

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 19, 2008

The following is Management's Discussion and Analysis ("MD&A") of Iteration Energy Ltd.'s (the "Company" or "Iteration") operating and financial results as at and for the year ended December 31, 2007 as well as information and estimates concerning the Company's future outlook based on currently available information. This discussion should be read in conjunction with Iteration's audited consolidated financial statements as at and for the year ended December 31, 2007, together with accompanying notes. Readers should also refer to Iteration's Annual Information Form for the year ended December 31, 2007 ("AIF"). All financial information is reported in Canadian dollars, unless noted otherwise, and in accordance with Canadian generally accepted accounting principles ("GAAP").

Certain amounts in prior periods have been reclassified to enable comparison with the current period's presentation.

Natural gas is converted to crude oil equivalent at a ratio of six thousand cubic feet to one barrel. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Additional information about Iteration Energy Ltd. filed with Canadian securities commissions, including periodic quarterly and annual reports and the AIF, is available on-line at www.iterationenergy.com and at www.sedar.com.

ITERATION OVERVIEW

Iteration is a Canadian oil and gas company with focus areas in Northeast British Columbia, Northwest Alberta, East Central Alberta and Southeast Alberta.

The Company strives to operate its properties whenever possible and to maintain high working interests. Iteration believes this high level of operatorship can translate to controlling costs, timing of capital outlays and projects as well as providing competitive advantages for future opportunities.

Acquisition of Cyries Energy Inc.

On January 21, 2008, Iteration announced an Arrangement Agreement (the "Agreement") with Cyries Energy Inc. ("Cyries") whereby each Cyries shareholder would receive 1.475 Iteration common shares for each Cyries share held. On March 3, 2008 the exchange ratio was increased to 1.62 Iteration common shares for each Cyries share.

On March 7, 2008, Cyries held a Shareholder Meeting at which the Arrangement was approved by the shareholders. Court approval of the Arrangement was also obtained on March 7, 2008. Pursuant with the terms of the Arrangement, Iteration issued 93,990,604 Iteration common shares to complete the transaction. Upon completion of the Arrangement, Cyries became a wholly owned subsidiary of Iteration, and current Iteration shareholders, option holders and warrant holders hold approximately 47% of the combined entity. The acquisition will be accounted for using the purchase method and the purchase equation will be based on management's estimate of the fair values of the assets and liabilities of Cyries as at January 21, 2008.

Issuance of 5,977,400 Subscription Receipts (including over-allotment)

Pursuant to a short form prospectus dated September 28, 2007, the Company issued 5,210,000 Subscription Receipts through a bought deal equity financing on October 17, 2007, at \$4.80 per Subscription Receipt for gross proceeds of \$25.0 million. Additionally, on November 13, 2007, the underwriters exercised their option with respect to a further 767,400 Subscription Receipts at \$4.80 per Subscription Receipt for additional gross proceeds of \$3.7 million. Each Subscription Receipt was converted into one Common Share of the Company at no additional charge. The net proceeds of the offering were used to reduce the drawings on the Company's credit facility in connection with a property acquisition which closed on September 27, 2007.

Acquisition of South East Alberta and West Alberta Assets

Pursuant to a purchase and sale agreement dated September 27, 2007 the Company purchased, with an effective date of June 1, 2007, certain petroleum and natural gas properties and related assets in South East Alberta and the Peace River Arch area in North West Alberta from an unrelated oil and gas company. The net purchase price was \$50,501,000 after adjustments. The Company assumed an asset retirement obligation of \$6,775,000 associated with this acquisition. The acquisition was initially funded by bank debt. The Company commenced reporting production from this acquisition on September 28, 2007.

Issuance of 7,000,000 Common Shares

Pursuant to a short form prospectus dated April 10, 2007, the Company issued 7,000,000 Common Shares through a bought deal equity financing on April 26, 2007, at \$5.60 per Common Share for gross proceeds of \$39.2 million. The net proceeds of the offering were applied to reduce bank debt of the Company.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

The major highlights of the three months ended December 31, 2007 include:

- Drilled 6.0 net wells with a success rate of 83%;
- Increased production by approximately 27% over the previous quarter to 7,990 boed which is approximately a 53% increase as compared to the fourth quarter of 2006; and
- Increased the year over year exit rate for the Company by approximately 36% to 8,250 boed.

Major highlights for the year ended December 31, 2007 are as follows:

Iteration Energy had an active year in 2007, resulting in considerable production and reserve growth on a per share basis. Highlights include:

- Drilled 44.4 net wells with a success rate of 96%;
- An 81% increase in Total Proved reserves to 12.7 mmboe and a 75% increase in Total Proved plus Probable reserves to 19.1mmboe, representing a 46% increase in Total Proved plus Probable reserves per diluted share;
- Replaced production by a factor of 4.4 times on a Proved plus Probable basis;
- Finding and Development and Acquisition costs for Proved plus Probable reserves, including the change in future development costs, were \$15.45/boe;
- A 50% increase in annual average production to 6,620 boed, representing a 27% increase in annual average production per diluted share;

- Increased the crude oil and natural gas liquids proportion of total production from approximately 7% at December 31, 2006 to approximately 27% at December 31, 2007;
- Increased the crude oil and natural gas liquids proportion of Proved plus Probable reserves from 6% at December 31, 2006 to approximately 38% by the end of 2007;
- Successfully administered a \$144 million capital program, which included \$57 million of property acquisitions; and
- Successfully completed two equity issues, one which contributed gross proceeds of \$39.2 million, and the second which contributed gross proceeds of \$28.7 million, including amounts raised on the exercise of an over-allotment option granted to the underwriters.

The following table provides comparative data for the years ended December 31, 2007 and 2006.

	Dec 31, 2007	Dec 31, 2006	% Change	% Change per share
Total Proved Reserves (mboe)	12,654	6,982	81	47
Proved plus Probable Reserves (mboe)	19,064	10,894	75	41
NAV PV ₁₀ Proved plus Probable Reserves (\$million)	345	208	66	34
Annual Average Production (boed)	6,620	4,420	50	21
Exit Production (boed)	8,250	6,050	36	10
Capital Expenditures (\$million)	144	114	26	2
Proved plus Probable Finding and Development costs without change in future Capital (\$/boe)	12.48	15.00	(17)	(33)
Proved plus Probable Finding and Development costs with change in future Capital (\$/boe)	15.22	18.39	(17)	(33)
Proved plus Probable Finding, Development and Acquisition costs with change in future Capital (\$/boe)	15.45	19.92	(22)	(37)
Shares outstanding (million)	71.0	57.4	24	n/a
Undeveloped land base (thousand net acres)	267	193	38	n/a

Financial Highlights

	Three months ended December 31,		Year Ended December 31,	
	2007	2006	2007	2006
	Total	Total	Total	Total
Financial				
(\$thousands, except as noted)				
Production revenue before royalties	\$29,265	\$17,940	\$101,976	\$64,539
Funds from operations ⁽²⁾	11,103	8,290	48,506	32,927
Per Share (\$) ⁽¹⁾				
- basic and diluted	0.16	0.15	0.76	0.63
Net loss	(3,149)	(3,225)	(9,442)	(4,416)
Per Share (\$) ⁽¹⁾				
- basic and diluted	(0.05)	(0.06)	(0.15)	(0.08)

Royalties	5,966	3,174	20,772	12,969
Production expense	8,801	4,279	21,685	12,539
Transportation expense	804	416	3,128	1,299
General and admin.	1,740	1,392	5,460	4,084
Stock based compensation expense (recovery)	(310)	1,890	3,412	25
Depletion	17,527	11,644	60,092	40,115
Total assets	339,185	234,652	339,185	234,652
Capital expenditures:				
Property acquisition, net of dispositions	602	429	55,548	50,836
Exploration, development and other	17,008	15,358	88,580	63,235
Shares outstanding (thousands)				
Common shares Dec 31	71,030	57,430	71,030	57,430
Weighted average – basic and diluted ⁽¹⁾	69,686	55,905	63,678	52,752
Warrants Dec 31	4,722	5,000	4,722	5,000
Stock options Dec 31	6,569	5,884	6,569	5,884

- (1) For periods with a net loss, per share amounts are based on basic common shares outstanding for the period.
- (2) Management uses funds from operations and funds from operations per share (before changes in non-cash working capital and asset retirement expenditures) to analyze operating performance and leverage. Funds from operations and funds from operations per share as presented do not have any standardized meaning prescribed by Canadian GAAP and therefore they may not be comparable with the calculation of similar measures for other entities. Funds from operations as presented is not intended to represent operating cash flow or income from operations for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. All references to funds from operations and funds from operations per share throughout this Management's Discussion and Analysis are based on cash flow from operating activities before changes in non-cash working capital.

Operating Highlights

	Three months ended		Year ended	
	December 31,		December 31,	
	2007	2006	2007	2006
	Total	Total	Total	Total
Operating				
Gas Production				
Total natural gas (bcf)	3.5	2.7	12.9	8.9
Daily average natural gas (mcf/d)	37,885	29,216	35,448	24,498
Average price (\$/mcf)	6.11	6.03	6.76	6.42

Oil and Liquids Production				
Total oil and liquids (Mbbbls)	154.5	31.5	260.9	122.3
Daily average oil and liquids (bbls/d)	1,674	343	714	335
Average price oil and liquids (\$/bbl)	51.72	54.93	55.88	58.12
Daily Average Production (boed)	7,990	5,210	6,620	4,420
Land				
Net undeveloped land holdings (acres)	267,350	193,200	267,350	193,200

	Three months ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
	Total	Total	Total	Total
Drilling				
Wells drilled (net)				
Gas	1.0	6.1	33.4	18.6
Oil	4.0	2.0	9.0	-
Dry	1.0	-	2.0	<u>1.0</u>
Total	6.0	8.1	44.4	19.6
Success rate (%)	83.3	100.0	95.5	95.0

Annual Financial Data

<i>(\$ thousands except per share data)</i>	2007	2006	2005
<u>2005 Includes Lavoy</u>			
Revenues	101,976	64,539	65,771
Net earnings (loss)	(9,442)	(4,416)	3,820
Total assets	339,185	233,824	181,646
Bank indebtedness	50,370	28,640	-
Net earnings (loss) per common share	(0.15)	(0.08)	0.08
<u>Excluding Lavoy</u>			
Revenues	101,976	64,539	57,539
Net earnings (loss)	(9,442)	(4,416)	3,072
Net earnings (loss) per common share	(0.15)	(0.08)	0.06

Quarterly Financial Data

<i>(\$ thousands except per share data)</i>	2007				2006			
Quarter ended	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
<u>Including Lavoy</u>								
Revenues	\$29,265	\$22,161	\$26,806	\$23,744	\$17,940	\$16,888	\$12,394	\$17,317
Net earnings (loss)	(3,149)	(1,985)	(639)	(3,669)	(3,225)	(2,370)	(1,471)	2,649

Net earnings (loss) per common share – basic and diluted (\$)	(0.05)	(0.03)	(0.01)	(0.06)	(0.06)	(0.04)	(0.03)	0.05
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OPERATING RESULTS

Net Earnings (Loss)

Iteration's net loss for the three months ended December 31, 2007 was \$3.1 million, as compared to the net loss of \$3.2 million for the three months ended December 31, 2006. Although production increased by 53% and net realized prices increased seven percent, quarter over quarter, the financial results were impacted by a corresponding increase in operating cost, general and administrative costs and depletion associated with the increased production. As well, significantly higher production expenses on a per boe basis were incurred during the fourth quarter for the assets acquired in September 2007, due to the considerable amount of workovers and enhancements required for those properties.

On a year over year basis, Iteration's net loss for the year ended December 31, 2007 was \$9.4 million versus a net loss of \$4.4 million for the year ended December 31, 2006. Although production increased 50% during 2007, net realized prices decreased two percent on a year over year basis. The loss was compounded by operating costs which increased 15% on a boe basis, reflecting the impact of inflationary increases in costs as well as higher operating costs associated with the assets acquired in September 2007.

Production

Average daily production for the three months ended December 31, 2007 increased by 2,780 boed to 6,620 boed as compared to 4,420 boed for the three months ended December 31, 2006. This 53% increase in production was the result of the acquisition of the Peace River Arch properties which closed the end of September 2007 (which added approximately 960 boed of production for the fourth quarter of 2007), the significant production increases realized at our East Central Alberta properties acquired in June 2006, and from the successful drilling and re-completion of a number of wells in our other core areas.

The September 2007 property acquisition and a number of heavy and light oil wells drilled in the second half of 2007 significantly shifted the production mix for the Company. At December 31, 2006 and September 30, 2007, 93% of the Company's production was natural gas. By December 31, 2007, the ratio had dropped to 73%.

Daily Production <i>Average for the period</i>	Three months ended December 31,			Year ended December 31,		
	2007	2006	% Change	2007	2006	% Change
Natural Gas (Mcf/d)	37,885	29,216	30	35,448	24,498	45
Natural gas liquids (bbl's/d)	708	155	357	311	168	85
Light oil (bbl's/d)	753	109	591	293	120	144
Heavy oil (bbl's/d)	214	77	178	108	47	130
Total (boed)	7,990	5,210	53	6,620	4,420	50

With the recent acquisition of Cyries by Iteration, the combined company is expecting to have an exit rate of production for the first quarter of 2008 of approximately 22,000 boed. For financial reporting purposes however, as the transaction closed on March 7, 2007, the financial statements will reflect Iteration production rates for the period from January 1 to March 31, 2008 and Cyries production rates only for the period from March 7, 2008 to March 31, 2008. As a result, for financial reporting purposes, average production for the first quarter of 2008 is expected to be approximately 11,000 boed. Had Cyries production been included for the entire quarter, first quarter 2008 average production would be approximately 19,000 boed.

Commodity Prices

Industry Benchmarks <i>Average for the period</i>	Three months ended December 31,			Year ended December 31,		
	2007	2006	% Change	2007	2006	% Change
Natural gas (Alberta Spot-daily) Cdn \$/GJ at AECO	5.83	6.54	(11)	6.02	6.18	(3)
Natural gas (BC Westcoast Station 2) Cdn \$/GJ	5.94	6.26	(5)	6.04	6.58	(8)
Average Alberta spot-daily and BC Westcoast Station 2 (Cdn\$/GJ)	5.89	6.40	(8)	6.03	6.38	(5)
Edmonton Pentane Cdn\$/bbl	89.23	67.86	31	77.23	75.03	3
Edmonton Ethane Cdn\$/bbl	16.67	17.97	(7)	18.42	19.83	(7)
Edmonton Propane Cdn\$/bbl	57.49	41.66	38	49.53	44.09	12
Edmonton Butane Cdn\$/bbl	75.38	54.52	38	63.72	59.33	7
Iteration NGL basket Cdn\$/bbl	52.65	56.56	(7)	59.56	61.70	(3)
Edmonton Light Crude Cdn\$/bbl	87.18	65.12	34	76.74	73.30	5
Hardisty Lloyd blend Cdn\$/bbl	55.48	37.67	47	50.51	43.32	17

Realized Commodity Prices <i>Average for the period</i>	Three months ended December 31,			Year ended December 31,		
	2007	2006	% Change	2007	2006	% Change
Natural gas (\$/Mcf)	6.11	6.03	1	6.76	6.42	5
Natural gas liquids (\$/bbl)	40.12	61.05	(34)	48.55	66.96	(27)
Light oil (\$/bbl)	66.21	49.88	33	68.77	49.24	40
Heavy oil (\$/bbl)	40.35	n/a	n/a	42.68	n/a	n/a
Total (\$/boed)	39.84	37.41	7	42.24	40.02	6

For purposes of comparing realized prices to benchmark prices, the Company's British Columbia natural gas production is sold at Station 2 pricing (BC Westcoast Station 2) and the majority of the Company's Alberta natural gas production is sold at AECO Spot - daily. Therefore for comparative purposes, the realized price for the commodity should be compared to the average benchmark prices for BC Westcoast Station 2 and Alberta Spot - daily at AECO.

For natural gas, the realized price for the fourth quarter 2007 increased by 1% compared to a corresponding decrease of 8% for the benchmark average. This occurred as the Company continued to have a fixed price contract on 12,500 GJ's per day of natural gas for the month of October. As a result of this position, incremental revenue realized on natural gas for the month of October was approximately \$548,000.

For oil, a meaningful comparison is not available as in 2006 oil revenue included amounts received for light sweet oil and heavy oil. For the three months ended December 31, 2006, heavy oil accounted for approximately 41% of total oil production.

For natural gas liquids, realized prices for an Iteration NGL basket decreased by 34% for the quarter, as compared to a corresponding 3% decrease in the commodity benchmark price. This was due to the commencement of the enhanced extraction of natural gas liquids from all of the Company's British Columbia natural gas production in November 2007 which resulted in a change in the composition of the Iteration NGL production basket. Prior to the enhanced extraction, only a nominal component of Iteration's

NGL production was ethane. With the enhanced extraction, more than 50% of Iteration's NGL production is now ethane, which has resulted in a lower realized blended price for the Iteration basket. Overall, net realized commodity prices increased by seven percent for the three months ended December 31, 2007 compared to the same period in 2006, due to a greater proportion of total production from crude oil and natural gas liquids. At September 30, 2007, only 7% of production was from crude oil and natural gas liquids. At December 31, 2007, this ratio had increased to 27%.

On an annual basis, the realized natural gas price increased by 5% in 2007, as compared to a 5% decrease in the comparable benchmark. The increase was due to the additional revenue realized by the Company for the fixed price contract on natural gas for the period from April 1, 2007 to October 31, 2007. As a result of this contract, the Company received an additional \$3,000,000 of revenue over the term of the contract.

As was the case for the quarter, for oil, a meaningful comparison is not available as in 2006 oil revenue included amounts received for light sweet oil and heavy oil. For the year ended December 31, 2006, heavy oil accounted for approximately 28% of total oil production.

For natural gas liquids, realized prices for an Iteration NGL basket decreased by 27% as compared to a 7% decrease in the benchmark for the quarter. As noted earlier, this was due to the commencement of the enhanced extraction of natural gas liquids from all of the Company's British Columbia natural gas production in November 2007 which resulted in a change in the composition of the Iteration NGL production basket. Overall, the Company realized a six percent increase in commodity prices for the year of 2007 due to a greater proportion of total production from crude oil and natural gas liquids. At December 31, 2006, only 7% of the company's production was from crude oil and natural gas liquids. By December 31, 2007, this ratio had increased to 27%.

Revenue

Production revenue was \$29.3 million for the three months ended December 31, 2007, compared with \$17.9 million for the three months ended December 31, 2006. The production revenue increase was due to 53% higher production and seven percent higher net realized prices received during the quarter. For the year ended December 31, 2007, production revenue was \$102.0 million, as compared to \$64.5 million for the previous year.

Production Revenue before Royalties (\$ thousands)	Three months ended December 31,			Year ended December 31,		
	2007	2006	% Change	2007	2006	% Change
Production revenue	29,265	17,939	63	101,976	64,539	58

The Company had the following fixed price contracts in place for a portion of the fourth quarter of 2007:

Period	Volume	Type	Pricing	Price
Apr 1 – Oct 31, 2007	5,5270 mcf/day	Collar	AECO – monthly	\$7.91 floor, \$8.54 ceiling
Apr 1 – Oct 31, 2007	7,900 mcf/day	Fixed price	BC Westcoast Station 2	\$7.44

The Company also entered into the following forward contract, which extends into 2008:

Period	Volume	Type	Pricing	Price
Dec 1, 2007 –				\$75.00 USD floor, \$90.20

Nov 30, 2008	200 bbls/day	Collar	WTI - Nymex	USD ceiling
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At December 31, 2007, the fair value of the forward contract was an expense of approximately \$460,000.

Royalties

Royalty expense, net of the Alberta Royalty Tax Credit, was \$6.0 million for the three months ended December 31, 2007, compared with \$3.2 million for the three months ended December 31, 2006. The increase in royalty expense for the fourth quarter of 2007 is the result of the overall increase in revenue, higher crown royalty rates associated with the greater proportion of natural gas liquids revenue, and higher gross overriding royalties associated with the properties acquired in September 2007, when compared to the same quarter in 2006.

On an annual basis royalty expense was \$20.8 million for 2007, compared to \$13.0 million for the year ended December 31, 2006, a 60% increase. The increase in royalty expense is consistent with the 58% increase in revenue for the year, when taken in consideration with the changes in the fourth quarter of 2007, described above.

Royalties (<i>\$ thousands except where noted</i>)	Three months ended December 31,			Year ended December 31		
	2007	2006	% Change	2007	2006	% Change
Royalties	5,966	3,174	88	20,772	12,969	60
Per boe (\$/boe)	8.12	6.62	23	8.59	8.04	7
Percentage of revenue (%)	20.39	17.69	15	20.37	20.09	1

On October 25, the Alberta provincial government announced its changes to the Alberta royalty regime. While these changes will take effect January 1, 2009, they continue to be subject to further clarification. Based on our analysis of the proposed royalty rate changes that have been announced to date, our preliminary assessment of the impact of the changes on the current Alberta based production of the combined Iteration/Cyries entity indicates, on the assumption that 35% of the combined Company's production is oil and natural gas liquids and 80% of the combined Company's production is Alberta based, at a commodity price of Cdn \$7.00 /GJ for gas and Cdn \$85.00 /bbl for oil, the combined Company's 2009 total crown royalty burden would increase approximately eight percentage points above the current crown royalty rate. This would result in the total royalty burden for the Company increasing from 21% to approximately 29%. The actual impact on the Company on January 1, 2009 when the announced changes come into effect cannot be determined at this time as it is dependent on a number of factors, including the proportion of the Company's production that is Alberta based, the production rates of the Alberta wells and commodity prices at that time.

The Company's external reserve evaluators have run sensitivities on the Company's Net Asset Value of proved plus probable reserves to determine the impact of the proposed royalty rate changes. For Iteration, the impact on Net Asset Value, at a 10% discount rate, is a Net Asset Value reduction of between 4% and 5%. For Cyries, the impact on Net Asset Value would be a reduction of between 3% and 6%.

For 2008, the Company expects the crown royalty burden on production to continue to be approximately 21 percent of revenue.

Production Expenses

Production expenses were \$8.8 million for the three months ended December 31, 2007, compared with \$4.4 million for the three months ended December 31, 2006. The 106% increase in production expenses was due to the following:

- 1) A 53% increase in production for the quarter as compared to the previous year.
- 2) Significant workover and enhancement costs associated with the properties acquired in September 2007. Management expects the workover and enhancement costs associated with these assets to continue at an elevated level for at least the first quarter of 2008, after which we expect operating costs per BOE with respect to these properties to significantly decrease.
- 3) Increased overall proportion of operating costs were generated from relatively more expensive crude oil and natural gas liquids production, as compared to natural gas properties.

Production expenses for the year ended December 31, 2007, on a per boe basis, were 15% higher than production expenses for the preceding year. A portion of this increase was due to a continuation of higher operating costs associated with the East Central Alberta assets acquired in June 2006, the significantly higher operating costs incurred with respect to the properties acquired in September 2007, and continued inflationary pressure on operating costs realized during the year.

Production expenses (\$ thousands)	Three months ended December 31,			Year ended December 31,		
	2007	2006	% Change	2007	2006	% Change
Field operating costs	8,604	4,159	107	20,986	12,023	75
Allocated general and administrative costs	197	120	64	699	516	35
Total production expense	8,801	4,279	106	21,685	12,539	73

Production expenses per boe (\$ per boe)	Three months ended December 31,			Year ended December 31,		
	2007	2006	% Change	2007	2006	% Change
Field operating costs	11.71	8.67	35	8.68	7.46	16
Allocated general and administrative costs	0.27	0.25	7	0.29	0.32	(10)
Total production expense	11.97	8.92	30	8.97	7.78	15

The Company expects the level of operating costs incurred with respect to the assets acquired in September 2007, to continue at current levels for the first quarter of 2008, after which they will fall to a more normalized level. With the acquisition of Cyries, and the significant component of their production that is oil, the Company expects operation costs for the first quarter of 2008 of approximately \$10 per boe.

Transportation Expenses

Transportation expense for the quarter was \$0.8 million in 2007 versus \$0.4 million for the three months ended December 31, 2006. Gross transportation expenses increased due to the increase in production as compared to the prior year. Specifically, the increase in production from the East Central Alberta assets acquired at the end of the second quarter contributed to higher transportation costs. Transportation costs associated with the East Central Alberta assets totaled \$278,000 in the fourth quarter of 2007 versus \$157,000 in 2006. On a per boe basis, transportation costs increased by 25% from \$0.87 per boe to \$1.09 per boe.

On an annual basis, transportation costs increased from \$1.3 million in 2006 to \$3.1 million in 2007, a 141% increase. This is due to the 50% growth in production in 2007 as well as the increased transportation rates associated with the Company's East Central and Wild River properties, both of which contributed to the 61% per boe increase in 2007.

Transportation expenses	Three months ended December 31,	Year ended December 31,
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(\$ thousands except where noted)						
	2007	2006	% Change	2007	2006	% Change
Transportation expenses	804	416	93	3,128	1,299	141
Per boe (\$ / boe)	\$1.09	\$0.87	25	\$1.29	\$0.81	59

For the first quarter of 2008, the Company expects transportation costs for the combined company to remain at current levels.

Operating Netback

The operating netback (before general and administrative expenses) realized for the three months ended December 31, 2007 was \$18.66/boe, a decrease of 11% versus \$21.00/boe for the three months ended December 31, 2006. The seven percent increase in net realized revenue was more than offset by the increase in royalties, operating costs and transportation costs, on a per boe basis, as compared to the same quarter in 2006.

For the year ended December 31, 2007, the operating netback was virtually unchanged from the preceding year. As was the case for the fourth quarter of 2007, the increase in net realized revenue was offset by increased royalties, operating costs and transportation costs.

Operating Netback (\$/boe)	Three months ended December 31,			Year ended December 31,		
	2007	2006	% Change	2007	2006	% Change
Production revenue	39.84	37.41	7	42.24	40.02	6
Royalties	(8.12)	(6.62)	23	(8.59)	(8.04)	7
Production costs	(11.97)	(8.92)	34	(8.97)	(7.78)	15
Transportation costs	(1.09)	(0.87)	26	(1.29)	(0.81)	59
Operating netback	18.66	21.00	(11)	23.39	23.40	-

For financial reporting purposes, the Company expects netbacks for the combined Company of approximately \$29.80 per boe for the first quarter of 2008. This netback is based on the assumption that Cyries production is only picked up for the period from March 7th 2008. Furthermore, this netback is calculated based on a commodity price forecast for the first quarter of \$6.85 Cdn/GJ for natural gas and \$96.00 Cdn/bbl for oil.

General and Administrative Expenses

Total general and administrative costs, excluding overhead recoveries, allocations to production expense and capitalized G&A, increased by 40% for the three months ended December 31, 2007, as compared to the same quarter in 2006. This is due to the increased staff levels necessitated by the growth of the Company. Nevertheless, on a per boe basis general and administrative costs decreased by nine percent in the fourth quarter of 2007, relative to the increased production as compared to the fourth quarter of 2006.

For the year ended December 31, 2007, net general and administrative expenses increased 34% compared to 2006, again due to increased staff levels. However, general and administrative expenses per boe decreased by 11% as compared to the previous year, due to the relative increase in average production realized by the Company in 2007.

Management is continuing its efforts to streamline general and administrative functions within the organization to maintain effective cost control with respect to general and administrative expenses.

General and administrative expenses <i>(\$ thousands except where noted)</i>	Three months ended December 31,			Year ended December 31,		
	2007	2006	% Change	2007	2006	% Change
General and administrative costs before the following:	2,773	2,120	31	8,766	6,765	30
Overhead recoveries	(56)	(133)	(58)	(155)	(300)	(48)
Allocation to production expenses	(197)	(120)	64	(699)	(516)	35
Capitalized overhead	(780)	(475)	64	(2,452)	(1,865)	31
General and administrative expense	1,740	1,392	25	5,460	4,084	34
Per boe (\$ / boe)	2.37	2.90	(18)	2.26	2.53	(11)

For the first quarter of 2008, management expects general and administrative expense to continue in the \$2.20 per boe range.

Stock Based Compensation Expense

The Company's stock option plan was amended by the shareholders effective April 1, 2004 to provide stock option holders the choice, upon exercise, to receive a cash payment in exchange for surrendering the option. The cash payment is equal to the appreciated value of the stock option, as determined by the difference between the option's exercise price and the Company's closing share price the day prior to electing to exercise the option. In July, 2005, the stock option plan was further amended to limit the total number of common shares that may be issued under the stock option plan to 10% of the issued and outstanding Common Shares at that time.

For the three months ended December 31, 2007, a stock based compensation recovery of \$0.3 million was recorded based on the decrease in value of the outstanding stock options as determined using the December 31, 2007 closing share price, as compared to the closing share price at September 30, 2007. For the year ended December 31, 2007, stock based compensation expense of \$3.4 million was recorded, as compared to negligible stock based compensation expense for the year ended December 31, 2006. The 2007 expense was a result of in the increase in value of the outstanding stock options determined using the December 31, 2007 closing share price, as compared to the closing share price at December 31, 2006. Future fluctuations in the stock based compensation expense or recoveries are dependent on the movement of the Company's share price and the number of vested options outstanding. Based on the December 31, 2007 share price of \$4.75, had all 6,568,789 (December 31, 2006: 5,884,222) stock options outstanding been vested, stock based compensation expense and a corresponding liability of \$8.4 million (December 31, 2006: \$7.1 million) would have been recognized. Of this amount, \$7.5 million (December 31, 2006: \$4.1 million) has been recognized as a current liability

Interest Expense

Interest expense on current debt (the Company had no long term debt) for the three months ended December 31, 2007 was \$1.0 million as compared to interest expense of \$0.5 million for the three months ended December 31, 2006. The increase in interest expense represents the portion of the \$95 million Credit Facility utilized during the quarter to fund the capital drilling program as well as a portion of the September 2007 acquisition. For the year ended December 31, 2007, interest expense on current debt was \$2.3 million, as compared to \$1.2 million for the corresponding period in the prior year. The effective interest rate for the three months ended December 31, 2007 on the outstanding Credit Facility was 6.2% and for the year end December 31, 2007, the effective rate on the outstanding Credit Facility was 6.1%.

Interest expense	Three months ended December 31,	Year ended December 31,
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(\$ thousands except where noted)	2007			2006		
	2007	2006	% Change	2007	2006	% Change
Interest expense	1,005	527	91	2,264	1,225	85
Per boe (\$/boe)	1.37	1.10	24	0.94	0.76	23

Depletion

Depletion and depreciation expense was \$17.5 million for the three months ended December 31, 2007 compared to \$11.6 million for the three months ended December 31, 2006. The 51% increase in the depletion expense mainly reflects the 53% higher realized production in 2007, partially offset by a slightly lower rate per boe compared to the fourth quarter of 2006.

On a year over year basis, depletion expense increased by 50% to \$60.1 million in 2007, which again reflects the 50% increase in production compared to 2006. The depletion rate per boe remained essentially the same in 2007 as compared to the year ended December 31, 2006.

Depletion (\$ thousands except where noted)	Three months ended December 31,			Year ended December 31,		
	2007	2006	% Change	2007	2006	% Change
Depletion	17,527	11,644	51	60,092	40,115	50
Per boe (\$/boe)	23.85	24.28	(2)	24.86	24.88	-

Capital Expenditures

Capital expenditures for the three months ended December 31, 2007 were \$17.6 million, versus \$15.8 million for the three months ended December 31, 2006. Capital spending on an annual basis, including acquisitions, increased 26% to \$144.1 million in 2007 as compared to \$114.1 million in 2006.

Capital Expenditures (\$ thousands)	Three months ended December 31,			Year ended December 31,		
	2007	2006	% Change	2007	2006	% Change
Acquisition of oil and gas properties, net of disposition proceeds	602	428	41	55,548	50,836	9
Exploration and development expenditures	17,008	15,358	11	88,580	63,235	40
Total	17,610	15,786	12	144,128	114,071	26

Not including in the above table for capital expenditures are non cash capital expenditure additions of \$8.9 million (2006: \$4.3 million) related to the increase in the asset retirement obligation from drilling and exploration and activity and property acquisitions

Capital and Liquidity

As an oil and gas company, we have a declining asset base and therefore rely on ongoing development and acquisitions to replace production and add additional reserves. Our future oil and natural gas production and reserves are highly dependent on our success in exploiting the Company's asset base and in acquiring

additional reserves. To the extent the Company is successful or unsuccessful in these activities, funds flow could be increased or reduced.

As at December 31, 2007, the Company had a \$95 million credit facility with a Canadian chartered bank. The Company expects to spend \$32 million in the first quarter of 2008 as part of an overall capital program that is heavily weighted to the first quarter winter drilling program. There will be very little drilling in the second quarter due to limited surface access and the Company intends to assess the summer gas price before giving guidance or capital spending for the second half of the year.

At the end of the year, the Company had drawn \$50.4 million of the facility. In addition to this debt, the Company had a working capital deficiency, not including the liability for stock based compensation, of \$7.5 million for a total net debt of \$61.0 million. The ratio of total net debt at December 31, 2007 to 2007 funds flow was 1.26:1. For Cyries, net debt at December 31, 2007 was \$132.8 million and the ratio of net debt at December 31, 2007 to 2007 funds flow was 1.43:1.

The Company anticipates no unusual working capital requirements in 2008. There are currently no capital commitments, other than those associated with the Company's 2008 drilling and exploration program, and no known unusual trends or liquidity issues as at March 21, 2007. The Company expects to be able to meet future obligations associated from ongoing operations from funds flow from operations and draws on the Company's Credit Facility.

In association with the acquisition of Cyries, the Company has entered into an Intercreditor Agreement with the Company's lenders and Cyries' lenders. Under the terms of the Intercreditor Agreement, the respective credit facilities of Iteration and Cyries (\$95 million and \$175 million respectively) will remain in place for a period of 60 days following completion of the transaction. The Company is currently in negotiations with a Canadian Chartered bank to act as lead for a syndicated credit facility of approximately \$300 million. At this time, the amount of the syndicate is on a best efforts basis. As a result, the actual commitment cannot be determined at this time.

For guidance purposes, the Company has used a commodity price forecast for the first quarter of \$6.85 Cdn/GJ for natural gas and \$96.00 Cdn./bbl for oil. For sensitivity purposes, each \$1.00/GJ swing in the price of natural gas will impact funds flow for the quarter by approximately \$4 million. Each \$5.00/bbl swing in the price of oil will impact funds flow for the quarter by approximately \$2 million.

Operating Leases

The Company has entered into various operating leases with respect to its premises. The leases expire June 30, 2009 and require the following future minimum lease payments, by calendar year (\$thousands);

2008	772
2009	386

Related Party Transactions

For the three months and year ended December 31, 2007, there were no related party transactions.

Outstanding Common Shares

On March 7, 2008, 93,990,604 common shares were issued to holders of Cyries common shares and warrants. Including the issue of these securities, as at March 17, 2008, there were 165,020,384 common shares, 4,721,667 warrants, 6,568,789 options outstanding.

Critical Accounting Estimates

In the application of accounting policies, management is often required to make judgments based on underlying estimates and assumptions about future events and their effects. Underlying estimates and assumptions are based on historical experience and other factors that management believes to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur and

additional information is obtained. The Company believes the following are the most critical accounting estimates used in determining its financial results.

Full Cost Accounting

The Company follows the full cost method of accounting whereby all costs relating to the acquisition of, exploration for and development of oil and gas reserves are capitalized, whether successful or not. The aggregate of these costs, net of costs of unproved properties and estimated salvage values, and estimated future development costs are depleted and depreciated by the unit of production method based on estimated gross proven reserves as determined by independent engineers. Changes in estimated gross proven reserves, salvage values or future development costs have a direct impact on depletion and depreciation.

Ceiling Test

The Company calculates the ceiling test on reserves based upon estimates of future prices for commodities, production rates, royalty rates, operating costs and inflation rates. Future prices for commodities are based on forward curve amounts. Future production rates, decline rates, royalty rates and operating costs are based on historical amounts. Inflation for commodity prices and operating costs is 2% per annum.

In the calculation of the ceiling test, the carrying value of property and equipment is compared to the sum of undiscounted cash flows expected to result from the future production of proved reserves, salvage value of equipment and the value of seismic over undeveloped land. Cash flows are based on third party quoted forward prices, adjusted for transportation and quality. Should the ceiling test result in an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying amounts of property, plant and equipment to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves, salvage value of equipment and value of seismic over undeveloped land. The estimated risk-free interest rate of 6.5% (compared to 6% in 2006), which increased in 2007 to reflect the upward pressure on interest rates, was used to arrive at the net present value of the future cash flows. Any excess is recorded in the statement of earnings.

The carrying value of undeveloped properties (land and seismic data) is reviewed periodically and written down to net realizable value if impairment is determined.

Reserve Estimates

On an annual basis, the Company engages independent petroleum consultants to evaluate 100% of its oil and gas reserves. The estimation of reserves is a subjective process. The accuracy of reserve estimates is a product of the quality and quantity of data available, interpretation and judgment. Reserve estimates are based on engineering and geological data, projected future rates of production, commodity price forecasts and estimated timing of future expenditures, all of which are subject to interpretation and uncertainties.

Reserve estimates are used in the calculation of depletion and depreciation. A change in estimated reserves would result in a higher or lower depletion and depreciation charge to net earnings. Downward revisions to reserve estimates could also result in an impairment write-down of property, plant and equipment under the ceiling test.

Asset Retirement Obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimates on a site by site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of earnings under asset retirement obligations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Estimates of the asset retirement costs are subject to uncertainty associated with the method, timing and extent of future retirement activities.

The Company calculates the asset retirement obligation based on estimates of the date of abandonment, abandonment costs, and inflation. During the year, the estimates used for abandonment and reclamation

costs were increased to reflect the increased percentage of the Company's wells that are oil, and the deeper gas wells that were acquired through the acquisition of the Peace River Arch partnership. These amounts are then discounted to a present value amount. The rate used to estimate the risk free borrowing rate was increased from 6% to 6.5% in 2007 to reflect the upward pressure experienced on interest rates. The changes in estimates were applied retroactively to January 1, 2007. The impact of the change in estimated abandonment costs and the estimated risk free borrowing rate effectively offset each other. The estimates used are as follows:

Abandonment and reclamation costs:

Well bore and surface reclamation	
Less than 1,750 meters	\$18,600 per well
More than 1,750 meters	\$26,100 per well
Surface reclamation	
Natural gas wells	\$19,100 per well
Oil wells	\$26,100 per well
Pipelines	\$10,000 per pipeline segment
Roads	\$15,000 per km
Batteries	\$15,000 per batter
Compressors	\$200,000 per compressor
Inflation	2 % per annum
Discount rate	6.5% per annum

Income Taxes

The Company records future tax assets and liabilities to account for the expected future tax consequences of events that have been recorded in its consolidated financial statements and its tax returns. These amounts are estimates; the actual tax consequences may differ from the estimates due to changing tax rates and regimes, as well as changing estimates of cash flows and capital expenditures in current and future periods. The Company periodically assesses the realizability of its future tax assets. A valuation allowance is recorded to the extent that there is uncertainty regarding utilization of future tax assets.

Impact of New Accounting Pronouncements

On January 1, 2007, the Company adopted six new accounting standards that were issued by the Canadian Institute of Chartered Accountants: Section 1506, *Accounting Changes*; Section 1530, *Comprehensive Income*; Section 3751, *Equity*; Section 3855, *Financial Instruments-Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; and Section 3865, *Hedges*. As required by the new standards, prior periods have not been restated. The adoption of these standards has had no material impact on the Company's equity, net loss or cash flows. The other effects of the implementation of the new standards are discussed below.

Accounting Changes

Section 1506 provides expanded disclosure for changes in accounting policies, accounting estimates and correction of errors. Under the standard, accounting changes should be applied on a retroactive basis unless otherwise permitted or where it is impractical to do so. Voluntary changes in accounting policy are made only when required by the primary source of GAAP, or the change results in more relevant and reliable information.

Comprehensive Income

Section 1530 introduces Comprehensive Income, which consists of net income and other comprehensive income ("OCI"). This section requires companies to present a statement of comprehensive income, defined as a change in net assets arising from transactions and other events from non-owner sources. The statement

presents net income and each component recognized in other comprehensive income. These include unrealized gains and losses on available for sale investments and the effective portion of gains or losses on derivatives designated as cash flow hedges. For the year ended December 31, 2007, the Company did not recognize any OCI. Should the Company recognize any OCI in the future, the cumulative changes in OCI would be recognized in Accumulated Other Comprehensive Income (“AOCI”), which would be presented as a new category within Shareholders’ Equity in the Consolidated Balance Sheet.

Equity

Section 3251 establishes standards for the presentation of equity and changes in equity for the reporting period. The adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

Financial Instruments – Recognition and Measurement

Section 3855 establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods is dependent on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities” as defined by the standard.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values measured in OCI. Financial assets “held-to-maturity”, “loans and receivables”, and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. The methods used by the Company in determining the fair value of financial instruments is unchanged as a result of implementing the new standard.

Cash is designated as “held-for-trading” and is measured at carrying value, which approximates fair value due to the short-term nature of this instrument. Accounts receivable are designated as “loans and receivables”. Bank indebtedness, accounts payable, and accrued liabilities are designated as “other liabilities”.

All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. Associated gains and losses are included in net earnings (loss) in the period in which they arise.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It specifies how hedge accounting is applied and the disclosures required when it is applied. This section did not currently have an impact on the Company’s consolidated financial statements.

In addition, the Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company.

Financial Instruments – Disclosures and Presentation

As of January 1, 2008, the Company will be required to adopt two new CICA standards. Handbook Section 3862, *Financial Instruments – Disclosures* and Handbook Section 3863, *Financial Instruments – Presentation*. These Handbook Sections will replace existing Handbook Section 3861, *Financial Instruments – Presentation and Disclosure*. The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.

Capital Disclosures

Also as of January 1, 2008, the Company will be required to adopt Handbook Section 1535, *Capital Disclosures* which will require companies to disclose their objectives, policies and processes for managing

capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements.

Both new standards were issued in December 2006 and the Company is assessing the impact on its financial statements.

International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board has now confirmed that the use of IFRS will be required in 2011 for publicly accountable, profit-oriented enterprises. IFRS will replace current Canadian GAAP followed by the Company. The Company will be required to begin reporting under IFRS effective January 1, 2011 and will be required to provide information following IFRS for the comparative period. The Company is currently evaluating the impact of adopting IFRS.

Disclosure Controls and Procedures

The Company has implemented disclosure controls and procedures to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company’s management, as appropriate, to allow timely decisions regarding required disclosures. The Company’s Chief Executive Officer and Chief Financial Officer, together with management, have concluded, based on their evaluation as of the year-end, the Company’s disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer is made known to them by others.

It should be noted that while the Company’s Chief Executive Officer and Chief Financial Officer believe that the Company’s disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will necessarily 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.

Internal Controls over Financial Reporting

Under the supervision of, and with the participation of the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, internal control over financial reporting has been designed and maintained in order to provide reasonable assurance regarding the reliability of financial reporting, as of the end of the period covered by the filings. During the quarter ended December 31, 2007, there have been no material changes in internal control over financial reporting. In common with many small companies, with limited accounting support staff, segregation of duties is difficult; however management is satisfied that compensating controls are in place including key management authorizations and reviews.

Outlook for 2008

The acquisition of Cyries Energy Inc. closed on March 7, 2008, and has transformed the Company into an intermediate producer. Production is now in excess of 20,000 boed and the Company has an inventory of drilling prospects which is expected to result in further production growth by year end. The exit rate of production for the first quarter of 2008 is expected to be approximately 22,000 boed.

For 2008, the largest focus areas for the Company will be in the Deep Basin and Peace River Arch areas of Western Alberta and North East British Columbia. These two areas currently account for approximately two thirds of the Company’s production and are prospective for liquids rich gas and light oil. Production from these areas will be complemented by exploration and exploitation opportunities for dry gas and heavy oil in Eastern Alberta, as well as additional light oil prospects in North West and South East Alberta.

The range of prospects provides a mixture of summer and winter access opportunities and allows the Company flexibility to focus its activity in those areas which will provide maximum return under

prevailing commodity prices and conditions. A very strong balance sheet will allow the Company to take advantage of accretive acquisitions should they arise to further enhance production growth.

Directors, Officers and Auditors

Current Officers and Directors of the Company are as follows;

Officers

Brian Illing	President and CEO
Mark Ariss	VP Exploration East
Sean Johnson	CFO
Jane Mactaggart	VP Exploitation
Carmen McKay-Illing	VP Corporate Affairs
Myron Rak	VP Production
Kevin Stromquist	VP Exploration West

Directors

Don Archibald (Chairman)	Independent Businessman (former CEO – Cyries)
Pat Breen P. Eng.	President- Foremost Income Fund
Howard Crone	Independent Businessman (former director – Cyries)
Dallas Droppo Q.C.	Partner- Blake, Cassels and Graydon LLP
Jim Grenon	President- TOM Capital Associates
Michael Hibberd	President- MJH Services Inc.
Brian Illing P. Geol	President and CEO- Iteration Energy Ltd.
Robert Waters CA	Senior VP and CFO- Enerplus Resources Fund

Corporate Secretary

Tony Grenon	Managing Director- TOM Capital Associates
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Auditors

Ernst & Young LLP

Corporate Council

Bennett Jones, LLP

Advisory – Forward-Looking Information

This MD&A was prepared on March 19, 2008 and is management's assessment of Iteration's historical financial and operating results. The reader should be aware that historical results are not necessarily indicative of future performance. This MD&A contains forward-looking statements relating to future events or future performance. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates" and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operating results and various components thereof affecting the economic performance of Iteration. Undue reliance should not be placed on these forward-looking statements which are based upon management's assumptions and are subject to known and unknown risks and uncertainties, including the business risks discussed below, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. The Company undertakes no obligation, except as required by applicable securities

legislation, to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise.

The forward looking statements contained herein are expressly qualified by this cautionary statement. Readers are cautioned that the following list of risk factors is not exhaustive.

In particular, this discussion contains forward-looking statements and information pertaining to the following:

- The quantity and recoverability of our reserves;
- The timing and amount of future production;
- Prices for natural gas produced;
- Operating and other costs;
- Business strategies and plans of management;
- Supply and demand of natural gas;
- Expectations regarding our ability to raise capital and to add to our reserves through acquisitions as well as exploration and development;
- The focus of capital expenditures on development activity rather than exploration;
- The sale, farming in, farming out or development of certain exploration properties using third party resources;
- The use of development activity and acquisitions to replace and add to reserves;
- The impact of changes in natural gas prices on cash flow after hedging;
- Drilling plans;
- The existence, operation and strategy of the commodity price risk management program;
- The approximate and maximum amount of forward sales and hedging to be employed;
- The Company's acquisition strategy, and the criteria to be considered and the benefits to be derived;
- The impact of Canadian federal and provincial governmental regulation on the Company relative to other issuers of similar size;
- Our treatment under governmental regulatory regimes;
- The goal to sustain or grow production and reserves through prudent management and acquisition;
- The emergence of accretive growth opportunities; and
- The Company's ability to benefit from the combination of growth opportunities and the means to grow through the capital markets.

Iteration's actual results could differ materially from those anticipated in our forward-looking statements as a result of the risk factors set forth below and noted elsewhere in this MD&A which include but are not limited to:

- Volatility in market prices for natural gas;
- Risks inherent in our operations;
- Uncertainties associated with estimating reserves;
- Competition for, among other things: capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- Incorrect assessments of the value of acquisitions;
- Geological, technical, drilling and process problems;
- General economic conditions including fluctuations in the price of natural gas;
- Royalties payable in respect of Iteration's production;
- Governmental regulation of the oil and gas industry, including environmental regulation;
- Fluctuation in foreign exchange or interest rates;
- Unanticipated operational events that can reduce production or cause production to be shut-in or delayed;
- Stock market volatility and market valuations;
- The need to obtain required approvals from regulatory authorities;

- Environmental risks;
- Insurance limitations risks;
- Risks inherent in replacing reserves;
- Reliance on operators and key employees;
- Access to funding and issuance of debt;
- Aboriginal claims; and
- Availability of drilling equipment, access restrictions and cost inflation.

Additional Information on the Company

Other information about the Company, including the Management's Discussion and Analysis and the Annual Information Form for the year ended December 31, 2007, is available through the internet on the Company's SEDAR profile at www.sedar.com.