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Management's Discussion and Analysis

INSIGNIA ENERGY LTD.

December 31, 2008

INSIGNIA



INSIGNIA

**INSIGNIA ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Insignia Energy Ltd. ("Insignia" or the "Company") is dated as of March 25, 2009 and should be read in conjunction with the Audited Financial Statements and accompanying notes as at and for the years ended December 31, 2008 and 2007.

Significant Transaction and Basis of Presentation

Insignia Energy Ltd. resulted from the combination of the businesses of Insignia Energy Inc. ("Insignia Inc.") and Flagship Energy Inc. ("Flagship").

The business combination was effected through a Plan of Arrangement (the "Plan of Arrangement" or "Arrangement") effective July 31, 2008 involving Insignia Inc., Flagship, Tricap Partners Ltd. ("Tricap"), the shareholders of Insignia Inc. and the shareholders of Flagship. Under the Plan of Arrangement, among other matters, Flagship acquired substantially all of the assets and liabilities of Insignia Inc. and in exchange, the Insignia Inc. shareholders received Flagship common shares. Following the exchange, all of the outstanding common shares were consolidated on a hundred-for-one basis and the combined entity changed its name to "Insignia Energy Ltd."

The Plan of Arrangement also provided for a recapitalization of the Company. Tricap converted its outstanding debt to common shares and acquired additional common shares, resulting in Tricap owning approximately 60% of the outstanding common shares as at December 31, 2008. Insignia also has a \$25 million unused equity line whereby Tricap is committed, prior to July 31, 2009, to subscribe for an additional 3,676,470 common shares of Insignia at a price of \$6.80 per share.

Subsequent to the Arrangement, the Management team and Board of Directors consists of the former Management and Board of Directors of Insignia Inc., supplemented by two additional board nominees of Tricap.

The business combination has been accounted for as a reverse takeover with Insignia Inc. as the acquirer. Accordingly, the financial statements include the historical accounts of Insignia Inc. and do not include the operations of Flagship for any period prior to July 31, 2008.

The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The reporting and measurement currency is the Canadian dollar. The following Management's Discussion and Analysis compares the results of the year ended December 31, 2008 ("YEAR 2008") to the year ended December 31, 2007 ("YEAR 2007") and the results of the three months ended December 31, 2008 ("Q4 2008") to the three months ended December 31, 2007 ("Q4 2007") and to the three months ended September 30, 2008 ("Q3 2008").

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

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

Non-GAAP Measurements

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

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

(000's)	Q4 2008 \$	Q3 2008 \$	Q4 2007 \$	YEAR 2008 \$	YEAR 2007 \$
Cash provided by operating activities	913	700	87	2,155	217
Add back:					
Abandonment and reclamation costs	450	228	-	678	-
Change in non-cash working capital	188	560	(145)	927	(106)
Funds from operations	1,551	1,488	(58)	3,760	111

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

Executive Summary

Financial and Operational Data

	Q4 2008 \$	Q3 2008 \$	Q4 2007 \$	YEAR 2008 \$	YEAR 2007 \$	YEAR 2006 \$
Financial (000's, except for per share amounts)						
Oil and natural gas sales	5,135	3,831	273	10,778	1,003	-
Funds from operations ⁽¹⁾	1,551	1,488	(58)	3,760	111	(45)
Per share - Basic and diluted ⁽²⁾	0.12	0.16	(0.01)	0.50	0.03	(0.05)
Net loss	(22,893)	(1,425)	(376)	(24,477)	(378)	(62)
Per share - Basic and diluted ⁽²⁾	(1.82)	(0.16)	(0.09)	(3.26)	(0.10)	(0.07)
Working capital	27,658	30,246	16,265	27,658	16,265	19,079
Future proceeds from equity line ⁽²⁾	25,000	25,000	-	25,000	-	-
Total capital resources available ⁽³⁾	52,658	55,246	16,265	52,658	16,265	19,079
Property and equipment	32,137	49,095	4,520	32,137	4,520	14
Total assets	65,701	87,384	21,333	65,701	21,333	19,494
Operations						
Average daily production						
Natural gas (mcf/d)	3,842	3,390	490	2,367	414	-
Oil and NGL (bbls/d)	495	168	-	167	-	-
Total (boe/d)	1,135	733	82	561	69	-
Product prices						
Natural gas (\$/mcf)	6.78	7.22	6.06	7.46	6.64	-
Oil and NGL (\$/bbl)	59.75	101.52	-	70.33	-	-
Total (\$/boe)	49.16	56.81	36.35	52.46	39.85	-
Operating netback (\$/boe) ⁽¹⁾	19.82	27.35	8.96	24.03	18.65	-

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

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

(3) Total capital resources available includes working capital plus future proceeds from the equity line with Tricap Partners Ltd.

Outstanding Share Data

As at December 31, 2008

Common shares	12,596,801
Special voting shares	3,676,470
Total voting shares	16,273,271
Common share options	
Total issued	963,500
Total exercisable	-
Performance warrants	
Total issued	1,629,500
Total exercisable	-
Total voting shares and dilutive instruments	18,866,271

Selected Quarterly Information

(000's, except for per share amounts)	Q4 08 \$	Q3 08 \$	Q2 08 \$	Q1 08 \$	Q4 07 \$	Q3 07 \$	Q2 07 \$	Q1 07 \$
Oil and natural gas sales	5,135	3,831	1,004	808	273	173	254	303
Net earnings (loss)	(22,893)	(1,425)	(5)	(154)	(376)	(184)	(190)	372
Per share - Basic and diluted	(1.82)	(0.16)	(0.00)	(0.04)	(0.09)	(0.05)	(0.05)	0.11
Working capital	27,658	30,246	15,756	16,394	16,265	16,780	17,460	18,192

Outlook

We are currently living and operating in a world with much uncertainty. Global financial and commodity markets are undergoing significant change and this will likely continue for much of 2009 and perhaps into 2010. Although the short term outlook remains cloudy, the long term fundamentals in the oil and gas sector remain promising. We are in the business to find, develop and produce a source of energy that is not only non-renewable but is the present fuel of choice throughout the world. And this is expected to continue for the foreseeable future. As the world economy recovers it is expected that the demand for this resource will increase and, since it is limited in supply, fundamental economics dictate that the price of this resource should go up.

Operating in this environment of uncertainty is not easy but, at Insignia, we remain disciplined and focused to execute our strategy of acquiring and developing quality oil and gas reserves. We will exercise patience when required and protect our strong balance sheet but not at the expense of failing to execute on our business plan. Our 2009 capital program will be reviewed quarterly throughout the year in the context of commodity prices, cost environment and financial markets. We look at 2009 as a year that will present as many opportunities as challenges.

Insignia is uniquely positioned with a strong balance sheet with over \$52 million in capital resources (which includes the \$25 million Tricap equity line) and no debt. Given the current market cycle where we believe that acquisitions are more attractive than drilling, we are targeting accretive corporate and asset acquisitions with these resources. To date, the acquisition market has generally been fairly quiet stemming from both the market volatility and the speed at which the market has changed. We do believe, however, that, as this recession continues, the opportunities will not only become more abundant but that there will be better quality assets presented to those that, like Insignia, have the resources to pursue them.

Although our focus is on accretive acquisitions, our Board has approved a conservative 2009 operating budget of between \$5 to \$8 million with the allocation of this capital being split approximately 60% drilling, 20% equipping and 20% land and seismic. The risked production additions from this program are expected to result in an average 2009 production rate of 800-900 boe/d and a year-end exit rate of 1,000-1,100 boe/d. Both estimates assume the Crossfire 9-01 well comes back on production towards the end of the first half of the year. Any acquisitions completed throughout 2009 would be additive to these estimates.

Although we believe over the long term that supply and demand fundamentals will result in significant upside for both oil and natural gas prices, we will remain disciplined and patient to enable us to weather an extended period of low prices should this occur before the recovery begins. We believe our counter-cyclical strategy of acquiring quality assets at attractive prices will serve us well when the inevitable recovery arrives.

Capital Expenditures

The following table highlights expenditures by category for the periods indicated:

(000's)	Q4 2008 \$	Q3 2008 \$	Q4 2007 \$	YEAR 2008 \$	YEAR 2007 \$
Property acquisitions (dispositions), net	(90)	-	-	(86)	1,730
Land	271	985	33	1,336	77
Geological and geophysical	1,337	42	-	1,382	6
Drilling and completions	1,210	28	325	1,254	2,725
Equipment, facilities and pipelines	671	521	147	1,627	296
Capitalized general and administrative and other	150	106	-	267	20
Total capital expenditures – cash	3,549	1,682	505	5,780	4,854
Corporate acquisition ⁽¹⁾	-	45,399	-	45,399	-
Current period ARO capitalized	695	114	17	809	146
Total additions to property and equipment	4,244	47,195	522	51,988	5,000

(1) Corporate acquisition includes the amount allocated to property and equipment in the purchase accounting, which differs from the purchase price where there are allocations made to other assets and liabilities, including asset retirement obligations.

During the fourth quarter of 2008, the Company was active developing and expanding its existing assets, namely:

The Company acquired a 50% working interest in five sections of land directly offsetting the Company's current land holdings in the Doris area.

Insignia acquired approximately 50 square miles of 3D seismic in the Crossfire area. This seismic completes the coverage of all Company lands in the Crossfire area as well as other prospective lands. The Company also participated for its 50% working interest in a 14 mile 2D seismic shoot in the Doris area.

Three gas wells (2.75 net) were drilled during the year, all in the fourth quarter, and one was completed in the quarter. The Crossfire battery equalization described in the third quarter report was cancelled when the operator of the property withdrew the AFE. Our Q4 2008 capital expenditures were lower than previous guidance as declining product prices reduced the economic potential of planned expenditures.

Subsequent to year end, two wells drilled in the fourth quarter were completed and the remaining fourth quarter well was equipped and tied in for production.

Equipment, facilities and pipeline costs for the full year include costs associated with the equipping of 6.0 (4.9 net) additional wells, including the Crossfire discovery well at 9-1-50-6 W5M. This well was subsequently shut in for a bottom-hole pressure survey required under the Good Production Practice (GPP) approval issued by the ERCB for the well. Production is expected to resume in mid 2009.

Financial Results

Production

	Q4 2008	Q3 2008	Q4 2007	YEAR 2008	YEAR 2007
Natural gas (mcf/d)	3,842	3,390	490	2,367	414
Oil and NGL (bbls/d)	495	168	-	167	-
Total (boe/d)	1,135	733	82	561	69

Prior to July 31, 2008, our production comprised 100% gas production from our Beaverhill Lake property. Results for the period August 1, 2008 to December 31, 2008 include production on our acquired properties. On a boe per day basis, our production averaged 186 boe/d to July 31, 2008 and 1,083 boe/d thereafter. As of December 31, 2008, the Company has 3.7 net oil wells and 42.9 net natural gas wells on production.

Our production for the full year totalled 561 boe/day, including 2,367 mcf/day of natural gas (70% of production) and 167 bbls/day of oil and natural gas liquids (30% of production).

Production for Q4 2008 was as follows:

Area	Natural gas mcf/d	Oil and NGL bbls/d	Total boe/d	%
Alberta	3,137	492	1015	89%
Saskatchewan	705	3	120	11%
Total	3,842	495	1,135	100%
Percentage of total	56%	44%	100%	

Q4 2007 and YEAR 2007 results presented include gas sales from our Beaverhill Lake properties only.

Pricing and Marketing

	Q4 2008 \$	Q3 2008 \$	Q4 2007 \$	YEAR 2008 \$	YEAR 2007 \$
Benchmark Price					
AECO-C Daily Spot (\$/mcf)	6.69	7.74	6.14	8.13	6.44
Edmonton Light (\$/bbl)	63.21	121.85	86.42	102.16	76.35
Insignia's Realized Price					
Natural gas (\$/mcf)	6.78	7.22	6.06	7.46	6.64
Oil and NGL (\$/bbl)	59.75	101.52	-	70.33	-
Total (\$/boe)	49.16	56.81	36.35	52.46	39.85

Insignia has no commodity hedges in place and we market our products on a daily spot market basis at various delivery points in Alberta and Saskatchewan.

Natural gas prices peaked in June, 2008 and then commenced a downward trend, such that realized gas prices in the last half of the year were approximately 22% lower than in the first half of the year. Our spread to the AECO benchmark is dependent on the heat content of gas from wells on production during the period, and can vary across periods.

Our oil comprises medium to heavy gravity crude from our properties in the Retlaw/Little Bow area of Alberta and light oil, primarily from our Crossfire property. Realized blended oil and natural gas liquid prices for the Q4 2008 were \$59.75 per barrel, representing a 41% decrease from Q3 2008. Our spread to the Edmonton light benchmark is dependent on the production mix between our Retlaw/Little Bow properties and other properties during the period, and can vary across periods.

Oil and Natural Gas Sales

(000's)	Q4 2008 \$	Q3 2008 \$	Q4 2007 \$	YEAR 2008 \$	YEAR 2007 \$
Natural gas	2,397	2,252	273	6,461	1,003
Oil and NGL	2,738	1,579	-	4,317	-
Total	5,135	3,831	273	10,778	1,003

YTD 2008 sales were \$10.8 million, \$2.1 million to July 31, 2008 and \$8.7 million thereafter. Q1 2009 sales will be significantly lower than Q4 2008 due to a production loss of approximately 350 boe/d with the Crossfire 9-1 well remaining shut in, and a further decline in commodity prices.

Royalties

	Q4 2008	Q3 2008	Q4 2007	YEAR 2008	YEAR 2007
Royalties by Type (000's)	\$	\$	\$	\$	\$
Crown	857	558	63	1,567	63
Freehold, including freehold mineral tax	131	144	(16)	439	123
Gross overriding	150	182	13	485	48
Total	1,138	884	60	2,491	234
\$/boe	10.89	13.12	8.00	12.12	9.31
% of revenue	22%	23%	22%	23%	23%

Our acquired properties are predominantly subject to Crown royalties. In Alberta, crown royalties on natural gas and natural gas liquids are charged by the provincial government based on an established monthly Reference Price that is meant to reflect the average price for gas and NGL's in Alberta. The appropriate Crown royalty rate is then applied, less established deductions, to calculate the Crown royalties. Gas cost allowance, custom processing credits, and other incentive programs reduce the effective royalty rate.

In 2008, royalty rates on natural gas production in Alberta were capped at 30% for discoveries in 1974 or later and 35% for gas discovered prior to 1974. The New Royalty Framework, effective from January 1, 2009 on our existing production, is a single sliding scale formula ranging from 5% to 50% with a rate cap once the price of natural gas reaches \$16.50/GJ. The sliding scale formula includes in its calculation well production, depth of the well, and the price of gas.

Crown royalty rates on oil are generally a function of production rates on a per well basis, the vintage of the oil and market prices. Oil royalty rates may also be subject to certain reductions and incentives. Crown royalties in Alberta are generally satisfied by allowing the Crown to own and sell directly its share of the production.

In 2008, royalty rates on oil production were capped at 25% for discoveries in 1992 or later, 30% for discoveries between 1974 and 1992, and 35% for oil discovered prior to 1974. The New Royalty Framework, effective from January 1, 2009 on our existing production, is also a single sliding scale formula with a rate cap once the price of oil reaches \$120/barrel. The sliding scale formula includes in its calculation well production, density of the oil, and the price of oil.

Future changes in natural gas and oil pricing, production volumes, capital and operating costs, and further changes to applicable royalty regimes by the Government of Alberta all have the potential to impact future royalties payable to the Crown.

We also make royalty payments to freehold owners of the mineral rights on certain of our leases, pay freehold mineral tax to the Crown, and in some instances, make royalty payments to third parties by way of contractual overriding royalties.

Lease Operating and Transportation Expenses

(000's)	Q4 2008	Q3 2008	Q4 2007	YEAR 2008	YEAR 2007
	\$	\$	\$	\$	\$
Lease operating expenses	1,813	1,019	137	3,108	267
Transportation expenses	114	83	9	243	32
Total	1,927	1,102	146	3,351	299
\$/boe	18.45	16.34	19.39	16.31	11.89

Our operating and transportation costs for Q4 2008 totalled \$1.9 million or \$18.45 per boe. During the period, we completed a turnaround at our Edam compressor station, and several workovers which, in total, added approximately \$2.50 per boe to our operating costs for the quarter. Q4 2007 and YTD 2007 results presented include lease operating costs from our Beaverhill Lake properties only, which have an overall lower cost structure than our acquired properties.

Interest Income

(000's)	Q4 2008	Q3 2008	Q4 2007	YEAR 2008	YEAR 2007
	\$	\$	\$	\$	\$
Interest income	175	162	184	617	742

As at December 31, 2008, \$20.0 million of cash was held in an interest-bearing operating account with the Canadian Imperial Bank of Commerce ("CIBC"), which earns interest at the CIBC's prime rate less 1.85%. We also had \$10.0 million of our surplus cash balance invested in an Alberta Treasury Branch 91 day term deposit at a rate of 2.63%. With prime rates moving downward, we have realized a reduction in interest income throughout the periods presented.

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

(000's)	Q4 2008	Q3 2008	Q4 2007	YEAR 2008	YEAR 2007
	\$	\$	\$	\$	\$
Direct G&A	814	621	260	2,015	1,062
Capitalized G&A	(135)	(102)	-	(237)	-
Net G&A	679	519	260	1,778	1,062
Direct G&A (\$/boe)	7.78	9.20	34.72	9.80	42.22
Capitalized G&A (\$/boe)	(1.29)	(1.51)	-	(1.15)	-
Net G&A (\$/boe)	6.49	7.69	34.72	8.65	42.22
Stock-based compensation	442	319	189	987	725

Our Q4 2008 direct general and administration totalled \$814 thousand compared to \$621 thousand in Q3 2008, reflecting a full period of post-acquisition activity. Subsequent to completing our acquisition, we added 6 employees in operations, land, accounting and administration, and had 11 full time employees and 9 consultants as of December 31, 2008.

Our capitalized G&A relates primarily to costs associated with activities in respect of purchase, farm-in and other property and corporate opportunities.

As a result of the Plan of Arrangement, our stock based compensation arrangements were cancelled and replaced. We apply the fair value method for valuing stock option and performance warrant grants and expense the value over the vesting period with a corresponding increase to contributed surplus. As a result, Insignia expensed \$0.4 million leaving an unamortized portion of stock-based compensation of \$2.0 million at December 31, 2008.

Depletion, Depreciation and Accretion (“DD&A”)

(000’s)	Q4 2008 \$	Q3 2008 \$	Q4 2007 \$	YEAR 2008 \$	YEAR 2007 \$
Depletion, depreciation and accretion	21,305	2,594	147	24,553	500
Total (\$/boe)	203.96	38.47	19.60	119.52	19.88

Effective December 31, 2008, we completed our annual impairment review of our unproved properties. In evaluating undeveloped land, we considered our future plans for our properties, the remaining terms of the leases, and current land prices. As a result of this assessment, \$8.4 million has been excluded from the depletion and depreciation base. We completed our ceiling test, utilizing published independent price forecasts as at December 31, 2008 and current forward strip prices and concluded that given the collapse in commodity prices, a valuation adjustment of \$16.3 million was required. The ceiling test write-down of \$16.3 million is included in Q4 2008 and Year 2008 DD&A expense.

Taxes

Current taxes for 2008 of \$15 thousand include Saskatchewan Capital Tax and Resource Surcharge.

Future income taxes for 2008 of \$2.7 million reflects a write-down of the tax asset recorded in the purchase price equation pursuant to the 2008 corporate acquisition.

Income taxes recovered in 2007 relates to the tax effect of renouncing expenditures pursuant to the Company’s flow through share financings in 2006 and 2007.

As at December 31, 2008, the Company has tax deductions of approximately \$77.7 million available to shelter future taxable income.

Funds from Operations and Net Loss

For Q4 2008, funds from operations totalled \$1.6 million, compared to \$1.5 million for Q3 2008. Year over year, funds from operations increased from \$0.1 million in 2007 to \$3.8 million in 2008.

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

(\$/boe)	Q4 2008 \$	Q3 2008 \$	Q4 2007 \$	YEAR 2008 \$	YEAR 2007 \$
Sales price	49.16	56.81	36.35	52.46	39.85
Royalties	(10.89)	(13.12)	(8.00)	(12.12)	(9.31)
Lease operating and transportation expenses	(18.45)	(16.34)	(19.39)	(16.31)	(11.89)
Operating netback	19.82	27.35	8.96	24.03	18.65
Interest income	1.68	2.41	24.59	3.00	29.51
General and administration	(6.49)	(7.69)	(34.72)	(8.65)	(42.22)
Other	(0.16)	-	(6.59)	(0.08)	(1.53)
Funds from operations netback	14.85	22.07	(7.76)	18.30	4.41

Net loss for Q4 2008 was \$22.9 million (\$1.82 per share) compared to a net loss of \$0.4 million (\$0.09 per share) in Q4 2007. The YTD 2008 net loss was \$24.5 million (\$3.26 per share) compared to a net loss of \$0.4 million (\$0.10 per share) in YTD 2007. Due to the anti-dilutive effect of the Company's net loss for these periods, the diluted per share amounts for net loss are equivalent to basic per share amounts.

Liquidity and Capital Resources

Equity

As of December 31, 2008, the Company has 12,596,801 common shares and 3,676,470 special voting shares outstanding, and has issued 963,500 stock options and 1,629,500 performance warrants at a weighted average exercise price of \$6.80.

	Q4 2008	Q4 2007	YEAR 2008	YEAR 2007
Weighted Average Shares Outstanding				
Basic and diluted	12,609,010	4,112,040	7,497,290	3,958,386

Outstanding stock options are not included in the diluted weighted average shares outstanding as the impact of exercising these options would be anti-dilutive. Outstanding performance warrants are not included in the diluted weighted average shares outstanding as the market price conditions have not yet been satisfied.

In December, 2008 the Company received approval from the Toronto Stock Exchange ("TSX") for a Normal Course Issuer Bid. The Company can repurchase up to 2,244 Common Shares per day from December 10, 2008 to March 31, 2009 and 1,122 Common Shares per day from April 1, 2009 to December 9, 2009, subject to certain conditions. Under the TSX authorization the Company has repurchased, for cancellation, 19,000 Common Shares at an average price of \$3.08 per Common Share. Security holders may obtain a copy of the Notice of Intention to make a Normal Course Issuer Bid filed with the TSX without charge, by contacting the Company at (403) 536-8132.

As of the date hereof, the Company has 12,592,201 common shares, 3,676,470 special voting shares, 1,028,500 stock options and 1,629,500 performance warrants outstanding.

Working Capital

(000's)	December 31, 2008 \$	December 31, 2007 \$
Cash and cash equivalents	29,972	16,516
Accounts receivable	2,001	225
Prepaid expenses	118	53
Accounts payable and accrued liabilities	(4,433)	(529)
Working Capital	27,658	16,265

The increase in working capital from year end 2007 reflects the impact of cash transactions under the Plan of Arrangement, and higher activity levels from the associated properties acquired.

Equity Line

Insignia has a \$25 million unused equity line whereby Tricap Partners Ltd. are committed, prior to July 31, 2009, to subscribe for an additional 3,676,470 common shares of the Company at a price of \$6.80 per share. The special voting shares will be cancelled without consideration concurrent with the common share subscriptions on a one-for-one basis.

Contractual Obligations and Commitments

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

(000's)	Total \$	2009 \$	2010 - 2011 \$	2012 - 2013 \$	After 2013 \$
Office lease, excluding operating costs	2,062	170	693	846	353
Asset retirement obligations	9,510	535	1,638	1,499	5,838
Total Contractual Obligations	11,572	705	2,331	2,345	6,191

The Company enters into contractual obligations in the course of conducting its day to day business. Our material obligations are as detailed above. The payment terms on the asset retirement obligation is based on an estimated timing of expenditures to be made in future periods and amounts have been escalated at 2.0%; the actual amount and timing of expenditures may differ materially from that presented above.

Financial Instruments

Financial instruments comprise cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities. We have not identified any embedded derivatives in any of our contracts.

Off-Balance Sheet Arrangements

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

Related Party Transaction

Until June 30, 2008, the Company utilized office premises under lease by a senior officer of the Company (the "Lessor"). During the year ended December 31, 2008, the Company paid \$53 thousand (December 31, 2007 - \$111 thousand) to the Lessor as a reimbursement, at cost, of rent and administrative services.

New Accounting Standards

On January 1, 2008, the Company adopted CICA Handbook sections 3862 "Financial Instruments - Disclosures" and 3863 "Financial Instruments - Presentation", which enhance existing disclosures for financial instruments. In particular, section 3862 focuses on the identification of risk exposures and the Company's approach to management of these risks. There is no financial impact to previously reported financial statements as a result of the implementation of this new standard.

On January 1, 2008, the Company adopted CICA Handbook section 1535 "Capital Disclosures". This section establishes disclosure requirements for management's objectives, policies and processes in defining and managing its capital. There is no financial impact to previously reported financial statements as a result of the implementation of this new standard.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The IFRS conversion project has five key components or impacts - financial statement preparation, training, information systems, control environment, and external communications. With the assistance of an external advisor, the Company has completed a high level review of the major differences between Canadian GAAP and IFRS as they relate to 2008 accounting policies and practices. The next project phase will be a more in-depth analysis of the business issues and accounting policy choices.

Application of Critical Accounting Estimates

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

Reserves Determination

The process of estimating reserves is complex. It requires significant judgements and decisions based on available geological, geophysical, engineering and economic data. To estimate the economically recoverable oil and natural gas reserves and related future net cash flows, many factors and assumptions are incorporated such as expected reservoir characteristics based on geological, geophysical and engineering assessments, future production rates based on historical performance and expected future operating and investment activities, future oil and gas prices and quality differentials, future development and operating costs and assumed effects of regulation by government agencies.

Properties will, over a period of time, actually deliver oil and gas in quantities different than originally estimated due to changes in reservoir performance. The timing of future capital expenditures are subject to uncertainty. Projected future commodity prices and the operating and capital cost structure are subject to significant management judgement and currently, highly volatile. Actions by provincial governments with respect to the royalty regime have a significant and unpredictable impact.

Management is responsible for estimating the quantities of oil and natural gas reserves. Estimates are prepared in accordance with National Instrument 51-101, generally accepted industry practices and the standards of the Canadian Oil and Gas Evaluation Handbook.

On an annual basis, we have an independent reserves evaluation completed. GLJ Petroleum Consultants were engaged to perform the evaluation effective December 31, 2008.

The Board of Directors has established a Reserves Audit Committee to assist them in overseeing the annual review of our oil and gas reserves. The Reserves Audit Committee comprises three independent Directors. The Reserves Audit Committee meets with management periodically to review the reserves process and results. The Reserves Audit Committee appoints and meets with the independent reserve evaluator, independent of management, to review the scope of their work, whether they have had access to sufficient information, the nature and satisfactory resolution of any material differences of opinion, and their independence.

Reserves estimates are critical to many of our accounting estimates, including the following:

1. Calculating our unit-of-production depletion and depreciation rate.
2. Applying a "ceiling test" to the net book value of oil and natural gas properties to ensure that such carrying value does not exceed the estimated fair value of the properties.
3. Assessing the cost of our unproved properties excluded from costs subject to depletion and depreciation for impairment.

Asset Retirement Obligations (“ARO”)

We are required to remove or remedy the effect of our activities on the environment at our oil and gas wells and facilities. Estimating our future asset retirement obligations requires us to make estimates and judgments with respect to activities that will occur many years into the future. We record asset retirement obligations in our Financial Statements by discounting the estimated future obligations. In arriving at the amount recorded, numerous assumptions and judgments are made with respect to ultimate settlement amounts, inflation factors, credit-adjusted discount rates, and the timing of settlement. These individual assumptions can be subject to change based on experience. The ARO we have recorded results in an increase to the carrying costs of our property and equipment, and the obligations accrete with the passage of time. A change in any one of our assumptions could impact our ARO, the carrying value of our property and equipment, and our net income or loss.

Future Income Taxes

We follow the liability method of accounting for income taxes whereby future income tax assets and liabilities are recognized based on temporary differences in reported amounts for financial statement and tax purposes. We have recorded a valuation allowance against our future income tax asset based on an analysis of the likelihood of realization of those assets. Changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

Other Estimates

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenue, royalties, lease operating and transportation costs at a specific report date, but for which actual revenues and costs have not yet been received. In addition, estimates are made on capital projects which are in process or recently completed where actual costs have not been received by the reporting date. The Company obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates.

Stock-based Compensation

We determine the fair value of stock options and performance warrants at the date of grant and expense the compensation cost over the vesting period. In determining fair value, we utilize binomial lattice option pricing models developed for us by a third party expert. In arriving at the amounts recorded, numerous assumptions and judgments are made with respect to exercise expectations, volatility, risk-free interest rates and dividend yield.

Risk Factors

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

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.

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. Such increases may also negatively impact the future value of 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.

The impact on the oil and gas industry, in general, 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.

For Insignia, this volatility causes significant variation in our net production revenue from period to period. In an environment of low prices, certain wells or other projects may become uneconomic and we may elect not to produce from certain wells, leading to a reduction in development opportunities and the volume and value of our reserves.

Insignia continually monitors the movement of commodity prices and will apply appropriate financial risk management instruments if we believe that these are warranted to maintain a given revenue profile. Insignia has no such instruments in place at this time.

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.

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 and an increase to the cost of capital. 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.

The impact on capital markets caused by investor uncertainty in the global economy has a significant impact on our business model. We anticipate making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. There can be no assurance that debt or equity financing will be available or that our existing cash balances and cash generated by operations will be sufficient to make these expenditures. If debt or equity financing is available, it may not be on terms acceptable to us. Failure to obtain such financing on a timely basis could cause us to miss certain acquisition opportunities.

Third Party Credit Risk

We must successfully market our natural gas to prospective buyers. The Company may be exposed to third party credit risk through its contractual arrangements with its current or future marketers of its oil and natural gas production. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material impact on the Company'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 Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner.

Exploration, Development and Production

The long-term commercial success of Insignia will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that Insignia will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisition or participations are identified, Insignia may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues 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 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.

In addition, operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, the invasion of water into producing formations, blow-outs, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Insignia attempts to minimize exploration, development and production risk by utilizing a high-end technical team with extensive experience and multidisciplinary skill sets to assure the highest probability of success. We augment our management team by contracting certain supervisory activities to consulting firms with specialized expertise.

Environment, Health and Safety

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 Insignia to incur costs to remedy such discharge.

There are potential risks to the environment inherent in the business activities of the Company. Insignia has developed and implemented policies and procedures to mitigate environment, health and safety ("EH&S") risks.

These policies and procedures include the emergency response plans and the EH&S program. These policies and procedures are designed to protect and maintain the environment and to ensure that the employees, contractors, subcontractors and the public at large are kept safe at all times.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although the Company 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 Company 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 Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Forward Looking Statements

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

Additional Information

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

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CORPORATE INFORMATION

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Vice President, Energy
Brookfield Asset Management Inc.

Sandra Cowan⁽¹⁾⁽²⁾
Independent Businesswoman

Jim Reid⁽²⁾
Managing Partner, Energy
Brookfield Asset Management Inc.

Christopher Slubicki⁽²⁾⁽³⁾
Independent Businessman

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

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Glen Fischer
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Steven Mackay
Vice President, Exploration

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Burnet, Duckworth & Palmer LLP
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Evaluations Engineers

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company
Calgary, Alberta

TSX Symbol: ISN

ABBREVIATIONS

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