

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 14, 2009

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 three months ended March 31, 2009 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 unaudited interim consolidated financial statements as at and for the three months ended March 31, 2009 and the audited consolidated financial statements as at and for the years ended December 31, 2008 and 2007, together with accompanying notes. Readers should also refer to Iteration's Annual Information Form ("AIF") for the year ended December 31, 2008. All financial information is reported in Canadian dollars, unless noted otherwise, and in accordance with Canadian generally accepted accounting principles ("GAAP").

Natural gas is converted to crude oil equivalent at a ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent ("boe"). Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 boe 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 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.

The following MD&A contains forward looking information and statements. We refer you to the end of the MD&A for our discussion on forward looking information and statements in the section "ADVISORY – FORWARD LOOKING INFORMATION".

ITERATION OVERVIEW

Iteration is a Canadian oil and gas company with focus areas in Northeast British Columbia/Northwest Alberta, East Central Alberta and Southern Alberta. The most significant currently producing properties are Boundary Lake and Umbach in Northeast British Columbia and Gold Creek, Knopcik and Manyberries in Alberta.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

The highlights for the three months ended March 31, 2009 include:

- Average production for the quarter was 18,165 boed, representing a slight increase over fourth quarter 2008 production. Shut-in production due to low commodity prices averaged approximately 150 boed of production.
- Drilled 6 (5.6 net) wells with a 100% success record. Drilling occurred in northeast BC, west Alberta and east central Alberta. Production from 2 (2.0 net) of these wells came on stream by the end of the first quarter with the remaining 4 (3.6 net) wells either waiting for completion and/or equipping and tie-in activities which is scheduled to begin after spring break-up for most of these wells. In addition, the Company participated in 4 (0.25 net) non-operated wells in the first quarter of 2009.
- Capital expenditures on oil and gas properties for the quarter were \$35.4 million, a 52% decrease from the fourth quarter of 2008.
- Funds from operations for the quarter were \$14.9 million, a 52% decrease from the fourth quarter of 2008 primarily due to a decrease in commodity prices and an increase in operating costs.
- Subsequent to the end of the quarter, Iteration completed a \$57.5 million equity financing at \$1.28 per share issuing approximately 45 million common shares, the proceeds of which were used to repay debt. A new \$265 million credit facility was also put in place to replace the existing \$260 million facility.

Financial Highlights (unaudited) (\$thousands, except as noted)	Three months ended March 31,	
	2009	2008
Production revenue before royalties	\$58,693	\$55,564
Funds from operations ⁽¹⁾	\$14,900	\$28,511
Per share (\$) - basic	\$0.09	\$0.31
- diluted	\$0.09	\$0.31
Net earnings (loss)	\$(14,275)	\$1,689
Per share (\$) – basic	\$(0.09)	\$0.02
- diluted	\$(0.09)	\$0.02
Capital expenditures	\$35,360	\$41,774
	As at March 31,	
	2009	2008
Total assets	\$1,022,497	\$1,206,693
Total indebtedness	\$296,726	\$216,959
Common shares outstanding	166,020,384	166,020,384
Stock options outstanding	10,135,375	6,559,923
Warrants outstanding	-	4,721,667

Notes:

- (1) “Funds from operations” and “funds from operations per share” are financial measures that are not determined in accordance with GAAP. See “Non-GAAP Measures”.

Operating Highlights	Three months ended March 31,	
	2009	2008
Production		
Natural gas (mcf/d)	79,000	47,808
Light oil (bbls/d)	3,390	1,609
Heavy oil (bbls/d)	186	216
Natural gas liquids (bbls/d)	1,423	1,097
Total production (boe/d)	18,165	10,890
Prices		
Natural gas (\$/mcf)	\$5.39	\$8.22
Light oil (\$/bbl)	\$50.15	\$94.89
Heavy oil (\$/bbl)	\$39.56	\$68.11
Natural gas liquids (\$/bbl)	\$35.24	\$46.08
Average price (\$/boe)	\$35.93	\$94.89
Net undeveloped land (thousands of acres)	867	722
Wells Drilled (net)		
Gas	4.8	19.5
Oil	1.1	2.9
Injector	-	1.0
Dry	-	1.7
Total	5.9	25.1
Success rate (%)	100.0	93.1

NON-GAAP MEASURES

This MD&A refers to "funds from operations" and "funds from operations per share" which 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. Management uses "funds from operations" and "funds from operations per share" (before changes in non-cash working capital) to analyze operating performance and leverage. 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 MD&A are based on cash flow from operating activities before changes in non-cash working capital. The table below provides a reconciliation between cash flow from operations and funds from operations.

(\$ thousands)	Three months ended March 31,	
	2009	2008
Funds from operations	14,900	28,511
Changes in non-cash working capital	5,909	15,135
Cash flow from operations	20,809	43,646

Outlook for 2009

Iteration is providing guidance for the last nine months of 2009. The information below presents the Company's expected results for the full year of 2009 including the actual results for the first quarter of 2009 and the forecast for the balance of the year. On March 23, 2009 Iteration provided guidance for the first and second quarters of 2009 in its MD&A for the year-ended December 31, 2008. A reconciliation to previous guidance for the first quarter of 2009 will be provided in this section of the MD&A, however second quarter 2009 guidance is superceded by the Company's guidance for 2009.

	2009 Forecast	2008 Actual
Production (boe/d)		
Annual average	17,000 – 17,500	16,396
Capital program		
Expenditures (\$ million)	75	816
Net wells drilled	25.0	68.0
Funds from operations		
Annual (\$ million)	80	172
Annual per basic share (\$)	0.41	1.16
Year end net debt (\$ million)	220	276
Average Pricing:	(April – Dec 2009)	(Jan – Dec 2008)
Natural gas – AECO (Cdn\$/mcf)	4.65	8.16
Oil – WTI (US\$/bbl)	60.00	99.65
Foreign exchange rate (Cdn\$/US\$)	0.82	0.94

Given the Company's forecast for commodity prices, capital expenditures are expected to be slightly below funds from operations for 2009. As a result production is expected to average between 17,000 to 17,500 boed which represents about a 5% increase over 2008. The Company currently has approximately 850 boed of production shut-in due to low commodity prices. With the recent increase in crude oil prices, the Company will begin to reactivate some properties with the resulting production expected to be brought back on stream by the third quarter of 2009. The Company expects to drill approximately 25.0 net wells in

2009 with a proportionately higher level of spending directed at oil opportunities in the Manyberries, Lloydminster and Peace River Arch areas. Capital expenditures for 2008 included approximately \$660 million of acquisitions. Funds from operations are expected to decline about 55% from 2008 levels, primarily due to lower commodity prices. The operating netback is expected to fall from 2008 levels due to lower commodity prices and slightly higher operating costs partially offset by lower royalty rates. Operating costs are expected to average approximately \$12.60 per boe for 2009 about 10% higher than 2008 levels. The increase in part is due to prior period costs included in 2009 partially offset by cost reductions. Operating costs for the last nine months of 2009 are expected to average approximately \$11.50 per boe. Royalty rates are forecasted to be approximately 18% for the year with the third and fourth quarters expected to be at lower rates (approximately 16%) due to the Alberta royalty incentive program (the Company expects to be at the 50% royalty credit level based on the 2008 production associated with Alberta crown properties). The average royalty rate for 2009 would be about a 10% reduction from 2008 levels. G&A expense is expected to average \$1.95 per boe in 2009. Interest expense is expected to be based on an average interest rate of about 6% due to increased borrowing costs. Year-end debt is expected to decline to about \$225 million as the proceeds from the equity financing completed May 6, 2009 were all applied to debt repayment and for the last nine months of 2009, funds from operations are expected to exceed capital expenditures.

Should realized commodity prices strengthen, the Company has an inventory of drilling opportunities that can be undertaken. However, should realized prices further weaken, the Company intends to scale back operations to ensure that the projected annual capital program remains in line with projected funds from operations.

The impact on the Company's 2009 funds from operations of a \$1.00/mcf increase in average AECO price for natural gas for the last nine months of 2009 would be approximately \$13.9 million. The impact of a US\$5.00/bbl increase in WTI for oil for the last nine months of 2009 would be approximately \$4.1 million. The impact of a 1% weakening of the Canadian Dollar versus the U.S. dollar for the last nine months of 2009 would be approximately \$1.1 million.

	2009 Q1 Actual	2009 Q1 Previous Guidance
Production (boed)	18,165	18,300
Capital program		
Expenditures (\$ million)	35.4	26.0
Net wells drilled	5.9	6.0
Funds from operations		
Quarter (\$ million)	14.9	19.0
Quarter per basic share (\$)	0.09	0.11
Quarter end net debt (\$ million)	296.7	283
Pricing (Jan – March):		
Natural gas (Cdn\$/GJ)	4.66	5.15
Light crude oil (Cdn\$/bbl)	50.15	47.00
Operating netback \$/boe	11.98	15.40
G&A \$/boe	1.92	1.70

Production was essentially in line with projected levels, however due to lower natural gas prices and higher operating expenses, the operating netback was lower than projected which resulted in lower funds from operations. Net debt was higher than projected due to lower funds from operations and higher than expected capital expenditures. Capital expenditures exceeded forecast levels largely due to cost overruns on projects that were started in the fourth quarter 2008.

OPERATING RESULTS

Production

Daily production	Three months ended		
	March 31,		
<i>Average for the period</i>	2009	2008	% Change
Natural gas (mcf/d)	79,000	47,808	65
Natural gas liquids (bbls/d)	1,423	1,097	30
Light oil (bbls/d)	3,390	1,609	111
Heavy oil (bbls/d)	186	216	(14)
Total production (boed)	18,165	10,890	67

Average daily production for the three months ended March 31, 2009 was 18,165 boed, an increase of 7,275 boed from production for the three months ended March 31, 2008. This 67% increase is primarily due to the inclusion of production from the Cyries acquisition that closed March 7, 2008, for the entire quarter ended March 31, 2009. In the previous year, Cyries production was only included for the period from March 8 to 31, 2008.

Commodity Prices

Industry benchmarks	Three months ended		
	March 31,		
<i>Average for the period</i>	2009	2008	% Change
Natural gas (AECO \$/mcf)	\$4.92	\$7.70	(36)
Edmonton Light crude \$/bbl	\$50.15	\$98.22	(49)
Hardisty Lloyd blend \$/bbl	\$42.68	\$76.38	(44)

Realized commodity prices	Three months ended		
	March 31,		
<i>Average for the period</i>	2009	2008	% Change
Natural gas (\$/mcf)	\$5.39	\$8.22	(34)
Natural gas liquids (\$/bbl)	\$35.24	\$46.08	(24)
Light oil (\$/bbl)	\$50.15	\$94.89	(47)
Heavy oil (\$/bbl)	\$39.56	\$68.11	(42)
Total (\$/boe)	\$35.93	\$56.08	(36)

For natural gas, the realized price for the first quarter of 2009 decreased by 34% as compared to the first quarter of 2008, which is consistent with the average benchmark price decrease of 36% during the same period. For light oil, the realized price for the first quarter of 2009 decreased by 47% as compared to the first quarter of 2008, which is comparable to the 49% decrease in average benchmark price for the same period.

The heavy oil realized price decreased by 42% in the first quarter of 2009 as compared to the first quarter of 2008, which is consistent with the decrease in the benchmark price of 44% for the comparable period. Iteration's realized price on its natural gas liquids decreased by 24% in the first quarter of 2009, as compared to the corresponding quarter in 2008. The Company's price on natural gas liquids fell less than other commodities due to the shift in the composition of natural gas liquids to higher value products.

Revenue

Production revenue before royalties	Three months ended		
	March 31,		
<i>(\$ thousands)</i>	2009	2008	% Change
Production revenue	\$58,693	\$55,564	6

Production revenue was \$58.7 million for the three months ended March 31, 2009, as compared to \$55.6 million for the corresponding period in 2008. Although production for the quarter ended March 31, 2009 was 67% higher than for the quarter ended March 31, 2008, production revenue only increased slightly due to the 36% decline in realized commodity prices.

For the three months ended March 31, 2009 and March 31, 2008, natural gas represented approximately 72% of the Company's production and 65% of the Company's revenue.

Royalties

<i>(\$ thousands except where noted)</i>	Three months ended March 31,		
	2009	2008	% Change
Royalties	\$12,142	\$11,679	4
Per boe (\$/boe)	\$7.43	\$11.79	(37)
Percentage of revenue (%)	21	21	-

Royalty expense was \$12.1 million for the three months ended March 31, 2009, compared with \$11.7 million for the corresponding period in 2008. Royalties represent amounts paid by the Company for crown, freehold and gross overriding royalties. Royalties remained consistent year over year even though production increased by 67%, due to the 36% decline in realized commodity prices. The allocation of the \$12.1 million of royalty expense for the first quarter of 2009 was \$10.9 million for crown royalties, which represents a crown royalty burden of approximately 18.5%, and \$1.2 million for freehold and gross overriding royalties, which represents a rate of approximately 2.1%, giving a combined royalty burden of approximately 20.6%. For the corresponding period in 2008, the crown royalty burden was approximately 18.4%, the freehold and gross overriding royalty burden was 2.6% resulting in a combined royalty burden of 21.0%.

Production Expenses

<i>(\$ thousands)</i>	Three months ended March 31,		
	2009	2008	% Change
Field operating costs	\$24,356	\$9,943	145
Allocated general and administrative costs	525	255	106
Total production expenses	\$24,881	\$10,198	144

<i>(\$ per boe)</i>	Three months ended March 31,		
	2009	2008	% Change
Field operating costs	\$14.91	\$10.03	49
Allocated general and administrative costs	0.32	0.26	24
Total production expenses	\$15.23	\$10.29	48

Production expenses were \$24.9 million or \$15.23 per boe for the three months ended March 31, 2009, compared with \$10.2 million or \$10.29 per boe for the corresponding period in 2008. This equates to a 144% increase on a gross dollar basis and a 48% increase on a per boe basis. The increase in expenses was due to the following:

- 1) A 67% increase in production for the quarter as compared to the same quarter in the previous year primarily due to the Cyries acquisition;
- 2) The shift in the weighting of the Company's sales towards oil, which typically has higher operating costs on a per boe basis; and
- 3) Prior period costs of approximately \$0.78 per boe on 2008 production have been included in the first quarter of 2009. Costs accrued at year-end did not reflect late invoices from vendors and higher than expected recent charges from partners relating to 2008. These costs are attributable to higher than expected labour, workover, fuel and processing costs in 2008. Processes and systems are being put in place to improve the timeliness of data and analysis relating to operating costs. Excluding these costs, operating costs for the first quarter of 2009 would have been \$12.37 per boe.

Transportation Expenses

<i>(\$ thousands except where noted)</i>	Three months ended March 31,		
	2009	2008	% Change
Transportation expenses	\$1,434	\$1,469	(2)
Per boe (\$/boe daily sales)	\$0.88	\$1.48	(41)

Transportation expenses for the quarter ended March 31, 2009 were \$1.4 million, consistent with transportation expenses of \$1.5 million for the three months ended March 31, 2008. On a per boe basis, transportation expense decreased by 41% from the rates realized in the first quarter of 2008 primarily as a result of a better allocation of the Company's production between firm and interruptible transportation contracts. For financial reporting purposes, transportation costs only relate to natural gas production. Trucking costs for oil are included in operating costs.

Operating Netback

<i>(\$/boe daily sales)</i>	Three months ended March 31,		
	2009	2008	% Change
Production revenue	\$35.93	\$56.08	(36)
Royalties	(7.43)	(11.79)	(38)
Production expenses	(15.23)	(10.29)	48
Transportation expenses	(0.88)	(1.48)	(41)
Operating netback	\$12.39	\$32.52	(62)

The operating netback (before general and administrative expenses) realized for the three months ended March 31, 2009 was \$12.39 per boe versus \$32.52 per boe for the corresponding period in 2008, a decrease of 62%. While the 36% decrease in commodity prices accounted for much of the decrease in operating netback, significantly higher production expenses also contributed.

General and Administrative Expenses

<i>(\$ thousands except where noted)</i>	Three months ended March 31,		
	2009	2008	% Change
General and administrative costs before the following:	\$4,890	\$3,360	46
Capitalized overhead	(1,135)	(770)	47
Allocation to production expenses	(525)	(255)	106
Overhead recoveries	(99)	(58)	71
General and administrative expense	\$3,131	\$2,277	38
Per boe (\$/boe)	\$1.92	\$2.30	(17)

Total general and administrative expenses (before taking into consideration overhead recoveries, expenses allocated to production expense and capitalized expenses), increased by 46% to \$4.9 million for the three months ended March 31, 2009, as compared to \$3.4 million for the corresponding period in 2008. The primary reason for the increase was higher costs associated with staffing, office accommodation and administration expenses following the Cyries acquisition.

While general and administrative expenses increased during the first quarter of 2009 in absolute dollars, on a per boe basis, these costs decreased by 17% in the first quarter of 2009 as compared to the same period in 2008. This was the result of efficiency gains and economies of scale associated with being a larger company.

Stock Based Compensation Expense

The Company's stock option plan provides 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 option, as determined by the difference between the option's exercise price and the Company's closing share price on the Toronto Stock Exchange the day prior to surrendering the option. On June 20, 2008, with the approval of shareholders, the stock option plan was amended and restated to limit the total number of common shares that may be issued under the stock option plan to a maximum of 16,000,000. This represented and continues to represent less than 10% of the then and currently issued and outstanding common shares of the Company. At March 31, 2009, options to purchase 10.1 million common shares were outstanding, which represents 6.1% of the outstanding common shares of the Company at that time. As at May 14, 2009, there are options outstanding to purchase 10.6 million common shares representing 5.0% of the Company's issued common shares.

For the three months ended March 31, 2009, no stock based compensation expense was recorded by the Company compared to \$7.1 million for the corresponding period in 2008.

Future fluctuations in stock based compensation expense or recoveries are dependent on the movement of the Company's share price and the number of vested options outstanding, adjusted for any options exercised for cash during the period. Based on the March 31, 2009 share price of \$0.98, there was no current or future stock based compensation liability associated with any of the stock options that were outstanding as at March 31, 2009.

Interest Expense

<i>(\$ thousands except where noted)</i>	Three months ended March 31,		
	2009	2008	% Change
Interest expense	\$1,618	\$1,112	46
Per boe (\$/boe production)	\$0.99	\$1.12	(13)

Interest expense on bank debt for the three months ended March 31, 2009 was \$1.6 million as compared to \$1.1 million for the three months ended March 31, 2008 and is primarily the interest expense associated with Bankers' Acceptances utilized for financing during the quarter. Interest expense has increased due to the increase in bank borrowings as capital expenditures exceeded funds from operations for the quarter. On a per boe basis, interest expense has decreased 13% in the first quarter of 2009 compared to the same period in the prior year period due to the increase in Company production.

Depletion, Depreciation, and Accretion

<i>(\$ thousands except where noted)</i>	Three months ended March 31,		
	2009	2008	% Change
Depletion, depreciation and accretion	\$35,700	\$21,554	66
Per boe (\$/boe production)	\$21.84	\$21.99	(1)

Depletion, depreciation, and accretion expense was \$35.7 million for the three months ended March 31, 2009 compared to \$21.6 million for the corresponding period in 2008 representing a 66% increase. As depletion, depreciation and accretion are based on production as a percentage of the Company's proved reserves, the increase is primarily due to the 67% increase in production for the first quarter of 2009 as compared to the same period in the prior year. On a per boe basis, depletion, depreciation and accretion rates decreased from \$21.99 per boe for the three months ended March 31, 2008 to \$21.84 per boe for the current reporting period.

Net Loss

Iteration's loss for the three months ended March 31, 2009 was \$14.3 million, as compared to a net income of \$1.7 million for the three months ended March 31, 2008. The loss arose as a result of significantly weaker commodity prices combined with the impact of higher production expenses for the quarter, partially offset by a recovery of future income taxes.

Funds from Operations

Iteration's funds from operations for the three months ended March 31, 2009 was \$14.9 million compared to \$28.5 million for the same period in 2008. The reduction was primarily a result of significantly weaker commodity prices combined with the impact of higher production and G&A expenses partially offset by lower royalties and transportation expense. In addition the Company had \$0.5 million of abandonment costs in the first quarter of 2009 (\$0.1 million in the first quarter of 2008) which reduced funds from operations.

Quarterly Financial Data

(\$ thousands except per share data)

Quarter ended	2009		2008		2007			
	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30
Revenues	\$58,693	\$70,656	\$108,444	\$127,175	\$55,564	\$29,265	\$22,161	\$26,806
Net income (loss)	\$(14,275)	\$(244,894)	\$26,696	\$672	\$1,689	\$(3,149)	\$(1,985)	\$(639)
Net income (loss) per common share – basic and diluted (\$)	\$(0.09)	\$(1.48)	\$0.16	\$0.00	\$0.02	\$(0.05)	\$(0.03)	\$(0.01)

Capital Expenditures

(\$ thousands)	Three months ended March 31,		
	2009	2008	% Change
Acquisition of oil and gas properties, net of disposition proceeds	\$(227)	\$1,618	(114)
Exploration and development expenditures	\$35,587	40,156	(11)
Total	\$35,360	\$41,774	(15)

There were no property acquisitions for the first quarter of 2009 compared to \$1.6 million for the same period of 2008. Amounts incurred on exploration and development capital spending for the three months ended March 31, 2009 were \$35.6 million, versus \$40.2 million for the three months ended March 31, 2008. The majority of capital expenditures for the first quarter of 2009 were spent on drilling operations primarily in the northeast BC and west Alberta areas. While the Company drilled 5.6 net operated wells and participated in 0.25 net partner operated wells in the first quarter of 2009 compared to 25.1 wells for the same period in 2008, the 2009 activity was concentrated in higher cost/high impact areas with two of the wells being multi-frac horizontal wells compared to the vertical well program in 2008. Of the 2009 activity all the wells are on production by the end of the first quarter except one well which is expected to be completed after spring break-up.

Capital and Liquidity

The Company's liquidity depends upon cash flow from operations, supplemented as necessary by equity and debt financings, and its new credit facility.

As an oil and gas company, the Company has a declining asset base and therefore relies on ongoing development and acquisitions to replace production and add additional reserves. Future oil and natural gas production and reserves are highly dependent on the success of exploiting the Company's existing asset base and in acquiring additional reserves. To the extent the Company is successful or unsuccessful in these activities, funds from operations could be increased or reduced.

The Company currently has budgeted for a drilling and exploration program of \$75 million for 2009. Of this amount approximately half has been spent in the first quarter of 2009. For the balance of the year the Company is forecasting funds from operations of \$65 million versus capital expenditures of \$40 million. The Company continually monitors its capital spending program in light of the recent volatility with respect

to commodity prices and Canadian dollar exchange rates to ensure the Company expects to be able to meet future anticipated obligations incurred from normal ongoing operations with funds from operations and draws on the Company's syndicated facility.

As at March 31, 2009, the Company had drawn \$285.6 million on its \$300 million syndicated credit facilities. At that time, the Company had a working capital deficit of \$11.2 million, for a total net debt of \$296.7 million.

The Company's financial position improved following the quarter end due to a \$57.5 million common share equity financing and the establishment of a new credit facility. Below is a summary of events that occurred subsequent to quarter end (please see Note 14 to the unaudited interim consolidated financial statements for additional details):

- 1) On April 30, 2009 the Company extended the maturity date of its credit facilities with its syndicate of lenders from April 30, 2009 to May 29, 2009. At that time the Company's borrowing base was established at \$260 million (a reduction from \$275 million). Higher margin pricing was agreed to, and the Company agreed to apply proceeds from its announced equity offering to repay and cancel its \$25 million supplemental credit facility and reduce the revolving term facility to cover off any borrowing base shortfall.
- 2) On May 6, 2009 the Company closed a bought deal equity financing of 39,100,000 common shares plus an over-allotment option of 5,865,000 common shares all at \$1.28 per common share for gross proceeds of \$57.5 million (net proceeds of approximately \$54.4 million). The proceeds of the financing were applied to reduce the Company's credit facility and repay the Company's supplemental facility, which was then cancelled.
- 3) On May 14, 2009 the Company entered into a new credit facility with a syndicate of lenders, consisting of Canadian Imperial Bank of Commerce, Bank of Nova Scotia, Bank of Montreal and Alberta Treasury Branch, to replace the existing credit facility described above. The borrowing base on this facility was established at \$265 million and consists of a \$12.5 million operating facility and a \$252.5 million extendible revolving term facility. The facility will mature April 30, 2010, and, at the Company's request, such credit facilities may be renewed for a period of not more than 364 days on agreement of the lenders.

Operating Leases

The Company has entered into various operating leases with respect to its office space. The leases expire between September 30, 2012, and June 30, 2014, and require the following future minimum lease payments, by calendar year:

	Gross Commitment	Sublet Recovery	Net Commitment
	(\$000)	(\$000)	(\$000)
2009	\$2,653	(\$951)	\$1,702
2010	\$3,537	(\$1,268)	\$2,269
2011	\$3,537	(\$1,268)	\$2,269
2012	\$3,220	(\$951)	\$2,269
2013	\$2,269	-	\$2,269
2014	\$1,135	-	\$1,135

The office space previously occupied by Cyries has been sublet on a full recovery flow through basis commencing June 1, 2008 through to September 30, 2012. Currently the subtenant has been awarded CCAA protection, however the Company continues to receive rent payments on time.

Related Party Transactions

There were no related party transactions during the three months ended March 31, 2009.

Outstanding Common Shares, Warrants and Options

As at March 31, 2009, there were 166,020,384 common shares and 10,135,375 million options outstanding. Subsequent to quarter end, 44,965,000 common shares were issued at a price of \$1.28 per common share in an equity financing. In addition, 450,000 options with a weighted average exercise price of \$0.98 were issued to new employees of the Company and 71,833 options with a weighted average price of \$5.13 were forfeited due to a resignation. As at May 14, 2009, there were 210,985,384 shares outstanding and 10,513,542 million 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. Reference should be made to the MD&A for the year ended December 31, 2008 for a description of the Company's most critical accounting estimates used in determining its financial results.

Impact of New Accounting Pronouncements

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the Section 3064 *Goodwill and Intangible Assets*, which converges Canadian GAAP for goodwill and intangible assets with IFRS. The new standard provides more comprehensive guidance on intangible assets, particularly for internally developed intangible assets but had no current impact on the Company's financial reporting.

New Accounting Standards issued Subsequent to Year End

In January 2009, the CICA issued three new accounting standards, Section 1582 *Business Combinations*, Section 1601 *Consolidated Financial Statements* and Section 1602 *Non controlling interests* each of which are effective for fiscal years beginning on or after January 1, 2011 and further align Canadian GAAP with IFRS. Earlier adoption of these recommendations is permitted.

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 developing a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. The key elements of the plan include:

- determine appropriate changes to accounting policies and required amendments to financial disclosures;
- identify and implement changes in associated processes and information systems;
- comply with internal control requirements;
- educate and train internal and external stakeholders.

At March 31, 2009, the Company had completed a diagnostic study of the anticipated impact of the transition to IFRS. The Company is currently analyzing the accounting policy alternatives and identifying implementation options for the corresponding process changes. As IFRS is expected to change prior to 2011, the impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company has implemented disclosure controls and procedures, as defined in National Instrument 52-109-*Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI52-109"), 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.

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The Company's internal control system was designed to provide reasonable assurance that all transactions are accurately recorded, that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the Company's assets are safeguarded. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedure may deteriorate.

The CEO and CFO are required to certify on the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting concurrent with filing its interim financial statements to the first quarter 2009 in accordance with NI 52-109. The Company's CEO and CFO, together with management, have concluded, based on their evaluation of the effectiveness of the Company's disclosure controls and procedures as of March 31, 2009, that information required to be disclosed by the Company is (i) recorded, processed, summarized and reported within the time periods specified in Canadian securities legislation and (ii) accumulated and communicated to the Company's management, including its CEO and CFO, to allow timely decisions regarding required disclosure.

The CEO and CFO have also assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2008. In making its assessment, management engaged an external third party to evaluate the operating effectiveness of the internal controls to support their certifications. This evaluation identified certain duties within the accounting and finance department that could not be properly segregated, given the Company's limited staff level. However, none of the segregation of duty deficiencies are believed to have resulted in a misstatement in the financial statements as the Company relies on certain compensating controls, including a substantive periodic review of the financial statements and other financial information by the CEO and the audit committee. This weakness is considered to be a common deficiency for many smaller listed companies in Canada.

During the three months ended March 31, 2009, there were no material changes in the Company's disclosure controls and procedures or internal control over financial reporting, other than a change in the CFO of the Company effective March 31, 2009 (the resigning CFO is providing consulting services to the Company during a transition period) and a new information management system is being implemented which, once fully functional, will allow management to obtain financial and operational information in a more timely manner. This system is expected to be fully functional prior to the end of 2009.

It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting 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.

ADVISORY – FORWARD-LOOKING INFORMATION

This MD&A was prepared on May 14, 2009 and is management's assessment of Iteration's historical operating and financial results for the three months ended March 31, 2009. The reader should be aware that historical results are not necessarily indicative of future performance. This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates" and similar expressions. In particular, this discussion contains forward-looking statements pertaining to the following:

- the timing and amount of production;
- natural gas, natural gas liquids and crude oil production levels;
- commodity prices for natural gas, natural gas liquids and crude oil;
- royalties payable and future royalty rates under the New Alberta Royalty Regime;
- royalties payable and future royalty rates under the Transitional Alberta Royalty program;
- the Alberta royalty incentive program including drilling credits announced on March 3, 2009;
- production expenses;
- transportation expenses;
- operating netbacks;
- general and administrative expenses;
- interest expenses and interest rates;
- Canadian dollar exchange rates;
- capital expenditures;
- capital and liquidity;
- funds from operations;
- debt levels;
- ratio of debt to funds from operations;
- number of net wells; and
- outlook for 2009.

Certain forward-looking statements may constitute "financial outlooks" as contemplated by National Instrument 51-102 – *Disclosure Obligations*, which are provided for the purpose of forecasting Iteration's financial position for the last nine months of 2009 and as at December 31, 2009. Please note that the financial outlook in this MD&A may not be appropriate for purposes other than as stated above.

Forward-looking statements and information are based on the Company's current beliefs as well as assumptions made by, and information currently available to, the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, future natural gas, natural gas liquids and crude commodity prices, future natural gas, natural gas liquids and crude oil production levels, the ability to obtain equipment in a timely manner to carry out development activities, the ability to market natural gas successfully to current and new customers, the impact of increasing competition, the ability to obtain financing on acceptable terms, and the ability to add production and reserves through development and exploration activities. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

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. 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 oil and natural gas;
- risks inherent in Iteration's 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 oil and 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;
- counterparty credit risk;
- 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.

Further information regarding these factors may be found under the heading "Risk Factors" in the AIF. Readers are cautioned that this list of risk factors is not exhaustive.

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.

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
Jane Mactaggart	VP Exploitation
Carmen McKay-Illing	VP Corporate Affairs
Myron Rak	VP Production
Tony Sabelli	VP Drilling & Completions
Peter Scott	VP Finance and CFO
Kevin Stromquist	VP Exploration West

Directors

Don Archibald (Chairman)	Independent Businessman (former Chairman & CEO – Cyries)
Pat Breen P. Eng.	President - Foremost Income Fund
Howard Crone P. Eng.	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.
Garry Peddle	Independent Businessman (former VP Corporate – Cyries)
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 Counsel

Bennett Jones LLP

Additional Information on the Company

Other information about the Company, including the AIF, is available through the internet on the Company's website at www.iterationenergy.com and on the Company's SEDAR profile at www.sedar.com. For further information, please contact Mr. Brian Illing, President and CEO, or Mr. Peter Scott, VP Finance and CFO, at 403-261-6883.