,522	\$ –	\$ 10,522
Royalties	(1,028)	–	(1,028)
Fracturing fluid tank rentals	334	–	334
Interest <sup>(f)</sup>	1	(1)	–
	9,829	(1)	9,828
Realized gain on commodity contracts	659	–	659
Unrealized loss on commodity contracts	(1,161)	–	(1,161)
	9,327	(1)	9,326
<b>Expenses:</b>			
Operating	2,102	–	2,102
General and administrative	748	99	847
Stock-based compensation <sup>(e)</sup>	246	90	336
Depletion and depreciation <sup>(a)</sup>	9,119	(3,413)	5,706
	12,215	(3,224)	8,991
Operating income (loss)	(2,888)	3,223	335
<b>Other expense items:</b>			
Accretion of decommissioning obligations <sup>(b)(f)</sup>	56	(4)	52
Interest and finance expenses <sup>(f)</sup>	410	(1)	409
Income (loss) before income taxes	(3,354)	3,228	(126)
Deferred tax expense (reduction) <sup>(c)</sup>	(859)	1,075	216
Net income (loss) and comprehensive income (loss)	\$ (2,495)	\$ 2,153	\$ (342)
<b>Income (loss) per share:</b>			
Basic	\$ (0.04)	\$ 0.03	\$ (0.01)
Diluted	\$ (0.04)	\$ 0.03	\$ (0.01)

### (C) Consolidated Statement of Income and Comprehensive Income

Six months ended June 30, 2010	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenues:</b>			
Petroleum and natural gas	\$ 22,026	\$ –	\$ 22,026
Royalties	(2,305)	–	(2,305)
Fracturing fluid tank rentals	334	–	334
Interest <sup>(f)</sup>	4	(4)	–
	20,059	(4)	20,055
Realized gain on commodity contracts	659	–	659
Unrealized gain on commodity contracts	1,270	–	1,270
	21,988	(4)	21,984
<b>Expenses:</b>			
Operating	4,219	–	4,219
General and administrative	1,502	175	1,677
Stock-based compensation <sup>(e)</sup>	491	186	677
Depletion and depreciation <sup>(a)</sup>	16,833	(6,420)	10,413
	23,045	(6,059)	16,986
Operating income (loss)	(1,057)	6,055	4,998
<b>Other expense items:</b>			
Accretion of decommissioning obligations <sup>(b)(f)</sup>	110	(9)	101
Interest and finance expenses <sup>(f)</sup>	871	(4)	867
Income (loss) before income taxes	(2,038)	6,068	4,030
Deferred tax expense (reduction) <sup>(c)</sup>	(361)	2,127	1,766
Net income (loss) and comprehensive income (loss)	\$ (1,677)	\$ 3,941	\$ 2,264
<b>Income (loss) per share:</b>			
Basic	\$ (0.03)	\$ 0.07	\$ 0.04
Diluted	\$ (0.03)	\$ 0.07	\$ 0.04

## (D) Consolidated Statement of Cash Flows

Three months ended June 30, 2010	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Cash provided by (used in):			
Operating:			
Net income (loss)	\$ (2,495)	\$ 2,153	\$ (342)
Items not involving cash:			
Depletion and depreciation <sup>(a)</sup>	9,119	(3,413)	5,706
Accretion of decommissioning obligations <sup>(b)</sup>	56	(4)	52
Deferred tax expense (reduction) <sup>(c)</sup>	(859)	1,075	216
Stock-based compensation <sup>(e)</sup>	246	90	336
Unrealized loss on commodity contracts	1,161	–	1,161
Interest and financing charges <sup>(f)</sup>	–	409	409
Decommissioning expenditures	(102)	–	(102)
Change in non-cash working capital <sup>(f)</sup>	1,019	(70)	949
	8,145	240	8,385
Financing:			
Bank indebtedness	13,116	–	13,116
Share issuance costs	(2)	–	(2)
Interest paid <sup>(f)</sup>	–	(339)	(339)
	13,114	(339)	12,775
Investing:			
Property, plant and equipment expenditures	(7,868)	3,643	(4,225)
Exploration and evaluation expenditures	–	(3,544)	(3,544)
Change in non-cash working capital	(13,391)	–	(13,391)
	(21,259)	99	(21,160)
Change in cash	–	–	–
Cash, beginning of period	–	–	–
Cash, end of period	\$ –	\$ –	\$ –

## (E) Consolidated Statement of Cash Flows

Six months ended June 30, 2010	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Cash provided by (used in):			
Operating:			
Net income (loss)	\$ (1,677)	\$ 3,941	\$ 2,264
Items not involving cash:			
Depletion and depreciation <sup>(a)</sup>	16,833	(6,420)	10,413
Accretion of decommissioning obligations <sup>(b)</sup>	110	(9)	101
Deferred tax expense (reduction) <sup>(c)</sup>	(361)	2,127	1,766
Stock-based compensation <sup>(e)</sup>	491	186	677
Unrealized gain on commodity contracts	(1,270)	–	(1,270)
Interest and financing charges <sup>(f)</sup>	–	867	867
Decommissioning expenditures	(242)	–	(242)
Change in non-cash working capital <sup>(f)</sup>	911	(306)	605
	14,795	386	15,181
Financing:			
Bank indebtedness	17,429	–	17,429
Share issuance costs	(17)	–	(17)
Interest paid <sup>(f)</sup>	–	(561)	(561)
	17,412	(561)	16,851
Investing:			
Property, plant and equipment expenditures	(35,346)	5,435	(29,911)
Exploration and evaluation expenditures	–	(5,260)	(5,260)
Change in non-cash working capital	3,139	–	3,139
	(32,207)	175	(32,032)
Change in cash	–	–	–
Cash, beginning of period	–	–	–
Cash, end of period	\$ –	\$ –	\$ –

## (F) NOTES TO RECONCILIATIONS

### (a) Property, Plant, and Equipment and Exploration and Evaluation Assets

#### *IFRS 1 election for full cost oil and gas entities:*

Open Range elected to utilize an IFRS 1 exemption whereby the full cost pool using previous GAAP was measured upon transition to IFRS as follows:

- (i) E&E assets were reclassified from the full cost pool to E&E assets at the amount that was recorded under previous GAAP; and
- (ii) The remaining full cost pool was allocated to the producing/development assets and components in PP&E pro rata using total proved plus probable reserve values at January 1, 2010.

This resulted in an increase of \$9,013 at January 1, 2010 in E&E assets with a corresponding decrease in PP&E, with no impact on deferred taxes. E&E assets increased by \$5,259 during the six months ended June 30, 2010 due to capitalization of ongoing E&E expenditures, including undeveloped land and seismic acquired in the period.

***Depletion:***

Under IFRS, depletion is calculated on a unit-of-production basis using total proved plus probable reserves as compared to total proved reserves under previous GAAP. As a result of this change, the depletion expense decreased by approximately \$3,413 and \$6,420, respectively, for the three and six months ended June 30, 2010.

***Other:***

Other PP&E IFRS adjustments include an increase in capitalized share-based compensation due to IFRS changes to stock-based compensation expense (note 10) as well as adjustments due to changes in the decommissioning obligation (note 17(F)(b)).

**(b) Decommissioning Obligations**

Under previous GAAP decommissioning obligations were discounted at a credit-adjusted risk-free rate of 8-10 percent. Under IFRS the estimated cash flows to abandon and remediate the wells and facilities have been risk-adjusted and, therefore, the provision is discounted at the risk-free rate in effect at the end of each reporting period. The change in the decommissioning obligations in each period as a result of the changes in the discount rate will result in an offsetting charge to PP&E. As at June 30, 2010 the decommissioning obligations were \$2,446 higher than under previous GAAP due to the change in discount rate and its impact on the liabilities incurred or acquired during the period.

As a result of the change in the discount rate, the decommissioning obligation accretion expense decreased by \$4 and \$9 during the three and six months ended June 30, 2010, respectively, as the lower discount rate more than offset the impact of the higher obligation. In addition, under previous GAAP accretion was included in operating expenses. Under IFRS it has been moved to other expense items as it is considered a finance expense.

**(c) Deferred Taxes**

Under IFRS, deferred taxes are reported as a non-current liability, resulting in a reclassification of the \$234 current deferred tax liability to long-term at June 30, 2010.

Adjustments to deferred taxes have also been made in regards to the other adjustments noted throughout this section that resulted in a change to the temporary difference between tax and accounting values.

**(d) Flow-through Shares**

Under IFRS, flow-through shares issued are recorded in share capital at the fair value of common shares on the date of issue. The premium received on issuing flow-through shares is initially recorded as a deferred credit and then, as qualifying expenditures are incurred, the deferred premium is reversed and a deferred tax liability is recorded for the foregone tax benefit of the flow-through. The net amount is then recognized as deferred tax expense.

The impact of the flow-through share change in accounting policy resulted in a transitional adjustment to share capital of \$1,581, a deferred flow-through share premium liability of \$1,373 and an adjustment to the deficit of \$2,954. The premium liability was reversed fully in the first half of 2010 as qualifying expenditures were incurred and the tax impact of the flow-through share issuance of \$1,754 was reclassified from share capital to deferred tax expense.

**(e) Stock-based Compensation**

Under previous GAAP, the Corporation recognized an expense related to the stock-based compensation on a straight-line basis through the date of the full vesting and did not incorporate a forfeiture rate. Under IFRS, the Corporation is required to recognize the expense over the individual vesting periods for the graded vesting awards, to estimate a forfeiture rate at the date of grant and to update it throughout the vesting period. The three and six months ended June 30, 2010 saw an increase to stock-based compensation expense of \$90 and \$186 with a capitalized portion of \$98 and \$205, respectively.

**(f) Reclassifications**

Under previous GAAP, interest and accretion were disclosed as separate line items in the statement of income. Under IFRS, these amounts are unchanged but are reported below the determination of operating income. Interest paid is disclosed as a financing item in the statement of cash flows, resulting in an increase in cash provided by operating activities and a corresponding increase in cash used for financing activities of \$339 and \$561 for the three and six months ended June 30, 2010, respectively.

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Symbol: ONR

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## **ABBREVIATIONS**

**bbls** barrels of oil inclusive  
of NGL

**bcf** billion cubic feet

**boe** barrels of oil equivalent,  
converting natural gas to  
oil at a ratio of six mcf of  
gas to one barrel of oil

**boe/d** barrels of oil equivalent  
per day

**GJ** Gigajoule

**mboe** thousand barrels of oil  
equivalent

**mcf** thousand cubic feet

**mcfe** thousand cubic  
feet equivalent

**mmcf** million cubic feet

**NGL** natural gas liquids



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