

A stylized flame logo composed of several curved, overlapping lines that form a teardrop shape, pointing downwards.

*Management's Discussion and Analysis  
and  
Financial Statements*

**INSIGNIA ENERGY LTD.**

*September 30, 2011  
(unaudited)*

INSIGNIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), as provided by the management of Insignia Energy Ltd. ("Insignia" or the "Company"), is dated as of November 9, 2011 and should be read in conjunction with the unaudited condensed financial statements and accompanying notes for the three and nine months ended September 30 and March 31, 2011 and 2010 and the audited financial statements, accompanying notes and MD&A as at and for the years ended December 31, 2010 and 2009.

### Basis of Presentation

The financial data presented below has been prepared in accordance with International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its interim and annual Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The reporting and measurement currency is the Canadian dollar. The following MD&A compares the results of the nine months ended September 30, 2011 ("YTD 2011") to the nine months ended September 30, 2010 ("YTD 2010") and the results of the three months ended September 30, 2011 ("Q3 2011") to the three months ended June 30, 2011 ("Q2 2011") and the three months ended September 30, 2010 ("Q3 2010").

The discussion and analysis of our oil and natural gas production and related performance measures is presented on a working-interest, before royalties basis. For the purpose of calculating unit information, natural gas is converted to a barrel of oil equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil. Readers are cautioned that boe's may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

We make estimates and assumptions that affect the reported amounts of our assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Financial Statements and our revenues and expenses during the reporting period. Our management reviews these estimates, including those related to accruals, environmental and decommissioning liabilities, income taxes, and the determination of proved and probable reserves on an ongoing basis. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

On January 1, 2011 Insignia adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using a transition date of January 1, 2010. Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS.

The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions and cash flow. Further information on the IFRS impacts is provided in the International Financial Reporting Standards Section of this MD&A, including reconciliations between previous GAAP and IFRS net loss and other financial metrics.

### Non-IFRS Measurements

*Certain financial measures referenced to in this MD&A are not prescribed by IFRS and previous Canadian GAAP. These non-IFRS financial measures do not have any standardized meaning and, therefore, are unlikely to be comparable to similar measures presented by other companies. We include these measures because management utilizes them to analyze operating and financial performance. The additional information should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS and Canadian GAAP.*

*We use funds from operations, which is reconciled to cash provided by operating activities, as per our Statement of Cash Flows below:*

(\$000's)	<b>Q3 2011</b>	Q2 2011	Q3 2010	<b>YTD 2011</b>	YTD 2010
Cash provided by operating activities	<b>3,848</b>	5,725	2,234	<b>17,536</b>	7,553
Add back:					
Abandonment and reclamation costs	<b>315</b>	64	144	<b>709</b>	387
Change in non-cash working capital	<b>922</b>	874	364	<b>(1,348)</b>	802
<b>Funds from operations</b>	<b>5,085</b>	6,663	2,742	<b>16,897</b>	8,742

*Funds from operations per share is calculated by dividing funds from operations by the weighted average number of shares outstanding, consistent with the calculation of net loss per share. Funds from operations netback per boe is calculated as funds from operations divided by our total boe produced. We also use operating netback per boe. This is calculated as total oil and natural gas revenue less royalties, operating costs, transportation costs and net of any realized financial instrument income, calculated on a boe basis.*

*Net debt is the sum of bank indebtedness and working capital but excludes financial derivative contracts.*

## Executive Summary

	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
<b>Financial</b> (\$000's, except for per share amounts)					
Oil and natural gas sales	10,507	13,216	8,247	35,366	27,161
Funds from operations <sup>(1)</sup>	5,085	6,663	2,742	16,897	8,742
Per share - Basic and diluted <sup>(2)</sup>	0.17	0.22	0.09	0.55	0.29
Net loss	(146)	(598)	(2,074)	(2,236)	(4,454)
Per share - Basic and diluted <sup>(2)</sup>	(0.00)	(0.02)	(0.07)	(0.07)	(0.15)
Net debt <sup>(1)</sup>	36,316	32,711	33,914	36,316	33,914
Total assets	164,810	159,262	165,304	164,810	165,304
<b>Operations</b>					
Average daily production					
Natural gas (mcf/d)	13,258	14,851	12,264	14,862	12,822
Oil and NGL (bbls/d)	747	937	673	836	637
Total (boe/d)	2,957	3,412	2,717	3,313	2,774
Product prices <sup>(3)</sup>					
Natural gas (\$/mcf)	4.02	4.06	3.79	4.03	4.43
Oil and NGL (\$/bbl)	81.52	90.64	64.13	83.35	67.00
Total (\$/boe)	38.62	42.56	32.99	39.10	35.87
Operating netback (\$/boe) <sup>(1)</sup>	22.52	25.86	15.25	22.85	15.67

(1) See the discussion under "Non-IFRS Measurements"

(2) See the discussion under "Liquidity and Capital Resources"

(3) The average selling prices reported are before realized derivatives and transportation charges.

## Outstanding Share Data

As at November 9, 2011

Common shares	30,660,222
Stock options	2,841,000
Performance warrants	1,574,500
Total voting shares and dilutive instruments	35,075,722

## Selected Quarterly Information

(\$000's, except for per share amounts)	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009 <sup>(1)</sup>
Oil and natural gas sales	10,507	13,216	11,643	10,845	8,247	9,126	9,788	7,120
Net earnings (loss)	(146)	(598)	(1,492)	(920)	(2,074)	(2,209)	(171)	(2,554)
Per share – Basic and diluted	(0.00)	(0.02)	(0.05)	(0.03)	(0.07)	(0.07)	(0.01)	(0.08)
Net debt	36,316	32,711	37,903	35,775	33,914	25,882	22,124	17,405

(1) The Company's IFRS transition date was January 1, 2010 therefore 2009 comparative information has not been restated. The 2009 information is presented in accordance with previous GAAP.

Sales in 2010 and 2011 fluctuated due to changing commodity prices and wells being drilled and put on production during the year.

The net loss in Q1 2010 decreased primarily as a result of higher realized prices and an increase in the gain on financial derivative contracts. The net loss in Q4 2010 decreased due to the increased sales in the quarter, offset by higher depletion. The net loss in Q1 2011 increased due to the exploration expense as a result of land that expired during the quarter. The net loss in Q2 2011 decreased due to the increased sales in the quarter, offset by additional exploration expense.

Net debt increased as a result of the Q3 program, and decreased as a result of cash flow from operations.

## OUTLOOK

Insignia continues to be pleased with its financial and operational performance in the first nine months of 2011 as reflected in both the record high production set in the first quarter of the year and the record high cash flow set in the second quarter. This, coupled with the prudent management of our balance sheet, positions the Company to execute on the remainder of its 2011 capital program which continues to be weighted toward oil and liquids rich natural gas drilling activity. Furthermore, the Company continues to be well positioned for the future with an identified drilling inventory in excess of 150 locations which, based on its 2011 activity level, represents over 15 years of drilling activity.

### Capital Expenditures

(\$000's)	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
Land	116	57	6	260	3,621
Geological and geophysical	82	17	90	266	464
Drilling and completions	7,011	784	10,037	13,903	18,429
Equipment, facilities and pipelines	1,095	459	341	2,064	1,915
Capitalized general and administrative and other	71	90	156	236	435
Total capital expenditures – cash	8,375	1,407	10,630	16,729	24,864
Non-cash capitalized amounts	1,721	358	1,041	2,154	1,445
Total additions to property and equipment	10,096	1,765	11,671	18,883	26,309

The Board of Directors of Insignia has approved a 2011 capital budget of \$25 to \$27 million, prior to consideration of any acquisitions. The Company is focusing on drilling its crude oil and liquid rich natural gas opportunities and anticipates its 2011 capital expenditures to be in line with its approved 2011 capital budget.

During the third quarter of 2011, Insignia participated in the drilling of two (1.5 net) Cardium horizontal wells and placed on production one (0.4 net) well drilled in Q1 2011. The two (1.5 net) wells drilled in Q3 2011 were brought on production in Q4 2011. The Company also drilled and placed on production one (0.9 net) vertical well in the Caroline area.

### Financial Results

#### Production

	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
Natural gas (mcf/d)	13,258	14,851	12,264	14,862	12,822
Oil and NGL (bbls/d)	747	937	673	836	637
Total (boe/d)	2,957	3,412	2,717	3,313	2,774
% of Total					
Natural gas	75%	73%	75%	75%	77%
Oil & NGL	25%	27%	25%	25%	23%

Production in Q3 2011 decreased from Q2 2011 as a result of some minor production outages. The Company expects to have all economic shut-in wells back on production in the fourth quarter of 2011. These production outages resulted in an average production loss of approximately 340 boe/d in the third quarter. Production increased over Q3 2010 as a result of the additional wells that were drilled and placed on production in 2010 and 2011, offset by natural declines.

#### Pricing and Marketing

(\$)	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
Benchmark Price					
AECO-5A Daily Spot (\$/mcf)	3.66	3.87	3.55	3.79	4.12
Edmonton Light (\$/bbl)	91.74	103.07	74.44	93.99	76.53
Insignia's Realized Price					
Natural gas (\$/mcf)	4.02	4.06	3.79	4.03	4.43
Oil and NGL (\$/bbl)	81.52	90.64	64.13	83.35	67.00
Total (\$/boe)	38.62	42.56	32.99	39.10	35.87

Natural gas prices are 5% lower than Q2 2011 and are 3% higher than Q3 2010. Oil prices decreased 11% from Q2 2011 and increased 23% from Q3 2010. Insignia's realized prices fluctuated from Q2 2011 and Q3 2010 directly as a result of the benchmark price fluctuations.

The Company enters into risk management activities that have been approved by the Board. The Company has a 4,000 GJ/day cap at \$8.455 (AECO CDN\$/GJ) outstanding at September 30, 2011. The fair value of the contract at September 30, 2011 is nil and it expires December 31, 2011.

The gain or loss on risk management contracts is made up of two components; the realized component reflects actual settlements that occurred during the period, and the unrealized component represents the change in the fair value of contracts during the period. There was no unrealized or realized gain or loss in Q3 2011 (YTD 2011 – \$2 thousand unrealized gain) compared to an unrealized gain in Q3 2010 of \$57 thousand (YTD 2010 - \$0.6 million unrealized gain). Assuming all other variables remain constant, a 10% increase or decrease in the forward curve would have a non-material impact on the financial derivative gain in the period.

#### Oil and Natural Gas Sales

(\$000's)	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
Natural gas	4,898	5,487	4,277	16,343	15,516
Oil and NGL	5,609	7,729	3,970	19,023	11,645
<b>Total</b>	<b>10,507</b>	<b>13,216</b>	<b>8,247</b>	<b>35,366</b>	<b>27,161</b>

Sales for Q3 2011 decreased by approximately \$2.7 million from Q2 2011 as a result of lower commodity prices in the quarter and lower production. Sales increased \$2.3 million over Q3 2010 as a result of the additional wells on production in 2010 and 2011 and higher benchmark prices. Sales increased by \$8.2 million YTD 2011 compared to YTD 2010 due to increased volumes and commodity prices.

#### Royalties

(\$000's)	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
Crown	1,178	1,016	491	2,889	2,945
Freehold, including freehold mineral tax	62	42	56	180	217
Gross overriding	107	179	164	451	706
<b>Total</b>	<b>1,347</b>	<b>1,237</b>	<b>711</b>	<b>3,520</b>	<b>3,868</b>
\$/boe	4.95	3.98	2.84	3.89	5.11
% of revenue	13%	9%	9%	10%	14%

	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
<b>Royalties by Commodity</b>					
Natural gas (\$000's)	469	95	(47)	684	1,289
% of natural gas revenue	10%	2%	(1%)	4%	8%
Oil and NGL (\$000's)	878	1,142	758	2,836	2,579
% of oil and ngl revenue	16%	15%	19%	15%	22%

Royalties as a percentage of revenue have decreased in 2011 due to the initial crown royalty rate of five percent for new wells placed on production in 2010 and 2011. During the third quarter some of the Company's wells no longer qualify for the five percent royalty and therefore, royalties as a percentage of revenue have increased from Q2 2011. Royalties are forecast to average 11% in 2011.

#### Lease Operating / Transportation Expenses

(\$000's)	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
Lease operating expenses	2,626	3,426	3,402	9,827	10,419
\$/boe	9.65	11.03	13.61	10.87	13.76
Transportation expenses	408	526	323	1,345	1,008
\$/boe	1.50	1.69	1.29	1.49	1.33

Operating expenses are trending downward as a result of the lower operating costs per barrel associated with the oil wells drilled and placed on production in 2010 and 2011 and increased operating efficiencies on the base production. Transportation expenses were higher in Q2 2011 as a result of road bans due to wet weather, which result in smaller sales loads per truck in the quarter. The Company expects its operating costs to average approximately \$10.00 per boe for the remainder of 2011, and transportation expenses to remain in the range of \$1.30 - \$1.70 per boe.

### Finance Expenses

(\$000's)	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
Interest expense	296	415	266	1,148	716
Accretion	126	131	114	381	358
<b>Total</b>	<b>422</b>	<b>546</b>	<b>380</b>	<b>1,529</b>	<b>1,074</b>

Interest expense is a result of the interest charged on the funds drawn on the credit facility. Interest expense is expected to increase as additional funds are drawn on the credit facility. Interest rates charged fluctuate as the Company's debt to trailing cash flow ratio fluctuates.

Accretion is an expense for the passage of time on the decommissioning liability. Under previous GAAP this was included with depletion and depreciation.

### General and Administration Expenses ("G&A") and Stock-based Compensation

(\$000's)	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
G&A	988	1,072	1,007	3,125	3,246
Overhead recoveries	(111)	(34)	(82)	(201)	(302)
Capitalized G&A	(72)	(89)	(97)	(235)	(353)
<b>Net G&amp;A</b>	<b>805</b>	<b>949</b>	<b>828</b>	<b>2,689</b>	<b>2,591</b>
<b>Net G&amp;A (\$/boe)</b>	<b>2.96</b>	<b>3.06</b>	<b>3.31</b>	<b>2.97</b>	<b>3.42</b>
<b>Stock-based compensation</b>	<b>149</b>	<b>160</b>	<b>209</b>	<b>470</b>	<b>745</b>

Total G&A in Q3 2011 is slightly lower than Q2 2011 and has remained consistent quarter over quarter.

Insignia expenses the value of its stock options and performance warrants over the vesting period, which currently results in approximately 60% of the total stock-based compensation expense being reflected in earnings in the first 12 months following the grant.

Insignia capitalizes G&A that is directly related to exploration and development activities. Insignia also capitalizes the related stock-based compensation associated with employee salaries that are capitalized. For Q3 2011, Insignia recognized stock-based compensation expense of \$0.2 million (Q3 2010 - \$0.2 million) of which \$0.04 million (Q3 2010 - \$0.05 million) was capitalized.

### Depletion and Depreciation

(\$000's)	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
Depletion and depreciation	4,660	5,515	4,550	15,755	12,735
<b>Total (\$/boe)</b>	<b>17.13</b>	<b>17.76</b>	<b>18.20</b>	<b>17.42</b>	<b>16.82</b>

Depletion and depreciation in Q3 2011 has decreased from Q2 2011 as a result of lower production and has increased from Q3 2010 as a result of higher production in Q3 2011 and adjustments made due to the 2010 year end reserve report. In Q3 2011, the Company has included \$116.7 million (Q3 2010 - \$90.4 million) in future development costs in the depletion base.

During the quarter \$0.3 million (YTD 2011 - \$2.5 million) of exploration assets were expensed as a result of land expiries in the Company's non-core undeveloped land base. Exploration assets are not depleted and are moved to property and equipment upon production or are expensed when the carrying amount exceeds the recoverable amount.

## Funds from Operations and Net Loss

Funds from operations for Q3 2011 totalled \$5.1 million and is \$1.6 million lower than Q2 2011 largely as a result of lower production in Q3 2011 and lower commodity prices. Funds from operations for YTD 2011 totalled \$16.9 million compared to \$8.7 million YTD 2010. The increase is mainly a result of higher commodity prices and production volumes. The Company retains \$13.1 million in unused credit facility at September 30, 2011. On October 13, 2011, the Company filed a final short form prospectus for a \$30 million rights offering. The proceeds of the rights offering will be used to temporarily reduce the current credit facility and for the Company's remaining 2011 capital.

Net loss for Q3 2011 was \$0.1 million (\$0.00 per basic and diluted share) compared to a net loss of \$0.6 million (\$0.02 per basic and diluted share) in Q2 2011. The decrease is attributable to the lower exploration expense in the quarter offset by lower revenue and lower operating costs. Net loss for YTD 2011 was \$2.2 million compared to \$4.4 million YTD 2010.

The following table summarizes funds from operations on a barrel of oil equivalent:

(\$/boe)	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
Sales price	38.62	42.56	32.99	39.10	35.87
Royalties	(4.95)	(3.98)	(2.84)	(3.89)	(5.11)
Lease operating expenses	(9.65)	(11.03)	(13.61)	(10.87)	(13.76)
Transportation expenses	(1.50)	(1.69)	(1.29)	(1.49)	(1.33)
Operating netback	22.52	25.86	15.25	22.85	15.67
Gain (loss) on disposals	0.22	-	0.10	0.07	0.24
General and administration	(2.96)	(3.06)	(3.31)	(2.97)	(3.42)
Interest expense	(1.09)	(1.34)	(1.07)	(1.27)	(0.95)
Funds from operations netback	18.69	21.46	10.97	18.68	11.54

## Liquidity and Capital Resources

### Equity

As at September 30, 2011, the Company had 30,660,222 common shares outstanding and has issued 2,841,000 stock options at a weighted average exercise price of \$3.31 and 1,574,500 performance warrants at an exercise price of \$6.80 with vesting prices ranging from \$10.20 to \$20.40 per warrant.

	Q3 2011	Q2 2011	Q3 2010	YTD 2011	YTD 2010
Weighted Average Shares Outstanding					
Basic and Diluted	30,660,222	30,660,222	30,660,222	30,660,222	30,660,222

Stock options and performance warrants are not included in diluted share computations as they are anti-dilutive.

As at November 9, 2011, the Company has a \$50.0 million demand revolving operating credit facility with a Canadian chartered bank. The credit facility provides that advances may be made by way of direct advances, banker's acceptance or standby letters of credit/guarantee. The credit facility is secured by a fixed and floating charge debenture on the assets of the Company. The borrowing base is subject to interim reviews by the bank with the next scheduled review to be completed in the fourth quarter of 2011.

Brookfield Special Situations II Limited ("BSS") holds 58% of Insignia's outstanding common shares at September 30, 2011 and at November 9, 2011.

### Working Capital

(\$000's)	September 30, 2011	December 31, 2010	September 30, 2010
Accounts receivable	4,528	6,678	6,143
Prepays and deposits	918	1,244	1,385
Bank indebtedness	(30,688)	(31,407)	(26,836)
Accounts payable and accrued liabilities	(11,074)	(12,290)	(14,606)
Net debt	(36,316)	(35,775)	(33,914)

The decrease in working capital reflects expenditures incurred on exploration and development, offset by cashflow from operations. The Company expects to satisfy ongoing working capital requirements with funds from operations and the existing credit facility.

Insignia's objectives in managing its cash, debt and equity and its future capital requirements is to maintain a strong balance sheet to maintain financial flexibility and creditor and investor confidence to sustain future growth and access to capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. In order to maintain or adjust the capital structure, the Company may, from time to time, draw on its credit facility, issue shares, adjust its capital spending or issue debt instruments.

### Contractual Obligations and Commitments

The contractual obligations for which the Company is responsible are as follows:

Years ending December 31, (\$000's)	Total	2011	2012 - 2013	2014 - 2015	After 2015
Office lease, excluding operating costs	<b>2,010</b>	181	1,452	377	-
Gathering and processing agreement	<b>5,130</b>	705	4,425	-	-
<b>Total Contractual Obligations</b>	<b>7,140</b>	886	5,877	377	-

The Company's future commitments under its office premises includes an operating lease for another office premise that the Company does not use and has sublet to an arm's length party. The present value of the "out of the money" office lease commitment was accrued as part of the purchase price allocation. At September 30, 2011, \$0.4 million remains outstanding.

### Related Party Transactions

During the period Insignia incurred \$60 thousand per month for rental of office space to Brookfield Properties Management Corp., a company that is under the same common control and significant influence as Insignia's major shareholder, BSS. At September 30, 2011, there were no outstanding amounts payable and a deposit is being held in the amount of \$31 thousand. These transactions were in the normal course of business, were made under normal credit terms and have been recorded at the exchange amount.

### Financial Instruments

Financial instruments of the Company consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities and bank indebtedness. As at September 30, 2011 there were no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values due to the short term nature of these financial instruments. We have not identified any embedded derivatives in any of our contracts.

### Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements in the current or prior period.

### Control Environment

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Insignia is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure.

Internal controls over financial reporting ("ICFR") have been designed by the Company to provide reasonable assurance regarding the reliability of Insignia's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework used to design the Company's ICFR is the Internal Control-Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission. We utilized the Guidance for Smaller Public Companies.

No changes in the Company's internal controls were identified during Q3 2011 that have materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

It should be noted that while Insignia's Chief Executive Officer and Chief Financial Officer believe that the Company's control procedures provide a reasonable level of assurance that controls are effective, they do not expect that the procedures will 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.

### International Financial Reporting Standards

The Company has prepared its September 30, 2011 Interim Financial Statements in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*, and with IAS 34, *Interim Financial Reporting*, as issued by the IASB. Previously, the Company prepared its financial statements in accordance with Canadian GAAP, or

previous GAAP. The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions, cash flow and capital expenditures.

The Company's IFRS accounting policies are provided in Note 2 to the March 31, 2011 Interim Condensed Financial Statements. In addition, Note 14 to the Interim Condensed Financial Statements presents reconciliations between the Company's 2010 previous GAAP results and the 2010 IFRS results. The reconciliations include the Balance Sheets as at September 30, 2010 and Statements of Operations and Deficit for the three and nine months ended September 30, 2010. The reconciliations for the Balance Sheets as at January 1, 2010 and December 31, 2010 and the Statement of Operations and Deficit for the twelve months ended December 31, 2010 are included in the March 31, 2011 interim financial statements previously filed.

The following provides summary reconciliations from 2010 previous GAAP to IFRS results, along with a discussion of the significant IFRS accounting policy changes.

#### Summary Net Loss Reconciliation - 2010

(\$000's)	Annual	Q4	Q3	Q2	Q1
<b>Net (Loss) – Previous GAAP</b>	(14,299)	(2,992)	(4,088)	(4,588)	(2,631)
After-tax addition (deduction)					
Pre-exploration costs	(39)	-	(14)	(10)	(15)
Depletion and depreciation	9,038	2,365	2,000	2,322	2,351
Exploration expenses	(309)	(309)	-	-	-
Gain on disposals	183	-	25	41	117
Decommissioning liability accretion	340	95	88	78	79
Stock-based compensation	3	3	(20)	10	10
Capitalized G&A	(291)	(82)	(65)	(62)	(82)
<b>Net Loss – IFRS</b>	<b>(5,374)</b>	<b>(920)</b>	<b>(2,074)</b>	<b>(2,209)</b>	<b>(171)</b>

#### Financial Metrics - 2010

(\$000's)	Annual	Q4	Q3	Q2	Q1
<b>Cash Flow<sup>(1)</sup></b>					
Previous GAAP	13,950	5,150	2,795	2,514	3,491
IFRS	13,803	5,061	2,742	2,483	3,517
<b>Capital Expenditures - cash</b>					
Previous GAAP	31,821	6,608	10,857	6,177	8,179
IFRS	31,383	6,519	10,630	6,146	8,088

(1) A non-GAAP/non-IFRS measure, which is defined under the Non-IFRS Measures section of this MD&A

The general principle of IFRS 1 – First-time Adoption, is retrospective application of the IFRS standards (i.e. restating financial statements as if they had always applied IFRS). Relief from this general principle is provided in the form of elective exemptions and mandatory exceptions. There are several significant accounting policy changes upon adoption to IFRS, the most significant for Insignia are accounting for property and equipment, asset retirement obligations and share based payments.

#### Property and Equipment

IFRS 1 – “First-time Adoption of IFRS” provides an elective exemption to companies that have historically applied the full-cost method of accounting. This exemption allows an allocation of the full cost pools to smaller units of account at the transition date of January 1, 2010 based on either reserve volumes or values. Insignia adopted this exemption.

IFRS standards require Petroleum and Natural Gas (“P&NG”) assets be divided into exploration and evaluation (“E&E”) properties and development and producing (“D&P”) properties. The E&E phase is defined as the phase of operations from the period the exploration rights are legally acquired until technical and economic feasibility is achieved. Once technical and economic feasibility is achieved the assets are transferred into the D&P phase. E&E assets will not be depreciated and will be carried at cost less any accumulated impairment losses. E&E assets at January 1, 2010 are based on Canadian GAAP historic cost and have been determined to be \$21.5 million, which is undeveloped land at December 31, 2009. The remaining deemed cost of P&NG assets at January 1, 2010 was allocated to D&P assets on a pro rata basis using reserve values.

During the year ended 2010, the Company incurred \$10.4 million on exploration assets, transferred \$8.0 million of capitalized exploration assets to property and equipment and expensed \$0.3 million of unsuccessful exploration assets.

Since the Company elected to apply the optional exemption with respect to the opening cost of property and equipment an impairment test was performed at January 1, 2010 on E&E and D&P assets. The impairment test itself under IFRS differs from Canadian GAAP. In Canadian GAAP we did a two step ceiling test at a cost centre level using an undiscounted cash flow approach. Under IFRS the general rule is the impairment test is conducted on an individual asset basis unless there is no independent cash inflow from the asset, in which case the test is performed at a Cash Generating Unit Level. Impairment is recognized if the carrying amount of the asset exceeds the recoverable amount. The recoverable amount is the greater of Value in Use (VIU) or Fair Value Less Cost to Sell (FVLCTS). Insignia performed an IFRS impairment test at January 1, 2010 and there was no impairment at January 1, 2010. After transition to IFRS the requirement is to assess for indicators of impairment at each reporting period. As a result of continued decreases in natural gas prices through 2010 an impairment test was performed at December 31, 2010 and the carrying amount of each cash generating unit ("CGU") was determined to be lower than its recoverable amount, and no impairment was recognized. An actual impairment test is required only if indicators for impairment exist. E&E assets must also be tested for impairment when they are moved into D&P. Under IFRS there is a possibility of a reversal of previously recorded asset impairments.

Depreciation under Canadian GAAP was calculated using a unit-of production method based on total proved reserves. Under IFRS, depreciation is calculated at a lower level and it can be calculated using either proved or proved plus probable reserves. Insignia depreciates using proved plus probable reserves. Depreciation for the year ended 2010 under IFRS is \$9.0 million lower than it was under Canadian GAAP.

IFRS allows for capitalization of general and administrative expenses that are directly attributable to E&E or D&P activities. Capitalized G&A for the year ended December 31, 2010 decreased by \$0.3 million.

Under Canadian GAAP, gains or losses are not recognized on the disposition of P&NG assets unless the disposition results in a significant change in the depletion rate. Under IFRS gains and losses are recognized on all disposals by comparing the proceeds with the carrying amount. In 2010 the Company disposed of minor mineral interests for which a gain of \$0.2 million was recorded.

#### Asset Retirement Obligation/Decommissioning liabilities

As a result of applying the IFRS 1 exemption on property and equipment, we are required to recognize the decommissioning liabilities at the amount required under IFRS and record the difference against retained earnings. Under IFRS decommissioning liabilities are calculated using a risk-free discount rate as opposed to a credit adjusted risk-free rate. The rate used at January 1, 2010 decreased from 7% to 3.57% and increased the opening balance ARO by \$3.7 million with a corresponding increase to the deficit. Subsequent remeasurements are recorded through property and equipment with a corresponding adjustment to the liability.

#### Stock based compensation

Insignia elected to use the IFRS 1 election for stock based compensation that does not require retrospective restatement of vested awards at transition date. At transition Insignia recalculated the stock based compensation on unvested options to include a forfeiture rate. Stock compensation decreased by \$3 thousand in 2010 with a corresponding decrease to contributed surplus.

### **New Accounting Standards**

In May 2011, the IASB issued four new standards and two amendments; IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IFRS 13 "Fair Value Measurement", IAS 27 "Separate Financial Statements", IAS 28 "Investments in Associates and Joint Ventures". All of the new standards are effective for annual periods beginning on or after January, 2013. The adoption of these standards should not have a material impact on the Company's financial statements. In November 2009, the IASB issued IFRS 9 "Financial Instruments" effective for annual periods beginning on or after January 1, 2013. The adoption of this standard should not have a material impact on the Company's financial statements.

### **Application of Critical Accounting Estimates**

We make estimates and assumptions that affect the reported amounts of our assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Financial Statements and our revenues and expenses during the reporting period. Our management reviews these estimates, including those related to accruals, environmental and decommissioning liabilities, income taxes, and the determination of proved and probable reserves on an ongoing basis. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates. Our critical accounting estimates are substantially unchanged from our 2010 year end.

### **Risk Factors**

There are a number of risk factors that we face as participants in the Canadian oil and gas industry. A detailed discussion of our risk factors and industry conditions is presented in our most recent Annual Information Form, filed with securities regulatory authorities and available on [www.sedar.com](http://www.sedar.com).

## Forward Looking Statements

Statements throughout this MD&A that are not historical facts may be considered to be “forward looking statements”. These forward looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Company’s objectives, goals, or future plans, including, without limitation, management’s assessment of future plans and operations, anticipated commodity prices and their impact, anticipated demand for commodity prices, timing of expenditures, budgeted capital expenditures and the method of funding thereof, timing of drilling and wells to be brought on production, completion and tie-in of wells, expected royalty rates and changes to the Alberta royalty regime and the possible effect thereof on the Company and its allocation of capital, expected operating costs and general and administrative expenses, the expected levels of production rates, and anticipated acquisitions and timing thereof and benefits derived therefrom may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, volatility of commodity prices, imprecision of reserve estimates, environmental risks, competition from other producers, incorrect assessment of the value of acquisitions, failure to complete and/or realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources and changes in the regulatory and taxation environment. As a consequence, the Company’s actual results may differ materially from those expressed in, or implied by, the forward-looking statements. Forward-looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding, among other things: the ability of the Company to obtain equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manor; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through development of exploration; future oil and natural gas prices; interest rates; the regulatory framework regarding royalties, and the ability of the Company to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company’s operations and financial results are included elsewhere herein and in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)), or at the Company’s website ([www.insigniaenergy.ca](http://www.insigniaenergy.ca)). Furthermore, the forward-looking statements contained in this MD&A are made as at the date of this MD&A and the Company 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 expressly required by applicable securities laws.

## Additional Information

Additional information relating to Insignia, including Insignia’s Annual Information Form is filed on SEDAR and can be viewed at [www.sedar.com](http://www.sedar.com). Information can also be obtained by contacting the Company at:

Suite 2300, 500 - 4<sup>th</sup> Avenue SW  
Calgary, Alberta  
T2P 2V6

Attention: Jeff Newcommon, President and CEO  
(403) 536-8138  
[www.insigniaenergy.ca](http://www.insigniaenergy.ca)  
[info@insigniaenergy.ca](mailto:info@insigniaenergy.ca)

**Insignia Energy Ltd.**  
**Condensed Balance Sheets**

(\$000's) (unaudited)	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>Current</b>		
Accounts receivable <i>[note 9]</i>	4,528	6,678
Prepays and deposits	918	1,244
	<b>5,446</b>	<b>7,922</b>
Property and equipment <i>[note 3]</i>	135,073	131,137
Exploration assets <i>[note 4]</i>	20,291	23,628
Deferred income taxes	4,000	4,000
	<b>164,810</b>	<b>166,687</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness <i>[note 5]</i>	30,688	31,407
Accounts payable and accrued liabilities	11,074	12,290
Financial derivative contracts <i>[note 9]</i>	-	2
	<b>41,762</b>	<b>43,699</b>
Decommissioning liabilities <i>[note 6]</i>	18,413	16,712
<b>Commitments <i>[note 12]</i></b>		
<b>Shareholders' equity</b>		
Share capital <i>[note 7]</i>	146,989	146,989
Contributed surplus <i>[note 7]</i>	4,878	4,283
Deficit	(47,232)	(44,996)
	<b>104,635</b>	<b>106,276</b>
	<b>164,810</b>	<b>166,687</b>

See accompanying notes

**APPROVED ON BEHALF OF THE BOARD**

(Signed) "D. Ambedian", Director

(Signed) "J.E. Errico", Director

**Insignia Energy Ltd.**  
**Condensed Statements of Operations and Comprehensive Income**

(\$000's) (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<b>Revenues</b>				
Oil and natural gas sales	10,507	8,247	35,366	27,161
Royalties	(1,347)	(711)	(3,520)	(3,868)
	<b>9,160</b>	<b>7,536</b>	<b>31,846</b>	<b>23,293</b>
<b>Expenses</b>				
Lease operating	2,626	3,402	9,827	10,419
Transportation	408	323	1,345	1,008
General and administrative [note 3]	805	828	2,689	2,591
Stock-based compensation [note 7]	149	209	470	745
Financial derivative contracts gain [note 9]	-	(57)	(2)	(642)
Depletion and depreciation [note 3]	4,660	4,550	15,755	12,735
Exploration expenses [note 4]	296	-	2,529	-
Gain on disposals	(60)	(25)	(60)	(183)
	<b>8,884</b>	<b>9,230</b>	<b>32,553</b>	<b>26,673</b>
<b>Results from operating activities</b>	<b>276</b>	<b>(1,694)</b>	<b>(707)</b>	<b>(3,380)</b>
<b>Finance expenses [note 8]</b>	<b>(422)</b>	<b>(380)</b>	<b>(1,529)</b>	<b>(1,074)</b>
<b>Loss and comprehensive loss for the period</b>	<b>(146)</b>	<b>(2,074)</b>	<b>(2,236)</b>	<b>(4,454)</b>
<b>Loss per share, basic and diluted [note 7]</b>	<b>(0.00)</b>	<b>(0.07)</b>	<b>(0.07)</b>	<b>(0.15)</b>

See accompanying notes

**Insignia Energy Ltd.**  
**Condensed Statements of Changes in Equity**

For the nine months ended September 30,

(000's) (unaudited)	Number of common shares	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Equity \$
Balance at January 1, 2010	30,660	146,989	3,221	(39,622)	110,588
Stock-based compensation <i>[note 7]</i>	-	-	944	-	944
Loss for the period	-	-	-	(4,454)	(4,454)
<b>Balance at September 30, 2010</b>	<b>30,660</b>	<b>146,989</b>	<b>4,165</b>	<b>(44,076)</b>	<b>107,078</b>
Balance at December 31, 2010	30,660	146,989	4,283	(44,996)	106,276
Stock-based compensation <i>[note 7]</i>	-	-	595	-	595
Loss for the period	-	-	-	(2,236)	(2,236)
<b>Balance at September 30, 2011</b>	<b>30,660</b>	<b>146,989</b>	<b>4,878</b>	<b>(47,232)</b>	<b>104,635</b>

*See accompanying notes*

**Insignia Energy Ltd.**  
**Condensed Statements of Cash Flows**

(\$000's) (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	<b>2011</b>	2010	<b>2011</b>	2010
Cash was provided by (used in)				
<b>OPERATING ACTIVITIES</b>				
Loss for the period	<b>(146)</b>	(2,074)	<b>(2,236)</b>	(4,454)
Items not involving cash				
Stock-based compensation <i>[note 7]</i>	<b>149</b>	209	<b>470</b>	745
Unrealized financial derivative contracts gain <i>[note 9]</i>	-	(57)	<b>(2)</b>	(642)
Depletion and depreciation <i>[note 3]</i>	<b>4,660</b>	4,550	<b>15,755</b>	12,735
Exploration expenses <i>[note 4]</i>	<b>296</b>	-	<b>2,529</b>	-
Accretion <i>[note 6]</i>	<b>126</b>	114	<b>381</b>	358
	<b>5,085</b>	2,742	<b>16,897</b>	8,742
Change in non-cash operating working capital <i>[note 11]</i>	<b>(922)</b>	(364)	<b>1,348</b>	(802)
Abandonment and reclamation costs <i>[note 6]</i>	<b>(315)</b>	(144)	<b>(709)</b>	(387)
	<b>3,848</b>	2,234	<b>17,536</b>	7,553
<b>INVESTING ACTIVITIES</b>				
Capital expenditures <i>[notes 3 and 4]</i>	<b>(8,375)</b>	(10,630)	<b>(16,729)</b>	(24,864)
Change in non-cash investing working capital <i>[note 11]</i>	<b>3,319</b>	5,668	<b>(88)</b>	1,688
	<b>(5,056)</b>	(4,962)	<b>(16,817)</b>	(23,176)
<b>FINANCING ACTIVITIES</b>				
(Decrease) increase in bank indebtedness	<b>1,208</b>	2,728	<b>(719)</b>	15,405
	<b>1,208</b>	2,728	<b>(719)</b>	15,405
<b>Increase (decrease) in cash and cash equivalents</b>	<b>-</b>	-	<b>-</b>	(218)
<b>Cash and cash equivalents, beginning of period</b>	<b>-</b>	-	<b>-</b>	218
<b>Cash and cash equivalents, end of period</b>	<b>-</b>	-	<b>-</b>	-

See accompanying notes

## Insignia Energy Ltd.

### Notes to Financial Statements

For the three and nine months ended September 30, 2011 and 2010

(Tabular amounts are stated in thousands of dollars except share and per share amounts)  
(unaudited)

#### 1. BUSINESS OF THE COMPANY

Insignia Energy Ltd. ("Insignia" or the "Company") is engaged in the exploration for and development of crude oil, natural gas, and natural gas liquids in Western Canada. Insignia trades on the Toronto Stock Exchange under the symbol "ISN". The address of its registered office is 2300, 500 – 4 Avenue SW, Calgary, Alberta, T2P 2V6. Brookfield Special Situations II Limited ("BSS") holds 58% of Insignia's outstanding common shares at September 30, 2011.

#### 2. SIGNIFICANT ACCOUNTING PRINCIPLES

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which were adopted on January 1, 2011. These financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its financial statements as at and for the year ending December 31, 2011. The accounting policies are disclosed in the March 31, 2011 interim financial statements.

These interim financial statements should be read in conjunction with the Company's 2010 annual financial statements, the March 31, 2011 interim financial statements and in consideration of the IFRS transition disclosures included in Note 14.

These financial statements were authorized for issuance by the Board of Directors of the Company on November 9, 2011.

The fair value of cash and cash equivalents, accounts receivable, deposits, bank indebtedness and accounts payable and accrued liabilities approximate their carrying value at September 30, 2011 due to the short term nature of these financial instruments.

##### a) Future changes in accounting policies

In May 2011, the IASB issued four new standards and two amendments. All of the new standards are effective for annual periods beginning on or after January, 2013. The adoption of these standards should not have a material impact on the Company's financial statements.

- IFRS 10 "Consolidated Financial Statements"
- IFRS 11 "Joint Arrangements"
- IFRS 12 "Disclosure of Interests in Other Entities"
- IFRS 13 "Fair Value Measurement"
- IAS 27 "Separate Financial Statements"
- IAS 28 "Investments in Associates and Joint Ventures"

In November 2009, the IASB issued IFRS 9 "Financial Instruments" effective for annual periods beginning on or after January 1, 2013. The adoption of this standard should not have a material impact on the Company's financial statements.

#### 3. PROPERTY AND EQUIPMENT

(\$)	Oil & natural gas properties	Office equipment	Total
Cost:			
Balance at January 1, 2010	118,596	197	118,793
Additions	22,550	87	22,637
Transfer from exploration assets	7,979	-	7,979
Balance at December 31, 2010	149,125	284	149,409
Additions	8,268	2	8,270
Transfer from exploration assets	11,421	-	11,421
Balance at September 30, 2011	168,814	286	169,100

(\$)	Oil & natural gas properties	Office equipment	Total
Accumulated depletion and depreciation:			
Balance at January 1, 2010	-	(86)	(86)
Depletion and depreciation for the period	(18,127)	(59)	(18,186)
Balance at December 31, 2010	(18,127)	(145)	(18,272)
Depletion and depreciation for the period	(15,723)	(32)	(15,755)
Balance at September 30, 2011	(33,850)	(177)	(34,027)
Net Book Value:			
At January 1, 2010			118,707
At December 31, 2010			131,137
At September 30, 2011			135,073

Future development costs of \$116.7 million (September 30, 2010 - \$90.4 million) on proved plus probable reserves have been included in the depletion and depreciation calculation. For the nine months ended September 30, 2011, the Company capitalized \$0.4 million of directly attributable general and administrative expenditures and related stock-based compensation (September 30, 2010 - \$0.6 million).

During the year ended December 31, 2010, the Company tested oil and natural gas properties for impairment. Based on the assessment in 2010 the carrying amount of each cash generating unit ("CGU") was determined to be lower than its recoverable amount, and no impairment loss was recognized. There were no indicators of impairment at September 30, 2011.

#### 4. EXPLORATION ASSETS

(\$)	Exploration Assets
Balance at January 1, 2010	21,493
Additions	10,423
Transfers to property and equipment	(7,979)
Exploration expense	(309)
Balance at December 31, 2010	23,628
Additions	10,613
Transfers to property and equipment	(11,421)
Exploration expense	(2,529)
Balance at September 30, 2011	20,291

Exploration and evaluation ("E&E") assets consist of the Company's exploration projects which are pending economic production. Additions represent the Company's share of costs incurred on E&E assets during the period. During the nine months ended September 30, 2011 \$2.5 million of exploration assets (December 31, 2010 YTD - \$0.3 million) were recorded as an exploration expense as a result of land expiries in the Company's undeveloped land base.

#### 5. BANK INDEBTEDNESS

On September 30, 2011, the Company had a \$50.0 million demand revolving operating credit facility with a Canadian chartered bank. The credit facility provides that advances may be made by way of direct advances, banker's acceptances, or standby letters of credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances. The applicable margin charged by the bank is dependent upon the Company's debt to trailing cash flow ratio. The banker's acceptances bear interest at the applicable banker's acceptance rate plus an explicit stamping fee based upon the Company's debt to trailing cash flow ratio. The effective interest rate for the three and nine months ended September 30, 2011 was 4.2% and 5.2% (three and nine months ended September 30, 2010 - 3.9% and 3.7%). The credit facilities are secured by a fixed and floating charge debenture on the assets of the Company. The borrowing base is subject to interim reviews by the bank and was reviewed in July 2011 with the next scheduled review to be completed in the fourth quarter of 2011. At September 30, 2011 letters of credit totalling \$0.6 million were outstanding that reduce the amount that can be borrowed under the credit facility.

## 6. DECOMMISSIONING LIABILITIES

The total future decommissioning liabilities were estimated by management based upon the Company's net share of estimated costs to reclaim and abandon its wells and facilities and the estimated timing of the costs to be incurred in future periods.

At September 30, 2011, the estimated total future amount required to settle the liabilities, escalated at 2%, was \$27.1 million (December 31, 2010 - \$26.8 million). Approximately \$10.2 million of this obligation will be settled over the next 5 years. The total future amount has been discounted using the Company's weighted average risk-free interest rate of 2.5% (2010 – 3.2%).

A reconciliation of the decommissioning liabilities is provided below:

(\$)	Nine months ended September 30, 2011	Year ended December 31, 2010
Balance, beginning of period	16,712	15,561
Provisions made	235	288
Revisions in estimated future cash flows	1,794	1,196
Liabilities settled	(709)	(790)
Disposal of properties	-	(15)
Accretion expense	381	472
Balance, end of period	<b>18,413</b>	16,712

## 7. SHARE CAPITAL

### (a) Authorized

Unlimited number of Voting Common Shares

Unlimited number of Special Voting Shares, no dividend or distribution rights

### (b) Issued

Common Shares	Number of Shares	Amount \$
Balance, December 31, 2010 and September 30, 2011	30,660,222	146,989

### (c) Per share amounts

The weighted average number of Common Shares issued and outstanding are as follows:

	September 30, 2011	December 31, 2010
Basic and diluted	<b>30,660,222</b>	30,660,222

Stock options and Performance Warrants are not included in the diluted share computations as they are anti-dilutive.

### (d) Stock options and performance warrants

A summary of the Company's outstanding stock options and performance warrants are as follows:

	Options	Stock Options Weighted Average Exercise Price (\$/option)	Warrants	Performance Warrants Weighted Average Exercise Price (\$/warrant)
Outstanding January 1, 2010	2,241,500	3.78	1,574,500	6.80
Granted	683,500	1.80	-	-
Forfeited	(84,000)	(3.68)	-	-
Outstanding December 31, 2010 and September 30, 2011	2,841,000	3.31	1,574,500	6.80
Weighted Average Years to Expiry	2.9		1.8	
Exercisable September 30, 2011	1,696,833	4.23	-	-

The following table summarizes stock options outstanding and exercisable at September 30, 2011:

Exercise Price	Number	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Number Exercisable	Weighted Average Exercisable Price
\$6.80	753,500	\$6.80	1.8	753,500	\$6.80
\$4.25	105,000	\$4.25	2.2	70,000	\$4.25
\$2.00 - \$2.27	1,361,000	\$2.00	2.9	873,333	\$2.00
\$1.77	621,500	\$1.77	4.2	-	N/A
<b>\$1.77 to \$6.80</b>	<b>2,841,000</b>	<b>\$3.31</b>	<b>2.9</b>	<b>1,696,833</b>	<b>\$4.23</b>

#### Stock-based compensation

The Company utilizes a binomial lattice option-pricing model to estimate the fair value of stock options and performance warrants. The weighted average fair value of the stock options issued in 2010 was \$0.83. A risk-free rate of return of 2.5% to 2.9%, an expected volatility of 75% and a forfeiture rate of 3.5% were used as the assumptions for the options issued in 2010. There were no options issued in 2011.

The binomial lattice model assumes that performance warrants and stock options will be exercised when the share price equals or exceeds a multiple of the exercise price. The Company has assumed that holders will exercise vested instruments when the share price is 125% of the exercise price.

The Company amortizes the fair value of stock options and performance warrants over the vesting period.

Non-cash stock based compensation expense has been recorded as follows:

(\$)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Stock options	190	248	595	815
Performance warrants	-	16	-	129
Less capitalized portion	(41)	(55)	(125)	(199)
<b>Total</b>	<b>149</b>	<b>209</b>	<b>470</b>	<b>745</b>

#### **(e) Contributed surplus**

The following table reconciles the movement in the Company's contributed surplus:

(\$)	Nine months ended September 30,		Year ended December 31,
	2011	2010	2010
Balance, beginning of period	4,283		3,221
Stock-based compensation	595		1,062
<b>Balance, end of period</b>	<b>4,878</b>		<b>4,283</b>

## **8. FINANCE EXPENSES**

(\$)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Financial expenses:				
Interest on loans and borrowings	296	266	1,148	716
Accretion of decommissioning liabilities	126	114	381	358
<b>Net finance expenses</b>	<b>422</b>	<b>380</b>	<b>1,529</b>	<b>1,074</b>

## 9. FINANCIAL RISK FACTORS

The Company is exposed to a number of different financial risks arising from normal course business exposures including market, liquidity and credit risks. The Company's financial risks are substantially unchanged from the 2010 year end.

### Market risk

At September 30, 2011 the following derivative contracts were outstanding and recorded at estimated fair value:

Period	Volume	Type	Pricing Terms	Fair Value Current asset (liability)
Natural Gas Oct 1, 2011 – Dec 31, 2011	4,000 GJ/day	Cap	\$8.455 (AECO CDN\$/GJ)	\$ -

The unrealized gain for the period was \$2 thousand (September 30, 2010 - \$0.6 million) and arises from the change in the fair value of the contracts from December 31, 2010 to September 30, 2011. Assuming all other variables remain constant, a 10% increase or decrease in the forward curve would have a non-material impact on the financial derivative gain during the period.

The Company is exposed to interest rate risk as it borrows funds at floating interest rates. Assuming all other variables remain constant, a 1% increase or decrease in interest rates would have impacted the cash flows of the Company during the nine months ended September 30, 2011 by approximately \$0.2 million (September 30, 2010 - \$0.1 million).

### Credit risk

The maximum exposure to credit risk with respect to accounts receivable is as follows:

(\$)	September 30, 2011	December 31, 2010
Oil and gas marketers	2,896	4,347
Joint venture partners	1,690	1,759
Other	-	683
Allowance for doubtful accounts	(58)	(111)
	<b>4,528</b>	<b>6,678</b>

(1) As at September 30, 2011, the Company had \$0.1 million (\$1.0 million – December 2010) of receivables that were considered past due and were greater than 150 days old.

## 10. CAPITAL MANAGEMENT

There has been no change in the Company's policy for managing its capital structure. The Company is not subject to any externally imposed capital requirements other than covenants on its operating credit facility to maintain an adjusted working capital ratio of not less than 1 to 1 at all times. This ratio is calculated as the ratio of current assets plus undrawn availability under the credit facility to current liabilities as defined in the Company's demand facility agreement. At September 30, 2011 the Company's adjusted working capital ratio was 2.2 to 1.

The capital structure of the Company is as follows:

(\$)	September 30, 2011	December 31, 2010
Shareholders' equity	104,635	106,276
Net debt	36,316	35,775
	<b>140,951</b>	<b>142,051</b>

## 11. SUPPLEMENTARY CASH FLOW INFORMATION

(\$)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<b>Net change in non-cash working capital:</b>				
Decrease (increase) in accounts receivable	(289)	688	2,150	(1,677)
Decrease (increase) in prepaid expenses	(119)	(137)	326	445
Increase (decrease) in accounts payable and accrued liabilities	2,805	4,753	(1,216)	2,118
<b>Total</b>	<b>2,397</b>	<b>5,304</b>	<b>1,260</b>	<b>886</b>
<b>Summary of working capital changes:</b>				
Operating	(922)	(364)	1,348	(802)
Investing	3,319	5,668	(88)	1,688
<b>Total</b>	<b>2,397</b>	<b>5,304</b>	<b>1,260</b>	<b>886</b>

## 12. COMMITMENTS

The Company's future commitments under its office premises lease by fiscal year, excluding operating costs, are as follows: 2011 - \$106 thousand, 2012 and 2013 - \$423 thousand per year, 2014 - \$352 thousand.

In 2009, the Company acquired a non-cancellable lease for office space which the Company does not use. The lease expires in 2014. The obligation for the discounted future payments, net of expected rental income, has been provided for in accounts payable and accrued liabilities.

The Company entered into a gathering and processing agreement extending through April 2013. The remaining amounts due under this commitment are as follows:

2011	705
2012	3,263
2013	1,162
	<b>5,130</b>

## 13. RELATED PARTY TRANSACTIONS

During the period Insignia incurred \$60 thousand per month for rental of office space to Brookfield Properties Management Corp. a company that is under the same common control and significant influence as Insignia's major shareholder, BSS. At September 30, 2011 there are no outstanding amounts payable, and a deposit is being held in the amount of \$31 thousand. These transactions are in the normal course of business, are made under normal credit terms and are recorded at the exchange amount.

## 14. TRANSITION TO IFRS

The Company has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual financial statements. The Company's transition date is January 1, 2010 (the "transition date") and the Company has prepared its opening IFRS balance sheet at that date. These financial statements have been prepared in accordance with the accounting policies described in Note 2 of the March 31, 2011 financial statements. The Company will ultimately prepare its opening balance sheet and financial statements for 2010 and 2011 by applying existing IFRS with an effective date of December 31, 2011 or prior. Accordingly, the final opening balance sheet and financial statements for 2010 and 2011 may differ from these financial statements.

First-time adoption of international financial reporting standards ("IFRS 1") requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRS.

The following reconciliations present the adjustments made to the Company's Canadian GAAP financial statements to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Company's Balance Sheets as at September 30, 2010 and Statements of Operations and Deficit for the three and nine months ended September 30, 2010.

Reconciliations for the Company's Balance Sheets as at January 1, 2010, December 31, 2010 and Statement of Operations and Deficit for the twelve months ended December 31, 2010 are included in the March 31, 2011 interim financial statements.

Reconciliation of Balance Sheet from Canadian GAAP to IFRS:

As at September 30, 2010:

(\$000's)	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current</b>				
Accounts receivable		6,143	-	6,143
Prepays and deposits		1,385	-	1,385
		7,528	-	7,528
Property and equipment	(a)(b)(c)(e)(f)(h)	145,961	(23,540)	122,421
Intangible exploration assets	(a)	-	31,355	31,355
Future income taxes		4,000	-	4,000
		157,489	7,815	165,304
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current</b>				
Bank indebtedness		26,836	-	26,836
Accounts payable and accrued liabilities		14,606	-	14,606
Financial derivative contracts		4	-	4
		41,446	-	41,446
Decommissioning liabilities	(b)	12,101	4,679	16,780
<b>Shareholders' equity</b>				
Share capital		146,989	-	146,989
Contributed surplus	(d)	4,204	(39)	4,165
Deficit	(b)(d)	(47,251)	3,175	(44,076)
		103,942	3,136	107,078
		157,489	7,815	165,304

Reconciliation of statement of operations and deficit for the three months ended September 30, 2010:

(\$000's)	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenues</b>				
Oil and natural gas sales		8,247	-	8,247
Royalties		(711)	-	(711)
		7,536	-	7,536
<b>Expenses</b>				
Lease operating	(e)	3,388	14	3,402
Transportation		323	-	323
General and administrative	(f)	764	64	828
Interest	(g)	266	(266)	-
Stock-based compensation	(d)(f)	189	20	209
Gain on financial derivative contracts		(57)	-	(57)
Depletion, depreciation and accretion	(b)(c)	6,751	(2,201)	4,550
(Gain) loss on disposals	(h)	-	(25)	(25)
		11,624	(2,394)	9,230
Results from operating activities		(4,088)	2,394	(1,694)
<b>Finance expenses</b>	(b)(g)	-	(380)	(380)
<b>Loss and comprehensive loss for the period</b>		(4,088)	2,014	(2,074)
<b>Deficit, beginning of period</b>		(43,163)	1,161	(42,002)
<b>Deficit, end of period</b>		(47,251)	3,175	(44,076)
<b>Loss per share, basic and diluted</b>		(0.13)		(0.07)

Reconciliation of statement of operations and deficit for the nine months ended September 30, 2010:

(\$000's)	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenues</b>				
Oil and natural gas sales		27,161	-	27,161
Royalties		(3,868)	-	(3,868)
		23,293	-	23,293
<b>Expenses</b>				
Lease operating	(e)	10,380	39	10,419
Transportation		1,008	-	1,008
General and administrative	(f)	2,389	202	2,591
Interest	(g)	716	(716)	-
Stock-based compensation	(d)(f)	738	7	745
Gain on financial derivative contracts		(642)	-	(642)
Depletion, depreciation and accretion	(b)(c)	20,011	(7,276)	12,735
Exploration expenses	(a)	-	-	-
(Gain) loss on disposals	(h)	-	(183)	(183)
		34,600	(7,927)	26,673
Results from operating activities		(11,307)	7,927	(3,380)
<b>Finance expenses</b>	(b)(g)	-	(1,074)	(1,074)
<b>Loss and comprehensive loss for the period</b>		(11,307)	6,853	(4,454)
<b>Deficit, beginning of period</b>		(35,944)	(3,678)	(39,622)
<b>Deficit, end of period</b>		(47,251)	3,175	(44,076)
<b>Loss per share, basic and diluted</b>		(0.37)		(0.15)

Notes to reconciliations:

(a) IFRS 1 election for full cost oil and gas entities:

The Company elected an IFRS 1 exemption whereby the Canadian GAAP full cost pool was measured upon transition to IFRS as follows:

- (i) exploration assets were reclassified from the full cost pool to exploration assets at the amount that was recorded under Canadian GAAP; and
- (ii) the remaining full cost pool was allocated to the producing/development assets and components pro rata using reserve values.

This resulted in a \$21.5 million classification to exploration assets with a corresponding decrease in property and equipment. An impairment test was performed at January 1, 2010 and no adjustment was required.

During the nine months ended September 30, 2010 \$10.4 million was incurred on exploration assets and \$0.6 million of exploration assets were transferred to property and equipment. During the year 2010, \$10.4 million was incurred on exploration assets, \$8.0 million was transferred to property and equipment and \$0.3 million was expensed.

(b) Decommissioning liabilities:

Under Canadian GAAP, decommissioning liabilities were discounted at a credit adjusted risk free rate of 7.0%. Under IFRS the estimated cash flow to abandon and remediate the wells and facilities has been risk adjusted therefore the provision is discounted at a weighted average risk free rate of 3.57%. Upon transition to IFRS this resulted in a \$3.7 million increase in the decommissioning liability with a corresponding decrease in retained earnings.

As a result of the change in the decommissioning liability, accretion expense decreased by \$0.2 million during the nine months ended September 30, 2010 (YTD 2010 - \$0.3 million) under IFRS compared to Canadian GAAP. In addition, under Canadian GAAP, accretion of the discount was included in depletion and depreciation. Under IFRS it is included in finance expenses.

As a result of the change in the rate, in Q3 2010 the liability increased by \$0.6 million with a corresponding increase in property and equipment. The change in the rate for the twelve months of 2010 was an increase of \$1.4 million with a corresponding increase in property and equipment.

(c) Depletion policy:

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas interests on a unit of production basis over proved plus probable reserves. The depletion policy under Canadian GAAP was based on units of production over proved reserves. In addition, depletion was calculated on the Canadian cost centre under Canadian GAAP. IFRS requires depletion and depreciation to be calculated based on individual components (i.e. fields or combinations thereof).

There was no impact of this difference on adoption of IFRS at January 1, 2010 as a result of the IFRS 1 election as discussed above.

For the nine months ended September 30, 2010 the increased reserves resulted in a decrease to depletion of \$6.7 million (YTD 2010 - \$9.0 million) with a corresponding change to property, plant and equipment.

(d) Share-based payments:

Under Canadian GAAP, the Company did not incorporate a forfeiture multiple related to the share-based payments. Under IFRS, the Company is required to estimate a forfeiture rate for unvested options at transition date. The forfeiture rate was estimated at 3.5% and resulted in a decrease to contributed surplus and deficit of \$40 thousand at transition. The forfeiture rate had no impact on the stock compensation expense for the nine months ended September 30, 2010 (YTD 2010 - \$4 thousand).

(e) Lease operating

Under IFRS pre-license costs must be expensed. For the nine months ended September 30, 2010 the Company expensed \$39 thousand (YTD 2010 - \$39 thousand).

(f) Capitalized G&A:

Under IFRS only G&A expenses that are directly attributable to exploration and evaluation/development and production are capitalized. As a result, capitalized G&A and capitalized stock based compensation decreased by \$0.2 million and \$7 thousand respectively for the nine months ended September 30, 2010. Capitalized G&A decreased by \$0.3 million for the twelve months of 2010 and capitalized stock based compensation decreased by \$1 thousand.

(g) Interest

International Accounting Standard 1 *Presentation of Financial Statements* requires finance costs to be a separate line item on the Statement of Operations.

(h) Derecognition

Under IFRS, gains and losses are recognized as the difference between the net disposal proceeds and carrying amount of the item. During the nine months ended September 30, 2010 the Company disposed of certain mineral interests for net proceeds of \$0.2 million (YTD 2010 - \$0.2 million). The mineral interests had no carrying value and a gain was recorded.

(i) Business combinations

The Company elected an IFRS 1 exemption whereby the accounting for business combinations may be applied prospectively from the transition date. There were no business combinations in 2010 and therefore no impact to Insignia.

(j) Leases

The Company applied the transitional provisions when determining whether an Arrangement contains a lease. Therefore leases existing at the date of transition were reassessed. There were no changes to the Company's lease accounting at transition.

(k) Borrowing costs

The Company applied the transitional provisions for borrowing costs and did not retrospectively restate borrowing costs on qualified assets prior to January 1, 2010.

## **15. SUBSEQUENT EVENT**

On October 13, 2011, the Company filed a final short form prospectus in connection with its proposed \$30 million rights offering (the "Rights Offering"). The prospectus qualifies the distribution of 30,660,222 rights ("Rights") to subscribe for up to 28,301,887 common shares ("Common Shares") on or before November 17, 2011. Pursuant to the Rights Offering, each registered holder of Common Shares as of October 25, 2011 will receive one Right for each Common Share held. Each Right entitles the holder (provided they are resident in an eligible jurisdiction or they are an approved eligible holder) to acquire 0.9230816 of a Common Share such that the holder may exercise 1.083327836 Rights to purchase one Common Share at the subscription price of \$1.06. The Rights Offering will include an additional subscription privilege under which holders of Rights who fully exercise their Rights will be entitled to subscribe for additional Common Shares, if available, that were not otherwise subscribed for in the Rights Offering. The proceeds of the Rights Offering will be used to temporarily reduce the current credit facilities of the Company and for the Company's remaining 2011 capital expenditures and for working capital purposes.

## CORPORATE INFORMATION

### Board of Directors

Jeff Newcommon  
President & Chief Executive Officer

Jeffery E. Errico<sup>(1)(2)</sup>  
Chairman

Dave Ambedian<sup>(1)(3)</sup>  
Independent Businessman

Brian Baker  
Senior Vice President, Energy  
Brookfield Asset Management Inc.

Sandra Cowan<sup>(1)(2)</sup>  
Independent Businesswoman

Jim Reid<sup>(2)</sup>  
Managing Partner, Energy  
Brookfield Asset Management Inc.

Christopher Slubicki<sup>(2)(3)</sup>  
President & Chief Executive Officer  
OPTI Canada Inc.

Vincent Tkachyk<sup>(3)</sup>  
Vice President  
Canadian Abraxas Petroleum, ULC

- (1) Audit Committee  
(2) Governance & HR Committee  
(3) Reserves and EH&S Committee

### Officers

Jeff Newcommon  
President & Chief Executive Officer

Glen Fischer  
Chief Operating Officer

Danny Geremia  
Vice President, Finance & Chief Financial Officer

Steven Mackay  
Vice President, Exploration

### Head Office

Suite 2300, 500 – 4<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 2V6  
Phone: (403) 536-8132  
Fax: (403) 514-6940  
Email: [info@insigniaenergy.ca](mailto:info@insigniaenergy.ca)  
Website: [www.insigniaenergy.ca](http://www.insigniaenergy.ca)

### Auditors

Deloitte & Touche LLP  
Calgary, Alberta

### Bankers

National Bank of Canada  
Calgary, Alberta

### Legal Counsel

Burnet, Duckworth & Palmer LLP  
Calgary, Alberta

### Evaluations Engineers

GLJ Petroleum Consultants Ltd.  
Calgary, Alberta

### Registrar and Transfer Agent

Valiant Trust Company  
Calgary, Alberta

### TSX Symbol: ISN

### ABBREVIATIONS

/d	per day
bbl(s)	barrel(s)
mbbl	thousand barrels
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
boe	barrels of oil equivalent
mboe	thousand barrels of oil equivalent
mmbtu	millions of British thermal units
NGLs	natural gas liquids
WTI	West Texas Intermediate
Cdn	Canadian
US	United States