



Financial Statements

INSIGNIA ENERGY LTD.

March 31, 2009
(unaudited)

INSIGNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Insignia Energy Ltd. ("Insignia" or the "Company") is dated as of May 13, 2009 and should be read in conjunction with the unaudited Financial Statements and accompanying notes for the three months ended March 31, 2009 and 2008 and the audited Financial Statements and accompanying notes for the years ended December 31, 2008 and 2007.

Basis of Presentation

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 three months ended March 31, 2009 ("Q1 2009") to the three months ended December 31, 2008 ("Q4 2008") and the three months ended March 31, 2008 ("Q1 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.

Throughout this MD&A, references to the Plan of Arrangement ("Arrangement") and Tricap Partners Ltd. ("Tricap") refer to the reverse takeover of Flagship Energy Inc. ("Flagship") effective July 31, 2008, as more fully described in the notes to the Financial Statements referred to above. The results of operations from the Flagship assets have been included effective July 31, 2008.

Non-GAAP Measurements

Certain financial measures referenced to 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 the Canadian GAAP.

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

	<i>Q1</i> <i>2009</i>	<i>Q4</i> <i>2008</i>	<i>Q1</i> <i>2008</i>
<i>(000's)</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
<i>Cash provided by operating activities</i>	<i>176</i>	<i>913</i>	<i>27</i>
<i>Add back:</i>			
<i>Abandonment and reclamation costs</i>	<i>4</i>	<i>450</i>	<i>-</i>
<i>Change in non-cash working capital</i>	<i>(171)</i>	<i>188</i>	<i>263</i>
<i>Funds from operations</i>	<i>9</i>	<i>1,551</i>	<i>290</i>

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

	Q1 2009	Q4 2008	Q1 2008
	\$	\$	\$
Financial (000's, except for per share amounts)			
Oil and natural gas sales	2,104	5,135	808
Funds from operations ⁽¹⁾	9	1,551	290
Per share - Basic and diluted ⁽²⁾	0.00	0.12	0.07
Net loss	(2,522)	(22,893)	(155)
Per share - Basic and diluted ⁽²⁾	(0.20)	(1.82)	(0.04)
Working capital	26,049	27,658	16,394
Future proceeds from equity line ⁽²⁾	25,000	25,000	-
Total capital resources available ⁽³⁾	51,049	52,658	16,394
Property and equipment	31,718	32,137	4,368
Total assets	61,970	65,701	21,417
Operations			
Average daily production			
Natural gas (mcf/d)	3,354	3,842	1,082
Oil and NGL (bbls/d)	141	495	-
Total (boe/d)	700	1,135	180
Product prices			
Natural gas (\$/mcf)	4.99	6.78	8.20
Oil and NGL (\$/bbl)	46.35	59.75	-
Total (\$/boe)	33.37	49.16	49.21
Operating netback (\$/boe) ⁽¹⁾	10.78	19.82	26.85

(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 March 31, 2009

Common shares	12,592,201
Special voting shares	3,676,470
Total voting shares	16,268,671
Common share options	
Total issued	1,028,500
Total exercisable	-
Performance warrants	
Total issued	1,629,500
Total exercisable	-
Total voting shares and dilutive instruments	18,926,671

Selected Quarterly Information

(000's, except for per share amounts)	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07	Q2 07
	\$	\$	\$	\$	\$	\$	\$	\$
Oil and natural gas sales	2,104	5,135	3,831	1,004	808	273	173	254
Net earnings (loss)	(2,522)	(22,893)	(1,425)	(5)	(154)	(376)	(184)	(190)
Per share - Basic and diluted	(0.20)	(1.82)	(0.16)	(0.00)	(0.04)	(0.09)	(0.05)	(0.05)
Working capital	26,049	27,658	30,246	15,756	16,394	16,265	16,780	17,460

Outlook

Global financial and commodity markets continue to experience extreme volatility. We believe this will continue for some time and at least until the world financial institutions stabilize. Although the short-term outlook remains cloudy, the long-term fundamentals in the oil and gas sector continue to be promising. These lower commodity prices have reduced the number of drilling rigs operating in western Canada and in North America as well. There will be a lag effect, but this period of inactivity combined with natural declines in the 30% range year over year, will have a lasting effect on supply.

As the world economies recover and demand for hydrocarbons picks up, so will the price of commodities. We may not be in the lowest part of the cycle yet, but we believe we are close and we will not be cute to try to hit the rock bottom before we transact. We view this period as a “window of opportunity” to accumulate long life oil and natural gas properties within our focus area of the deep basin.

Our strategy continues to be focused on accretive acquisitions of long life oil and gas reserves. In the last few weeks, a greater number of opportunities have presented themselves and, as buyer and seller expectations come closer together, we believe more transactions will occur. In addition to evaluating M&A opportunities, we continue to believe that this is an excellent opportunity to accumulate undeveloped land at a time when land prices are depressed. Again, our focus here is accumulating land on internally generated prospects with the view that, when product prices recover, we will be well positioned with a large, attractive drilling inventory.

Insignia is uniquely positioned to execute on this strategy with a strong balance sheet with over \$51 million in capital resources (which includes the \$25 million Tricap equity line) and no debt. We believe we have exercised discipline in deploying this capital and this has turned out to be a prudent strategy as the market conditions have continued to trend downward. We will continue to be disciplined but not at the expense of missing this unique period of opportunity.

Lastly and based on our near term commodity price expectations, we are adjusting our 2009 guidance such that although we will maintain a capital budget of between \$5 to \$8 million, our capital split is anticipated to be weighted

equally between drilling and equipping expenditures and acquiring undeveloped land and seismic (previously 80% drilling and equipping and 20% land and seismic). Further, we are adjusting our anticipated average 2009 production volumes to approximately 750 boe/d (previously 800 - 900 boe/d) again, excluding any production acquired through future acquisitions. Our revised production guidance assumes the Crossfire 9-1 well comes back on stream sometime in Q3/09.

Capital Expenditures

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

(000's)	Q1 2009 \$	Q4 2008 \$	Q1 2008 \$
Property dispositions	-	(90)	-
Land	33	271	7
Geological and geophysical	78	1,337	3
Drilling and completions	1,103	1,210	13
Equipment, facilities and pipelines	134	671	137
Capitalized general and administrative and other	254	150	2
Total capital expenditures – cash	1,602	3,549	162
Non-cash capitalized amounts	54	695	-
Total additions to property and equipment	1,656	4,244	162

The Board of Directors of Insignia have taken a conservative approach to capital investment and have approved a 2009 budget of \$5 - \$8 million, prior to consideration of any acquisitions.

During Q1 2009, the Company drilled and completed two wells, one at Crossfire (0.15 net well) and one at Nig (0.5 net well). Tie-in of these wells is pending, dependent upon improvement in commodity prices and assessment of secondary zones. A well drilled in the fourth quarter of 2008 at Provost (1.0 net well) was completed and is awaiting tie-in. At Beaverhill Lake, a well drilled and completed in late 2008 (0.75 net well) was tied in and came on production in late March.

Subsequent to March 31, 2009, the Company acquired land in the west central area of Alberta for a total cost of \$1.2 million.

Financial Results

Production

	Q1 2009		Q4 2008		Q1 2008	
Natural gas (mcf/d)	3,354	80%	3,842	56%	1,082	100%
Oil and NGL (bbls/d)	141	20%	495	44%	-	-
Total (boe/d)	700	100%	1,135	100%	180	100%

Production in Q1 2009 has been impacted by the shut-in, for good production practice, of the Crossfire 09-01-050-06W5 well (Insignia 15% working interest). This well produced approximately 310 bbl/d of oil and liquids and 220 mcf/d natural gas net to Insignia in Q4 2008 and is now anticipated to re-commence production in the third quarter of 2009. The Company had also temporarily shut in four 100% wells on its Retlaw property during December due to low netbacks, resulting in a temporary net production loss of approximately 35 boe/d in Q1 2009. The balance of the change in production is attributable to natural declines. Q1 2008 results presented include gas sales from our Beaverhill Lake properties only.

Pricing and Marketing

	Q1 2009 \$	Q4 2008 \$	Q1 2008 \$
Benchmark Price			
AECO-C Daily Spot (\$/mcf)	4.92	6.69	7.90
Edmonton Light (\$/bbl)	50.09	63.21	97.50
Insignia's Realized Price			
Natural gas (\$/mcf)	4.99	6.78	8.20
Oil and NGL (\$/bbl)	46.35	59.75	-
Total (\$/boe)	33.37	49.16	49.21

Both natural gas and oil prices have been declining since mid-2008, and this fact is reflected in the prices realized by the Company. The Company has not hedged its production.

Oil and Natural Gas Sales

(000's)	Q1 2009 \$	Q4 2008 \$	Q1 2008 \$
Natural gas	1,507	2,397	808
Oil and NGL	597	2,738	-
Total	2,104	5,135	808

Sales for Q1 2009 changed from Q4 2008 primarily as a result of the decrease in both oil and natural gas prices noted above, as well as the decrease in production previously noted.

Royalties

Royalties by Type (000's)	Q1 2009 \$	Q4 2008 \$	Q1 2008 \$
Crown	120	857	72
Freehold, including freehold mineral tax	100	131	71
Gross overriding	113	150	63
Total	333	1,138	206
\$/boe	5.28	10.89	12.52
% of revenue	16%	22%	25%

Royalties by Commodity	Q1 2009 \$	Q4 2008 \$	Q1 2008 \$
Natural gas 000's	152	325	206
% of natural gas revenue	10%	14%	25%
Oil and NGL 000's	181	813	-
% of oil and ngl revenue	30%	30%	-

Total royalties in Q1 2009 decreased in conjunction with lower sales for the quarter as compared to Q4 2008. Additionally, the Company has a large crown Gas Cost Allowance ("GCA") balance available to it which reduced its gas crown royalty expense in Q1 2009. This reduction is more pronounced in periods of low prices, as was the case in Q1 2009, since the Gas Cost Allowance deduction is fixed and royalties are variable. Crown royalty rates are

anticipated to be lower during the remainder of 2009 as compared to 2008 as a result of the GCA and lower price environment.

Q1 2009 royalties averaged 16% of revenue compared to 22% of revenue in Q4 2008, with this change primarily due to product mix combined with the impact of the GCA deduction.

Lease Operating and Transportation Expenses

(000's)	Q1 2009	Q4 2008	Q1 2008
	\$	\$	\$
Lease operating expenses	998	1,813	141
Transportation expenses	94	114	21
Total	1,092	1,927	162
\$/boe	17.31	18.45	9.84

Total operating expenses were lower in Q1 2009 compared to Q4 2008 due to lower production. Total operating costs on a \$/BOE basis were lower as a result of fewer workovers being performed during the quarter. Operating costs on a \$/BOE basis were higher in Q1 2009 compared to Q1 2008 as a result of higher operating costs on properties acquired in the Flagship acquisition.

Interest Income

(000's)	Q1 2009	Q4 2008	Q1 2008
	\$	\$	\$
Interest income	65	175	155

For Q1 2009, our cash balance was held in an interest-bearing operating account with the Canadian Imperial Bank of Commerce and in term deposits with the Alberta Treasury Branch. With prime rates moving lower throughout the periods presented, we have realized a reduction in interest income.

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

(000's)	Q1 2009	Q4 2008	Q1 2008
	\$	\$	\$
Direct G&A	996	874	309
Overhead recoveries	(22)	(60)	(3)
Capitalized G&A	(246)	(135)	-
Net G&A	728	679	305
Net G&A (\$/boe)	11.56	6.49	18.63
Stock-based compensation	335	442	128

The Q1 2009 direct general and administration totalled \$996,000 compared to \$874,000 in Q4 2008, the increase attributable primarily to consulting and professional fee services provided in the quarter for the preparation and filing of our annual disclosure documents as well as for recruitment and accounting system integration services. Direct G&A increased between Q1 2008 and Q4 2008 as a result of the 2008 acquisition.

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

We currently capitalize G&A related to our team dedicated to reviewing purchase, farm-in and other property and corporate acquisitions. We also capitalize the related stock-based compensation associated with employee salaries that are capitalized. For Q1 2009, we recognized stock-based compensation expense of \$426,000 (Q4 2008, \$442,000) of which \$91,000 (Q4 2008, \$nil) was capitalized.

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

(000's)	Q1 2009	Q4 2008	Q1 2008
	\$	\$	\$
Depletion, depreciation and accretion	2,196	21,305	317
Total (\$/boe)	34.84	203.96	19.27

For Q1 2009, depletion, depreciation and accretion was \$2.2 million (\$34.84/boe) compared to \$21.3 million (\$203.96/boe) in Q4 2008. The decrease compared to Q4 2008 is attributable to the ceiling test write-down recorded in Q4 2008 and lower production in Q1 2009. We have excluded \$8.4 million from the depletion base related to unproved properties, and have added \$1.3 million in future development costs to the depletion base.

Funds from Operations and Net Loss

For Q1 2009, funds from operations totalled \$9 thousand, compared to \$1.6 million for Q4 2008. \$0.6 million of the decrease is attributable to lower commodity prices with the remainder due primarily to lower production volumes as previously discussed. The Company, however, retains a strong balance sheet including working capital in excess of \$26.0 million and a further \$25.0 million of available capital resources under the terms of our Equity Line.

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

(\$/boe)	Q1 2009	Q4 2008	Q1 2008
	\$	\$	\$
Sales price	33.37	49.16	49.21
Royalties	(5.28)	(10.89)	(12.52)
Lease operating and transportation expenses	(17.31)	(18.45)	(9.84)
Operating netback	10.78	19.82	26.85
Interest income	1.03	1.68	9.45
General and administration	(11.56)	(6.49)	(18.63)
Other	(0.11)	(0.16)	-
Funds from operations netback	0.14	14.85	17.67

Net loss for Q1 2009 was \$2.5 million (\$0.20 per basic and diluted share) compared to a net loss of \$22.9 million (\$1.82 per basic and diluted share) in Q4 2008.

Liquidity and Capital Resources

Equity

As of March 31, 2009, the Company has 12,592,201 common shares and 3,676,470 special voting shares outstanding and has issued 1,028,500 stock options at a weighted average exercise price of \$6.39 and 1,629,500 performance warrants at a weighted average exercise price of \$6.80.

Weighted Average Shares Outstanding	Q1 2009	Q4 2008	Q1 2008
Basic and Diluted	12,592,201	12,609,010	4,112,040

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

As of the date hereof, the Company has repurchased for cancellation 8,044 common shares at an average price of \$2.93 per common share in 2009 (14,400 common shares at an average price of \$3.07 in 2008) pursuant to the Company's Normal Course Issuer Bid.

As of the date hereof, the Company has 12,588,757 common shares, 3,676,470 special voting shares, 1,028,500 stock options and 1,629,500 performance warrants outstanding.

Equity Line

Insignia has a \$25 million unused equity line whereby Tricap Partners Ltd. is 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.

Working Capital

(000's)	March 31, 2009 \$	December 31, 2008 \$
Cash and cash equivalents	26,666	29,972
Accounts receivable	1,927	2,001
Prepaid expenses	189	118
Accounts payable and accrued liabilities	(2,733)	(4,433)
Working Capital	26,049	27,658

The decrease in working capital from year end 2008 reflects the expenditures incurred on exploration and development in Q1 2009.

Contractual Obligations and Commitments

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

Years ending December 31, (000's)	Total \$	2009 \$	2010 - 2011 \$	2012 - 2013 \$	After 2013 \$
Office lease, excluding operating costs	2,019	128	693	846	352
Asset retirement obligations	9,445	535	1,629	1,558	5,723
Total Contractual Obligations	11,464	663	2,322	2,404	6,075

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.

Control Environment

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

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

No changes in the Company's internal controls were identified in Q1 2009 that have materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

It should be noted that while Insignia's Chief Executive Officer and Chief Financial Officer believe that the Company's control procedures provide a reasonable level of assurance that controls are effective, they do not expect that the procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

New Accounting Standards

As of January 1, 2009, the Company retrospectively adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3064, "Goodwill and Intangible Assets". This section clarifies the criteria for the recognition of assets, intangible assets and internally developed intangible assets.

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

New accounting pronouncements

In January 2009, the CICA issued Section 1582, “Business Combinations”, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted.

In January 2009, the CICA issued Sections 1601, “Consolidated Financial Statements”, and 1602, “Non-controlling Interests”, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective for fiscal years beginning on or after January 1, 2011 with earlier application permitted.

We are currently assessing the potential impact of, and we may elect to early adopt, these standards.

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 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 and on a quarterly basis, we prepare internal estimates and updates. GLJ Petroleum Consultants performed the annual 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 quality 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.

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.

Forward Looking Statements

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

Suite 2300, 500 - 4th Avenue SW
Calgary, Alberta
T2P 2V6
Attention: Jeff Newcommon, President and CEO
(403) 536-8138
www.insigniaenergy.ca
info@insigniaenergy.ca

Insignia Energy Ltd.
Balance Sheets

(000's) (unaudited)	March 31, 2009 \$	December 31, 2008 \$
ASSETS		
Current		
Cash and cash equivalents <i>[note 9]</i>	26,666	29,972
Accounts receivable	1,927	2,001
Prepaid expenses	189	118
	28,782	32,091
Deposits and other	370	373
Future income taxes	1,100	1,100
Property and equipment <i>[note 4]</i>	31,718	32,137
	61,970	65,701
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	2,733	4,433
Asset retirement obligation <i>[note 5]</i>	6,445	6,366
Commitments <i>[note 10]</i>		
Shareholders' equity		
Share capital <i>[note 6]</i>	77,393	77,421
Contributed surplus <i>[note 6]</i>	2,209	1,769
Deficit	(26,810)	(24,288)
	52,792	54,902
	61,970	65,701

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

For the three months ended March 31, 2009

(000's) (unaudited)	2009 \$	2008 \$
Revenues		
Oil and natural gas sales	2,104	808
Royalties	(333)	(206)
Interest income	65	155
	1,836	757
Expenses		
Lease operating	998	141
Transportation	94	21
General and administrative	728	305
Stock-based compensation [note 6]	335	128
Depletion, depreciation and accretion	2,196	317
	4,351	912
Loss before income taxes	(2,515)	(155)
Current taxes	(7)	-
Loss and comprehensive loss for the period	(2,522)	(155)
Deficit, beginning of period	(24,288)	(440)
Deficit, end of period	(26,810)	(595)
Loss per share, basic and diluted [note 6]	(0.20)	(0.04)

See accompanying notes

Insignia Energy Ltd.
Statements of Cash Flows

For the three months ended March 31, 2009

(000's) (unaudited)	2009 \$	2008 \$
Cash was provided by (used in)		
OPERATING ACTIVITIES		
Loss for the period	(2,522)	(155)
Items not involving cash		
Stock-based compensation	335	128
Depletion, depreciation and accretion	2,196	317
Abandonment and reclamation costs <i>[note 5]</i>	(4)	-
	5	290
Change in non-cash operating working capital <i>[note 9]</i>	171	(263)
	176	27
FINANCING ACTIVITIES		
Repurchase of common shares	(14)	-
INVESTING ACTIVITIES		
Property and equipment expenditures	(1,602)	(162)
Change in non-cash investing working capital <i>[note 9]</i>	(1,866)	29
	(3,468)	(133)
Decrease in cash and cash equivalents	(3,306)	(106)
Cash and cash equivalents, beginning of period	29,972	16,516
Cash and cash equivalents, end of period <i>[note 9]</i>	26,666	16,410

See accompanying notes

Insignia Energy Ltd.

Notes to Financial Statements

For the three months ended March 31, 2009 and 2008

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

1. BUSINESS OF THE COMPANY

Insignia Energy Ltd. (“Insignia” or the “Company”) resulted from the combination of the businesses of Insignia Energy Inc. (“Insignia Inc.”) and Flagship Energy Inc. (“Flagship”) on July 31, 2008, as more fully described in Note 3. The Company’s activities are comprised of the exploration for and development of oil and natural gas properties in Western Canada.

The interim financial statements of the Company 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 the Company for the year ended December 31, 2008, except as noted below. The disclosures provided below are incremental to those included with the audited financial statements for the year ended December 31, 2008. The interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2008.

2. CHANGES IN ACCOUNTING PRINCIPLES

As of January 1, 2009, the Company retrospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) Section 3064, “Goodwill and Intangible Assets”. This section clarifies the criteria for the recognition of assets, intangible assets and internally developed intangible assets.

The adoption of this new standard did not impact the amounts reported in the Company’s financial statements.

New accounting pronouncements

In January 2009, the CICA issued Section 1582, “Business Combinations”, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted.

In January 2009, the CICA issued Sections 1601, “Consolidated Financial Statements”, and 1602, “Non-controlling Interests”, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective for fiscal years beginning on or after January 1, 2011 with earlier application permitted.

The Company is currently assessing the potential impact of, and may elect to early adopt, these standards.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board 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.

3. CORPORATE ACQUISITION AND RECAPITALIZATION

Pursuant to a Plan of Arrangement effective 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. The acquisition was accounted for using the purchase method of accounting. The fair value of the acquisition was 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 was as follows:

Net assets received, at estimated fair value	\$
Property and equipment	45,399
Working capital deficiency	(8,989)
Tricap Partners Ltd. debt	(27,000)
Asset retirement obligation	(5,900)
Future income taxes	3,700
	7,210
<hr/>	
Consideration	
Common Shares issued	5,600
Cash in respect of Odd-Lot Provisions	51
Fair value of Arrangement Warrants	300
Transaction costs	1,259
	7,210

The Plan of Arrangement also provided for a recapitalization of the Company whereby Tricap Partners Ltd. ("Tricap") converted outstanding debt of \$27.0 million to common shares, acquired additional common shares pursuant to a private placement, and committed to a \$25.0 million future private placement [Note 6(b)(ii)]. These transactions resulted in Tricap owning approximately 60% of the outstanding common shares as at March 31, 2009.

4. PROPERTY AND EQUIPMENT

	March 31, 2009 \$	December 31, 2008 \$
Oil and natural gas properties	58,498	56,849
Office equipment	161	154
	58,659	57,003
Less accumulated depletion and depreciation	26,941	24,866
	31,718	32,137

The cost of unproved properties at March 31, 2009 of \$8.4 million (March 31, 2008 - \$534 thousand) has been excluded from the depletion and depreciation calculation. Future development costs on proved reserves of \$1.3 million (March 31, 2008 - \$638 thousand) have been included in the depletion and depreciation calculation. For the three months ended March 31, 2009, the Company capitalized \$337 thousand of general and administrative expenditures and related stock-based compensation (March 31, 2008 - \$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 its wells and facilities and the estimated timing of the costs to be incurred in future periods.

At March 31, 2009 the estimated total future amount required to settle the ARO, escalated at 2.0%, was \$9.4 million (December 31, 2008 - \$9.5 million). Approximately \$3.7 million of this obligation will be settled over the next 5 years.

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:

	Three months ended March 31, 2009	Year ended December 31, 2008
	\$	\$
Balance, beginning of period	6,366	152
Liabilities incurred	30	809
Revisions in estimated future cash flows	(68)	-
Accretion expense	121	183
Liabilities settled	(4)	(678)
Liabilities acquired in the business combination <i>[note 3]</i>	-	5,900
Balance, end of period	6,445	6,366

6. SHARE CAPITAL

(a) Authorized

Unlimited number of Voting Common Shares

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

(b) Issued

	Number of Shares	Amount \$
Issued Common Shares		
Balance, December 31, 2008	12,596,801	77,421
Repurchased under Normal Course Issuer Bid <i>[note 6(b)(i)]</i>	(4,600)	(28)
Balance, March 31, 2009	12,592,201	77,393
Issued Special Voting Shares <i>[note 6(b)(ii)]</i>		
Balance, December 31, 2008 and March 31, 2009	3,676,470	-

(i) Normal Course Issuer Bid

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 repurchased for cancellation 4,600 Common shares during the month of January at an average price of \$3.13 per Common Share (2008 - 14,400 Common Shares at an average price of \$3.07 per Common Share). The excess of the book value over the purchase price was added to Contributed Surplus.

(ii) **Equity Commitment Agreement**

In connection with the Plan of Arrangement, 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 for total proceeds of \$25.0 million. Tricap also has the right to put the subscription to the Company on the same terms.

The Special Voting Shares carry voting rights. Concurrent with the subscription for Common Shares under the Equity Commitment Agreement, the Special Voting Shares will be cancelled without consideration on a one-for-one basis, or on July 31, 2009.

(c) **Per share amounts**

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

	Three months ended March 31,	
	2009	2008 ⁽¹⁾
Weighted average common shares outstanding – basic and diluted	12,592,823	4,112,040

(1) Adjusted for the share exchange ratio and consolidation under the Plan of Arrangement.

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

(d) **Stock options and performance warrants**

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.

Performance warrants

Performance warrants have been issued for a five-year term. 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 is 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:

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

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

	<u>Stock Options</u>		<u>Performance Warrants</u>	
	Number	Weighted Average Exercise Prices \$/Option	Number	Weighted Average Exercise Prices \$/Warrant
Outstanding, beginning of period	963,500	6.54	1,629,500	6.80
Granted	65,000	4.25	-	-
Outstanding, end of period	1,028,500	6.39	1,629,500	6.80
Weighted Average Years to Expiry	4.1		4.3	
Exercisable March 31, 2009	-		-	

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.

	Three months ended March 31, 2009
Risk-free rate of return	2.3%
Expected volatility	80.0%
Dividend yield	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 has assumed that holders will exercise vested instruments when the share price is 125% of the exercise price.

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

Non-cash expense has been recorded as follows:

	Three months ended March 31,	
	2009 \$	2008 \$
Stock options	249	56
Performance warrants	177	72
Less: capitalized portion	(91)	-
Total	335	128

(f) Contributed surplus

The following table reconciles the Company's contributed surplus:

	Three months ended March 31, 2009 \$	Year ended December 31, 2008 \$
Balance, beginning of period	1,769	738
Stock-based compensation	426	987
Fair value of Arrangement Warrants	-	300
Reclassified to share capital on exercise of the Arrangement Warrants	-	(300)
Repurchase of Common Shares for cancellation <i>[note 6(b)(i)]</i>	14	44
Balance, end of period	2,209	1,769

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 March 31, 2009 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.

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 March 31, 2009, the Company holds \$27 million of cash and cash equivalents with Canadian chartered banks. Management has assessed the associated credit risk as relatively low. As at March 31, 2009, the Company's receivables consisted of \$0.9 million from oil and natural gas marketers, \$0.8 million from joint venture partners and \$0.3 million of other trade and tax receivables.

The Company markets its oil and natural gas products to several purchasers, but predominantly 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 amounts due from purchasers and included in accounts receivable at March 31, 2009 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 actual 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 March 31, 2009, the Company had \$0.3 million of receivables that were considered past due and were greater than 150 days old. Management establishes an allowance for doubtful accounts based on their assessment of collection, and this allowance was \$0.1 million at March 31, 2009.

8. 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.

9. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended March 31,	
	2009	2008
Cash and cash equivalents includes:		
Bank balance, bearing interest at prime less 1.85%, subject to market rate caps	16,587	16,410
Term deposit bearing interest at 0.43%, due April 20, 2009	10,079	-
	<u>26,666</u>	<u>16,410</u>
Net change in non-cash working capital:		
Decrease (increase) in accounts receivable	74	(262)
Increase in prepaid expenses	(69)	(98)
Increase (decrease) in accounts payable and accrued liabilities	(1,700)	126
Total	<u>(1,695)</u>	<u>(234)</u>
Summary of working capital changes:		
Operating	171	(263)
Financing	-	-
Investing	(1,866)	29
Total	<u>(1,695)</u>	<u>(234)</u>
Supplementary cash flow information:		
Income taxes paid	24	49

10. COMMITMENTS

The Company's commitments under its office premises lease by fiscal year, excluding operating costs, are as follows: 2009 - \$128 thousand; 2010 - \$270 thousand; 2011 to 2013 - \$423 thousand per year; 2014 - \$352 thousand.

CORPORATE INFORMATION

Board of Directors

Jeff Newcommon
President & Chief Executive Officer

Jeffery E. Errico⁽¹⁾⁽²⁾⁽³⁾
Chairman

Dave Ambedian⁽¹⁾⁽³⁾
Independent Businessman

Brian Baker
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⁾
President & Chief Executive Officer
OPTI Canada Inc.

- (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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Email: info@insigniaenergy.ca
Website: www.insigniaenergy.ca

Auditors

Deloitte & Touche LLP
Calgary, Alberta

Bankers

CIBC
Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Evaluations Engineers

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company
Calgary, Alberta

TSX Symbol: ISN

ABBREVIATIONS

/d	per day
bbl(s)	barrel(s)
mdbl	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