Financial Statements

INSIGNIA ENERGY LTD.

September 30, 2008
(unaudited)

Insignia Energy Ltd.

Balance Sheets

(unaudited) (000's)	**September 30, 2008 $**	December 31, 2007 $
ASSETS		
Current		
Cash and cash equivalents	**31,532**	16,516
Accounts receivable	**2,479**	225
Prepaid expenses	**205**	53
	34,216	16,794
Deposits	**373**	-
Future income taxes	**3,700**	19
Property and equipment *[note 4]*	**49,095**	4,520
	87,384	21,333
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**3,970**	529
Asset retirement obligation *[note 5]*	**6,017**	152
Commitments *[note 10]*		
Shareholders' equity		
Share capital *[note 6]*	**77,509**	20,354
Contributed surplus *[note 6]*	**1,283**	738
Deficit	**(1,395)**	(440)
	77,397	20,652
	87,384	21,333

See accompanying notes

APPROVED ON BEHALF OF THE BOARD

(Signed) "D. Ambedian", Director

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

Insignia Energy Ltd.

Statements of Operations and Deficit

(unaudited) (000's)	**Three months ended September 30, 2008 $**	Three months ended September 30, 2007 $	**Nine months ended September 30, 2008 $**	Nine months ended September 30, 2007 $
Revenues				
Oil and natural gas sales	**3,831**	173	**5,643**	730
Royalties	**(884)**	(25)	**(1,353)**	(174)
Interest income	**162**	195	**442**	558
	3,109	343	**4,732**	1,114
Expenses				
Lease operating	**1,019**	37	**1,294**	130
Transportation	**83**	7	**130**	23
General and administrative	**519**	221	**1,099**	802
Interest and related amortization	**-**	-	**-**	22
Stock-based compensation *[note 6(f)]*	**319**	195	**545**	536
Depletion, depreciation and accretion	**2,594**	67	**3,248**	353
	4,534	527	**6,316**	1,866
Loss before income taxes	**(1,425)**	(184)	**(1,584)**	(752)
Recovery of future income taxes	**-**	-	**-**	750
Loss and comprehensive loss for the period	**(1,425)**	(184)	**(1,584)**	(2)
Retained earnings (deficit), beginning of period	**(599)**	120	**(440)**	(62)
Elimination of deficit *[Note 6(b)]*	**629**	-	**629**	-
Deficit, end of period	**(1,395)**	(64)	**(1,395)**	(64)
Loss per share, basic and diluted *[note 6(c)]*	**(0.16)**	(0.05)	**(0.27)**	0.00

See accompanying notes

Insignia Energy Ltd.
Statements of Cash Flows

(unaudited) (000's)	Three months ended September 30, **2008** $	2007 $	Nine months ended September 30, **2008** $	2007 $
Cash was provided by (used in)				
OPERATING ACTIVITIES				
Loss for the period	**(1,425)**	(184)	**(1,584)**	(2)
Items not involving cash				
Stock-based compensation	**319**	195	**545**	536
Depletion, depreciation and accretion	**2,594**	67	**3,248**	353
Recovery of future income taxes	**-**	-	**-**	(750)
Interest and amortization on convertible debentures	**-**	-	**-**	32
Abandonment and reclamation costs *[note 5]*	**(228)**	-	**(228)**	-
	1,260	78	**1,981**	169
Change in non-cash operating working capital *[note 8]*	**(560)**	12	**(739)**	(39)
	700	90	**1,242**	130
FINANCING ACTIVITIES				
Issuance of share capital, net of share issue expenses	**24,894**	(8)	**24,894**	1,881
Repayment of promissory notes	**-**	-	**-**	(130)
Change in non-cash financing working capital *[note 8]*	**-**	8	**-**	(41)
	24,894	-	**24,894**	1,710
INVESTING ACTIVITIES				
Property and equipment expenditures	**(1,682)**	(750)	**(2,231)**	(4,349)
Corporate acquisition *[note 3]*	**(8,715)**	-	**(9,396)**	-
Increase in deposits	**(9)**	-	**(9)**	-
Change in non-cash investing working capital *[note 8]*	**(306)**	(183)	**516**	422
	(10,712)	(933)	**(11,120)**	(3,927)
Increase (decrease) in cash and cash equivalents	**14,882**	(843)	**15,016**	(2,087)
Cash and cash equivalents, beginning of period	**16,650**	18,178	**16,516**	19,422
Cash and cash equivalents, end of period	**31,532**	17,335	**31,532**	17,335

Cash and cash equivalents comprises the Company's bank balance, bearing interest at prime less 1.85%.

See accompanying notes

1. BUSINESS OF THE COMPANY

Insignia Energy Ltd. ("Insignia" or the "Company") 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 "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, 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 whereby Tricap converted outstanding debt to common shares, acquired additional common shares pursuant to a private placement, and committed to future private placements, as more fully described in Note 6. These transactions resulted in Tricap owning approximately 60% of the outstanding common shares as at September 30, 2008.

The business combination has been accounted for as a reverse takeover with Insignia Inc. as the acquirer, as more fully described in Note 3. 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 interim financial statements for Insignia Energy Ltd. have been prepared in accordance with accounting principles generally accepted in Canada, using the same accounting policies and methods of computations as set out in Note 2 to the audited financial statements of Insignia Inc. for the year ended December 31, 2007, except as noted below. The disclosures provided below are incremental to those included with the audited financial statements for the year ended December 31, 2007. The interim financial statements should be read in conjunction with the audited financial statements of Insignia Inc. for the year ended December 31, 2007.

2. CHANGES IN ACCOUNTING POLICIES AND PRACTICES

As of January 1, 2008, the Company adopted two new CICA Handbook requirements, Section 3862, "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation" which replaced Section 3861, "Financial Instruments – Disclosure and Presentation". The new standards require disclosure of the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments and how those risks are managed. The additional disclosures required by these standards are provided in Note 7.

As of January 1, 2008, the Company also adopted CICA Handbook Section 1535 "Capital Disclosures" which requires entities to disclose their objectives, policies and processes for managing capital and, in addition, whether the entity has complied with any externally imposed capital requirements. The additional disclosures required by this standard are provided in Note 9.

The adoption of these new standards did not impact the amounts reported in the Company's financial statements.

<u>Future Accounting Changes</u>

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises' interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The eventual changeover to IFRS represents a change due to new accounting standards. 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.

Although, the Company has not completed development of its IFRS changeover plan, when finalized it will include an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS. The Company anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities by the end of the year.

3. CORPORATE ACQUISITION

On July 31, 2008, Insignia Inc. completed a reverse takeover of Flagship whereby Flagship acquired substantially all of the net assets of Insignia Inc. by the issuance of common shares of Flagship. Following the business combination, but prior to the issue of additional common shares under the Plan of Arrangement, the former shareholders of Insignia Inc. held approximately 83% of the issued and outstanding common shares, and the former shareholders of Flagship held approximately 17%. 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. Accordingly, the acquisition is being accounted for as a reverse takeover of Flagship by Insignia Inc., whereby Insignia Inc. is considered to be the acquirer for accounting purposes.

The acquisition has been accounted for using the purchase method of accounting. The fair value of the acquisition has been determined based on the fair value of the consideration given, being Insignia Inc.'s net assets. The majority of the fair value of Insignia Inc.'s net assets was cash and cash equivalents.

The purchase price allocation is as follows:

Net assets received, at estimated fair value	
Property and equipment	45,399
Working capital deficiency	(8,989)
Tricap debt	(27,000)
Asset retirement obligation	(5,900)
Future income taxes	3,700
	7,210

Consideration	
Common Shares issued	5,609
Cash in respect of Odd-Lot Provisions	42
Fair value of Arrangement Warrants	300
Transaction costs	1,259
	7,210

The attributed value of the common shares issued have been excluded from the statement of cash flows as a non-cash transaction. The working capital deficiency includes $7.2 million of outstanding debt under a demand credit facility. This amount was repaid on closing of the transaction, and the credit facility cancelled. This amount has been included in the statement of cash flows.

4. PROPERTY AND EQUIPMENT

	September 30, 2008 $	December 31, 2007 $
Cost	52,759	5,015
Accumulated depletion and depreciation	(3,664)	(495)
	49,095	4,520

The cost of unproved properties at September 30, 2008 of $13.7 million (September 30, 2007 - $0.7 million) has been excluded from the depletion and depreciation calculation. Future development costs of proved reserves of $8.3 million (September 30, 2007 - $0.3 million) have been included in the depletion and depreciation calculation. For the three months and the nine months ended September 30, 2008, the Company capitalized $0.1 million of general and administrative expenditures (2007 comparative periods - $nil).

5. ASSET RETIREMENT OBLIGATION ("ARO")

The total future asset retirement obligation was estimated by management based upon the Company's net share of estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods.

At September 30, 2008 the estimated total future amount required to settle the ARO, escalated at 2.0%, was $10.1 million (December 31, 2007 - $0.2 million). Approximately 20% of this obligation will be settled over the next 5 years, with the balance estimated to be primarily incurred between 2016 and 2020.

The total future amount has been discounted using the Company's credit adjusted risk-free interest rate of 7.2%.

A reconciliation of the asset retirement obligation is provided below:

	Nine months ended September 30, 2008 $	Year ended December 31, 2007 $
Balance, beginning of period	152	-
Liabilities acquired in the business combination *[note 3]*	5,900	-
Liabilities incurred	114	146
Accretion expense	79	6
Liabilities settled	(228)	-
Balance, end of period	6,017	152

6. SHARE CAPITAL

(a) Authorized

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

(b) Issued

Issued Common Shares	Number of Shares	Amount $
Balance, December 31, 2007	25,943,464	20,354
Tax effect of expenditures renounced	-	(19)
Shares exchanged under the Plan of Arrangement	(25,943,464)	-
Shares issued under the Plan of Arrangement, on a .1585 post-consolidation basis	4,112,040	20,335
Acquisition of Flagship *[note 3]*	824,905	5,609
Issued to Tricap pursuant to the Debt Conversion and Subscription Agreement *[note 6(b)(ii)]*		
Private Placement, for cash	2,205,882	15,000
Debt Conversion	3,970,589	27,000
Issued for cash pursuant to the exercise of Arrangement Warrants *[note 6(b)(i)]*	58,918	401
Fair Value of Arrangement Warrants	-	300
Issued for cash to Tricap pursuant to Back Stop Agreement *[note 6(b)(ii)]*	1,440,187	9,793
Share issue expenses *[note 6(b)(ii)]*	-	(300)
Elimination of deficit against stated capital, under the Plan of Arrangement *[note 6(b)(iii)]*	-	(629)
Balance September 30, 2008	12,612,521	77,509

Issued Special Voting Shares	Number of Shares	Amount $
Issued to Tricap pursuant to the Debt Conversion and Subscription Agreement	3,676,470	-

(i) Arrangement Warrants

Under the Plan of Arrangement, the former shareholders of Insignia Inc. and Flagship were granted a right to acquire Common Shares for cash consideration of $6.80 per share prior to September 4, 2008. As a result of Arrangement Warrants exercised, the Company issued 58,918 Common Shares and received cash proceeds of $0.4 million.

(ii) The Tricap Agreements

In connection with the Plan of Arrangement, Insignia Inc., Flagship and Tricap entered into the Tricap Debt Conversion and Subscription Agreement which set forth the terms and conditions under which Tricap agreed to participate in the Plan of Arrangement. Under this agreement:

(a) Tricap converted $27.0 million of outstanding debt in exchange for 3,970,589 Common Shares.

(b) Tricap subscribed for 735,294 units for cash consideration of $15.0 million, each unit comprising of 3 Common Shares and 5 Special Voting Shares, and Tricap and Insignia entered into an Equity Commitment Agreement. Under this agreement, for a period of 12 months ending July 31, 2009, the Company has the right from time to time to require Tricap to subscribe for and purchase up to 3,676,470 Common Shares for cash consideration of $6.80 per Common Share. Tricap also has the right to put the subscription to the Company on the same terms.

The Special Voting Shares carry voting rights. The Special Voting Shares will be cancelled without consideration concurrent with the subscriptions for Voting Common Shares on a one-for-one basis, or on July 31, 2009 in the event that no such subscriptions are made.

(c) Tricap and Insignia entered into a Backstop Agreement whereby Tricap agreed to subscribe for up to $10.0 million of common shares at a price of $6.80 per Common Share, to the extent that certain Arrangement Warrants were not exercised. Under this agreement, the Company issued 1,440,187 Common Shares and received cash proceeds of $9.8 million. In connection with the Backstop Agreement, the Company paid Tricap a fee of $0.3 million on July 31, 2008. This amount has been included in share issue expenses.

(iii) Elimination of Deficit

Pursuant to the Plan of Arrangement, the stated capital of the Company's Common Shares was reduced by $629,000, being the amount of the deficit as of July 31, 2008.

(c) Per share amounts

The weighted average number of Common Shares issued and outstanding, adjusted for the share exchange ratio and consolidation under the Plan of Arrangement, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Weighted average common shares outstanding - basic	9,083,351	4,112,040	5,781,239	3,906,606
Dilutive effect of conversion of debentures	-	-	-	123,090
Weighted average common shares outstanding - diluted	9,083,351	4,112,040	5,781,239	4,029,696

(d) Performance warrants

Pursuant to the Plan of Arrangement, all outstanding performance warrants as at July 31, 2008 were cancelled for no consideration. On July 31, 2008, the Company issued 1,629,500 performance warrants to directors, officers and employees of the Company, entitling the holders to purchase one common share for each performance warrant held at a price of $6.80 per common share. Performance warrants were issued for a five-year term. The performance warrants vest 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, as defined in the performance warrant agreements:

Vesting price $	**Percent of Issued Warrants**
10.20	10%
11.90	10%
13.60	15%
15.30	15%
17.00	15%
18.70	15%
20.40	20%
	100%

None of these performance warrants are currently vested. The weighted average fair value of new performance warrants at the date of grant was estimated at $0.97 per warrant using a binomial lattice option-pricing model.

(e) Stock options

The Company has a stock option plan, administered by the Board of Directors, under which up to 10% of the issued and outstanding Common Shares may be reserved for issuance. Unless otherwise determined by the Board of Directors, options shall vest as to one-third on each of the first, second and third anniversary dates of the option grant and expire five years from the option grant date. This stock option plan was approved by the shareholders on July 31, 2008.

Pursuant to the Plan of Arrangement, all outstanding stock options as at July 31, 2008 were cancelled for no consideration. On July 31, 2008, the Company issued, under the new stock option plan, 864,500 options to directors, officers and employees of the Company, entitling the holders to purchase one common share for each stock option held at a price of $6.80 per common share. Stock options were issued for a five-year term and vest over three years as described above. None of these stock options are currently vested.

The weighted average fair value of new stock options at the date of grant was estimated at $2.09 per option using a binomial lattice option-pricing model.

(f) Stock-based compensation

The Company utilizes a binomial lattice option-pricing model to estimate the fair value of stock options and performance warrants. The following significant assumptions were utilized.

	Nine months ended	
	September 30, 2008	September 30, 2007
Risk-free rate of return	3.2%	4.0%
Expected volatility	40.0%	40.0%
Dividend yield	nil	nil

The binomial lattice model assumes that performance warrants and stock options will be exercised when the share price equals or exceeds a multiple of the exercise price. The Company had assumed that holders will exercise vested instruments when the share price is 125% (2007 - 150%) of the exercise price.

The cancellation and re-issuance of performance warrants and stock options pursuant to the Plan of Arrangement has been accounted for as a modification of the original compensation plans. The incremental fair value of the modifications was nominal.

The Company amortizes the fair value of stock options and performance warrants over the vesting period.
Non-cash expense has been recorded as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	$	$	$	$
Stock options	170	69	258	161
Performance warrants	149	126	287	375
Total	319	195	545	536

(g) Contributed surplus

The following table reconciles the Company's contributed surplus:

	Nine months ended September 30, 2008 $	Year ended December 31, 2007 $
Balance, beginning of period	738	13
Stock-based compensation	545	725
Fair value of Arrangement Warrants	300	-
Reclassified to share capital on expiry of the Arrangement Warrants	(300)	-
Balance, end of period	1,283	738

7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

(a) Fair values of financial assets and liabilities

Financial instruments of the Company consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. As at September 30, 2008 there were no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values due to the short term nature of these financial instruments.

(b) Financial risk factors

The Company is exposed to a number of different financial risks arising from normal course business exposures, including market, liquidity and credit risks.

Market risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect expected future cash flows include commodity prices, foreign exchange rates and interest rates.

The Company's financial performance is closely linked to commodity prices. The Company monitors the risks associated with these prices and may utilize financial instruments to manage its exposure, if appropriate. The Company has no such instruments in place currently.

All of the Company's sales are denominated in Canadian dollars and, as such, the Company is not directly exposed to foreign currency exchange rate risk. However, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company currently has no forward exchange contracts in place.

For the nine months ended September 30, 2008, 9% of the Company's net revenue was generated from interest earned on its cash and cash equivalents. The Company holds its cash in an interest-bearing operating account with a Canadian chartered bank. The interest rate earned on this account fluctuates with changes to the prime business rate, making the Company's cash flows sensitive to changes in interest rates.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. As the Company currently has a significant cash balance and no financial liabilities other than accounts payable, liquidity risk is considered nominal.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises principally from Insignia's cash and cash equivalents and accounts receivable from joint venture partners and oil and natural gas purchasers.

As at September 30, 2008, we hold $31.5 million of cash and cash equivalents with a Canadian chartered bank. Management has assessed the associated credit risk as relatively low. As at September 30, 2008 the Company's receivables consisted of $1.6 million from oil and natural gas marketers, $0.5 million from joint venture partners and $0.4 million of other trade and tax receivables.

The Company markets its oil and natural gas products to several purchasers, but over 85% of our product is currently delivered to Nexen Marketing. This purchaser was selected from a number of available competitors based on management's previous experience with, and risk assessment of, the purchaser. We receive payment from purchasers normally on the 25th day of the month following production, and as such all amounts due from purchasers and included in accounts receivable at September 30, 2008 have been substantially received.

Joint venture receivables are typically collected within two to three months of the joint venture billing being issued to the partner. We attempt to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital and operating expenditures prior to the expenditure. Our partners are subject to the risks and conditions of the industry, and significant changes in industry conditions will increase the risk of Insignia not collecting receivables. As of September 30, 2008, the Company had $0.2 million of receivables that were considered past due and were greater than 180 days old. Management establishes an allowance for doubtful accounts based on their assessment of collection, and this allowance was $0.1 million at September 30, 2008.

8. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net change in non-cash working capital:				
Decrease (increase) in accounts receivable	(136)	(65)	(252)	(213)
Decrease (increase) in prepaid expenses	(10)	32	(95)	(36)
Increase (decrease) in accounts payable and accrued liabilities	(720)	(130)	124	591
Total	(866)	(163)	(223)	342
Summary of working capital changes:				
Operating	(560)	12	(739)	(39)
Financing	-	8	-	(41)
Investing	(306)	(183)	516	422
Total	(866)	(163)	(223)	342
Supplementary cash flow information:				
Interest paid	-	-	-	3
Income taxes paid	136	-	185	-

9. CAPITAL MANAGEMENT

The Company's capital structure includes working capital and shareholders' equity. The Company's policy is to maintain a strong balance sheet for its objectives of maintaining financial flexibility and creditor and investor confidence to sustain future growth and access to capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. In order to maintain or adjust the capital structure, the Company may, from time to time, issue shares, adjust its capital spending or issue debt instruments. The Company is not subject to any externally imposed capital requirements.

10. COMMITMENTS

The Company's annual commitments under its office premises lease, excluding operating costs, are as follows:
2009 - $170,000; 2010 - $209,000; 2011 - $421,000; 2012 to 2014 - $423,000; 2015 - $35,000.

CORPORATE INFORMATION

Board of Directors

Jeff Newcommon
President & Chief Executive Officer

Jeffery E. Errico(1)(2)(3)
Executive Chairman

Dave Ambedian(1)(3)
Independent Businessman

Brian Baker
Vice President, Energy
Brookfield Asset Management Inc.

Sandra Cowan(1)(2)
General Counsel & Partner
EdgeStone Capital Partners

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

Officers

Jeffrey Newcommon
President & Chief Executive Officer

Glen Fischer
Chief Operating Officer

Steven Mackay
Vice President, Exploration

Brenda Hughes
Controller and Interim CFO

Head Office

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Auditors
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Bankers
CIBC
Calgary, Alberta

Legal Counsel
Burnet, Duckworth & Palmer
Calgary, Alberta

Evaluations Engineers
GLJ Petroleum Consultants
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
Cdn	Canadian
US	United States