



Financial Statements

INSIGNIA ENERGY LTD.

June 30, 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 August 12, 2009 and should be read in conjunction with the unaudited Financial Statements and accompanying notes for the three and six months ended June 30, 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 MD&A compares the results of the six months ended June 30, 2009 ("YTD 2009") to the six months ended June 30, 2008 ("YTD 2008") and the results of the three months ended June 30, 2009 ("Q2 2009") to the three months ended March 31, 2009 ("Q1 2009") and the three months ended June 30, 2008 ("Q2 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>(000's)</i>	Q2 2009	Q1 2009	Q2 2008	YTD 2009	YTD 2008
	\$	\$	\$	\$	\$
<i>Cash provided by operating activities</i>	(256)	176	515	(80)	542
<i>Add back:</i>					
<i>Abandonment and reclamation costs</i>	130	4	-	134	-
<i>Change in non-cash working capital</i>	399	(171)	(84)	228	179
<i>Funds from operations</i>	273	9	431	282	721

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

	Q2 2009 \$	Q1 2009 \$	Q2 2008 \$	YTD 2009 \$	YTD 2008 \$
Financial (000's, except for per share amounts)					
Oil and natural gas sales	1,983	2,104	1,004	4,087	1,812
Funds from operations ⁽¹⁾	273	9	431	282	721
Per share - Basic and diluted ⁽²⁾	0.02	0.00	0.10	0.02	0.18
Net loss	(2,245)	(2,522)	(4)	(4,767)	(159)
Per share - Basic and diluted ⁽²⁾	(0.18)	(0.20)	0.00	(0.38)	(0.04)
Working capital	26,675	26,049	15,756	26,675	15,756
Future proceeds from equity line ⁽²⁾	25,000	25,000	-	25,000	-
Total capital resources available ⁽³⁾	51,675	51,049	15,756	51,675	15,756
Property and equipment	28,177	31,718	4,419	28,177	4,419
Total assets	58,875	61,970	22,230	58,875	22,230
Operations					
Average daily production					
Natural gas (mcf/d)	3,777	3,354	1,129	3,567	1,106
Oil and NGL (bbls/d)	144	141	-	143	-
Total (boe/d)	773	700	188	737	184
Product prices					
Natural gas (\$/mcf)	3.61	4.99	9.77	4.26	9.00
Oil and NGL (\$/bbl)	56.63	46.35	-	51.59	-
Total (\$/boe)	28.18	33.37	58.63	30.64	54.02
Operating netback (\$/boe) ⁽¹⁾	12.66	10.78	33.91	11.77	30.45

(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 June 30, 2009

Common shares	12,586,557
Special voting shares	3,676,470
Total voting shares	16,263,027
Common share options	
Total issued	998,500
Total exercisable	-
Performance warrants	
Total issued	1,614,500
Total exercisable	-
Total voting shares and dilutive instruments	18,876,027

Selected Quarterly Information

(000's, except for per share amounts)	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07
	\$	\$	\$	\$	\$	\$	\$	\$
Oil and natural gas sales	1,983	2,104	5,135	3,831	1,004	808	273	173
Net earnings (loss)	(2,245)	(2,522)	(22,893)	(1,425)	(4)	(155)	(376)	(184)
Per share - Basic and diluted	(0.18)	(0.20)	(1.82)	(0.16)	(0.00)	(0.04)	(0.09)	(0.05)
Working capital	26,675	26,049	27,658	30,246	15,756	16,394	16,265	16,780

OUTLOOK AND H2/09 CORPORATE GUIDANCE

Global financial and commodity markets continue to experience extreme volatility. This is likely to continue for the remainder of 2009 and perhaps into 2010. Although the short term outlook remains cloudy, the long term fundamentals in the oil and gas sector remain promising. Low commodity prices have forced some companies to shut in production and the rig count continues to be soft. The best thing for low natural gas prices are low natural gas prices. As natural declines in the 30-35% range start to impact supply fundamentals and as the world and North America economies recover from this prolonged recession, then demand for hydrocarbons will pick up. The question is not if this will happen it is when it will happen.

Insignia is uniquely positioned for this recovery and, at the same time, we are positioned for a prolonged downturn. On July 24, 2009, the Company completed a business combination with Grey Wolf Exploration Inc. ("Grey Wolf") pursuant to an arrangement under the Business Corporations Act (Alberta) (the "GW Arrangement"). The long life assets that Insignia has recently acquired in the Grey Wolf acquisition position the Company for the future when prices recover and drilling economics improve. Alternately, we continue to view these down cycles as windows of opportunity to continue to execute on additional acquisitions. We believe this counter cyclical approach will bode well for our shareholders over the long term.

In addition to evaluating M&A opportunities, in the second half of this year we plan to drill a modest number of wells to offset our annual declines. That said, and notwithstanding a relatively clean balance sheet, it is not our desire to produce flush production from new wells at these low natural gas prices. Directionally, our plan is to use our cash flow to replace our declines while protecting our balance sheet. Further, we continue to believe that this is an opportune time to accumulate undeveloped land at a time when land prices are generally depressed. Again, our focus here is on accumulating land on internally generated prospects with the view that when product prices recover we will be well positioned with an extensive drilling inventory.

The results of operations from the Grey Wolf acquisition will be included in our 2009 second half and third quarter results from July 24, 2009.

We have estimated that, based on current forward strip prices, our second half 2009 funds from operations will be approximately \$6.0 to \$7.0 million. This forecast assumes nil production from the Petitot well located at 7-17-121-11W6M for the last five months of 2009 and modest production levels from the Crossfire 9-1-50-6W5M. The forecast also assumes average production of approximately 2,600 boe/d.

The Board of Directors has also approved a second half 2009 capital budget of \$10.0 to \$14.0 million. The Company plans to allocate 60% to 70% to drilling and facilities with the balance being allocated to land and seismic. Currently, the Company is planning to drill at least one horizontal Montney/Doig well on its Pouce Coupe property prior to year end.

Excluding any additional acquisitions and assuming our second half capital expenditures production adds occur predominately in the first quarter of 2010, the Company anticipates an exit rate of approximately 2,400 - 2,600 boe/d.

Further, factoring in our estimated funds from operations and our current net debt of \$12.0 million, we anticipate that our exit 2009 net debt will be \$16.0 to \$20.0 million and this will equate to approximately 1.3 to 1.6 times net debt to funds from operations based on current forecast strip pricing.

Capital Expenditures

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

(000's)	Q2 2009	Q1 2009	Q2 2008	YTD 2009	YTD 2008
	\$	\$	\$	\$	\$
Property dispositions	(2,850)	-	-	(2,850)	-
Land	1,668	33	77	1,701	84
Geological and geophysical	108	78	-	186	3
Drilling and completions	2	1,103	4	1,105	17
Equipment, facilities and pipelines	198	134	297	332	434
Capitalized general and administrative and other	208	254	9	462	11
Total capital expenditures – cash	(666)	1,602	387	936	549
Non-cash capitalized amounts	(749)	54	-	(695)	-
Total additions to property and equipment	(1,415)	1,656	387	241	549

The Board of Directors of Insignia had approved an initial 2009 capital budget of \$5 - \$8 million, prior to consideration of any acquisitions. Of this amount, \$3.8 million has been expended to June 30, 2009, comprised of \$2.4 million in land and exploration (including capitalized general and administrative), and \$1.4 million in drilling and equipping.

During the three months ended June 30, 2009, we acquired 6,400 acres of land in the west central area of Alberta for a total cost of \$1.6 million.

Effective June 1, 2009, we disposed of 100% of our interest in the Retlaw/Little Bow area of Alberta for cash proceeds of \$2.85 million.

Financial Results

Production

	Q2 2009	Q1 2009	Q2 2008	YTD 2009	YTD 2008
Natural gas (mcf/d)	3,777	3,354	1,129	3,567	1,106
Oil and NGL (bbls/d)	144	141	-	143	-
Total (boe/d)	773	700	188	737	184
% of Total					
Natural gas	81%	80%	100%	81%	100%
Oil & NGL	19%	20%	-	19%	-

Production in Q2 2009 increased by 10% from Q1 2009.

The increase in gas production was due to the reactivation of 1.0 (.7 net) well in the Pembina area and from 1.0 (.75 net) new well placed on stream in late March in the Beaverhill Lake area. The increased production was offset by the sale of our Retlaw/Little Bow properties. Q2 2008 and YTD 2008 results presented include gas sales from the Beaverhill Lake properties only. YTD 2009 production in this area was approximately 935 mcf/day, down from 1,106 mcf/d in 2008 due primarily to natural declines.

Oil and NGL production for Q2 2009 increased in the Pembina area as noted above, and decreased as a result of the Retlaw/Little Bow sale, resulting in minimal net change for the quarter.

Production will decline in future quarters as a result of the sale of our Retlaw/LittleBow properties effective June 1, 2009. These sold properties produced an average of 82 boe/d in combined oil, gas and NGL for YTD 2009 (2008 – nil).

Pricing and Marketing

	Q2 2009	Q1 2009	Q2 2008	YTD 2009	YTD 2008
	\$	\$	\$	\$	\$
Benchmark Price					
AECO-C Daily Spot (\$/mcf)	3.45	4.92	10.21	4.18	9.05
Edmonton Light (\$/bbl)	65.90	50.09	126.07	57.99	111.78
Insignia's Realized Price					
Natural gas (\$/mcf)	3.61	4.99	9.77	4.26	9.00
Oil and NGL (\$/bbl)	56.63	46.35	-	51.59	-
Total (\$/boe)	28.18	33.37	58.63	30.64	54.02

Natural gas prices have been declining since mid-2008, and this fact is reflected in the prices realized by the Company. Realized oil and NGL prices increased by approximately 22% from Q1 2009 to Q2 2009. The Company has not hedged its production.

Oil and Natural Gas Sales

	Q2 2009	Q1 2009	Q2 2008	YTD 2009	YTD 2008
(000's)	\$	\$	\$	\$	\$
Natural gas	1,241	1,507	1,004	2,748	1,812
Oil and NGL	742	597	-	1,339	-
Total	1,983	2,104	1,004	4,087	1,812

Sales for Q2 2009 decreased from Q1 2009 primarily as a result of the decrease in natural gas prices with the decline being mitigated by the increase in natural gas production and higher realized oil prices.

Royalties

	Q2 2009	Q1 2009	Q2 2008	YTD 2009	YTD 2008
Royalties by Type (000's)	\$	\$	\$	\$	\$
Crown	(66)	120	80	54	152
Freehold, including freehold mineral tax	41	100	92	141	163
Gross overriding	30	113	91	143	154
Total	5	333	263	338	469
\$/boe	0.08	5.28	15.34	2.54	13.96
% of revenue	0%	16%	26%	8%	26%

Royalties by Commodity	Q2 2009 \$	Q1 2009 \$	Q2 2008 \$	YTD 2009 \$	YTD 2008 \$
Natural gas					
000's	(35)	152	263	117	469
% of natural gas revenue	(3%)	10%	26%	4%	26%
Oil and NGL					
000's	40	181	-	221	-
% of oil and ngl revenue	5%	30%	-	17%	-

Total royalties in Q2 2009 were positively impacted by several adjustments, the most significant of which was the 2008 Gas Cost Allowance adjustment received in the current quarter. Freehold and gross overriding royalties decreased as a result of prior year adjustments, and the Company received the benefit of a crown royalty holiday credit on its oil property at Crossfire. These adjustments resulted in average oil and NGL royalties declining from a normalized average of 30% to 5%. At current commodity prices, the normalized average royalty rate on existing natural gas production is 10% to 12%.

The decline in average royalty rates from 2008 is primarily due to product mix combined with the impact of higher Gas Cost Allowance deductions in 2009 compared to 2008.

Lease Operating and Transportation Expenses

(000's)	Q2 2009 \$	Q1 2009 \$	Q2 2008 \$	YTD 2009 \$	YTD 2008 \$
Lease operating expenses	1,008	998	134	2,006	275
Transportation expenses	79	94	26	173	47
Total	1,087	1,092	160	2,179	322
\$/boe	15.44	17.31	9.38	16.33	9.61

Total operating expenses for Q2 2009 were positively impacted by lower workover costs and the sale of the Retlaw/Little Bow properties effective June 1, 2009 and were negatively impacted by prior period gathering and processing charges retroactively billed by facility operators. For YTD 2009 excluding the Retlaw/Little Bow properties, total operating and transportation costs would have been \$1.8 million or \$15.18 per BOE (YTD 2008 – no change). Operating costs on a \$/BOE basis were lower in Q2 2009 relative to Q1 2009 as a result of higher production levels as previously discussed. Operating costs on a \$/BOE basis were higher in 2009 compared to 2008 as a result of higher operating costs on properties acquired in the Flagship acquisition.

Interest Income

(000's)	Q2 2009 \$	Q1 2009 \$	Q2 2008 \$	YTD 2009 \$	YTD 2008 \$
Interest income	17	65	125	82	280

For Q2 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)	Q2 2009 \$	Q1 2009 \$	Q2 2008 \$	YTD 2009 \$	YTD 2008 \$
Direct G&A	885	996	280	1,881	588
Overhead recoveries	(46)	(22)	(5)	(68)	(8)
Capitalized G&A	(208)	(246)	-	(454)	-
Net G&A	631	728	275	1,359	580
Net G&A (\$/boe)	8.98	11.56	16.05	10.19	17.32
Stock-based compensation	285	335	98	620	226

The Q2 2009 direct G&A totalled \$885,000 compared to \$996,000 in Q1 2009, the decrease attributable primarily to consulting and professional fee services incurred in Q1 2009 for the preparation and filing of our annual disclosure documents as well as for recruitment and accounting system integration services. Direct G&A increased from 2008 to 2009 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 relating to exploration activities and 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 YTD 2009, we recognized stock-based compensation expense of \$795,000 (YTD 2008, \$226,000) of which \$175,000 (YTD 2008, \$nil) was capitalized. Q2 2009 expense declined from Q1 2009 due to forfeitures resulting from an employee retirement in the current quarter.

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

(000’s)	Q2 2009 \$	Q1 2009 \$	Q2 2008 \$	YTD 2009 \$	YTD 2008 \$
Depletion, depreciation and accretion	2,233	2,196	337	4,429	654
Total (\$/boe)	31.74	34.84	19.73	33.21	19.51

For Q2 2009, depletion, depreciation and accretion remained virtually unchanged from Q1 2009 at \$2.2 million. On a boe basis, DD&A decreased to \$31.74/boe in Q2 2009 from \$34.84 in Q1 2009 as a result of the Retlaw/Little Bow disposition. We have excluded \$9.6 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 Q2 2009, funds from operations totalled \$273 thousand, compared to \$9 thousand for Q1 2009. Cash flow increased as a result of higher production levels, royalty adjustments and lower general and administrative costs and decreased as a result of lower commodity prices. The Company retains a strong balance sheet including working capital in excess of \$51.0 million after receiving \$25.0 million in July, 2009 under the terms of our Equity Line.

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

	Q2 2009	Q1 2009	Q2 2008	YTD 2009	YTD 2008
(\$/boe)	\$	\$	\$	\$	\$
Sales price	28.18	33.37	58.63	30.64	54.02
Royalties	(0.08)	(5.28)	(15.34)	(2.54)	(13.96)
Lease operating and transportation expenses	(15.44)	(17.31)	(9.38)	(16.33)	(9.61)
Operating netback	12.66	10.78	33.91	11.77	30.45
Interest income	0.24	1.03	7.25	0.61	8.33
General and administration	(8.98)	(11.56)	(16.05)	(10.19)	(17.32)
Other	(0.06)	(0.11)	-	(0.08)	-
Funds from operations netback	3.86	0.14	25.11	2.11	21.46

Net loss for Q2 2009 was \$2.2 million (\$0.18 per basic and diluted share) compared to a net loss of \$2.5 million (\$0.20 per basic and diluted share) in Q1 2009.

Liquidity and Capital Resources

Equity

As of June 30, 2009, the Company has 12,586,557 common shares and 3,676,470 special voting shares outstanding and has issued 998,500 stock options at a weighted average exercise price of \$6.38 and 1,614,500 performance warrants at a weighted average exercise price of \$6.80.

	Q2 2009	Q1 2009	Q2 2008	YTD 2009	YTD 2008
Weighted Average Shares Outstanding					
Basic and Diluted	12,587,967	12,592,201	4,112,040	12,590,382	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 10,244 common shares at an average price of \$3.01 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.

On July 20, 2009, under the terms of the Equity Commitment Agreement with Tricap Partners Ltd., the Company issued 3,676,470 Common Shares for cash consideration of \$6.80 per Common Share for total proceeds of \$25.0 million. Concurrent with the subscription for Common Shares under the Equity Commitment Agreement, 3,676,470 Special Voting Shares were cancelled without consideration.

On July 24, 2009, the Company completed a business combination with Grey Wolf Exploration Inc. pursuant to an arrangement under the Business Corporations Act (Alberta). Pursuant to the GW Arrangement, Insignia issued approximately 14.4 million common shares to acquire all of the issued and outstanding Grey Wolf common shares. As a result, the pre-GW Arrangement Insignia shareholders own approximately 53% of Insignia's outstanding common shares and the former Grey Wolf shareholders own approximately 47% of Insignia's outstanding common shares. As a result of the closing of this transaction, the Company established a \$55.0 million revolving credit facility with the National Bank of Canada.

Following completion of these transactions, Tricap holds approximately 41% of Insignia's outstanding common shares.

As of the date hereof, the Company has 30,660,222 common shares, 998,500 stock options and 1,614,500 performance warrants outstanding.

Working Capital

(000's)	June 30, 2009 \$	December 31, 2008 \$
Cash and cash equivalents	27,217	29,972
Accounts receivable	1,691	2,001
Prepaid expenses	154	118
Accounts payable and accrued liabilities	(2,387)	(4,433)
Working Capital	26,675	27,658

The decrease in working capital from year end 2008 reflects the expenditures incurred on exploration and development in the current year, offset by proceeds received on the Retlaw/Little Bow property disposition.

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	1,976	85	693	846	352
Asset retirement obligations	8,066	391	1,561	1,558	4,556
Total Contractual Obligations	10,042	476	2,254	2,404	4,908

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 Q2 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.

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.

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.

Hedging

From time to time the Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases and the Corporation

may nevertheless be obligated to pay royalties on such higher prices, even though not received by it, after giving effect to such agreements. Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increase in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Corporation will not benefit from the fluctuating exchange rate.

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:

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www.insigniaenergy.ca
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Insignia Energy Ltd.
Balance Sheets

(000's) (unaudited)	June 30, 2009 \$	December 31, 2008 \$
ASSETS		
Current		
Cash and cash equivalents <i>[note 9]</i>	27,217	29,972
Accounts receivable	1,691	2,001
Prepaid expenses	154	118
	29,062	32,091
Deferred transaction costs	348	-
Deposits and other	188	373
Future income taxes	1,100	1,100
Property and equipment <i>[note 4]</i>	28,177	32,137
	58,875	65,701
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	2,387	4,433
Asset retirement obligation <i>[note 5]</i>	5,589	6,366
Commitments <i>[note 10]</i>		
Shareholders' equity		
Share capital <i>[note 6]</i>	77,358	77,421
Contributed surplus <i>[note 6]</i>	2,596	1,769
Deficit	(29,055)	(24,288)
	50,899	54,902
	58,875	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 and six months ended June 30, 2009

(000's) (unaudited)	Three months ended June 30,		Six months ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Revenues				
Oil and natural gas sales	1,983	1,004	4,087	1,812
Royalties	(5)	(263)	(338)	(469)
Interest income	17	125	82	280
	1,995	866	3,831	1,623
Expenses				
Lease operating	1,008	134	2,006	275
Transportation	79	26	173	47
General and administrative	631	275	1,359	580
Stock-based compensation [note 6]	285	98	620	226
Depletion, depreciation and accretion [note 4, 5]	2,233	337	4,429	654
	4,236	870	8,587	1,782
Loss before income taxes	(2,241)	(4)	(4,756)	(159)
Current taxes	4	-	11	-
Loss and comprehensive loss for the period	(2,245)	(4)	(4,767)	(159)
Deficit, beginning of period	(26,810)	(595)	(24,288)	(440)
Deficit, end of period	(29,055)	(599)	(29,055)	(599)
Loss per share, basic and diluted [note 6]	(0.18)	(0.00)	(0.38)	(0.04)

See accompanying notes

Insignia Energy Ltd.
Statements of Cash Flows

For the three and six months ended June 30, 2009

(000's) (unaudited)	Three months ended June 30,		Six months ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash was provided by (used in)				
OPERATING ACTIVITIES				
Loss for the period	(2,245)	(4)	(4,767)	(159)
Items not involving cash				
Stock-based compensation	285	98	620	226
Depletion, depreciation and accretion	2,233	337	4,429	654
Abandonment and reclamation costs <i>[note 5]</i>	(130)	-	(134)	-
	143	431	148	721
Change in non-cash operating working capital <i>[note 9]</i>	(399)	84	(228)	(179)
	(256)	515	(80)	542
FINANCING ACTIVITIES				
Repurchase of common shares <i>[note 6]</i>	(17)	-	(31)	-
INVESTING ACTIVITIES				
Proceeds on disposal of property and equipment	2,850	-	2,850	-
Property and equipment expenditures	(2,184)	(387)	(3,786)	(549)
Other	(164)	(681)	(164)	(681)
Change in non-cash investing working capital <i>[note 9]</i>	322	793	(1,544)	822
	824	(275)	(2,644)	(408)
Increase (decrease) in cash and cash equivalents	551	240	(2,755)	134
Cash and cash equivalents, beginning of period	26,666	16,410	29,972	16,516
Cash and cash equivalents, end of period <i>[note 9]</i>	27,217	16,650	27,217	16,650

See accompanying notes

Insignia Energy Ltd.

Notes to Financial Statements

For the three and six months ended June 30, 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]. These transactions resulted in Tricap owning approximately 69% of the outstanding voting shares as at June 30, 2009.

4. PROPERTY AND EQUIPMENT

	June 30, 2009 \$	December 31, 2008 \$
Oil and natural gas properties	57,083	56,849
Office equipment	161	154
	57,244	57,003
Less accumulated depletion and depreciation	29,067	24,866
	28,177	32,137

The cost of unproved properties at June 30, 2009 of \$9.6 million (June 30, 2008 - \$574 thousand) has been excluded from the depletion and depreciation calculation. Future development costs on proved reserves of \$1.3 million (June 30, 2008 - \$468 thousand) have been included in the depletion and depreciation calculation. For the six months ended June 30, 2009, the Company capitalized \$629 thousand of general and administrative expenditures and related stock-based compensation (June 30, 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 June 30, 2009 the estimated total future amount required to settle the ARO, escalated at 2.0%, was \$8.1 million (December 31, 2008 - \$9.5 million). Approximately \$3.5 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 7.1%.

A reconciliation of the asset retirement obligation is provided below:

	Six months ended June 30, 2009 \$	Year ended December 31, 2008 \$
Balance, beginning of period	6,366	152
Liabilities incurred	30	809
Revisions in estimated future cash flows	(120)	-
Accretion expense	228	183
Liabilities settled	(134)	(678)
Disposal of properties	(781)	-
Liabilities acquired in the business combination [note 3]	-	5,900
Balance, end of period	5,589	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 [note 6(b)(i)]	(10,244)	(63)
Balance, June 30, 2009	12,586,557	77,358
Issued Special Voting Shares [note 6(b)(ii)]		
Balance, December 31, 2008 and June 30, 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 10,244 Common shares at an average price of \$3.01 per Common Share during 2009 (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. Subsequent to June 30, 2009 and under the terms of this agreement, Tricap purchased 3,676,470 Common Shares for cash consideration of \$6.80 per Common Share for total cash proceeds of \$25.0 million.

Concurrent with the subscription for Common Shares under the Equity Commitment Agreement, 3,676,470 Special Voting Shares were cancelled without consideration.

(c) Per share amounts

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008 ⁽¹⁾	2009	2008 ⁽¹⁾
Weighted average common shares outstanding – basic and diluted	12,587,967	4,112,040	12,590,382	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:

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%

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	-	-
Forfeited	(30,000)	(6.80)	(15,000)	(6.80)
Outstanding, end of period	998,500	6.38	1,614,500	6.80
Weighted Average Years to Expiry	4.2		4.1	
Exercisable June 30, 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.

	Six months ended June 30, 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 June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Stock options	206	32	455	88
Performance warrants	163	66	340	138
Less: capitalized portion	(84)	-	(175)	-
Total	285	98	620	226

(f) Contributed surplus

The following table reconciles the Company's contributed surplus:

	Six months ended June 30, 2009 \$	Year ended December 31, 2008 \$
Balance, beginning of period	1,769	738
Stock-based compensation	795	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>	32	44
Balance, end of period	2,596	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 June 30, 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 June 30, 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 June 30, 2009, the Company's receivables consisted of \$0.9 million from oil and natural gas marketers, \$0.7 million from joint venture partners and \$0.2 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 June 30, 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 June 30, 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 June 30, 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

	As at and for the three months ended June 30,		As at and for the six months ended June 30,	
	2009	2008	2009	2008
Cash and cash equivalents includes:				
Bank balance, bearing interest at prime less 1.85%, subject to market rate caps	17,130	16,650	17,130	16,650
Term deposit bearing interest at 0.20%, due July 20, 2009	10,087	-	10,087	-
	<u>27,217</u>	<u>16,650</u>	<u>27,217</u>	<u>16,650</u>
Net change in non-cash working capital:				
Decrease (increase) in accounts receivable	236	146	310	(116)
Decrease (increase) in prepaid expenses	33	12	(36)	(85)
Increase (decrease) in accounts payable and accrued liabilities	(346)	719	(2,046)	844
Total	<u>(77)</u>	<u>877</u>	<u>(1,772)</u>	<u>643</u>
Summary of working capital changes:				
Operating	(399)	84	(228)	(179)
Financing	-	-	-	-
Investing	322	793	(1,544)	822
Total	<u>(77)</u>	<u>877</u>	<u>(1,772)</u>	<u>643</u>
Supplementary cash flow information:				
Income taxes paid	9	-	33	49

10. COMMITMENTS

The Company's future commitments under its office premises lease by fiscal year, excluding operating costs, are as follows: 2009 - \$85 thousand; 2010 - \$270 thousand; 2011 to 2013 - \$423 thousand per year; 2014 - \$352 thousand.

11. SUBSEQUENT EVENTS

On July 20, 2009, under the terms of the Equity Commitment Agreement with Tricap Partners Ltd, the Company issued 3,676,470 common shares to Tricap for cash proceeds of \$25.0 million [Note 6(b)(ii)].

On July 24, 2009, the Company completed a business combination with Grey Wolf Exploration Inc. ("Grey Wolf") pursuant to an arrangement under the Business Corporations Act (Alberta) (the "GW Arrangement"). Pursuant to the Arrangement, Insignia issued approximately 14.4 million common shares to acquire all of the issued and outstanding Grey Wolf common shares. As a result, the pre-Arrangement Insignia shareholders own approximately 53% of Insignia's outstanding common shares and the former Grey Wolf shareholders own approximately 47% of Insignia's outstanding common shares. After giving effect to the Arrangement, Insignia has approximately 30.66 million common shares outstanding. The common shares of Grey Wolf were delisted from the Toronto Stock Exchange on July 29, 2009.

Following completion of these transactions, Tricap holds approximately 41% of Insignia's outstanding common shares.

CORPORATE INFORMATION

Board of Directors

Jeff Newcommon
President & Chief Executive Officer

Jeffery E. Errico⁽¹⁾⁽²⁾⁽³⁾
Chairman

Dave Ambedian⁽¹⁾⁽³⁾
Partner, 32^o Energy Management

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.

Vincent Tkachyk
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

Danny Geremia
Vice President, Finance & Chief Financial Officer

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Calgary, Alberta

Bankers

National Bank of Canada
Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Evaluations Engineers

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company
Calgary, Alberta

TSX Symbol: ISN

ABBREVIATIONS

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