



# INSIGNIA

**INSIGNIA ENERGY LTD.**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED**

**DECEMBER 31, 2008**

**March 25, 2009**

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## ABBREVIATIONS

### Oil and Natural Gas Liquids

Bbl	barrel
Bbls	barrels
Mbbls	thousand barrels
MMbbls	million barrels
Bbls/d	barrels per day
BOPD	barrels of oil per day
NGLs	natural gas liquids

### Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
MMbtu	million British Thermal Units
Bcf	billion cubic feet
GJ	gigajoule

### Other

AECO	The natural gas storage facility located at Suffield, Alberta.
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28° API is generally referred to as light crude oil.
BOE	barrel of oil equivalent of natural gas and crude oil on the basis of 1 BOE for 6 Mcf of natural gas (this conversion factor is an industry accepted norm and is not based on either energy content or current prices). <b>Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.</b>
BOE/d	barrel of oil equivalent per day
m <sup>3</sup>	cubic metres
MBOE	1,000 barrels of oil equivalent
\$M or \$000s	thousands of dollars
MM	Million
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

**Where any disclosure of reserves data is made in this Annual Information Form ( or the Schedules hereto) that does not reflect all reserves of Insignia, the reader should note that the estimates of reserves and future net revenue for individual properties or groups of properties may not reflect the same confidence level as estimates of the reserves and future net revenue for all properties, due to the effects of aggregation.**

## CONVERSIONS

To Convert From	To	Multiply By
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
Bbls	Cubic metres	0.159
Cubic metres	Bbls oil	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres (Alberta)	Hectares	0.400
Hectares (Alberta)	Acres	2.500
Acres (British Columbia)	Hectares	0.405
Hectares (British Columbia)	Acres	2.471

## CONVENTIONS

A reference in this Annual Information Form to "**Insignia**", the "**Company**" or the "**Corporation**" means Insignia Energy Ltd. Certain other terms used herein but not defined herein are defined in National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**") and in the Canadian Oil and Gas Evaluation ("**COGE**") Handbook Volume I. Unless otherwise specified, information in this Annual Information Form is as at the end of the Corporation's most recently completed financial year, being December 31, 2008. All dollar amounts herein are in Canadian dollars, unless otherwise stated.

## FORWARD-LOOKING STATEMENTS

Certain statements contained herein including, without limitation, financial and business prospects and financial outlook, reserve and production estimates, drilling and re-completion plans, timing of drilling, re-completion and tie in of wells, tax horizon, timing of development of undeveloped reserves, productive capacity of wells and capital expenditures and the timing thereof may be forward looking statements. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions may be used to identify these forward looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward looking statements including, but not limited to, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to 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 the risk factors outlined under "Risk Factors" and elsewhere herein. The recovery and reserve estimates of Insignia's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhausted. Additional information on these and other factors that could affect Insignia's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) and at Insignia's website ([www.insigniaenergy.ca](http://www.insigniaenergy.ca)). **Although the forward looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward looking statements. Investors should not place undue reliance on forward looking statements. These forward looking statements are made as of the date hereof and the Corporation assumes no obligation to update or review them to reflect new events or circumstances except as expressly required by applicable securities laws.**

Forward looking statements and other information contained herein concerning the oil and gas industry and the Corporation's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Corporation is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

## CORPORATE STRUCTURE

### Name, Address and Incorporation

Insignia Energy Ltd.

Head Office:  
2300, 500 – 4th Avenue S.W.  
Calgary, Alberta T2P 2V6

Registered Office:  
1400, 350 – 7th Avenue S.W.  
Calgary, Alberta T2P 3N9

Insignia was amalgamated under the *Business Corporations Act* (Alberta) (the "**ABCA**") on August 1, 2006. On July 31, 2008, the Corporation amended its Articles by: (i) creating the Common Shares; (ii) creating the Special Voting Shares; (iii) changing the Class A Shares into Common Shares on the basis of one (1) Common Share for each outstanding Class A Share; (iv) changing the Class B Shares into Common Shares on the basis of ten (10) Common Shares for each outstanding Class B Share; (v) changing the Corporation's name to "Insignia Energy Ltd."; (vi) consolidating the Common Shares whereby each one hundred (100) issued and outstanding Common Shares was changed into one (1) Common Share; and (vii) reducing the stated capital of the Common Shares, without payment, by the amount of Insignia's deficit as shown on the balance sheet of Insignia at July 31, 2008.

### **Intercorporate Relationships**

Insignia does not currently have any subsidiaries.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **Three Year History**

The general development of Insignia's business over the last three completed financial years that include events, such as acquisitions or dispositions, or conditions that have had an influence on that development, are described below.

#### ***2008 Plan of Arrangement.***

On July 31, 2008, the Corporation acquired substantially all of the assets and liabilities of Insignia Energy Inc. ("**Insignia Inc.**"), a private oil and gas company, pursuant to a plan of arrangement under the ABCA involving Insignia Inc., the Corporation, Tricap Partners Ltd. ("**Tricap**"), the shareholders of Insignia Inc. and the shareholders of the Corporation (the "**2008 Arrangement**"). The total consideration paid by the Corporation under the 2008 Arrangement was payable by the issuance of 4,112,040 Common Shares of Insignia. The 2008 Arrangement also provided for a recapitalization of the Company whereby Tricap (i) converted its outstanding debt of \$27.0 million in exchange for the issuance of 3,970,589 Common Shares, (ii) acquired 2,205,882 additional Common Shares for gross proceeds to the Company of \$15.0 million, and (iii) committed to provide the Company with a \$25.0 million equity line whereby Tricap has agreed to subscribe for, prior to July 31, 2009, an additional 3,676,470 Common Shares of Insignia at a price of \$6.80 per share.

#### ***2007 Disposition of Certain Oil and Gas Assets***

On September 13, 2007, the Corporation completed a sale of certain of its petroleum and natural gas properties located in southeast Saskatchewan for cash consideration of \$25.1 million. The proceeds of the disposition were used to repay a portion of the Corporation's bank debt.

#### ***2006 Acquisition of Hawk Energy Corp.***

On May 16, 2006, the Corporation completed the acquisition of all of the outstanding shares of Hawk Energy Corp. ("**Hawk**"), a publicly traded oil and gas company, pursuant to a formal take-over bid under applicable securities laws (the "**Hawk Acquisition**").

The total consideration paid by the Corporation under the Hawk Acquisition was \$33.6 million in cash funded through the Corporation's available credit facilities, 15,061,438 Class A Shares and 1,927,602 Class B Shares of Insignia. In connection with the Hawk Acquisition, the Corporation also assumed approximately \$14.5 million of Hawk net debt.

### **Significant Acquisitions**

Insignia did not complete any significant acquisitions during its most recently completed financial year for which disclosure is required under Part 8 of National Instrument 51-102 – Continuous Disclosure Obligations, other than

the 2008 Arrangement. See "*General Development of the Business – Three Year History – 2008 Plan of Arrangement*" above. The 2008 Arrangement has been accounted for as a reverse takeover with Insignia Inc. as the acquirer and as a result, Insignia has not, nor is required to, file a Form 51 102F4 – *Business Acquisition Report* in respect of the 2008 Arrangement.

## **DESCRIPTION OF THE BUSINESS**

### **General**

The Corporation is engaged in the exploration for and the acquisition, development and production of crude oil and natural gas in Western Canada.

Insignia's strategy for growth includes an active acquisition, exploration, exploitation and development program.

Insignia's principal area of focus is the acquisition of petroleum and natural gas rights in low risk, multi-zone targets in Western Canada and the development of those rights through drilling. Insignia's business and exploration strategy is to target overlooked play concepts in the developed regions of the corridor. By acquiring assets in this area, Insignia intends to build a production base that can be operated independent of third party influence and with low operating costs.

In developing projects, Insignia intends to spread risk and build alliances with third parties by seeking joint venture partners, where appropriate. The partners approached are expected to be of a similar size, have similar acquisition and development strategies and have the ability to offer reciprocal opportunities.

### **Specialized Skill and Knowledge**

Drawing on significant experience in the oil and gas business, Insignia's management team has a demonstrated track record of bringing together all of the key components to a successful exploration and exploitation company: strong technical skills; expertise in planning and financial controls; ability to execute on business development opportunities; capital markets expertise; and an entrepreneurial spirit that allows Insignia to effectively identify, evaluate and execute on value added initiatives.

### **Competitive Conditions**

Companies operating in the petroleum industry must manage risks which are beyond the direct control of company personnel. Among these risks are those associated with exploration, environmental damage, commodity prices, foreign exchange rates and interest rates.

The oil and natural gas industry is intensely competitive and Insignia is required to compete with a substantial number of other entities which may have greater technical or financial resources. With the maturing nature of the Western Canadian Sedimentary Basin, the access to new prospects is becoming more and more competitive and complex.

Insignia will attempt to enhance its competitive position by operating in areas where its technical personnel are able to reduce some of the risks associated with exploration, production and marketing because they are familiar with the areas of operation. Management believes that Insignia will be able to explore and develop new production and reserves with the objective of increasing its cash flow and reserve base. See "*Risk Factors – Competition*".

### **Cycles**

The Corporation's business is generally not cyclical. The exploration and development of oil and natural gas reserves is dependent on access to areas where drilling is to be conducted. Seasonal weather variation, including freeze up and break up affect access in certain circumstances. See "*Risk Factors – Seasonality*".

## **Environmental Protection**

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Compliance with such legislation can require significant expenditures or result in operational restrictions. Breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of material fines and penalties, all of which might have a significant negative impact on earnings and overall competitiveness. See "*Industry Conditions – Environmental Regulation*" and "*Risk Factors – Environmental*".

## **Employees**

As at December 31, 2008, Insignia had 11 full time employees and 9 consultants, all of whom were located at its office in Calgary.

## **Reorganizations**

Other than the 2008 Arrangement, Insignia has not completed any material reorganization within the three most recently completed financial years or completed during the current financial year. No material reorganization is currently proposed for the current financial year. See "*General Development of the Business – Three Year History – 2008 Plan of Arrangement*".

## **Environmental, Health and Safety Policies**

Environmental protection and employee health and safety are core values recognized and supported by the Corporation. The Corporation actively supports these areas by integrating the essential principles and practices through its environmental management systems and employee occupational health and safety programs. The Corporation ensures policies and procedures are fully integrated with and within all operating units by advising and educating employees, suppliers and contractors in the safe use, transportation, storage and disposal of products and materials. The Corporation promotes and enhances safety and environmental awareness and protection through the implementation and communication of the Corporation's environmental management and employee occupational health and safety programs policies and procedures. Effective committee structures are established in the Corporation's operations to allow for employee participation and development of Corporation policies and programs which provide employees with job orientation, training, instruction and supervision necessary to assist them in conducting their activities in an environmentally responsible and safe manner.

The Corporation develops emergency response teams and preparedness plans in conjunction with local authorities, emergency services and the communities it operates in to ensure prompt response to an environmental incident should it arise. Environmental assessments are undertaken for new projects or when acquiring new properties or facilities to identify, assess and minimize environmental risks and operational exposures. The Corporation conducts audits of operations to confirm compliance with internal standards and to stimulate improvement in practices where needed. Accurate documentation is maintained to support internal accountability and measure operational performance against recognized industry indicators to ensure the objectives of the policies and programs are achieved.

The Corporation also faces environmental, health and safety risks in the normal course of its operations due to the handling and storage of hazardous substances. The Corporation's environmental and occupational health and safety management systems are designed to identify, prevent and control such risks in the Corporation's business and ensure immediate action is taken to mitigate the extent of any environmental, health or safety impacts from such operations. A key aspect of these systems is the performance of annual environmental and occupational health and safety audits.

## STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

### Date of Statement

The statement of reserves data and other oil and gas information set forth below (the "**Statement**") is dated February 23, 2009. The effective date of the Statement is December 31, 2008 and the preparation date of the Statement is February 17, 2009.

### Disclosure of Reserves Data

The reserves data set forth below (the "**Reserves Data**") is based upon an evaluation by GLJ Petroleum Consultants Ltd. ("**GLJ**") with an effective date of December 31, 2008 contained in GLJ's report dated February 23, 2009 evaluating the crude oil, natural gas liquids and natural gas reserves of the Corporation as at December 31, 2008 (the "**GLJ Report**"). The Reserves Data summarizes the crude oil, natural gas liquids and natural gas reserves of the Corporation and the net present values of future net revenue for these reserves using forecast prices and costs. The Reserves Data conforms with the standards required by NI 51-101. The Corporation engaged GLJ to provide an evaluation of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves.

All of the Corporation's reserves are in Canada and, specifically, in the provinces of Alberta and Saskatchewan.

The Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3 and the Report on Reserves Data by Independent Qualified Reserves Evaluator in Form 51-101F2 are attached as Schedules "A" and "B", respectively.

**It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of the Corporation's crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein.**

### *Reserves Data (Forecast Prices and Costs)*

#### SUMMARY OF OIL AND GAS RESERVES AND NET PRESENT VALUES OF FUTURE NET REVENUE AS OF DECEMBER 31, 2008 FORECAST PRICES AND COSTS

RESERVES CATEGORY	LIGHT AND MEDIUM OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS	
	Gross (Mbbbl)	Net (Mbbbl)	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbbl)	Net (Mbbbl)
PROVED								
Developed Producing	61	44	20	24	3,393	2,889	18	12
Developed Non-Producing	40	24	6	5	362	286	2	1
Undeveloped	—	—	—	—	—	—	—	—
TOTAL PROVED	101	67	26	29	3,755	3,175	20	13
PROBABLE	98	69	175	150	4,526	3,634	18	12
TOTAL PROVED PLUS PROBABLE	199	136	201	179	8,281	6,809	37	25

**NET PRESENT VALUES OF FUTURE NET REVENUE**

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT (%/year)					AFTER INCOME TAXES DISCOUNTED AT (%/year)				
	0% (M\$)	5% (M\$)	10% (M\$)	15% (M\$)	20% (M\$)	0% (M\$)	5% (M\$)	10% (M\$)	15% (M\$)	20% (M\$)
PROVED										
Producing	17,086	15,145	13,662	12,490	11,540	17,086	15,145	13,662	12,490	11,540
Developed	1,204	1,040	919	826	753	1,204	1,040	919	826	753
Non-Producing Undeveloped	30	26	23	20	18	30	26	23	20	18
TOTAL PROVED	18,319	16,211	14,604	13,337	12,311	18,319	16,211	14,604	13,337	12,311
TOTAL PROBABLE	20,640	15,647	12,208	9,736	7,899	20,640	15,647	12,208	9,736	7,899
TOTAL PROVED PLUS PROBABLE	38,959	31,859	26,812	23,073	20,209	38,959	31,859	26,812	23,073	20,209

**TOTAL FUTURE NET REVENUE  
(UNDISCOUNTED)  
AS OF DECEMBER 31, 2008  
FORECAST PRICES AND COSTS**

RESERVES CATEGORY	REVENUE (M\$)	ROYALTIES (M\$)	OPERATING COSTS (M\$)	DEVELOPMENT COSTS (M\$)	ABANDONMENT AND RECLAMATION COSTS (M\$)	FUTURE NET REVENUE BEFORE INCOME TAXES (M\$)	INCOME TAXES (M\$)	FUTURE NET REVENUE AFTER INCOME TAXES (M\$)
Proved Reserves	42,477	7,570	13,850	1,502	1,236	18,319	–	18,319
Proved Plus Probable Reserves	103,894	18,913	32,854	11,352	1,816	38,959	–	38,959

**NET PRESENT VALUE OF  
FUTURE NET REVENUE  
BY PRODUCTION GROUP<sup>(1)</sup>  
AS OF DECEMBER 31, 2008  
FORECAST PRICES AND COSTS**

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (M\$)	UNIT VALUE (\$/Mcf \$/Bbl)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	2,586	\$37.54/Bbl
	Heavy Oil (including solution gas and other by-products)	356	\$11.88/Bbl
	Associated and Non-Associated Gas (including by-products)	11,662	\$3.60/Mcf
	Total	14,604	\$22.87/Boe
Proved Plus Probable	Light and Medium Crude Oil (including solution gas and other by-products)	4,963	\$30.86/Bbl
Reserves	Heavy Oil (including solution gas and other by-products)	735	\$3.80/Bbl
	Associated and Non-Associated Gas (including by-products)	21,114	\$3.14/Mcf
	Total	26,812	\$18.18/Boe

Note:

- (1) Other Company revenue and costs not related to a specific production group have been allocated proportionately to the above noted production groups.
- (2) Estimated future abandonment and reclamation costs related to a property have been taken into account by GLJ in determining reserves that should be attributed to a property and, in determining the aggregate future net revenue therefrom, there was deducted the reasonable estimated future well abandonment costs. No allowance was made, however, for reclamation of well sites or the abandonment and reclamation of any facilities or wells which have no reserves assigned.
- (3) The forecast price and cost assumptions assume the continuance of current laws and regulations.
- (4) The extent and character of all factual data supplied to GLJ were accepted by GLJ as represented. No field inspection was conducted
- (5) The impact of the optional Transitional Royalty Rate ("TRR") (announced by the Alberta Government on November 19, 2008) was considered in forecasts of future drilling in Alberta and taken into account in the above calculations of future net revenue. In the calculation of future net revenue the Corporation is assumed to opt for TRR on new wells where justified by a comparison of economics under TRR and the NRF (as defined herein). The effects of the short term incentive program announced by the Government of Alberta on March 3, 2009 were not included or considered in the calculation of reserves and future net revenue. See "Industry Conditions – Provincial Royalties and Incentives – Alberta".

## Pricing Assumptions

### Forecast Prices Used in Estimates

Forecast prices and costs are those:

- (a) generally acceptable as being a reasonable outlook of the future; and
- (b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which we are legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

The forecast cost and price assumptions assume increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. Crude oil and natural gas benchmark reference pricing, inflation and exchange rates utilized by GLJ in the GLJ Report were GLJ's forecasts as follows:

### SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS FORECAST PRICES AND COSTS

Year	OIL		NATURAL GAS				Inflation Rates <sup>(1)</sup> %/Year	Exchange Rate <sup>(2)</sup> (\$US/\$Cdn)
	WTI at Cushing Oklahoma (\$US/Bbl)	Edmonton City Gate (\$Cdn/Bbl)	Natural Gas AECO Average Price (\$Cdn/Mcf)	Pentanes Plus Edmonton Par (\$Cdn/Bbl)	Butanes Edmonton Par (\$Cdn/Bbl)			
Forecast								
2009	57.50	68.61	7.58	69.98	52.14	2.0	0.825	
2010	68.00	78.94	7.94	80.52	61.57	2.0	0.850	
2011	74.00	83.54	8.34	85.21	65.16	2.0	0.875	
2012	85.00	90.92	8.70	92.74	70.92	2.0	0.925	
2013	92.01	95.91	8.95	97.82	74.81	2.0	0.950	
2014	93.85	97.84	9.14	99.80	76.32	2.0	0.950	
2015	95.73	99.82	9.34	101.81	77.86	2.0	0.950	
2016	97.64	101.83	9.54	103.87	79.43	2.0	0.950	
2017	99.59	103.89	9.75	105.97	81.03	2.0	0.950	
2018	101.59	105.99	9.95	108.10	82.67	2.0	0.950	
2019+			Escalated oil, gas and product prices at 2% per year thereafter					

Notes:



***Probable Undeveloped Reserves***

Year	Light and Medium Oil (Mbbl)		Heavy Oil (Mbbl)		Natural Gas (MMcf)		NGLs (Mbbl)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
Prior thereto	-	-	-	-	-	-	-	-
2006	-	-	-	-	-	-	-	-
2007	-	-	-	-	1,145	1,145	-	-
2008	-	-	74	74	449	1,304	1	1

In general, once proved and/or probable undeveloped reserves are identified they are included in Insignia's development plans. Normally, the Corporation plans to develop its proved and probable undeveloped reserves within two years. A number of factors that could result in delayed or cancelled development are as follows:

- changing economic conditions (due to pricing, operating and capital expenditure fluctuations);
- changing technical conditions (production anomalies (such as water breakthrough, accelerated depletion));
- multi-zone developments (such as a prospective formation completion may be delayed until the initial completion is no longer economic);
- a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and
- surface access issues (landowners, weather conditions, regulatory approvals).

***Significant Factors or Uncertainties***

The process of evaluating reserves is inherently complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions and other factors and assumptions that may affect the reserve estimates and the present worth of the future net revenue therefrom. These factors and assumptions include, among others: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and government restrictions. Revisions to reserve estimates can arise from changes in year-end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

The Corporation does not anticipate any unusually high development costs or operating costs, the need to build a major pipeline or other major facility before production of reserves can begin, or contractual obligations to produce and sell a significant portion of production at prices substantially below those which could be realized but for those contractual obligations.

***Future Development Costs***

The following table sets forth development costs deducted in the estimation of the Corporation's future net revenue attributable to the reserve categories noted below:

Year	Forecast Prices and Costs (M\$)	
	Proved Reserves	Proved Plus Probable Reserves
2009	935	4,925
2010	-	5,771
2011	16	93
2012	-	-
2013	-	-
Thereafter	552	563
<b>Total Undiscounted</b>	<b>1,502</b>	<b>11,352</b>

The future development costs are capital expenditures required in the future for Insignia to convert proved undeveloped reserves and probable reserves to proved developed producing reserves. Future abandonment costs are also taken into account. The abandonment costs undiscounted are as follows: forecast prices and costs – proved reserves \$1.2 million; and forecast prices and costs – proved plus probable reserves \$1.8 million.

On an ongoing basis, Insignia will use internally generated cash flow from operations, debt and new equity issues and farm-outs or similar arrangements if available on favourable terms to finance its capital expenditure program. The cost of funding is not expected to have any material effect on disclosed reserves or future net revenue nor make the development of a property uneconomic for the Corporation.

## Other Oil and Gas Information

### *Oil and Gas Properties*

The following is a description of the Corporation's oil and natural gas properties, plants, facilities and installations as at December 31, 2008. Unless otherwise indicated, production stated is gross production to the Corporation and reflects average daily production during the month of December 2008. The reserve amounts are stated, before deduction of royalties, as at December 31, 2008 based on forecast costs and prices as evaluated in the GLJ Report. See "*Statement of Reserves Data and Other Oil and Gas Information*". **The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.** Unless otherwise specified, gross and net acres and well count information are as at December 31, 2008.

#### *Beaverhill Lake*

The Beaverhill Lake property is located approximately 30 miles southeast of Edmonton, Alberta in the Beaverhill Lake field. Insignia holds an average 94% working interest in 12,963 acres of petroleum and natural gas rights of which 2,662 net acres are developed and 9,567 net acres are undeveloped. Insignia holds petroleum and natural gas rights below the base of the Viking formation on these lands.

The target formations for exploration and development on this property are the Mannville Group of Cretaceous age sandstones including Colony, Sparky, Ellerslie, and Upper and Lower Mannville. Drilling targets are defined through both geologic and seismic mapping. Insignia owns a 10 square mile 3D seismic survey that covers the majority of the lands. The area is generally accessible year round for drilling and operational activities.

In addition to the original well on the property, Insignia has drilled four (3.5 net) additional wells since acquiring the property in early 2007 and all were successfully completed as gas wells. Three wells are currently producing. One is shut in and has no reserves assigned. The fifth well which was drilled in the fourth quarter of 2008 is anticipated to be on production in the first quarter of 2009. Two additional locations for future drilling have been identified on the lands.

The wells produce into a gathering system and compression facility owned and operated by Penn West Petroleum Ltd. Insignia pays a processing fee to Penn West Petroleum Ltd. to deliver the production into the ATCO system where it is sold on the spot market.

December 2008 working interest production to Insignia from this property was approximately 115 BOE/d. The GLJ Report has assigned total Proved reserves of 175 MBOE and total Proved plus Probable reserves of 475 MBOE to the Beaverhill Lake Property.

#### *Retlaw/Little Bow*

The Retlaw/Little Bow property is located between Townships 11 and 14, and Ranges 19W4M to 20W4M, approximately 15 miles northeast of Lethbridge, Alberta. Insignia holds an average 85% working interest in 11,360 acres of land of which 4,384 net acres are developed and 5,248 net acres are undeveloped.

The area is characterized by natural gas and heavy density oil production at drill depths between 800 and 1,200 metres. Insignia has identified six potential target zones including the Belly River, Bow Island, Upper Mannville, Glauconite, Sunburst and Mississippian Rundle formations. The area has year-round access for drilling and operational activities.

At December 31, 2008, Insignia had interests in 8 (7.1 net) producing wells and 10 (10.0 net) non-producing wells on the Retlaw/Little Bow property. Near the end of December 2008 Insignia shut in four producing oil wells due to low oil price and these wells will remain shut in until prices recover sufficiently to allow economic production. These four wells have reserves assigned, but the remaining non-producing wells have no reserves assigned.

Natural gas produced from this property is processed on a fee basis through the Turin gas plant operated by Taylor Gas Processing. Crude oil production is trucked to other area operator facilities for treating and subsequent sale.

December 2008 working interest production to Insignia from this property was approximately 105 BOE/d. The GLJ report has assigned reserves of 59 MBOE Proved and 260 MBOE total Proved plus Probable to the Retlaw/Little Bow property.

#### *Edam*

The Edam property is located approximately 25 miles northwest of North Battleford, Saskatchewan. Insignia holds an average 98% working interest in 42,068 acres of land of which 17,368 net acres are developed and 23,908 net acres are undeveloped.

The area is characterized by gas and oil production at drill depths between 500 and 900 metres, however Insignia only holds the rights to natural gas on the lands. Insignia has identified at least eight potential target zones including the Viking, Colony, Waseca, Sparky, Wabiskaw/Glauconite, Nisku, Camrose and Leduc. The area has year-round access for drilling and operational activities.

At December 31, 2008, Insignia had interests in 10 (9.5 net) producing wells and 20 (18.3 net) non-producing wells. The non-producing wells have no reserves assigned. Natural gas production from the property is processed through a compression facility operated by Insignia (100% working interest) and delivered into the Transgas system.

December 2008 working interest production to Insignia from this property was approximately 100 BOE/d. The GLJ Report has assigned total Proved reserves of 63 MBOE and total Proved plus Probable reserves of 122 MBoe to the Edam property.

#### *Mannville*

The Mannville property is located approximately 40 miles west of Lloydminster, Alberta. Insignia holds an average 70% working interest in 18,479 acres of land of which 5,218 net acres are developed and 7,688 net acres are undeveloped.

The area is characterized by gas production at drill depths between 800 and 1,000 metres. The target formations for exploration and development on this property are the Mannville Group of Cretaceous age sandstones including

Colony, Sparky, Ellerslie, and Upper and Lower Mannville. The area has year-round access for drilling and operational activities.

At December 31, 2008, Insignia had interests in 3 (3 net) producing wells and 2 (2 net) non-producing wells. One of the non-producing wells has no reserves assigned. The other non-producing well last produced in 2006 and has probable reserves assigned. The produced gas is processed on a fee basis through a facility operated by Canadian Natural Resources Limited.

December 2008 working interest production to Insignia from this property was approximately 40 BOE/d. The GLJ report assigned reserves of 93 MBOE Proved and 136 MBOE total Proved plus Probable to the Mannville property.

#### *Doris*

The Doris property is located between Townships 63 and 65, and Ranges 4W5M to 5W5M, approximately 75 miles northwest of Edmonton, Alberta. Insignia holds an average 55% working interest in 21,760 acres of land of which 3,264 net acres are developed and 8,752 net acres are undeveloped.

The area is characterized by mainly gas production at drill depths between 1,000 and 1,200 metres. Insignia has identified four potential target zones including the Upper Mannville, Glauconite, Ostracod and Ellerslie sandstones. The area is mainly winter access only.

In December 2008, Insignia and its industry partner in the property shot a seismic program over several sections of undeveloped land held jointly by Insignia and this partner. From this program, Insignia will attempt to identify locations for drilling during the winter of 2009-2010. Insignia is planning to workover and recomplete two non-producing wells in the first quarter of 2009 and attempt to bring the wells on production.

At December 31, 2008, Insignia had interests in 5 (2.5 net) producing wells and 7 (3.6 net) non-producing wells on the property. No reserves are assigned to the non-producing wells. Production from the wells is processed on a fee basis at a facility operated by Apache Canada.

December 2008 working interest production to Insignia from this property was approximately 50 BOE/d. The GLJ report assigns reserves of 51 MBOE Proved and 117 MBOE total Proved plus Probable to the Doris property.

#### *Crossfire*

The Crossfire property is located approximately 60 miles southwest of Edmonton, Alberta. Insignia holds an average 96% working interest in 13,760 acres of land of which 24 net acres are developed and 13,192 net acres are undeveloped.

The petroleum and natural gas rights held on the lands in this area are mainly deeper rights with the primary target as oil in the Nisku formation and secondary targets in the Nordegg, Shunda and Pekisko zones. Drilling depths range from 2,000 to 2,400 metres. The area generally has year round access for drilling and operational activities.

In 2008, a successful Nisku oil well was drilled on Insignia lands with Insignia retaining a 15% working interest in the well. The well was placed on production in late August and produced at rates up to 2,300 BOE/d (350 BOE/d net to Insignia) until the end of December when it was shut in for a pressure survey mandated by the Energy Resources Conservation Board production approval. The well is currently shut in. Insignia has acquired 3D seismic over undeveloped Insignia owned lands and is evaluating potential additional drilling locations.

At December 31, 2008, Insignia had interests in 1 (0.15 net) non-producing well that is expected to resume producing in the second quarter of 2009.

December 2008 working interest production to Insignia from this property was approximately 320 BOE/d. The GLJ report assigns reserves of 37 MBOE Proved and 77 MBOE total Proved plus Probable to the Crossfire property.

### *Other Properties*

The remaining properties owned by Insignia are located in various areas throughout Alberta and west central Saskatchewan.

December 2008 net production to Insignia from these properties was approximately 275 BOE/d. The GLJ report assigns reserves of approximately 300 MBOE Proved and approximately 640 MBOE total Proved plus Probable to these properties.

### *Oil And Gas Wells*

The following table sets forth the number and status of wells in which the Corporation had a working interest as at December 31, 2008.

	Oil Wells				Natural Gas Wells			
	Producing		Non-Producing		Producing		Non-Producing	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	8	3.7	17	15.9	48	30.4	52	39.6
Saskatchewan	–	–	1	1.0	14	12.5	20	19.5
Total	8	3.74	18	16.9	62	42.9	72	59.1

### *Properties With No Attributed Reserves*

The following table sets out the Corporation's unproved properties as at December 31, 2008.

	Undeveloped Acres	
	Gross	Net
Alberta	102,281	88,011
British Columbia	3,510	1,755
Saskatchewan	60,201	59,756
Total	165,992	149,522

The Corporation expects that rights to explore, develop and exploit 12,298 net acres of its undeveloped land holdings will expire by December 31, 2009; a portion may be continued. Insignia plans to submit applications to continue selected portions of the above acreage, and may consider the possibility of drilling on selected portions of such expiring acreage.

### *Forward Contracts*

Insignia is not bound by any agreement (including any transportation agreement), directly or through an aggregator, under which it may be precluded from fully realizing, or may be protected from the full effect of, future market prices for oil or natural gas. In addition, Insignia's transportation obligations or commitments for future physical deliveries of oil or natural gas do not exceed Insignia's expected related future production from its proved reserves, estimated using forecast prices and costs, as disclosed herein.

### *Additional Information Concerning Abandonment and Reclamation Costs*

The following sets forth certain information regarding Insignia's anticipated abandonment and reclamation costs for surface leases, wells, facilities and pipelines.

- (a) Insignia has estimated the cost to perform well abandonment and reclamation by taking into account well depths, geographical location, existing well status, tangible assets and environmental factors. A well's abandonment is scheduled to occur after the Total Proved plus Probable

production forecast deems the well no longer capable of production. Where possible, a well's abandonment is scheduled as part of a multi-well program to achieve an economy of scale.

- (b) The total number of wells in which Insignia will incur this cost is 160 gross (122.6 net) wells.
- (c) The expected cost to be incurred, net of salvage value is \$8.4 million without discount and \$5.6 million using a discount rate of 10%.
- (d) Of the abandonment and reclamation costs disclosed in paragraph (c) above, \$1.8 million undiscounted and \$1.2 million discounted at 10% were deducted as abandonment and reclamation costs associated with the Statement in this Annual Information Form.
- (e) \$2.2 million of the \$8.4 million of undiscounted abandonment and reclamation costs disclosed in paragraph (c) above are expected to be paid in the next three financial years by Insignia.

### ***Tax Horizon***

Depending upon production, commodity prices and capital spending levels, Insignia does not currently anticipate paying current cash income taxes in the next two years.

### ***Costs Incurred***

The following table summarizes capital expenditures (including costs that were capitalized or charged to expense when incurred) incurred by Insignia with respect to the Insignia assets for the year ended December 31, 2008.

	<b>Capital Expenditures</b>
	<b>(\$000s)</b>
Property acquisition costs:	
Proved properties	33,199
Unproved properties	13,450
Development Costs	2,911
Exploration Costs	1,619
Total	<u>51,179</u>

### ***Exploration and Development Activities***

The following table sets forth the gross and net exploratory and development wells on the Insignia assets in which Insignia participated during the year ended December 31, 2008.

	<b>Development Wells</b>		<b>Exploration Wells</b>		<b>Total Wells</b>	
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
Light and Medium Oil	-	-	1	0.15	1	0.15
Heavy Oil	-	-	-	-	-	-
Natural Gas	2	1.75	1	1.0	3	2.75
Standing	-	-	-	-	-	-
Dry	-	-	-	-	-	-
Total	<u>2</u>	<u>1.75</u>	<u>2</u>	<u>1.15</u>	<u>4</u>	<u>2.9</u>

### ***Production Estimates***

The following table sets out the production estimated for the year ended December 31, 2009 in the estimates of Insignia's future net revenue from gross proved and gross probable reserves disclosed elsewhere in this Statement.

	<u>Light and Medium Oil</u>	<u>Heavy Oil</u>	<u>Natural Gas</u>	<u>Total BOE</u>
	(Mbbls)	(Mbbls)	(MMcf)	(MBOE)
PROVED				
Developed Producing	23	10	1,118	224
Developed Non-Producing	27	3	135	53
Undeveloped	-	-	-	-
TOTAL PROVED	50	13	1,252	277
PROBABLE	33	1	433	109
TOTAL PROVED PLUS PROBABLE	83	13	1,685	386

One property, Beaverhill Lake, contributes over 20% of the total production presented in the previous table. The following table sets out the production estimated from the Beaverhill Lake property for the year ended December 31, 2009 which is incorporated into the estimates of Insignia's future net revenue from gross proved and gross probable reserves disclosed elsewhere in this Statement.

	<u>Light and Medium Oil</u>	<u>Heavy Oil</u>	<u>Natural Gas</u>	<u>Total BOE</u>
	(Mbbls)	(Mbbls)	(MMcf)	(MBOE)
PROVED				
Developed Producing	-	-	273	46
Developed Non-Producing	-	-	73	12
Undeveloped	-	-	-	-
TOTAL PROVED	-	-	346	58
PROBABLE	-	-	130	22
TOTAL PROVED PLUS PROBABLE	-	-	475	79

## Production History

The following table discloses, on a quarterly basis for the last four completed quarters, certain information in respect of production, product prices received, royalties paid, production costs and resulting netback for the Insignia assets.

	<u>Quarter Ended</u>			
	<u>2008</u>			
	<u>December 31</u>	<u>September 30</u>	<u>June 30</u>	<u>March 31</u>
<b>Average Daily Production <sup>(1)</sup></b>				
Gas (Mcf/d)	3,842	3,390	1,129	1,082
Crude Oil and NGL's (Bbls/d)	495	168	-	-
Combined (Boe/d)	1,135	733	188	180
<b>Average Prices Received <sup>(2)</sup></b>				
Gas (\$/Mcf)	6.62	7.02	9.52	7.99
Crude Oil and NGL's (\$/Bbl)	58.50	100.32	-	-
Combined (\$/Boe)	48.07	55.58	57.12	47.93
<b>Royalties Paid</b>				
Gas (\$/Mcf)	0.92	1.59	2.56	2.09
Crude Oil and NGL's (\$/Bbl)	17.85	25.11	-	-
Combined (\$/Boe)	10.89	13.12	15.34	12.52
<b>Production Costs <sup>(3)</sup></b>				
Gas (\$/Mcf)	2.48	2.44	1.31	1.43
Crude Oil and NGL's (\$/Bbl)	20.60	16.78	-	-
Combined (\$/Boe)	17.36	15.11	7.87	8.56
<b>Netback Received <sup>(4)</sup></b>				
Gas (\$/Mcf)	3.22	2.99	5.65	4.47
Crude Oil and NGL's (\$/Bbl)	20.05	58.43	-	-
Combined (\$/Boe)	19.82	27.35	33.91	26.85

*Notes:*

- (1) Before deduction of royalties.
- (2) After deduction of transportation costs.
- (3) Operating expenses are composed of direct costs incurred to operate both oil and gas wells. A number of assumptions have been made in allocating these costs between oil, natural gas and natural gas liquids production. Operating recoveries associated with operated properties were excluded from operating costs and accounted for as a reduction to general and administrative costs.
- (4) Netbacks are calculated by subtracting royalties, operating costs and losses/gains on commodity and foreign exchange contracts from revenues.

The following table sets forth the average daily production volumes for the year ended December 31, 2008 for each of the important fields comprising the Insignia assets.

Area	Crude Oil and NGL's		Boe (Boe/d)
	Natural Gas (Mcf/d)	(Bbls/d)	
Beaverhill Lake, Alberta	1,042	–	174
Retlaw/Little Bow, Alberta	236	27	66
Edam, Saskatchewan	184	–	31
Mannville, Alberta	112	–	19
Doris, Alberta	163	–	27
Crossfire, Alberta	65	93	103
Other Properties	565	47	141
Total	2,367	167	561

Insignia's production for the year ended December 31, 2008 with respect to the properties comprising the Insignia assets was 70% natural gas and 30% crude oil and NGL's.

For the year ended December 31, 2008, 60% of the gross revenue with respect to the properties comprising the Insignia assets was derived from natural gas production and 40% of the gross revenue was derived from crude oil and NGL's.

Insignia currently plans to market 100% of its natural gas, crude oil and NGL's to a third party based on daily indexed prices.

## DIVIDENDS

Insignia has not declared any cash dividends or distributions on the outstanding Common Shares or Special Voting Shares. The Board of Directors of Insignia will determine the actual timing, payment and amount of dividends, if any, that may be paid by Insignia from time to time based upon, among other things, the cash flow, results of operations and financial conditions of Insignia, the needs for funds to finance ongoing operations and other business considerations as the board of directors of Insignia considers relevant. Payment of dividends may be subject to the consent of the Corporation's lenders from time to time.

## DESCRIPTION OF CAPITAL STRUCTURE

### General Description of Capital Structure

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of Special Voting Shares. The following is a description of the rights, privileges, restrictions and conditions attaching to the share capital of the Corporation.

#### *Common Shares*

The holders of Common Shares are entitled to one vote for each Common Share held on all matters to be voted on by such holders and are entitled to receive *pro rata*, such dividends as may be declared by the board of directors of

the Corporation, out of funds legally available therefore and to receive *pro rata*, the remaining property of the Corporation on dissolution.

### ***Special Voting Shares***

The holders of Special Voting Shares are entitled to receive notice of and to attend and vote at all meetings of shareholders of the Corporation. Each Special Voting Share shall entitle the holder thereof to one vote. Except as otherwise may be required by the ABCA, holders of Special Voting Shares shall vote together with holders of Common Shares on all matters submitted to the holders of Common Shares for approval, and no matter submitted for approval by the holders of Common Shares shall be considered to be so approved unless and until it is approved by the requisite percentage of votes cast by holders of Common Shares and Special Voting Shares voting together as a single class. Holders of Special Voting Shares shall not be entitled to dividends.

In the event of the voluntary or involuntary liquidation, dissolution or winding up of the Corporation, or any other distribution of its assets among its shareholders for the purpose of winding up its affairs, holders of Special Voting Shares shall not be entitled to share in the remaining property of the Corporation. If the Corporation subdivides, redivides or changes the then outstanding Common Shares into a greater number of Common Shares, or reduces, combines or consolidates or changes the then outstanding Common Shares into a lesser number of Common Shares, then, contemporaneously therewith, the Corporation shall change the Special Voting Shares in the same proportion and in the same manner. The Subscriber agrees to tender to the Corporation for cancellation without consideration that number of Special Voting Shares then held by it equal to the number of Common Shares to be issued to it pursuant to the provisions of the Tricap Equity Commitment on a particular closing date, such cancellation to be effective on such closing date (whether or not certificates representing such Special Voting Shares have been tendered). As of 4:30 p.m. (Calgary time) on the date which is twelve months following the Effective Date, all Special Voting Shares shall be deemed to have been cancelled without consideration. Immediately upon the cancellation of a Special Voting Share(s) (or as soon as reasonably practicable thereafter), the holder thereof shall forthwith return to the Corporation the share certificate representing such cancelled shares.

### **Constraints**

There are currently no constraints imposed on the ownership of securities of the Corporation to ensure that Insignia has a required level of Canadian ownership.

### **Ratings**

Insignia has not asked for and received a stability rating, or to the knowledge of Insignia, has received any other kind of rating, including, a provisional rating, from one or more approved rating organizations for securities of Insignia that are outstanding and which continue in effect.

## **MARKET FOR SECURITIES**

### **Trading Price and Volume**

The Common Shares trade on the Toronto Stock Exchange (the "TSX") under the symbol ISN. Between August 8, 2008 and October 29, 2008 the Common Shares traded on the TSX Venture Exchange (the "TSXV") under the symbol ISN. Prior to August 8, 2008 the Company's then Class A Shares and Class B Shares traded on the TSXV under the symbols "FG.A" and "FG.B", respectively.

The following sets forth the price range and trading volume of the Common Shares on the TSXV and the TSX (as reported by such exchange) for the periods indicated.

	Class A Shares			Class B Shares		
	Price Range		Trading Volume	Price Range		Trading Volume
	High (\$/share)	Low (\$/share)		High (\$/share)	Low (\$/share)	
<b>2008</b>						
January	0.23	0.11	537,453	1.03	0.75	56,668
February	0.20	0.13	251,910	0.80	0.455	75,652
March	0.18	0.12	210,404	0.60	0.45	112,057
April <sup>(1)</sup>	0.17	0.07	533,153	0.34	0.20	103,634
May	-	-	-	-	-	-
June	-	-	-	-	-	-
July <sup>(2)</sup>	0.105	0.055	1,755,731	0.85	0.40	518,255

Notes:

- (1) Trading halted April 16, 2008.  
(2) Trading resumed July 11, 2008. Trading halted July 30, 2008.

	Common Shares		
	Price Range		Trading Volume
	High (\$/share)	Low (\$/share)	
<b>2008</b>			
August	6.80	5.80	95,865
September	6.10	2.53	83,965
October <sup>(1)</sup>	4.25	2.00	273,931
October <sup>(2)</sup>	3.20	2.02	22,453
November	4.00	2.40	76,287
December	3.50	2.20	229,202

Notes:

- (1) Trading halted on the TSXV October 29, 2008.  
(2) Trading resumed on the TSX October 30, 2008.

### Prior Sales

There is no class of securities of Insignia that is outstanding and not listed or quoted on a marketplace, other than the Special Voting Shares and performance warrants to acquire Common Shares ("Performance Warrants"). On July 31, 2008, Insignia issued (i) 3,676,470 Special Voting Shares to Tricap in connection with a private placement (as part of the 2008 Arrangement) of 735,294 units at \$20.40 per unit for gross proceeds of \$15 million, each unit comprising 3 Common Shares and 5 Special Voting Shares and (ii) 1,629,500 Performance Warrants to directors, officers and employees of the Corporation in connection with the 2008 Arrangement for no consideration, each Performance Warrant entitles the holders to purchase one Common Share at a price of \$6.80 per Common Share.

The Performance Warrants vest (subject to accelerated vesting on a change of control) as to: (1) one-third on each of the dates that are 12 months, 18 months and 24 months following the issue date, and (2) at the following vesting price, which will be defined in the Performance Warrant certificates to be effectively the current market price of the Common Shares on a recognized exchange or the price of the securities of another issuer exchanged for Common Shares or other consideration received pursuant to a business combination:

Vesting price (\$)	Issued Warrants (%)
10.20	10
11.90	10
13.60	15
15.30	15
17.00	15
18.70	15
20.40	20
	<u>100</u>

**ESCROWED SECURITIES AND SECURITIES SUBJECT TO  
CONTRACTUAL RESTRICTION ON TRANSFER**

To the Company's knowledge, as of December 31, 2008, the following table sets forth the number of securities of each class of Insignia held in escrow or that are subject to a contractual restriction on transfer and the percentage that number represents of the outstanding securities of that class for Insignia's most recently completed financial year.

<b>Designation of Class</b>	<b>Number of securities held in escrow or that are subject to a contractual restriction on transfer</b>	<b>Percentage of class</b>
Common Shares	8,350,554 <sup>(1)</sup>	66%
Special Voting Shares	3,676,470	100%

*Notes:*

- (1) Common Shares are subject to an escrow agreement dated July 31, 2008 among the Company, Valiant Trust Company, as escrow agent (the "**Escrow Agent**") and certain escrowed securityholders, to be released from escrow in four tranches (25% on August 7, 2008 (which Common Shares have been released and are not reflected in the number above), 33.33% of the remaining escrowed shares on February 7, 2009 (which Common Shares have been released but are reflected in the number above), 50% of the remaining escrowed shares on August 7, 2009 and the remaining amount on February 7, 2010). 7,616,658 Common Shares are subject to a contractual restriction on transfer pursuant to the Investor Rights Agreement (as defined herein). See "*Material Contracts – Investor Rights Agreement*".
- (2) Special Voting Shares are subject to a contractual restriction on transfer pursuant to the Investor Rights Agreement. See "*Material Contracts – Investor Rights Agreement*".

**DIRECTORS AND OFFICERS**

**Name, Occupation and Security Holding**

The names, province or state, and country of residence, positions and offices held with the Corporation, and principal occupation of the directors and executive officers of the Corporation are set out below and, in the case of directors, the period each has served as a director of the Corporation.

<b>Name, Province or State and Country of Residence</b>	<b>Position and Office Held</b>	<b>Principal Occupation During the Five Preceding Years</b>	<b>Director Since</b>
Jeffery E. Errico <sup>(1)(2)(3)</sup> Alberta, Canada	Chairman	Chairman of Insignia and Chairman of Insignia Inc., a private oil and gas company; Prior thereto President and Chief Executive Officer of Petrofund Energy Trust, a public oil and gas trust.	July 31, 2008
Jeffrey D. Newcommon Alberta, Canada	President, Chief Executive Officer and Director	President and Chief Executive Officer of Insignia and President and Chief Executive Officer of Insignia Inc., a private oil and gas company; Prior thereto Executive Vice President of Petrofund Energy Trust, a public oil and gas trust.	July 31, 2008
David Ambedian <sup>(1)(3)</sup> Alberta, Canada	Director	Partner with 32° Capital, a private energy focused investment management company.	July 31, 2008
Sandra S. Cowan <sup>(1)(2)</sup> Ontario, Canada	Director	Independent Businesswoman; Prior thereto Partner and General Counsel of EdgeStone Capital Partners, an independent private equity firm.	July 31, 2008
Christopher P. Slubicki <sup>(2)(3)</sup> Alberta, Canada	Director	Independent Businessman; Prior thereto Vice Chairman of Scotia Waterous, an oil and gas mergers and acquisitions advisory company.	July 31, 2008
Jim Reid <sup>(2)</sup> Alberta, Canada	Director	Managing Partner of Brookfield Asset Management's Energy Group, a global asset manager focussed on property, power and other infrastructure.	July 31, 2008
Brian Baker Alberta, Canada	Director	Vice President, Energy of Brookfield Asset Management's Energy Group, a global asset manager focussed on property, power and other infrastructure	July 31, 2008

<u>Name, Province or State and Country of Residence</u>	<u>Position and Office Held</u>	<u>Principal Occupation During the Five Preceding Years</u>	<u>Director Since</u>
Glen Fischer Alberta, Canada	Chief Operating Officer	Chief Operating Officer of Insignia and Chief Operating Officer of Insignia Inc., a private oil and gas company; Prior thereto Senior Vice President Operations of Petrofund Energy Trust, a public oil and gas trust	N/A
Steven J. Mackay Alberta, Canada	Vice President Exploration	Vice President Exploration of Insignia and Vice President, Exploration of Insignia Inc., a private oil and gas company; Prior thereto President of Selkirk Energy Partnership, a private oil and gas company	N/A
Brenda Hughes Alberta, Canada	Controller and Interim Chief Financial Officer	Controller and Interim CFO of Insignia and Controller of Insignia Energy Inc., a private oil and gas company; Prior thereto consultant to various public and private oil and gas companies	N/A
C. Steven Cohen Alberta, Canada	Corporate Secretary	Partner, Burnet, Duckworth & Palmer LLP (barristers and solicitors)	N/A
James Kidd Alberta, Canada	Assistant Corporate Secretary	Associate, Burnet, Duckworth & Palmer LLP (barristers and solicitors)	N/A

*Notes:*

- (1) Member of the Audit Committee.
- (2) Member of the Governance and Human Resources Committee.
- (3) Member of the Reserves Audit and EH&S Committee.
- (4) Insignia does not have an executive committee of its board of directors.

The term of office of each director expires at the next annual meeting of the shareholders of the Corporation.

As of the date of this Annual Information Form, the directors and executive officers of Insignia, as a group, beneficially owned, or controlled or directed, directly or indirectly, 978,528 Common Shares and no Special Voting Shares or approximately 7.8% of the issued and outstanding Common Shares and 0% of the outstanding Special Voting Shares. Jim Reid and Brian Baker, directors of Insignia, are officers of an affiliate of Tricap. Tricap is a significant shareholder of Insignia. See "Risk Factors – Significant Shareholder".

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

#### ***Cease Trade Orders***

No director or executive officer of the Corporation is, as at the date hereof, or was within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any issuer (including the Corporation) that: (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive office or chief financial officer; or (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer. For the purposes of the above, "order" means a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days.

#### ***Bankruptcies***

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation (a) is, as at the date hereof, or has been, within the 10 years before the date hereof, a director or executive officer of any issuer (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets or (b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or

compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

### ***Penalties or Sanctions***

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

The directors or officers of the Corporation may also be directors or officers of other oil and gas companies or otherwise involved in natural resource exploration and development and situations may arise where they are in a conflict of interest with the Corporation. Conflicts of interest, if any, which arise will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

### **Legal Proceedings**

There are no legal proceedings Insignia is or was a party to, or that any of its property is or was the subject of, during Insignia's financial year, nor are any such legal proceedings known to Insignia to be contemplated, that involves a claim for damages, exclusive of interest and costs, exceeding 10% of the current assets of Insignia.

### **Regulatory Actions**

There are no:

- (a) penalties or sanctions imposed against Insignia by a court relating to securities legislation or by a securities regulatory authority during Insignia's financial year;
- (b) other penalties or sanctions imposed by a court or regulatory body against Insignia that would likely be considered important to a reasonable investor in making an investment decision; and
- (c) settlement agreements Insignia entered into before a court relating to securities legislation or with a securities regulatory authority during Insignia's financial year.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

There is no material interest, direct or indirect, of any (a) director or executive officer of Insignia; (b) person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of Insignia's voting securities; and (c) associate or affiliate of any of the persons or companies referred to in (a) or (b) in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect Insignia other than Tricap's involvement in the 2008 Arrangement and as disclosed elsewhere in this Annual Information Form. Jim Reid and Brian Baker, directors of Insignia, are officers of an affiliate of Tricap.

## TRANSFER AGENTS AND REGISTRARS

Valiant Trust Company of Canada, at its principal offices in Calgary, Alberta and Toronto, Ontario, is the transfer agent and registrar of the Common Shares.

Insignia acts as the transfer agent and registrar of the Special Voting Shares.

## MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the Corporation has not entered into any material contracts within the most recently completed financial year, or before the most recently completed financial year which are still in effect, other than the following:

1. the arrangement agreement dated June 2, 2008 between the Corporation and Insignia Inc.;
2. the investor rights agreement dated June 2, 2008 among Tricap, the Corporation and certain individual shareholders of Insignia Inc. (the "**Investor Rights Agreement**"); and
3. the equity commitment agreement dated July 31, 2008 between the Corporation and Tricap (the "**Equity Commitment Agreement**").

### **Investor Rights Agreement**

In connection with the 2008 Arrangement, Insignia, Tricap and certain shareholders of Insignia Inc. entered into the Investor Rights Agreement. The Investor Rights Agreement, among other things, provides Tricap with board representation, participation, demand distribution, piggyback distribution and other investor rights and contains certain restrictions on the transfer of shares of Insignia applicable to Tricap and the other shareholders party thereto.

Pursuant to the Investor Rights Agreement, Tricap and its affiliates shall have the right to have (i) one nominee director of Insignia if it beneficially owns not more than 25% and not less than 10% of the issued and outstanding Common Shares and Special Voting Shares taken together and (ii) two nominee directors of Insignia if it beneficially owns more than 25% of the issued and outstanding Common Shares and Special Voting Shares taken together.

Pursuant to the Investor Rights Agreement, Tricap and its affiliates have been granted a pre-emptive right. This right permits Tricap and its affiliates, subject to the rules or requirements of any recognized exchange, to participate in future issuances of Common Shares (excluding Common Shares issued upon exercise of certain convertible securities, in connection with business combinations, acquisitions or divestitures or in connection with any share split or dividend) so as to afford Tricap and its affiliates the ability to maintain its pro rata interest in Common Shares, which pro-rata interest is calculated after giving effect to all of the Common Shares issued to Tricap pursuant to the 2008 Arrangement. These rights terminate on the earlier of (i) the date in which Tricap and its affiliates beneficially own less than 10% of the outstanding Common Shares on a non-diluted basis and Special Voting Shares taken together, (ii) in certain instances, on the date when Tricap and its affiliates fail to exercise at least 40% of its pre-emptive right on two occasions and (iii) the date immediately following the fifth anniversary of the closing of the 2008 Arrangement.

Tricap and its affiliates have been granted demand and piggyback distribution rights which, in the case of the demand distribution rights, if exercised by Tricap, in certain instances, will require Insignia to file a prospectus to qualify for distribution Common Shares owned by Tricap and its affiliates and, in the case of the piggyback distribution rights, if exercised by Tricap, in certain instances, will require Insignia to qualify for distribution by way of a prospectus offering undertaken by Insignia certain Common Shares owned by Tricap and its affiliates. These rights terminate on the date in which Tricap and its affiliates beneficially own less than 20% of the outstanding Common Shares on a non-diluted basis and Special Voting Shares taken together. In connection with the demand and piggyback distribution rights, Insignia and Tricap have agreed to the expenses to be borne by each and to indemnify each other in certain instances.

Tricap and the other shareholders party to the Investor Rights Agreement have agreed not to sell, transfer or otherwise convey beneficial ownership of any Common Shares or Special Voting Shares, except in certain limited circumstances, until three years from the closing of the 2008 Arrangement without the prior written consent of the board of directors of Insignia, excluding the Tricap nominees in the case of a proposed transfer by Tricap and its affiliates or the prior written consent of Tricap in the case of a proposed transfer by an individual shareholder. The Investor Rights Agreement terminates if Tricap and its affiliates beneficially owns less than 10% of the Common Shares on a non-diluted basis.

The Investor Rights Agreement is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Equity Commitment Agreement**

In connection with the 2008 Arrangement, Insignia and Tricap entered into the Equity Commitment Agreement which provides Insignia with the right from time to time for a period of twelve months following the closing of the 2008 Arrangement to require Tricap to subscribe for and purchase, all or a portion of 3,676,470 Common Shares (the "**Equity Commitment Shares**") at a price of \$6.80 per Equity Commitment Share for aggregate proceeds of up to \$25,000,000. In the event Insignia wishes to exercise this right it will be required to provide a funding notice to Tricap setting forth the number of Equity Commitment Shares proposed to be issued and the closing date for such issuance which date shall not be earlier than five business days nor later than ten business days following the date that Tricap receives the funding notice. In addition to providing Tricap with a funding notice, Insignia is required to provide Tricap with, among other things, an officer's certificate confirming that (a) the Corporation is a valid and subsisting corporation under the laws of Alberta and is qualified or registered to transact business in each jurisdiction in which failure to be so qualified or registered would have a material adverse effect on the business, properties or financial condition of the Corporation; (b) the Corporation has all of the requisite corporate power, authority and approvals to allot, create and issue the Equity Commitment Shares pursuant to the Equity Commitment Agreement and to perform all of its obligations hereunder; (c) no securities commission or similar regulatory authority has issued any order preventing or suspending trading in any securities of the Corporation, and the Corporation is entitled to avail itself of the applicable prospectus exemptions available under applicable Canadian securities legislation in respect of the Equity Commitment Shares to be issued to Tricap as contemplated hereunder; (d) once issued in accordance with the terms and conditions hereof, the Equity Commitment Shares will be duly and validly created, authorized and issued by the Corporation at the applicable Closing Date, as fully paid and non-assessable, and will be listed and posted for trading on the Toronto Stock Exchange or the TSXV, as applicable; and (e) the delivery of the Equity Commitment Shares pursuant to the Equity Commitment Agreement does not and will not violate or conflict with any provision of the articles or by-laws of the Corporation, any resolutions of the directors or the shareholders of the Corporation, any statute, rule, policy or regulation applicable to the Corporation, any judgement, decree or order applicable to the Corporation, or any agreement or instrument to which or by which the Corporation or any of its assets or property is bound. Tricap will also have the option until twelve months following the closing of the 2008 Arrangement, upon written notice to Insignia, to subscribe for all or any portion of the Equity Commitment Shares that have not been issued. Insignia will also agree that, for so long as any Equity Commitment Shares remain unissued, it shall not, without Tricap's prior written consent, issue any securities (other than pursuant to (i) any previously granted stock options or performance warrants and (ii) any bona fide acquisition, merger, takeover or divestiture transaction approved by the board of Insignia) or declare or pay any dividends or make any other distributions on any shares.

The Equity Commitment Agreement is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **INTERESTS OF EXPERTS**

### **Names of Experts**

The only persons or companies who are named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or relating to, the Corporation's most recently completed financial year, and whose profession or business gives authority to the report, valuation, statement or opinion made by the person or company, are Deloitte & Touche LLP, the Corporation's independent auditors, and GLJ, the Corporation's independent engineering evaluators.

## **Interests of Experts**

To the Corporation's knowledge, no registered or beneficial interests, direct or indirect, in any securities or other property of the Corporation or of one of the Corporation's associates or affiliates (i) were held by GLJ, when GLJ prepared the report, valuation, statement or opinion in question, (ii) were received by GLJ after GLJ prepared the report, valuation, statement or opinion in question, or (iii) is to be received by GLJ.

Neither GLJ nor any director, officer or employee of GLJ is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation.

Deloitte & Touche LLP is independent of the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

## **INDUSTRY CONDITIONS**

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation, and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada, Alberta, British Columbia, and Saskatchewan, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect the Corporation's operations in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry.

### **Pricing and Marketing - Oil and Natural Gas**

The producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Oil prices are primarily based on worldwide supply and demand. The specific price depends in part on oil quality, prices of competing fuels, distance to the markets, the value of refined products, the supply/demand balance, and other contractual terms. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the "NEB"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB and the issuance of such licence requires a public hearing and the approval of the Governor in Council.

The price of natural gas is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas (other than propane, butane and ethane) exports for a term of less than two years or for a term of two to 20 years (in quantities of not more than 30,000 m<sup>3</sup>/day), must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export licence from the NEB and the issuance of such licence requires a public hearing and the approval of the Governor in Council.

The governments of Alberta, British Columbia, and Saskatchewan also regulate the volume of natural gas that may be removed from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements, and market considerations.

### **Pipeline Capacity**

Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market natural gas production. In addition, the pro-rationing of capacity on the inter-provincial pipeline systems also continues to affect the ability to export oil and natural gas.

## **The North American Free Trade Agreement**

The North American Free Trade Agreement ("NAFTA") among the governments of Canada, United States of America, and Mexico became effective on January 1, 1994. NAFTA carries forward most of the material energy terms that are contained in the Canada United States Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period); (ii) impose an export price higher than the domestic price subject to an exception with respect to certain voluntary measures which only restrict the volume of exports; and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum or maximum export or import price requirements, provided, in the case of export price requirements, any prohibition in any circumstances in which any other form of quantitative restriction is prohibited, and in the case of import-price requirements, such requirements do not apply with respect to enforcement of countervailing and anti-dumping orders and undertakings.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector by 2010 and prohibits discriminatory border restrictions and export taxes. NAFTA also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, which is important for Canadian natural gas exports.

## **Provincial Royalties and Incentives**

### ***General***

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection, and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas liquids, sulphur, and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiation between the mineral freehold owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery, and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are, from time to time, carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests, or net carried interests.

Occasionally the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays, and tax credits, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry. Royalty holidays and reductions would reduce the amount of Crown royalties paid by oil and gas producers to the provincial governments and would increase the net income and funds from operations of such producers. However, the trend in recent years has been for provincial governments to eliminate, amend or allow such incentive programs to expire without renewal, and consequently few such incentive programs are currently operative.

### ***Alberta***

In Alberta, companies are granted the right to explore, produce and develop petroleum and natural gas resources in exchange for royalties, bonus bid payments and rents. On October 25, 2007, the Government of Alberta released a report entitled "The New Royalty Framework" (the "NRF") containing the Government's proposals for Alberta's new royalty regime, which was followed by the Mines and Minerals (New Royalty Framework) Amendment Act, 2008, which was given Royal Assent on December 2, 2008. The NRF and the applicable new legislation became effective on January 1, 2009. Prior to the NRF, the amount of royalties that were payable was influenced by the oil production, density of the oil, and the vintage of the oil. Originally, the vintage classified oil was "new oil" and "old oil" depending on when the oil pools were discovered. If the pool was discovered prior to March 31, 1974 it was

considered "old oil", if it was discovered after March 31, 1974 and before September 1, 1992, it was considered "new oil". The Alberta Government introduced in 1992 a Third Tier Royalty with a base rate of 10% and a rate cap of 25% for oil pools discovered after September 1, 1992. The new oil royalty reserved to the Crown had a base rate of 10% and a rate cap of 30%. The old oil royalty reserved to the Crown had a base rate of 10% and a rate cap of 35%. The NRF eliminates this classification and establishes new royalty rates for conventional oil, natural gas and oil sands. The new royalty rates for conventional oil are set by a single sliding rate formula which is applied monthly and increases the old royalty from 30% to 35% applied to the old and new tiers, to up to 50% and with rate caps once the price of conventional oil reaches \$120 per barrel. The sliding rate formula includes in its calculation the price of oil and well production.

With respect to natural gas, and similar to the conventional oil framework, the royalties outlined in the NRF are set by a single sliding rate formula ranging from 5% to 50% with a rate cap once the price of natural gas reaches \$16.59/GJ. Prior to the NRF, the royalty reserved to the Crown in respect of natural gas production, subject to various incentives, was between 15% and 30%, in the case of new natural gas, and between 15% and 35%, in the case of old natural gas, depending upon a prescribed or corporate average reference price. In response to the drop in commodity prices experienced during the second half of 2008, the Government of Alberta announced on November 19, 2008, the introduction of a five year program of transitional royalty rates with the intent of promoting new drilling. Under this new program companies drilling new natural gas or conventional oil deep wells (between 1,000 and 3,500 metres) will be given a one-time option, on a well by well basis, to adopt either the new transitional royalty rates or those outlined in the NRF. In order to qualify for this program wells must be drilled during the period starting on November 19, 2008 and ending on December 31, 2013. Following this period all new wells drilled will automatically be subject to the NRF.

On April 10, 2008, the Government of Alberta introduced two new royalty programs that will encourage the development of deep oil and gas reserves, and these are: (a) a five-year oil program for exploration wells over 2,000 metres that will provide royalty adjustments to offset higher drilling costs and provide a greater incentive for producers to continue to pursue new, deeper oil plays (these oil wells will qualify for up to a \$1 million or 12 months of royalty offsets, whichever comes first); and (b) a five-year natural gas deep drilling program that will replace the existing program in order to encourage continued deep gas exploration for wells deeper than 2,500 metres (the program will create a sliding scale of royalty credit according to depth, of up to \$3,750 per metre). These new programs are to be implemented along with the NRF.

Regulations made pursuant to the *Mines and Minerals Act* (Alberta) provided various incentives for exploring and developing oil reserves in Alberta. However, the Alberta Government announced in August of 2006 that four royalty programs were to be amended, a new program was to be introduced and the Alberta Royalty Tax Credit Program was to be eliminated, effective January 1, 2007. The programs affected by this announcement were: (i) Deep Gas Royalty Holiday; (ii) Low Productivity Well Royalty Reduction; (iii) Reactivated Well Royalty Exemption; and (iv) Horizontal Re-Entry Royalty Reduction. The program introduced was the Innovative Energy Technologies Program (the "IETP") which has a stated objective of promoting the producers' investment in research, technology and innovation for the purposes of improving environmental performance while creating commercial value. The IETP provides royalty reductions which are presumed to reduce financial risk. Alberta Energy decides which projects qualify and the level of support that will be provided. The deadline for the IETP's final round of applications was September 20, 2008. The successful applicants for the first two rounds have been announced, and those for the third round selection are scheduled to be announced in the first half of 2009. The technical information gathered from this program is to be made public once a two-year confidentiality period expires.

The NRF includes a policy of "shallow rights reversion". The Government of Alberta started to implement this policy on January 1, 2009, and its intent is to maximize the development of currently undeveloped resources that is consistent with the Government of Alberta's objective of maximizing recovery of known gas resources, while increasing royalty revenues. The policy's stated objective is for the mineral rights to shallow gas geological formations that are not being developed to revert back to the Government and be made available for resale, and in the event of non-productive shallow wells, to sever the rights from shallow zones and encourage increased production from up-hole zones. The shallow rights reversion policy affects all petroleum and natural gas agreements; however, the timing of the reversion will differ depending on whether the leases and licenses were acquired prior to January 1, 2009 or subsequent to January 1, 2009. Leases granted after January 1, 2009 will be

subject to shallow rights reversion at the expiry of the primary term, and in the event of a licence the policy will apply at the expiry of the intermediate term. Holders of leases or licences that have been continued indefinitely prior to January 1, 2009 will receive a notice regarding the reversion of the shallow rights, which will be implemented three years from the date of the notice. The lease or licence holder can make a request to extend this period. The order in which these agreements will receive the reversion notice will depend on the vintage of their term, with the older leases and licenses receiving a reversion notice first. Leases or licences that were granted prior January 1, 2009 but have not yet been continued will have a grace period until they are continued under section 15 of the *P&G Tenure Regulation* and be subject to deeper rights reversion prior to receiving a shallow rights reversion notice.

On March 3, 2009, the Government of Alberta announced a three-point incentive program to stimulate new and continued economic activity in Alberta which included a drilling royalty credit for new conventional oil and natural gas wells and a new well royalty incentive program. Under the drilling royalty credit program a \$200 per meter royalty credit will be available on new conventional oil and natural gas wells drilled between April 1, 2009 and March 31, 2010, subject to certain maximum amounts. The maximum credits available will be determined by the company's production level in 2008 and its drilling activity between April 1, 2009 and March 31, 2010. The new well incentive program will apply to wells beginning production of conventional oil and natural gas between April 1, 2009 and March 31, 2010 and provides for a maximum 5% royalty rate for the first 12 months of production, up to a maximum of 50,000 barrels or 500 Mmcf of natural gas.

The three-point incentive program also includes an investment of \$30,000,000 by the Government of Alberta in abandonment and reclamation projects for orphan wells. The stated objective of this investment is to encourage the cleanup of inactive oil and gas wells and to stimulate new activity within the services sector.

### ***British Columbia***

Producers of oil and natural gas in British Columbia are required to pay annual rental payments with respect to the Crown leases and royalties and freehold production taxes in respect of oil and gas produced from Crown and freehold lands. The amount payable as a royalty in respect of oil depends on the type of oil, the value of the oil, the quantity of oil produced in a month, and the vintage of the oil. Generally, the vintage of oil is based on the determination of whether the oil is produced from a pool discovered before October 31, 1975 (old oil), between October 31, 1975, and June 1, 1998 (new oil), or after June 1, 1998 (third-tier oil). The royalty rates are calculated in three stages, which take into account the vintage of the oil, if the oil produced has already been sold and any royalty exempt value applicable (exempt wells). Oil produced from newly discovered pools may be exempt from the payment of a royalty for the first 36 months of production or 11,450m<sup>3</sup> produced, whichever comes first; and the royalties for third-tier oil are the lowest reflecting the higher costs of exploration and extraction that the producers would incur. The royalty payable on natural gas is determined by a sliding scale based on a reference price, which is the greater of the price obtained by the producer, and a prescribed minimum price. However, when the reference price is below the select price (a parameter used in the royalty rate formula), the royalty rate is fixed. As an incentive for the production and marketing of natural gas, which may have been flared, natural gas produced in association with oil has a lower royalty than the royalty payable on non-conservation gas.

On May 30, 2003, the Ministry of Energy and Mines for British Columbia announced an Oil and Gas Development Strategy for the Heartlands ("**Strategy**"). The Strategy is a comprehensive program to address road infrastructure, targeted royalties and regulatory reduction, and British Columbia service sector opportunities. In addition, the Strategy will result in economic and employment opportunities for communities in British Columbia's heartlands.

Some of the financial incentives in the Strategy include:

- Royalty credits towards the construction, upgrading, and maintenance of road infrastructure in support of resource exploration and development. Funding will be contingent upon an equal contribution from industry. This program has evolved over past years as a result of the Province's stated objective to increase competitiveness, and on March 2, 2009 the Government of British Columbia announced the 2009 Infrastructure Royalty Credit Program ("**Program**") which allocates \$120 million in royalty credits for oil and gas companies. The Program provides access to royalty credits to oil and gas companies with respect to

certain approved road construction or pipeline infrastructure projects intended to improve, or make possible, the access to new and underdeveloped oil and gas areas. Companies must apply to the Ministry of Energy and Mines for British Columbia prior to 2:00 p.m. on April 30, 2009 to be considered for approval under the program.

- Changes to provincial royalties: new royalty rates for low productivity natural gas to enhance marginally economic resources plays, royalty credits for deep gas exploration to locate new sources of natural gas, and royalty credits for summer drilling to expand the drilling season.

The British Columbia Energy Plan announced on February 27, 2007 outlines the requirements for the development of goals for conservation, energy efficiency and clean energy. In addition, its stated goal is to promote competitiveness through the implementation of a Net Profit Royalty Program ("NPRP") among others, and facilitate the development of the oil and gas industry. The NPRP's objective is to share the capital risk of successful developments. Pursuant to the Net Profit Royalty Regulation, the holder of a lease can apply to pay monthly net profit royalties on production of oil and for natural gas wells within a proposed project. The amount paid is calculated on the producer's interest in the project, and it ranges from 2% to 5% of the gross revenue and 15% to 35% of the net revenues received. In addition, it depends at which stage the well is, which may be either pre-payout, after-payout or already producing marketable gas.

The Government of British Columbia has introduced a few more royalty programs, in addition to the ones previously mentioned, including a royalty program for deep discovery wells, royalty programs with a stated goal of attracting investment to less productive shallow gas wells (Ultra-Marginal Royalty Program), and the implementation of royalty credits to assist the development of the coalbed gas reserves found in the Province of British Columbia.

### ***Saskatchewan***

In Saskatchewan, the amount payable as a royalty in respect of oil depends on the vintage of the oil, the type of oil, the quantity of oil produced in a month, and the value of the oil. For Crown royalty and freehold production tax purposes, crude oil is considered "heavy oil", "southwest designated oil", or "non-heavy oil other than southwest designated oil". The conventional royalty and production tax classifications ("fourth tier oil" introduced October 1, 2002, "third tier oil", "new oil" and "old oil") of oil production are applicable to each of the three crude oil types. The Crown royalty and freehold production tax structure for crude oil is price sensitive and varies between the base royalty rates of 5% for all "fourth tier oil" to 20% for "old oil". Marginal royalty rates are 30% for all "fourth tier oil" to 45% for "old oil".

The amount payable as a royalty in respect of natural gas is determined by a sliding scale based on a reference price (which is the greater of the amount obtained by the producer and a prescribed minimum price), the quantity produced in a given month, the type of natural gas, and the vintage of the natural gas. As an incentive for the production and marketing of natural gas which may have been flared, the royalty rate on natural gas produced in association with oil is less than on non-associated natural gas. The royalty and production tax classifications of gas production are "fourth tier gas" introduced October 1, 2002, "third tier gas", "new gas", and "old gas". The Crown royalty and freehold production tax for gas is price sensitive and varies between the base royalty rate of 5% for "fourth tier gas" and 20% for "old gas". The marginal royalty rates are between 30% for "fourth tier gas" and 45% for "old gas".

On October 1, 2002, the following changes were made to the royalty and tax regime in Saskatchewan:

- A new Crown royalty and freehold production tax regime applicable to associated natural gas (gas produced from oil wells) that is gathered for use or sale and is produced from: (a) oil wells with a finished drilling date on or after October 1, 2002, and (b) oil wells with a finished drilling date prior to October 1, 2002, where the individual oil well has a gas-oil production ratio in any month of more than 3,500 cubic metres of gas for every cubic metre of oil. The royalty/tax will be payable on associated natural gas produced from an oil well that exceeds approximately 65,000 cubic metres in a month. The associated

natural gas royalty/tax regime will apply to gas produced from oil wells affected by concurrent production approvals after October 1, 2002 if the oil wells meet (a) or (b) above.

- A modified system of incentive volumes and maximum royalty/tax rates applicable to the initial production from oil wells and gas wells with a finished drilling date on or after October 1, 2002, was introduced. The incentive volumes are applicable to various well types and are subject to a maximum royalty rate of 2.5% and a freehold production tax rate of zero per cent.
- The elimination of the re-entry and short section horizontal oil well royalty/tax categories. All horizontal oil wells with a finished drilling date on or after October 1, 2002, will receive the "fourth tier" royalty/ tax rates and new incentive volumes.
- A horizontal oil well, with a finished drilling date on or after October 1, 2002, that is a non-deep oil well qualifies for a 6,000 cubic metre incentive volume.
- A horizontal oil well, with a finished drilling date on or after October 1, 2002, that is a deep oil well qualifies for a 16,000 cubic metre incentive volume.

In 1975, the Government of Saskatchewan introduced a Royalty Tax Rebate ("**RTR**") as a response to the Government of Canada disallowing crown royalties and similar taxes as a deductible business expense for income tax purposes. As of January 1, 2007, the remaining balance of any unused RTR will be limited in its carry forward to seven years since the Government of Canada's initiative to reintroduce the full deduction of provincial resource royalties from federal and provincial taxable income. Saskatchewan's RTR will be wound down as a result of the Government of Canada's plan to reintroduce full deductibility of provincial resource royalties for corporate income tax purposes.

On June 19, 2007, the Government of Saskatchewan introduced the Orphan Well and Facility Liability Management Program pursuant to the amendment of the *Oil and Gas Conservation Act* and the *Oil and Gas Conservation Regulations*, 1985. The program includes a security deposit, which has two purposes: (i) preventing any person with insufficient financial capability from acquiring oil and gas wells or facilities; and (ii) in the case of a bankrupt company, the funds cover the decommissioning and reclaiming of orphan properties. An additional change introduced is the mandatory licensing of all upstream oil and gas facilities in Saskatchewan.

### **Land Tenure**

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licences, and permits for varying terms from two years, and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

### **Environmental Regulation**

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of material fines and penalties.

Environmental legislation in Alberta has been consolidated into the *Environmental Protection and Enhancement Act* (Alberta) (the "**EPEA**"), which came into force on September 1, 1993, and the *Oil and Gas Conservation Act* (Alberta) (the "**OGCA**"). The EPEA and OGCA impose stricter environmental standards, require more stringent

compliance, reporting and monitoring obligations, and significantly increased penalties. In 2006, the Alberta Government enacted regulations pursuant to the EPEA to specifically target sulphur oxide and nitrous oxide emissions from industrial operations including the oil and gas industry. In addition, the reduction emission guidelines outlined in the *Climate Change and Emissions Management Amendment Act* came into effect on July 1, 2007 ("CCEMAA"). Under this legislation, Alberta facilities emitting more than 100,000 tonnes of greenhouse gases a year must reduce their emissions intensity by 12%. Industries have three options to choose from in order to meet the reduction requirements outlined in this legislation, and these are: (i) by making improvement to operations that result in reductions; (ii) by purchasing emission credits from other sectors or facilities that have emissions below the 100,000 tonne threshold and are voluntarily reducing their emission; or (iii) by contributing to the Climate Change and Emissions Management Fund (the "**Fund**"). Industries can either choose one of these options or a combination thereof. Pursuant to CCEMAA and the *Specified Gas Emitters Regulation*, companies were obliged to reduce their emission intensity by 12% by March 31, 2008. Alberta industries have achieved 2.6 million tonnes of actual reduction, due to changes in operations and investing on verified offset projects. In addition, certain companies contributed \$40 million to the Fund. It is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue.

On January 24, 2008, the Alberta Government announced a new climate change action plan that will cut Alberta's projected 400 million tonnes of emissions in half by 2050. This plan is based on three areas: (i) carbon capture and storage, which will be mandatory for *in situ* oil sand facilities that use heavy fuels for steam generation; (ii) energy conservation and efficiency; and (iii) greening production through increased investment in clean energy technology, including supporting research on new oil sands extraction processes, as well as the funding of projects that reduce the cost of separating carbon dioxide from other emissions supporting carbon capture and storage. In addition to this action plan, the Provincial Energy Strategy unveiled on December 11, 2008 is expected to, among other things, support the upgrading, refining and petrochemical clusters existing in the Province, market Alberta's energy internationally, review the emission targets and carbon charges applied to large facilities, and promote the innovation of energy technology by encouraging investment in research and development.

British Columbia's Environmental Assessment Act became effective June 30, 1995. This legislation rolls the previous processes for the review of major energy projects into a single environmental assessment process with public participation in the environmental review process. On February 27, 2007 the Government of British Columbia unveiled the Energy Plan outlining its strategy towards the environment and which includes targeting for zero net greenhouse gas emissions, promoting new investments in innovation, and becoming the world's leader in sustainable environmental management. For this purpose, on December 18, 2007 proposals were sought for applications to the Innovative Clean Energy Fund, in order to attract new technologies that will help solve energy and environmental issues. With regards to the oil and natural gas industry the objective is to achieve clean energy through conservation and energy efficient practices, whilst competitiveness is advocated in order to attract investment for the development of the oil and natural gas sector. Among the changes to be implemented are: (i) a new of Net Profit Royalty Program; (ii) the creation of a Petroleum Registry; (iii) the establishment of an infrastructure royalty program (combining roads and pipelines); (iv) the elimination of routine flaring at producing wells; (v) the creation of policies and measures for the reduction of emissions; (vi) the development of unconventional resources such as tight gas and coalbed gas; and (vii) new the Oil and Gas Technology Transfer Incentive Program that encourages the research, development and use of innovative technologies to increase recoveries from existing reserves and promotes responsible development of new oil and gas reserves. Furthering these initiatives, the Government of British Columbia introduced on July 1, 2008, revenue-neutral carbon tax legislation that is applied to all fossil fuels used in the Province of British Columbia. The tax would be phased in, and the initial rate would be based on CO<sub>2</sub>e of \$10 per tonne for the first six months of 2009 and \$15 per tonne for the last six months of 2009, following \$5 per tonne increases on July of every year until 2012. Tax credits and reductions will be used in order to offset the tax revenues that the Government of British Columbia would receive otherwise. On April 3, 2008, the Government of British Columbia introduced the Greenhouse Gas Reduction (Cap and Trade) Act which will allow participation in the Western Climate Initiative cap and trade systems being developed. The system establishes a limit on emissions, and allows regulated emitters to buy/sell emission allowances or offset emits. The emitter is obliged to obtain emission allowances (compliance units) equal to the amount of greenhouse gases emitted within a certain period of time, and that are supposed to be surrendered to the Government of British Columbia as compliance proof.

In December 2002, the Government of Canada ratified the Kyoto Protocol ("**Kyoto Protocol**"). The Kyoto Protocol calls for Canada to reduce its greenhouse gas emissions to 6% below 1990 "business-as-usual" levels between 2008 and 2012. Given revised estimates of Canada's normal emissions levels, this target translates into an approximately 40% gross reduction in Canada's current emissions. It is questionable, based on the Updated Action Plan announced by the Federal Government (see below), that the Kyoto Protocol target of 6% below 1990 emission levels will be enforced in Canada. Bill C-288, which is intended to ensure that Canada meets its global climate change obligations under the Kyoto Protocol, was passed by the House of Commons on February 14, 2007. On April 26, 2007, the Federal Government released its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "**Action Plan**") also known as ecoACTION which includes the regulatory framework for air emissions. This Action Plan covers not only large industry, but regulates the fuel efficiency of vehicles and the strengthening of energy standards for a number of energy using products.

The Government of Canada and the Province of Alberta released on January 31, 2008 the final report of the Canada-Alberta ecoENERGY Carbon Capture and Storage Task Force, which recommends among others: (i) incorporating carbon capture and storage into Canada's clean air regulations; (ii) allocating new funding into projects through competitive process; and (iii) targeting research to lower the cost of technology.

In order to strengthen the Action Plan, on March 10, 2008, the Government of Canada released "Turning the Corner – Taking Action to Fight Climate Change" (the "**Updated Action Plan**") which provides some additional guidance with respect to the Government's plan to reduce greenhouse gas emissions by 20% by 2020 and by 60% to 70% by 2050.

The Updated Action Plan is primarily directed towards industrial emissions from certain specified industries including the oil sands, oil and gas and refining. The Updated Action Plan is intended to create a carbon emissions trading market, including an offset system, to provide incentive to reduce greenhouse gas emission and establish a market price for carbon. There are mandatory reductions of 18% from the 2006 baseline starting in 2010 and an additional 2% in subsequent years for existing facilities. This target will be applied to regulated sectors on a facility-specific, sector-wide or corporate basis; in the case of oil sands production, petroleum refining, natural gas pipelines and upstream oil and gas the target will be considered facility-specific (sectors in which the facilities are complex and diverse, or where emissions are affected by factors beyond the control of the facility operator). Emissions from new facilities, which are those built between 2004 and 2011, will be based on a cleaner fuel standard to encourage continuous emissions intensity reductions over time, and will be granted a 3-year grace period during which no emissions intensity targets will apply. Targets will begin to apply on the fourth year of commercial operation and the baseline will be the third year's emissions intensity, with a 2% continuous annual emission intensity improvement required. The definition of new facility also includes greenfield facilities, major expansions constituting more than a 25% increase in a facility's physical capacity, as well as transformations to a facility that involve significant changes to its processes. For upstream oil and gas and natural gas pipelines, it will be applied using a sector-specific approach. For the oil sands, its application will be process-specific, oil sands plants built in 2012 and later, those which use heavier hydrocarbons, up-graders and *in-situ* production will have mandatory standards in 2018 that will be based on carbon capture and storage.

In the following regulated sectors, the Updated Action Plan will apply only to facilities exceeding a minimum annual emissions threshold: (i) 50,000 tonnes of CO<sub>2</sub> equivalent per year for natural gas pipelines; (ii) 3,000 tonnes of CO<sub>2</sub> equivalent per upstream oil and gas facility; and (iii) 10,000 boe/d/company. These proposed thresholds are significantly stricter than the current Alberta regulatory threshold of 100,000 tonnes of CO<sub>2</sub> equivalent per year per facility.

Four separate compliance mechanisms are provided in respect of the above targets: Technology Fund contributions, offset credits, clean development credits and credits for early action. The most significant of these compliance mechanisms, at least initially, will be the Technology Fund and for which regulated entities will be able to contribute in order to comply with emissions intensity reductions. The contribution rate will increase over time, beginning at \$15 per tonne for the 2010-12 period, rising to \$20 per tonne in 2013, and thereafter increasing at the nominal rate of GDP growth. Contribution limits will correspondingly decline from 70% in 2010 to 0% in 2018. Monies raised through contributions to the Technology Fund will be used to invest in technology to reduce greenhouse gas emissions. Alternatively, regulated entities may be able to receive credits for investing in large-scale and transformative projects at the same contribution rate and under similar requirements as mentioned above.

The offset system is intended to encourage emissions reductions from activities outside of the regulated sphere, allowing non-regulated entities to participate in and benefit from emissions reduction activities. In order to generate offset credits, project proponents must propose and receive approval for emissions reduction activities that will be verified before offset credits will be issued to the project proponent. Those credits can then be sold to regulated entities for use in compliance or non-regulated purchasers that wish to either cancel the offset credits or bank them for future use or sale.

Under the Updated Action Plan, regulated entities will also be able to purchase credits created through the Clean Development Mechanism of the Kyoto Protocol. The purchase of such Emissions Reduction Credits will be restricted to 10% of each firm's regulatory obligation, with the added restriction that credits generated through forest sink projects will not be available for use in complying with the Canadian regulations.

Finally, a one-time credit of up to 15 million tonnes worth of emissions credits will be awarded to regulated entities for emissions reduction activities undertaken between 1992 and 2006. These credits will be both tradable and bankable.

Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not currently possible to predict either the nature of those requirements or the impact on the Corporation and its operations and financial condition at this time.

### **Trends**

There are a number of trends that have been developing in the oil and gas industry during the past several years that appear to be shaping the near future of the business.

The first trend is the volatility of commodity prices. Natural gas is a commodity primarily influenced by factors within North America. A tight supply demand balance for natural gas causes significant elasticity in pricing, whereas higher than average storage levels tend to depress natural gas pricing. Drilling activity, weather, fuel switching and demand for electrical generation are all factors that affect the supply-demand balance. Recently, liquefied natural gas shipments to North America have also resulted in natural gas supply and natural gas pricing being based more on factors other than supply and demand in North America. Changes to any of these or other factors create price volatility.

Crude oil prices are influenced by the world economy, the Organization of the Petroleum Exporting Countries' ("OPEC") ability to adjust supply to world demand and weather. Political events also trigger large fluctuations in price levels. The current global financial crisis has reduced liquidity in financial markets thereby restricting access to financing and has caused significant volatility to commodity prices. Petroleum prices are expected to remain volatile for the remainder of 2009 as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns. See "*Risk Factors – Global Financial Crisis*".

The impact on the oil and gas industry from commodity price volatility is significant. During periods of high prices, producers generate sufficient cash flows to conduct active exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increases in cost during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers also decline.

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is, therefore affected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. Material increases in the value of the Canadian dollar may negatively impact production revenues from Canadian producers. Such increases may also negatively impact the future value of such entities' reserves as determined by independent evaluators. In recent years, the Canadian dollar has increased materially in value against the United States dollar although the Canadian dollar has recently decreased from such levels. See "*Risk Factors – Prices, Markets and Marketing*".

A second trend within the Canadian oil and gas industry is the "renewal" of private and small junior oil and gas companies starting up business. These companies often have experienced management teams from previous industry organizations that have disappeared as a part of the ongoing industry consolidation. Many are able to raise capital and recruit well qualified personnel. To the extent that this trend continues, the Corporation will have to compete with these companies and others to attract qualified personnel.

A third trend currently affecting the oil and gas industry is the impact on capital markets caused by investor uncertainty in the global economy. The capital market volatility in Canada has also been affected by uncertainties surrounding the economic impact that the Kyoto Protocol and other environmental initiatives will have on the sector and, in more recent times, by the tax changes relating to income trusts and other "specified investment flow-through" entities ("**SIFTS**") and by the NRF and new Alberta government royalty programs implemented along with the NRF. The impact of the NRF and these new royalty programs is still being determined and will vary company to company based on the percentage of production in Alberta, their commodity mix and depths of production, among other things. The amount and degree of these impacts have yet to be determined.

Pursuant to the existing provisions of the Tax Act, to the extent that a SIFT has any income for a taxation year after certain inclusions and deductions, the SIFT will be permitted to deduct all amounts of income which are paid or become payable by it to unitholders in the year. Under the legislation which received Royal Assent on June 22, 2007, SIFTS will be liable for tax at a rate consistent with the taxes currently imposed on corporations commencing in January 2011, provided that the SIFT experiences only "normal growth" and no "undue expansion" before then, in which case the tax could be imposed prior to the January 2011 deadline. Although the tax changes will not affect the method in which the Corporation will be taxed, it may have an impact on the ability of a SIFT to purchase producing assets from oil and gas exploration and production companies (as well as the price that a SIFT is willing to pay for such an acquisition) thereby affecting exploration and production companies' ability to be sold to a SIFT which has been a key "exit strategy" in recent years for oil and gas companies. This may be a benefit for the Corporation as it will compete with SIFTS for the acquisition of oil and gas properties from junior producers. However, it may also limit the Corporation's ability to sell producing properties or pursue an exit strategy.

## **RISK FACTORS**

**Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision.**

### **Significant Shareholder**

Tricap is a significant shareholder of Insignia owning, as of the date hereof, approximately 11,293,128 voting shares or 69% of the outstanding voting shares. As such, Tricap will have, subject to applicable law, the ability to determine the outcome of certain matters submitted to shareholders for approval in the future, including the election and removal of directors, amendments to the Insignia's corporate governing documents and certain business combinations. Insignia's interests and those of its controlling shareholder may at times conflict, and this conflict might be resolved against Insignia's interests. The concentration of control in the hands of a significant shareholder may impact the potential for the initiation, or the success, of an unsolicited bid for Insignia's securities.

### **Exploration, Development and Production Risks**

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time, and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Corporation will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations

uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Corporation.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In particular, the Corporation may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Corporation. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks insurable. Although the Corporation maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

### **Global Financial Crisis**

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions deteriorated in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to worsen and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

### **Prices, Markets and Marketing**

The marketability and price of oil and natural gas that may be acquired or discovered by the Corporation is and will continue to be affected by numerous factors beyond its control. The Corporation's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. The Corporation may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing and storage facilities and operational problems affecting such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

The prices of oil and natural gas prices may be volatile and subject to fluctuation. Any material decline in prices could result in a reduction of the Corporation's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in reduced production of oil or gas and a reduction in the volumes of the Corporation's reserves. The Corporation might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Corporation's expected net production revenue and a reduction in its oil and gas acquisition, development and exploration activities. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Corporation. These factors include economic conditions, in the United States and Canada, the actions of OPEC, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on the Corporation's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing credit and liquidity concerns. Volatile oil and gas prices make it difficult to estimate the acquisition value of producing properties and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

To the extent that the Corporation engages in risk management activities related to commodity prices in the future, there is a credit risk associated with counterparties with which the Corporation may contract.

In addition, bank borrowings available to the Corporation may, in part, be determined by the Corporation's borrowing base. A sustained material decline in prices from historical average prices could reduce the Corporation's borrowing base, therefore reducing the bank credit available to the Corporation which could require that a portion, or all, of the Corporation's bank debt be repaid.

### **Failure to Realize Anticipated Benefits of Acquisitions and Dispositions**

The Corporation makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that the Corporation can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Corporation, if disposed of, could be expected to realize less than their carrying value on the financial statements of the Corporation.

### **Operational Dependence**

Other companies operate some of the assets in which the Corporation has an interest. As a result, the Corporation has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Corporation's financial performance. The Corporation's return on assets operated by others therefore depends upon a number of factors that may be outside of the Corporation's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

## **Project Risks**

The Corporation manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The Corporation's ability to execute projects and market oil and natural gas depends upon numerous factors beyond the Corporation's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Corporation could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

## **Competition**

The petroleum industry is competitive in all its phases. The Corporation competes with numerous other organizations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. The Corporation's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage. Competition may also be presented by alternate fuel sources.

## **Regulatory**

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. See "Industry Conditions". Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Corporation's costs, any of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In order to conduct oil and gas operations, the Corporation will require licenses from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

## **Kyoto Protocol**

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Corporation's exploration and production facilities and other operations and activities emit greenhouse gases which will require the Corporation to comply with the new regulatory framework announced on March 10, 2008 by the Federal Government which is intended to

force large industries to reduce emissions of greenhouse gases, in addition to the proposed *Clean Air Act* (Canada) of 2006 and Alberta's recently enacted *Climate Change and Emissions Management Act* and *Specified Gas Emitters Regulation*. The direct or indirect costs of these regulations may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. See "Industry Conditions – Environmental Regulation".

### **Environmental**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Corporation. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Corporation and its operations and financial condition. See "Industry Conditions – Environmental Regulation".

### **Variations in Foreign Exchange Rates and Interest Rates**

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore effected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar has increased materially in value against the United States dollar although the Canadian dollar has recently decreased from such levels. Material increases in the value of the Canadian dollar negatively impact the Corporation's production revenues. Future Canadian/United States exchange rates could accordingly impact the future value of the Corporation's reserves as determined by independent evaluators.

To the extent that the Corporation engages in risk management activities related to foreign exchange rates in the future, there is a credit risk associated with counterparties with which the Corporation may contract.

An increase in interest rates could result in a significant increase in the amount the Corporation pays to service debt, which could negatively impact the market price of the Common Shares of the Corporation.

### **Substantial Capital Requirements**

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Corporation's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Corporation to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's business financial condition, results of operations and prospects.

**Additional Funding Requirements**

The Corporation's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Corporation may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Corporation's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on terms acceptable to the Corporation. Continued uncertainty in domestic and international credit markets could materially affect the Corporation's ability to access sufficient capital for its capital expenditures and acquisitions, and as a result, may have a material adverse effect on the Corporation's ability to execute its business strategy and on its business, financial condition, results of operations and prospects.

**Issuance of Debt**

From time to time the Corporation may enter into transactions to acquire assets or the shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase the Corporation's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, the Corporation may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time, could impair the Corporation's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

**Hedging**

From time to time the Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases and the Corporation may nevertheless be obligated to pay royalties on such higher prices, even though not received by it, after giving effect to such agreements. Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Corporation will not benefit from the fluctuating exchange rate.

**Availability of Drilling Equipment and Access**

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities.

**Title to Assets**

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Corporation's claim which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

**Reserve Estimates**

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth

herein are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, the Corporation's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from the Corporation's oil and gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities the Corporation intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and has not been updated and thus does not reflect changes in the Corporation's reserves since that date.

### **Insurance**

The Corporation's involvement in the exploration for and development of oil and natural gas properties may result in the Corporation becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although the Corporation maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

### **Geo-Political Risks**

The marketability and price of oil and natural gas that may be acquired or discovered by the Corporation is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising in the Middle-East, and other areas of the world, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of the Corporation's net production revenue.

In addition, the Corporation's oil and natural gas properties, wells and facilities could be subject to a terrorist attack. If any of the Corporation's properties, wells or facilities are the subject of terrorist attack it may have a material

adverse effect on the Corporation's business, financial condition, results of operations and prospects. The Corporation will not have insurance to protect against the risk from terrorism.

### **Dilution**

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

### **Management of Growth**

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to deal with this growth may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

### **Expiration of Licences and Leases**

The Corporation's properties are held in the form of licences and leases and working interests in licences and leases. If the Corporation or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Corporation's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

### **Dividends**

The Corporation has not paid any dividends on its outstanding shares. Payment of dividends in the future will be dependent on, among other things, the cash flow, results of operations and financial condition of the Corporation, the need for funds to finance ongoing operations and other considerations as the board of directors of the Corporation considers relevant.

### **Aboriginal Claims**

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. The Corporation is not aware that any claims have been made in respect of its properties and assets; however, if a claim arose and was successful such claim may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

### **Seasonality**

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Corporation.

### **Third Party Credit Risk**

The Corporation may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, poor credit

conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

### Conflicts of Interest

Certain directors of the Corporation are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the ABCA. See "Directors and Officers – Conflicts of Interest".

### Reliance on Key Personnel

The Corporation's success depends in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. The Corporation does not have any key person insurance in effect for the Corporation. The contributions of the existing management team to the immediate and near term operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

## AUDIT COMMITTEE INFORMATION

### Audit Committee Charter

The Audit Committee Mandate and Terms of Reference of the Board of Directors of the Corporation is attached hereto as Schedule "C".

### Composition of the Audit Committee and Relevant Education and Experience

The Audit Committee of the Corporation is comprised of Dave Ambedian (Chair), Sandra Cowan and Jeffery E. Errico. The following table sets out the assessment of each Audit Committee member's independence, financial literacy and relevant educational background and experience supporting such financial literacy.

<u>Name</u>	<u>Independent</u>	<u>Financially Literate</u>	<u>Relevant Education and Experience</u>
David Ambedian	Yes	Yes	Mr. Ambedian is a Partner with 32° Capital Inc., a private energy focused investment management company. He is also currently a director of One Exploration Inc., a public company listed on the TSX Venture Exchange as well as Caltex Energy Inc. and Evolve Exploration Ltd., both of which are private oil and gas companies. Prior to September 2004, Mr. Ambedian was a director of Bear Ridge Resources Ltd., a public oil and gas company listed on the TSX, a director, Vice-President, Finance & Chief Financial Officer of Hygait Resources Ltd., a director, co-founder, Vice-President, Finance and Chief Financial Officer of Glacier Energy Limited, a co-founder and Vice-President, Finance & Chief Financial Officer of Ice Energy Limited and a cofounder and Vice-President, Finance & Chief Financial Officer of Avalanche Energy Limited, all of which are private oil and gas companies. Mr. Ambedian holds a Bachelor of Commerce degree from the University of Alberta and is a Certified Management Accountant.
Sandra S. Cowan	Yes	Yes	Ms. Cowan is an Independent Businesswoman. Prior to 2009 Ms Cowan was a Partner and General Counsel of EdgeStone Capital Partners, an independent private equity firm managing over \$1 billion of private capital. Prior to joining EdgeStone in 2001, Ms. Cowan practiced law for over 15 years, most recently as a senior partner of Goodman and Carr LLP. Her practice specialized in private equity and corporate finance transactions, including fund formation, mergers, acquisitions and divestitures, cross-border and public market transactions. Ms. Cowan has a Bachelor of Laws from the University of Western Ontario and serves on a number of private and public boards.

<u>Name</u>	<u>Independent</u>	<u>Financially Literate</u>	<u>Relevant Education and Experience</u>
Jeffery E. Errico	Yes	Yes	Mr. Errico is a Professional Engineer with a Bachelor of Applied Science Degree in Chemical Engineering from the University of British Columbia. He currently serves as a director of Crew Energy Inc. and Inter Pipeline Fund; both of which trade on the TSX. He was most recently with Petrofund Energy Trust from 1995 to 2206 in various senior management positions including CEO from 2003 to 2006.

### **Pre-Approval Policies and Procedures**

Under the Audit Committee Mandate and Terms of Reference, the Audit Committee is required to review and pre-approve any non-audit services to be provided to the Corporation or its subsidiaries by the external auditors and consider the impact on the independence of such auditors. The Audit Committee may delegate to one or more independent members the authority to pre-approve non-audit services, provided that the member report to the Audit Committee at the next scheduled meeting such pre-approval and the member comply with such other procedures as may be established by the Audit Committee from time to time.

The Audit Committee has determined that in order to ensure the continued independence of the auditors, only limited non audit related services will be provided to the Corporation by Deloitte & Touche LLP and in such case, only with the prior approval of the Audit Committee.

### **External Auditors Service Fees**

The following table sets forth the audit service fees billed by the Corporation's external auditors, Ernst & Young LLP and Deloitte & Touche LLP, for the periods indicated:

<u>Type of Fees and Fiscal Year Ended</u>	<u>Aggregate Fees Billed</u>	<u>Description of Services</u>
Audit Fees		
Fiscal Year Ended December 31, 2008	\$193,000	
Fiscal Year Ended December 31, 2007	\$158,000	
Audit – Related Fees		
Fiscal Year Ended December 31, 2008	\$nil	
Fiscal Year Ended December 31, 2007	\$nil	
Tax Fees		
Fiscal Year Ended December 31, 2008	\$nil	
Fiscal Year Ended December 31, 2007	\$nil	
All Other Fees		
Fiscal Year Ended December 31, 2008	\$3,000	Accounting outsourcing
Fiscal Year Ended December 31, 2007	\$nil	

### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans is contained in the Corporation's information circular for the Corporation's most recent annual meeting of securityholders that involved the election of directors. Additional financial information is contained in the Corporation's financial statements and the related management's discussion and analysis for the Corporation's most recently completed financial year.

**SCHEDULE "A"**  
**FORM 51-101F3**  
**REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE**

Management of Insignia Energy Ltd. (the "**Corporation**") is responsible for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2008 estimated using forecast prices and costs

An independent qualified reserves evaluator has evaluated the Corporation's reserves data. The report of the independent qualified reserves evaluator is presented below.

The Reserves Audit and EH&S Committee of the board of directors of the Corporation has

- (a) reviewed the Corporation's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Audit and EH&S Committee of the board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has approved

- (d) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;
- (e) the filing of the report of the independent qualified reserves evaluator on the reserves data; and
- (f) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

DATED as of this 25<sup>th</sup> day of March, 2009.

(signed) "*Jeffrey D. Newcommon*"  
Jeffrey D. Newcommon  
President, CEO and Director

(signed) "*Glen C. Fischer*"  
Glen C. Fischer  
Chief Operating Officer

(signed) "*Christopher Slubicki*"  
Christopher Slubicki  
Director

(signed) "*Jeffery E. Errico*"  
Jeffery E. Errico  
Director

**SCHEDULE "B"**  
**FORM 51-101F2**  
**REPORT ON RESERVES DATA**  
**BY INDEPENDENT QUALIFIED RESERVES EVALUATOR**

To the board of directors of Insignia Energy Ltd. (the "**Company**"):

1. We have prepared and evaluation of the Company's reserves data as at December 31, 2008. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2008 estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2008, and identifies the respective portions thereof that we have evaluated and reported on to the Company's Management/Board of Directors:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves (County or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate - \$M)			
			Audited	Evaluated	Reviewed	Total
GLJ Petroleum Consultants Ltd.	February 17, 2009	Canada	-	26,812	-	26,812

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Executed as to our report referred to above.

GLJ Petroleum Consultants Ltd.,  
 Calgary, Alberta, Canada,  
 February 23, 2009

Per: (signed "Bryan M. Joa, P. Eng.")  
 Vice-President

## **SCHEDULE "C"**

### **AUDIT COMMITTEE**

#### **MANDATE AND TERMS OF REFERENCE**

##### **Role and Objective**

The Audit Committee (the "Committee") is a committee of the board of directors (the "Board") of Insignia Energy Ltd. ("Insignia" or the "Corporation") to which the Board has delegated its responsibility for the oversight of the nature and scope of the annual audit, the oversight of management's reporting on internal accounting standards and practices, the review of financial information, accounting systems and procedures, financial reporting and financial statements and has charged the Committee with the responsibility of recommending, for approval of the Board, the audited financial statements, interim financial statements and other mandatory disclosure releases containing financial information.

The primary objectives of the Committee are as follows:

1. To assist directors in meeting their responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements of Insignia and related matters;
2. To provide better communication between directors and external auditors;
3. To enhance the external auditor's independence;
4. To increase the credibility and objectivity of financial reports; and
5. To strengthen the role of the outside directors by facilitating in depth discussions between directors on the Committee, management and external auditors.

##### **Membership of Committee**

6. The Committee will comprise at least three (3) directors of Insignia or such greater number as the Board may determine from time to time and all members of the Committee shall be "independent" (as such term is used in Multilateral Instrument 52-110 — Audit Committees ("MI 52-110")) unless the Board determines that the exemption contained in MI 52-110 is available and determines to rely thereon or unless the Board determines that MI 52-110 does not currently apply to the Corporation.
7. The Board of Directors may from time to time designate one of the members of the Committee to be the Chair of the Committee.
8. All of the members of the Committee must be "financially literate" (as defined in MI 52-110) unless the Board determines that an exemption under MI 52-110 from such requirement in respect of any particular member is available and determines to rely thereon in accordance with the provisions of MI 52-110.

##### **Mandate and Responsibilities of Committee**

It is the responsibility of the Committee to:

9. Oversee the work of the external auditors, including the resolution of any disagreements between management and the external auditors regarding financial reporting.
10. Satisfy itself on behalf of the Board with respect to Insignia's internal control systems.

11. Review the annual and interim financial statements of Insignia and related management's discussion and analysis ("MD&A") prior to their submission to the Board for approval. The process should include but not be limited to:
  - reviewing changes in accounting principles and policies, or in their application, which may have a material impact on the current or future years' financial statements;
  - reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;
  - reviewing accounting treatment of unusual or non-recurring transactions;
  - ascertaining compliance with covenants under loan agreements;
  - reviewing disclosure requirements for commitments and contingencies;
  - reviewing adjustments raised by the external auditors, whether or not included in the financial statements;
  - reviewing unresolved differences between management and the external auditors; and
  - obtain explanations of significant variances with comparative reporting periods.
12. Review the financial statements, prospectuses, MD&A, annual information forms ("AIF") and all public disclosure containing audited or unaudited financial information (including, without limitation, annual and interim press releases and any other press releases disclosing earnings or financial results) before release and prior to Board approval. The Committee must be satisfied that adequate procedures are in place for the review of Insignia's disclosure of all other financial information and will periodically assess the accuracy of those procedures.
13. With respect to the appointment of external auditors by the Board:
  - recommend to the Board the external auditors to be nominated;
  - recommend to the Board the terms of engagement of the external auditor, including the compensation of the auditors and a confirmation that the external auditors will report directly to the Committee;
  - on an annual basis, review and discuss with the external auditors all significant relationships such auditors have with the Corporation to determine the auditors' independence;
  - when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change; and
  - review and pre-approve any non-audit services to be provided to Insignia or its subsidiaries by the external auditors and consider the impact on the independence of such auditors. The Committee may delegate to one or more independent members the authority to pre-approve non-audit services, provided that the member(s) report to the Committee at the next scheduled meeting such pre-approval and the member(s) comply with such other procedures as may be established by the Committee from time to time.
14. Review with external auditors (and internal auditor if one is appointed by Insignia) their assessment of the internal controls of Insignia, their written reports containing recommendations for improvement, and management's response and follow-up to any identified weaknesses. The Committee will also review

annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of Insignia and its subsidiaries.

15. Review risk management policies and procedures of Insignia (i.e. hedging, litigation and insurance).
16. Establish a procedure for:
  - the receipt, retention and treatment of complaints received by Insignia regarding accounting, internal accounting controls or auditing matters; and
  - the confidential, anonymous submission by employees of Insignia of concerns regarding questionable accounting or auditing matters.
17. Review and approve Insignia's hiring policies regarding partners and employees and former partners and employees of the present and former external auditors of Insignia.

The Committee has authority to communicate directly with the internal auditors (if any) and the external auditors of the Corporation. The Committee will also have the authority to investigate any financial activity of Insignia. All employees of Insignia are to cooperate as requested by the Committee.

The Committee may also retain persons having special expertise and/or obtain independent professional advice to assist in filling their responsibilities at such compensation as established by the Committee and at the expense of Insignia without any further approval of the Board.

#### **Meetings and Administrative Matters**

- At all meetings of the Committee every resolution shall be decided by a majority of the votes cast. In case of an equality of votes, the chairperson of the meeting shall be entitled to a second or casting vote.
- The Chair will preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee that are present will designate from among such members the Chair for purposes of the meeting.
- A quorum for meetings of the Committee will be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee will be the same as those governing the Board unless otherwise determined by the Committee or the Board.
- Meetings of the Committee should be scheduled to take place at least four times per year. Minutes of all meetings of the Committee will be taken. The Chief Financial Officer (or prior to appointment the person carrying out the duties of the Chief Financial Officer) will attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Chair.
- The Committee will meet with the external auditor at least once per year (in connection with the preparation of the year-end financial statements) and at such other times as the external auditor and the Committee consider appropriate.
- Agendas, approved by the Chair, will be circulated to Committee members along with background information on a timely basis prior to the Committee meetings.
- The Committee may invite such officers, directors and employees of the Corporation as it sees fit from time to time to attend at meetings of the Committee and assist in the discussion and consideration of the matters being considered by the Committee.
- Minutes of the Committee will be recorded and maintained and circulated to directors who are not members of the Committee or otherwise made available at a subsequent meeting of the Board.

- The Committee may retain persons having special expertise and may obtain independent professional advice to assist in fulfilling its responsibilities at the expense of the Corporation.
- Any members of the Committee may be removed or replaced at any time by the Board and will cease to be a member of the Committee as soon as such member ceases to be a director. The Board may fill vacancies on the Committee by appointment from among its members. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, following appointment as a member of the Committee, each member will hold such office until the Committee is reconstituted.
- Any issues arising from these meetings that bear on the relationship between the Board and management should be communicated to the Chairman of the Board by the Committee Chair.