Terra Energy Corp.
Consolidated Financial Statements
For the Three and Nine Months ended September 30, 2009

Contents

Terra Energy Corp.
Consolidated Balance Sheets

As at September 30 and December 31 (unaudited)	2009	2008
Assets		
Current		
Accounts receivable	**$ 12,104,128**	$ 12,842,594
Prepaid expenses	**2,001,771**	2,089,828
Other assets (Note 5)	**561,485**	583,538
	14,667,384	15,515,960
Oil and gas properties (Notes 7 and 8)	**225,472,903**	137,551,824
	$ 240,140,287	$ 153,067,784
Liabilities and Shareholders' Equity		
Current		
Bank overdraft (Note 9)	**$ 2,570,518**	$ 4,463,264
Accounts payable and accrued liabilities	**9,651,525**	17,950,307
Asset retirement obligation	**561,777**	589,190
Financial instruments (Note 3)	**1,153,008**	-
	13,936,828	23,002,761
Deferred credit	**66,435**	116,250
Financial instruments (Note 3)	**718,604**	-
Long-term financing (Note 9)	**81,450,551**	6,315,792
Asset retirement obligation	**9,244,167**	5,356,504
Future income taxes	**23,900,504**	23,798,937
	129,317,089	58,590,244
Shareholders' Equity		
Share capital (Note 10)	**85,230,456**	67,880,302
Warrants (Note 10)	**3,252,735**	-
Contributed surplus (Note 11)	**11,042,688**	9,680,456
Retained earnings	**11,466,301**	16,916,782
Accumulated other comprehensive loss	**(168,982)**	-
	110,823,198	94,477,540
	$ 240,140,287	$ 153,067,784

Approved on behalf of the Board

Theodore Anderson   Robert Penner

The accompanying notes are an integral part of these consolidated financial statements.

Terra Energy Corp.
Consolidated Statements of Operations and Retained Earnings
For the three and nine months ended September 30 (unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	**2009**	2008
Revenue				
Petroleum and natural gas	**$ 13,583,659**	$ 21,199,751	**$ 41,870,391**	$ 62,262,807
Realized gain (loss) on financial instruments (Note 3)	**2,319,219**	193,097	**2,319,219**	(675,767)
Unrealized gain (loss) on financial instruments (Note 3)	**(1,986,547)**	11,610,747	**(1,871,612)**	(668,043)
	13,916,331	33,003,595	**42,317,998**	60,918,997
Royalties	**(1,905,750)**	(4,027,390)	**(7,117,651)**	(13,046,368)
	12,010,581	28,976,205	**35,200,347**	47,872,629
Expenses				
Production	**4,050,280**	4,030,084	**12,772,391**	12,494,603
General and administrative	**2,409,892**	574,796	**5,089,608**	2,854,504
Accretion of asset retirement obligation	**124,803**	118,063	**359,649**	350,491
Stock based compensation	**356,448**	38,275	**1,463,357**	2,014,595
Depletion and amortization	**7,630,915**	4,725,696	**20,236,580**	15,626,814
Interest on long-term debt	**666,469**	247,145	**938,654**	1,498,978
Unrealized foreign exchange loss	**-**	-	**-**	336,438
Realized foreign exchange (gain) loss	**(40)**	(45)	**422**	6,695
	15,238,767	9,734,014	**40,860,661**	35,183,118
Income (loss) before income taxes and other income	**(3,228,186)**	19,242,191	**(5,660,314)**	12,689,511
Gain on disposition of P&NG rights (Note 8)	**-**	609,317	**-**	15,087,598
Income (loss) before income taxes	**(3,228,186)**	19,851,508	**(5,660,314)**	27,777,109
Income tax expense (recovery)				
Current tax	**-**	-	**-**	3,605
Future tax	**(881,225)**	6,078,092	**(1,271,727)**	9,322,811
	(881,225)	6,078,092	**(1,271,727)**	9,326,416
Net income (loss)	**(2,346,961)**	13,773,416	**(4,388,587)**	18,450,693
Retained earnings (deficit), beginning of period	**13,912,375**	(1,365,451)	**16,916,782**	(5,694,045)
Repurchase of common shares (Note 10)	**(99,113)**	-	**(1,061,894)**	(348,683)
Retained earnings, end of period	**$ 11,466,301**	$ 12,407,965	**$ 11,466,301**	$ 12,407,965

Income (loss) per share (Note 10)				
Basic	$ (0.03)	$ 0.18	$ (0.06)	$ 0.25
Diluted	$ (0.03)	$ 0.18	$ (0.06)	$ 0.24

The accompanying notes are an integral part of these consolidated financial statements.

Terra Energy Corp.
Consolidated Statement of Comprehensive Income (Loss) and
Accumulated Other Comprehensive Loss
For the three and nine months ended September 30 (unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	**2009**	2008
Net income (loss)	**$ (2,346,961)**	$ 13,773,416	**$ (4,388,587)**	$ 18,450,693
Other comprehensive loss				
Unrealized gain (loss) on available for sale investments, net of tax (Note 5)	**108,469**	-	**(168,982)**	-
Comprehensive income (loss)	**(2,238,492)**	13,773,416	**(4,557,569)**	18,450,693
Accumulated other comprehensive loss, beginning of period	**(277,451)**	-	**-**	-
Other comprehensive gain (loss)	**108,469**	-	**(168,982)**	-
Accumulated other comprehensive loss, end of period	**$ (168,982)**	$ -	**$ (168,982)**	$ -

The accompanying notes are an integral part of these consolidated financial statements.

Terra Energy Corp.
Consolidated Statements of Cash Flows
For the three months and nine months ended September 30 (unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	**2009**	2008
Cash flows from operating activities				
Net income (loss) for the period	**$ (2,346,961)**	$ 13,773,416	**$ (4,388,587)**	$ 18,450,693
Items not affecting cash:				
Future income taxes (recovery)	**(881,225)**	6,078,092	**(1,271,727)**	9,322,811
Accretion of asset retirement obligation	**124,803**	118,063	**359,649**	350,491
Stock based compensation	**356,448**	38,275	**1,463,357**	2,014,595
Unrealized loss (gain) on financial instruments (Note 3)	**1,986,547**	(11,610,747)	**1,871,612**	668,043
Unrealized loss on foreign exchange	**-**	-	**-**	336,438
Gain on disposition of P&NG rights	**-**	(609,317)	**-**	(15,087,598)
Asset retirement obligations settled	**(435,789)**	(30,764)	**(734,258)**	(187,431)
Amortization of deferred credit	**(16,605)**	(16,605)	**(49,815)**	(49,815)
Depletion, depreciation and amortization	**7,630,915**	4,725,696	**20,236,580**	15,626,814
	6,418,133	12,466,109	**17,486,811`**	31,445,041
Changes in non-cash working capital from operations (Note 12)	**(2,448,650)**	(4,998,845)	**853,029**	(8,367,972)
	3,969,483	7,467,264	**18,339,840**	23,077,069
Cash flows from financing activities				
Proceeds from (repayment of) long-term financing	**49,961,975**	-	**75,134,759**	(54,967,441)
Increase (decrease) in bank overdraft	**799,671**	2,376,298	**(1,892,746)**	3,392,303
Issuance of common shares, net of issuance costs	**18,810,747**	12,240	**19,090,987**	2,538,177
Repurchase of common shares	**(301,999)**	-	**(3,889,611)**	(1,013,035)
	69,270,394	2,388,538	**88,443,389**	(50,049,996)
Cash flows from investing activities				
Additions to oil and gas properties	**(3,481,198)**	(25,792,603)	**(18,858,791)**	(40,314,943)
Acquisition of oil and gas properties	**(75,480,130)**	-	**(75,480,130)**	-
Disposition of oil and gas properties	**-**	2,320,882	**-**	72,197,450
Additions to other assets	**-**	-	**(176,750)**	-
Changes in non-cash working capital from investing (Note 12)	**5,700,070**	11,606,096	**(8,136,576)**	4,384,727
Cash paid on business combination (Note 6)	**21,381**	-	**(4,130,982)**	-
	(73,239,877)	(11,865,625)	**(106,783,229)**	36,267,234
Increase (decrease) in cash and cash equivalents	**-**	(2,009,823)	**-**	9,294,307
Cash and cash equivalents, beginning of period	**-**	11,304,130	**-**	-
Cash and cash equivalents, end of period	**$ -**	$ 9,294,307	**$ -**	$ 9,294,307

The accompanying notes are an integral part of these consolidated financial statements.

1. BASIS OF PRESENTATION

The interim financial statements of Terra Energy Corp. (the "Corporation") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and are consistent with the presentation and disclosure in the audited consolidated financial statements and notes thereto for the year ended December 31, 2008 except for the changes described in note 2. These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Constar Resources Ltd. and Terra Energy Partnership. The latter is a general partnership between Terra Energy Corp. and Constar Resources Ltd. The interim consolidated financial statements do not conform in all respects to the requirements of GAAP for annual financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2008.

The preparation of interim financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the interim financial statements and accompanying notes. Actual results could differ from those estimates. The interim financial statements have, in management's opinion, been properly prepared using careful judgements within reasonable limits of materiality.

2. SIGNIFICANT ACCOUNTING POLICIES

Change in Accounting Policy

On January 1, 2009, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. This section clarifies the criteria for the recognition of assets, intangible assets and internally developed intangible assets. No changes were required to these financial statements as a result of this change.

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which requires the Corporation to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The accounting treatments provided in EIC-173 have been applied in the preparation of these financial statements and, as required, have been applied retrospectively without restatement of prior periods. The adoption of this standard did not have an impact on the financial statements.

Accounting Pronouncements

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments - Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Corporation will include these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

3. FINANCIAL AND CAPITAL MANAGEMENT

The Corporation is exposed to financial risk on a range of financial instruments including accounts receivable, accounts payable and accrued liabilities, bank overdraft, long term financing and financial derivative contracts. The Corporation manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Corporation are discussed below:

Credit Risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Corporation's accounts receivable at the balance sheet date arise from sales of crude oil, natural gas liquids and natural gas. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Corporation markets its oil and natural gas through several marketers so that the exposure to any one entity is minimized.

Joint venture receivables are generated from conducting joint operating or capital operations with joint venture partners. Collections from these operations are usually paid within three months of the joint venture bill being issued to the partner. Circumstances can arise which extend the terms of collection beyond this period as specific items on these joint venture billings may need to be resolved between partners. Smaller partners may be cash called to pay for their share of costs in advance of a project. The Corporation also has the ability to take measures such as withholding production volumes as recourse for collections on receivables.

The Corporation monitors receivable accounts and actively pursues collection and payment. If any accounts are considered impaired, they will be charged to an allowance for doubtful accounts. During the period ended September 30, 2009 there was no allowance for doubtful accounts recorded due to historical success of collecting receivables. The Corporation does not have any significant credit risk exposure with respect to accounts receivable to any single counterparty or any group of counterparties having similar characteristics.

The carrying value of accounts receivable approximates its fair value due to the relatively short periods to maturity on this instrument. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Corporation considers past due and at risk of collection.

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk as it can borrow funds at floating interest rates as disclosed in Note 9. The Corporation currently does not use interest rate hedges or fixed interest rate contracts to manage the Corporation's exposure to interest rate fluctuations.

At September 30, 2009, the increase or decrease in net income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $815,000 (December 31, 2008 – $63,000) per annum.

3. FINANCIAL AND CAPITAL MANAGEMENT (continued)

Commodity Price Risk

The Corporation is exposed to fluctuations in commodity prices for crude oil, natural gas and natural gas liquids. Commodity prices are affected by many factors including supply and demand. The Corporation monitors these risks and, when appropriate, utilizes financial instruments to manage its exposure to these risks. The Corporation had the following outstanding financial instruments at September 30, 2009:

Contract Type	Price	Volumes Per Day	Contract Term
Financial	Sell $4.00 per GJ	5,000 GJ	October 1, 2009 to December 31, 2009
Financial	Sell $4.20 per GJ	5,000 GJ	October 1, 2009 to December 31, 2009
Financial	Sell $5.04 per GJ	7,000 GJ	November 1, 2009 to March 31, 2010
Financial	Sell $5.20 per GJ	5,000 GJ	January 1, 2010 to December 31, 2010
Financial	Sell $6.25 per GJ	5,000 GJ	November 1, 2010 to March 31, 2011

Subsequent to September 30, 2009 the Corporation entered into additional financial instruments (See Note 14).

Liquidity Risk

Liquidity risk includes the risk that, as a result of the Corporation's operational liquidity requirements:

- The Corporation will not have sufficient funds to settle a transaction on the due date; or
- The Corporation will be forced to sell financial assets at values which are less than what they are worth.

The Corporation's operating cash requirements, including amounts projected to complete the Corporation's existing capital expenditure program, are continuously monitored and adjusted as input variables change. These variables include, but are not limited to, available credit, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the Corporation to conduct equity issues or obtain project debt financing. The Corporation also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

Following is a list of the financial liabilities at September 30, 2009 and their due dates:

	Total	Current Within 1 Year	Within 1 to 2 Years
Bank overdraft	$ 2,570,518	$ 2,570,518	$ -
Accounts payable and accrued liabilities	9,651,525	9,651,525	-
Financial instruments	1,871,612	1,153,008	718,604
Long-term financing	81,450,551	-	81,450,551
Total	$95,544,206	$13,375,051	$82,169,155

3. FINANCIAL AND CAPITAL MANAGEMENT (continued)

Foreign Exchange Risk

The Corporation is exposed to fluctuations in foreign exchange rates which will have an impact on commodity prices, foreign denominated cash on hand, foreign denominated payables and foreign denominated long-term financing held by the Corporation.

Commodities are sold to marketers at prices that are commonly based upon reference prices denominated in a foreign currency. Any changes in the foreign exchange rates will have a direct impact on petroleum and natural gas revenue received by the Corporation. Foreign denominated cash held by the Corporation is subject to revaluations at period ends with any changes being reflected as realized foreign exchange gains and losses. Changes in the value of payables and long-term financing denominated in a foreign currency are reflected as unrealized foreign exchange gains and losses. Upon settlement, the unrealized foreign exchange gain or loss is reversed and a realized foreign exchange gain or loss is recorded.

Fair Value

The carrying values of the financial assets and financial liabilities approximate their fair value due to the short term to maturity of these instruments.

Capital Management

The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits for other stakeholders. This objective remains unchanged from previous periods. The Corporation manages the capital structure, and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. The Corporation's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management. The Corporation defines capital as the aggregate of total equity, bank overdraft and long-term financing less cash and cash equivalents, which at September 30, 2009 was $194,844,267 (December 31, 2008 - $105,256,596).

The Corporation is subject to covenants on its operating credit facility with its lender. At September 30, 2009, the Corporation was in compliance with these financial covenants.

4. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in these consolidated financial statements, the Corporation had the following related party transactions:

a) The Corporation entered into transactions with the following related parties:
Pioneer Land Services Ltd. – a Director is an employee of Pioneer
Borden Ladner Gervais LLP – a Director is partner with the law firm

b) Transactions

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	**2009**	2008
Expenses				
Legal Consulting – Borden Ladner Gervais LLP	**$ 71,445**	$ 24,366	**$ 385,593**	$ 114,521
	71,445	24,366	**385,593**	114,521
Other				
Recorded as part of Oil and Gas Properties – Borden Ladner Gervais LLP	**166,057**	1,034	**181,373**	10,636
Recorded as part of Oil and Gas Properties – Pioneer Land Services Ltd.	**-**	-	**-**	14,992
Recorded as part of share issuance costs – Borden Ladner Gervais	**100,669**	-	**100,669**	-
	$ 266,726	$ 1,034	**$ 282,042**	$ 25,628

Related party transactions are in the normal course of operations and have been valued in these consolidated financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties and represents actual values charged to unrelated parties.

5. OTHER ASSETS

At September 30, 2009, the Corporation held 5,104,400 common shares of a publicly traded corporation representing approximately 7.8% of the outstanding shares of the Corporation. The Corporation has classified the investment as an "available for sale" financial asset with any changes in fair value being recognized in other comprehensive income. In the three month period ended September 30, 2009, an unrealized gain of $108,469 (net of tax of $19,141) was recognized in other comprehensive income, and the fair value of the financial asset was increased by $127,610 (2008 – Nil). In the nine month period ended September 30, 2009, an unrealized loss of $168,982 (net of tax of $29,821) was recognized in other comprehensive income, and the fair value of the financial asset was reduced by $198,803 (2008 – Nil).

6. BUSINESS COMBINATION

On June 17, 2009, the Corporation acquired all the outstanding shares of Tecton Energy Canada ULC ("Tecton") with the issuance of 2,580,645 common shares at a value of $1.47 per share and $4.1 million of cash. The value of the common shares issued is based upon the volume weighted average market price over a period before and after the date the terms of the business combination are announced. The acquisition was accounted for using the purchase method of accounting where the Corporation is identified as the acquirer. The purchase price allocation is estimated at September 30, 2009 as follows:

Accounts receivable	14,958
Prepaid expenses	231,820
Oil and gas properties	9,844,185
Accounts payable and accrued liabilities	(105,752)
Asset retirement obligation	(212,621)
Future income taxes	(1,848,060)
	7,924,530

Consideration was comprised of:	
Common shares (2,580,645)	3,793,548
Cash	4,032,945
Transaction costs	98,037
Total	7,924,530

The results from operations include net revenue from this transaction effective June 17, 2009. The above amounts are estimates which were made by management at the time of the preparation of these financial statements based on information available. Amendments may be made to these amounts as values subject to estimates are finalized.

7. PROPERTY ACQUISITION

On July 15, 2009 the Corporation completed the acquisition of properties located in the Peace River Arch regions of northeast British Columbia and northwest Alberta. The purchase price was approximately $75.5 million with an effective date of April 1, 2009. Asset retirement obligations associated with the properties acquired were $3,405,767. The acquisition was financed through proceeds from a bought-deal equity financing (the "Offering") of subscription receipts resulting in the issuance of 14,000,000 subscription receipts at a price of $1.45 per subscription receipt and drawing down on the Corporation's newly expanded bank credit facility. Upon closing of the Peace River Arch acquisition, each subscription receipt entitled the holder to receive, for no additional consideration, one unit ("Unit") of the Corporation. Each Unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant. Each whole common share purchase warrant shall be exercisable into one common share of the Corporation at a price of $1.90 per common share for a period of 24 months.

7. PROPERTY ACQUISITION (continued)

The following table details the estimated purchase price allocation for the Peach River Arch properties:

Net assets acquired:	
Petroleum and natural gas properties and equipment	$ 78,885,897
Asset retirement costs	(3,405,767)
Total net assets acquired	**$ 75,480,130**

8. GAIN ON DISPOSITION OF PETROLEUM AND NATURAL GAS RIGHTS

On May 13, 2008 the Corporation sold approximately 110 sections of Montney Petroleum and Natural Gas ("P&NG") rights for net proceeds received of $65.2 million. Under full cost accounting the sale of undeveloped P&NG property uses a deemed cost of disposition, which resulted in a gain of $14.5 million.

The closing on one section of mineral rights associated with the sale occurred in the third quarter of 2008 and resulted in additional proceeds of $1.3 million being received and an incremental gain of $0.6 million being recognized in the third quarter of 2008.

Full cost accounting requires a pooling of all costs. The disposition of a specific asset within that pool must be allocated an appropriate share of all costs, resulting in the use of a deemed cost of disposition in the calculation of a gain. All costs related to the exploration, acquisition and development of petroleum and natural gas reserves are initially capitalized under the full cost method of accounting. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-productive properties, costs of drilling both productive and non-productive wells, equipment costs and general and administrative expenses applicable to these activities. This calculation resulted in a deemed cost of disposition of $48.0 million.

9. LONG-TERM FINANCING

The Corporation has a revolving line of credit, with a syndicate of chartered banks, of up to $90 million (2008 - $70 million), which bears interest at prime plus 1.35% (2008 – prime). The facility is secured by a general security agreement, a floating charge debenture in the amount of $150 million and an unlimited liability guarantee by Terra Energy Corp. and Constar Resources Ltd. At September 30, 2009 the revolving line of credit was drawn down $81,450,551. Outstanding cheques issued in the amount of $2,570,518 are shown as bank overdraft until they clear against cash.

The Corporation's bank credit facility is structured as a 364 day revolving credit facility with a one year term out. If the credit facility is not renewed at maturity, the Corporation is required to pay the outstanding balance one

9. LONG-TERM FINANCING (continued)

year from the maturity. In addition, the credit facility includes a change of control clause whereby in the event of any change of control, the creditor, at their discretion, may terminate the credit facility, and therefore, the entire amount outstanding would be due and payable upon demand.

10. SHARE CAPITAL

a) Authorized

i) Unlimited number of common voting shares
ii) Unlimited number of preferred shares

b) Common Shares issued and outstanding

	January 1, 2009 to September 30, 2009		January 1, 2008 to December 31, 2008	
	Number of Shares	**Amounts**	Number of Shares	Amounts
Common shares				
Balance, beginning of period	**74,886,533**	**$ 67,880,302**	74,297,484	$ 65,195,721
Issued on business combination	**2,580,645**	**3,793,548**	-	-
Issued on equity financing	**14,000,000**	**16,002,958**		
Issued on exercise of options	**278,000**	**280,240**	2,127,300	2,538,177
Reclassification of contributed surplus (note 10)	**-**	**101,125**	-	1,520,517
Shares purchased for cancellation	**(3,121,900)**	**(2,827,717)**	(1,538,251)	(1,374,113)
Balance, end of period	**88,623,278**	**$ 85,230,456**	74,886,533	$ 67,880,302

On July 15, 2009 the Corporation issued 14,000,000 Units at $1.45 per Unit for gross proceeds of $20,300,000. The total costs related to the issuance were $1,044,307 (net of tax of $444,946). Each Unit consisted of one common share of the Corporation and one-half of one common share purchase warrant. Each warrant shall be exercisable into one common share of the Corporation ("Warrant Share") at a price of $1.90 per common share for a period of 24 months. The Corporation has estimated a fair value of $3,252,735 for the Warrants using a Black-Scholes pricing model. The pricing model used the following assumptions: a risk-free interest rate of 2.0%; weighted average term of 2.0 years; and a volatility of 71%.

On June 9, 2008 the Corporation obtained permission from the TSX Venture Exchange for a Normal Course Issuer Bid to repurchase for cancellation up to 3,700,000 common shares from June 9, 2008 to June 9, 2009. On August 26, 2009 the Corporation obtained permission from the Toronto Stock

10. SHARE CAPITAL (continued)

Exchange for a Normal Course Issuer Bid to repurchase for cancellation up to 4,442,099 common shares from August 28, 2009 to August 27, 2010.

In the three month period ended September 30, 2009, the Corporation purchased 218,700 common shares for total costs of $301,999, at an average price of $1.38 per common share. Share capital was reduced by $202,886 and the excess of $99,113 was charged to retained earnings.

In the nine month period ended September 30, 2009, the Corporation purchased 3,121,900 common shares for total costs of $3,889,611, at an average price of $1.25 per common share. Share capital was reduced by $2,827,717 and the excess of $1,061,894 was charged to retained earnings.

Of the purchased shares, 210,200 were being held for cancellation at September 30, 2009 (December 31, 2008 – 215,400).

c) Warrants

	September 30, 2009		December 31, 2008	
	Number	**Amounts**	Number	Amounts
Warrants				
Balance, beginning of period	**-**	**-**	-	-
Issued on equity financing	**7,000,000**	**$3,252,735**	-	-
Balance, end of period	**7,000,000**	**$3,252,735**	-	-

At September 30, 2009 there were 7,000,000 common share purchase warrants outstanding.

d) Stock Options

The Corporation's Employee Stock Option Plan provides for officers, directors, employees, and consultants to be granted options of up to 10 percent of the issued and outstanding common shares of the Corporation. These options entitle the holder to purchase common shares of the Corporation subject to various vesting periods and other terms and conditions specified in the stock option plan.

10. SHARE CAPITAL (continued)

Details of all options outstanding at September 30, 2009 are as follows:

	September 30, 2009	
	Number of Options	Weighted average exercise price
Employee Stock Options		
Balance, beginning of period	**6,655,000**	**1.53**
Granted	**3,180,000**	**1.35**
Exercised	**(278,000)**	**(1.01)**
Expired	**(2,008,800)**	**(1.52)**
Balance, end of period	**7,548,200**	**1.48**

For stock options granted to employees, compensation expense of $356,448 has been recorded for the three months ended September 30, 2009 (2008 - $38,275) with the offsetting credit to contributed surplus. The fair value of stock options granted in the period was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield Nil; expected volatility of 71%; risk-free interest rate of 2.0%; weighted average term of 3.0 years. For options granted during this period, the estimated fair value expected to be recognized over the vesting period is approximately $716,702.

For the nine month period ended September 30, 2009, compensation expense of $1,463,357 (2008 – $2,014,595) has been recorded for stock options granted to employees. The fair value of stock options granted in the period was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield Nil; expected volatility of 71% to 73%; risk-free interest rate of 2.0%; weighted average term of 3.9 years. For options granted during this period, the estimated fair value expected to be recognized over the vesting period is approximately $2,264,331.

e) Per share amounts

The following table summarizes the calculation of basic net income (loss) and diluted net income (loss) per share.

10. SHARE CAPITAL (continued)

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	**2009**	2008
Net income (loss) available to common shareholders	**$ (2,346,961)**	$ 13,773,416	**$ (4,388,587)**	$ 18,450,693
Weighted-average number of common shares outstanding – basic	**86,523,712**	75,659,304	**77,618,464**	74,782,042
Dilutive effect of stock options	-	1,168,041	-	726,098
Weighted-average number of common shares outstanding – diluted	**86,523,712**	76,827,345	**77,618,464**	75,508,140
Net income (loss) per share ($/share)				
Basic	$ **(0.03)**	$ 0.18	$ **(0.06)**	$ 0.25
Diluted	$ **(0.03)**	$ 0.18	$ **(0.06)**	$ 0.24

For the three and nine month periods ended September 30, 2009, 7,548,200 stock options (2008 – 1,620,700 and 3,403,700 respectively) were anti-dilutive and have been excluded from the calculation of diluted income (loss) per share.

11. CONTRIBUTED SURPLUS

The details of contributed surplus are as follows:

	September 30, 2009	December 31, 2008
Balance, beginning of period	**$ 9,680,456**	$ 9,365,272
Stock based compensation	**1,463,357**	1,835,701
Reclassification resulting from exercise of options and warrants to common shares	**(101,125)**	(1,520,517)
Balance, end of period	**$ 11,042,688**	$ 9,680,456

12. STATEMENT OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
Change in non-cash working capital	**2009**	2008	**2009**	2008
Accounts receivable	**$ (3,653,505)**	$ (7,124,876)	**$ 738,466**	$ (7,014,077)
Prepaid expenses	**5,188,960**	134,465	**88,057**	333,581
Accounts payable and accrued liabilities	**1,720,569**	13,597,662	**(8,298,782)**	2,697,251
	3,256,024	6,607,251	**(7,472,259)**	(3,983,245)
Change in non-cash working capital from investing	**5,700,070**	11,606,096	**(8,136,576)**	4,384,727
Change in non-cash working capital from operations	**(2,448,650)**	(4,998,845)	**853,029**	(8,367,972)
Business combination	**4,604**	-	**(188,712)**	-
	$ 3,256,024	$ 6,607,251	**$ (7,472,259)**	$ (3,983,245)

	Three Months Ended September 30		Nine Months Ended September 30	
Other information	**2009**	2008	**2009**	2008
Interest paid	**$ 706,818**	$ -	**$ 959,182**	$ 1,433,224
Taxes paid	**$ -**	$ -	**$ -**	$ 3,605

13. COMMITMENTS AND CONTINGENCIES

The Corporation is involved in various claims arising in the normal course of business. While the outcome of these matters is uncertain, and there can be no assurance that such matters will be resolved in the Corporation's favour, the Corporation does not currently believe that the outcome of adverse decisions in any proceedings related to these matters or any amount which it may be required to pay would have a material adverse impact on its financial position, results of operations or liquidity.

14. SUBSEQUENT EVENTS

a) On November 9, 2009, the Corporation announced that it has entered into a Purchase and Sale agreement to sell its interests in the Boundary Lake Units 1 and 2 for proceeds of approximately $24 million. Closing is expected to be on or before December 15, 2009.

14. SUBSEQUENT EVENTS (continued)

b) Subsequent to September 30, 2009, the Corporation entered into the following financial commodity contracts:

Contract Type	Price	Volumes	Contract Term
Financial	Sell $5.30 per GJ	5,000 GJ	November 1, 2009 to March 31, 2010
Financial	Buy $5.37 per GJ	5,000 GJ	April 1, 2010 to October 31, 2010
Financial	Buy $5.14 per GJ	5,000 GJ	January 1, 2010 to December 31, 2010
Financial	Buy $6.19 per GJ	5,000 GJ	November 1, 2010 to March 31, 2011
Financial	Buy $4.77 per GJ	7,000 GJ	December 1, 2009 to March 31, 2010

Certain of the "Buy" contracts were entered into to offset certain "Sell" contracts in place at September 30, 2009 (see Note 3). After giving effect to the subsequent financial commodity transactions, the Corporation's continued exposure to remaining financial contracts is summarized below:

Contract Type	Price	Volumes	Contract Term
Financial	Sell $4.00 per GJ	5,000 GJ	October 1, 2009 to December 31, 2009
Financial	Sell $4.20 per GJ	5,000 GJ	October 1, 2009 to December 31, 2009
Financial	Sell $5.30 per GJ	5,000 GJ	November 1, 2009 to March 31, 2010
Financial	Buy $5.37 per GJ	5,000 GJ	April 1, 2010 to October 31, 2010