

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 12, 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 and six months ended June 30, 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 and six months ended June 30, 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 in Northeast British Columbia and Gold Creek, Knopcik and Manyberries in Alberta.

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 June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Funds from operations	\$5,378	\$52,824	\$20,278	\$81,337
Changes in non-cash working capital	3,286	(16,114)	9,195	(101)
Cash flow from operations	\$8,664	\$36,710	\$29,473	\$81,236

OUTLOOK FOR 2009

Iteration is updating its guidance for 2009 results issued on May 14, 2009 due to property dispositions of approximately 1,000 boed of production, additional shut-in gas production of approximately 350 boed, changes in commodity prices and reduced capital expenditures. The information below presents the Company's expected results for the full year of 2009 (which incorporates the actual results for the first six months of 2009, and the forecast for the balance of the year), the May 14, 2009 guidance and the difference between the two.

	2009 Forecast	2009 Previous May 14 Forecast	Change
Production (boe/d) ⁽¹⁾			
Annual average	15,600 – 16,100	17,000 – 17,500	(8%)
Capital program ⁽²⁾			
Expenditures (\$ million)	65	75	(13%)
Net wells drilled	24	25	(4%)
Funds from operations ⁽²⁾			
Annual (\$ million)	40	80	(50%)
Annual per basic share (\$)	0.20	0.41	(51%)
Year end net debt (\$ million)	205	220	(7%)
Average Pricing:			
	(July – Dec 2009)	(April – Dec 2009)	
Natural gas – AECO (Cdn\$/mcf)	3.75	4.65	(19%)
Oil – WTI (US\$/bbl)	65.00	60.00	8%
Foreign exchange rate (Cdn\$/US\$)	0.90	0.82	10%

Notes:

- (1) Production guidance reduced by 500 boed or 3% due to property dispositions and 175 boed or 1% due to expected additional shut-in gas production.
- (2) Previous guidance included Alberta drilling credits as a reduction of royalties. This guidance has applied the Alberta drilling credits to reduce capital expenditures. The amount of drilling credits included in this forecast is \$4.7 million (\$4.6 million in the previous guidance). Funds from operations include a \$1.8 million additional provision for bad debts related to SemGroup's trade receivables in connection with its Companies' Creditors Arrangement Act ("CCAA") proceedings.

Gas prices have continued to weaken from our previous forecast and although WTI crude prices are projected to be higher, the stronger Canadian dollar has left crude realizations slightly lower. A non-core disposition program was initiated in the second quarter with the majority of the transactions occurring in July resulting in approximately \$42 million of dispositions (prior to closing adjustments) consisting of approximately 1,000 boed of production (80% gas) with the proceeds used to repay debt. In addition the Company expects to shut-in an additional 350 boed of gas production in the second half of 2009 if current pricing persists.

Funds from operations are expected to be lower mainly due to lower production and commodity prices, partially offset by lower interest costs. As a result, planned capital expenditures have been reduced with cuts to gas drilling and delaying of some oil drilling at Manyberries in southern Alberta to 2010. The extension of the Alberta drilling incentives allows Iteration to follow a more efficient capital plan for this area. The recently announced B.C. drilling incentives are not expected to affect capital spending plans for the balance of the year based on our projection for gas prices.

Royalty rates are forecasted to be approximately 19% for the year (versus previous guidance of 18%) primarily due to lower commodity prices offset by removing the Alberta drilling credits and which are now shown as a reduction of capital expenditures. Production expenses continue to be affected by non-operated

prior period costs and are expected to average approximately \$14.25 per boe for 2009, about 13% higher than the previous forecast. Production expenses for the last six months of 2009 are expected to average approximately \$13.00 per boe.

General and Administrative (“G&A”) expense is expected to average \$2.20 per boe in 2009 versus previous guidance of \$1.95 per boe primarily due to lower production volumes. Interest expense is expected to be based on an average interest rate of about 6% to reflect increased borrowing costs and financing charges.

Year-end debt is expected to decline to about \$205 million as the proceeds from the property dispositions have been applied to debt repayment and funds from operations are expected to be slightly below capital expenditures for the last six months of 2009.

Should realized gas 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 capital program remains in line with projected funds from operations for the last half of the year.

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 six months of 2009 would be approximately \$8.1 million. The impact of a US\$5.00/bbl increase in WTI for oil for the last six months of 2009 would be approximately \$2.8 million. The impact of a one cent weakening of the Canadian Dollar versus the U.S. dollar for the last six months of 2009 would be approximately \$0.8 million. Using forward market pricing of \$3.90/mcf for AECO gas, US\$72.50 for WTI oil and Canadian/US dollar exchange rate of 0.93, funds from operations would be \$5 million higher or \$45 million.

OPERATING RESULTS

Production

Daily production	Three months ended			Six months ended		
	June 30,			June 30,		
<i>Average for the period</i>	2009	2008	% Change	2009	2008	% Change
Natural gas (mcf/d)	74,650	76,563	(2)	76,934	62,180	24
Natural gas liquids (bbls/d)	1,474	1,377	7	1,431	1,237	16
Light oil (bbls/d)	3,017	3,840	(21)	3,196	2,725	17
Heavy oil (bbls/d)	203	168	21	190	192	(1)
Total production (boed)	17,137	18,146	(6)	17,640	14,517	25

Average daily production for the three months ended June 30, 2009 was 6% below the same period in 2008 primarily due to lower drilling activity over the past six months and natural production declines. Shut-in production due to low commodity prices averaged approximately 750 boed for the second quarter of 2009. Both periods were impacted by facility maintenance turnarounds.

Average daily production for the six months ended June 30, 2009 was 25% higher than the prior year period primarily due to the acquisition of Cyries Energy Inc. (“Cyries”) which was completed March 7, 2008. As a result, the prior year period only includes approximately 4 months of Cyries production.

Commodity Prices

Industry benchmarks	Three months ended			Six months ended		
	June 30,			June 30,		
<i>Average for the period</i>	2009	2008	% Change	2009	2008	% Change
Natural gas (AECO \$/mcf)	\$3.46	\$10.22	(66)	\$4.21	\$9.10	(54)
Edmonton Light crude (\$/bbl)	\$65.90	\$126.07	(48)	\$57.78	\$111.79	(48)
Hardisty Lloyd blend (\$/bbl)	\$60.29	\$103.05	(41)	\$51.27	\$89.66	(43)

Realized commodity prices	Three months ended			Six months ended		
	June 30,			June 30,		
<i>Average for the period</i>	2009	2008	% Change	2009	2008	% Change
Natural gas (\$/mcf)	\$3.46	\$10.50	(67)	\$4.45	\$9.62	(54)
Natural gas liquids (\$/bbl)	\$31.13	\$58.68	(47)	\$33.11	\$53.09	(38)
Light oil (\$/bbl)	\$59.41	\$129.54	(54)	\$54.55	\$119.31	(54)
Heavy oil (\$/bbl)	\$49.32	\$89.54	(45)	\$44.80	\$77.47	(42)
Total (\$/boe)	\$28.82	\$77.02	(63)	\$32.46	\$69.16	(53)

Natural gas prices realized for the three and six months ended June 30, 2009 decreased 67% and 54% respectively from the same periods in the prior year, which is consistent with the average benchmark price decreases. Similarly the light oil realized price for the second quarter and first half of 2009 decreased by 54% as compared to the same periods of 2008, which is slightly higher than the 48% decrease in average benchmark prices.

Revenue

Production revenue before royalties (\$ thousands)	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	% Change	2009	2008	% Change
Production revenue	\$44,936	\$127,175	(65)	\$103,629	\$182,739	(43)

Production revenue for the three months ended June 30, 2009 decreased 65% compared to the corresponding period in 2008 primarily due to the 63% decrease in realized commodity prices. For the six months ended June 30, 2009 production revenue decreased 43% compared to the same period in 2008 as the reduction in commodity prices was partially offset by an increase in production.

For the three months and six months ended June 30, 2009 and 2008 gas represented a little over 70% of the Company's production and ranged between 52% and 60% of the Company's revenue.

Royalties

(\$ thousands except where noted)	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	% Change	2009	2008	% Change
Royalties	\$6,517	\$27,199	(76)	\$18,659	\$38,878	(52)
Per boe (\$/boe)	\$4.18	\$16.47	(75)	\$5.84	\$14.71	(60)
Percentage of revenue (%)	14.5	21.4	(32)	18.0	21.3	(15)

Royalty expenses on an absolute, per boe and percentage of revenue basis all decreased in 2009 compared to the corresponding periods in 2008 primarily due to lower commodity prices, particularly gas prices, and the new Alberta Royalty Framework which was enacted in 2009. The new royalty framework is more sensitive to prices; the average rate dropped from 20.7% in the first quarter of 2009 to 14.5% in the second quarter of 2009. Royalties represent amounts paid by the Company for crown, freehold and gross overriding royalties. The vast majority of the Company's royalty expenses are for crown royalties.

Production Expenses

Production expenses (\$ thousands)	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
Total production expenses	\$23,752	\$20,291	17	\$48,633	\$30,488	60
Per boe (\$/boe)	\$15.23	\$12.29	24	\$15.23	\$11.54	32

Production expenses have increased in 2009 over the 2008 periods due to higher per unit costs and for the first half of 2009 due to a 25% increase in production compared to the first half of 2008. Per unit production costs have increased in the 2009 periods compared to the previous year largely due to the inclusion of revisions of estimates of prior period costs and the fixed cost component associated with shut-in production volumes. The Company continues to experience late charges from vendors and partners particularly for processing, workover and labour costs. Excluding these costs, operating costs for the first half of 2009 would have been \$12.54 per boe. The implementation of processes and systems that began earlier this year to improve the timeliness of data and analysis relating to operating costs is progressing and is expected to be fully operational by the end of 2009.

Transportation Expenses

(\$ thousands except where noted)	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
Transportation expenses	\$1,301	\$1,982	(34)	\$2,735	\$3,451	(21)
Per boe (\$/boe)	\$0.83	\$1.20	(31)	\$0.86	\$1.31	(34)

Transportation expenses for the quarter and six months ended June 30, 2009 were lower compared to the prior year periods on an absolute and per boe basis primarily as a result of a better allocation of the Company's production between firm and interruptible transportation contracts.

Operating Netback

(\$/boe)	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
Production revenue	\$28.82	\$77.02	(63)	\$32.46	\$69.16	(53)
Royalties	(4.18)	(16.47)	(75)	(5.84)	(14.71)	(60)
Production expenses	(15.23)	(12.29)	24	(15.23)	(11.54)	32
Transportation expenses	(0.83)	(1.20)	(31)	(0.86)	(1.31)	(34)
Operating netback	\$8.58	\$47.06	(82)	\$10.53	\$41.60	(75)

The operating netback per boe (before general and administrative expenses) realized for the three and six months ended June 30, 2009 has decreased significantly compared to the same periods in 2008 largely due to the drop in commodity prices. Increased production expenses were more than offset by lower royalties and transportation expenses.

General and Administrative Expenses

(\$ thousands except where noted)	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
General and administrative costs before the following:	\$4,145	\$4,285	(3)	\$9,001	\$7,390	22
Capitalized overhead	(1,047)	(1,020)	3	(2,707)	(1,790)	51
Overhead recoveries	(35)	(70)	(50)	(105)	(128)	(18)
General and administrative expense	\$3,063	\$3,195	(4)	\$6,189	\$5,472	13
Per boe (\$/boe)	\$1.96	\$1.93	2	\$1.94	\$2.07	(17)

G&A expenses for the three months ended June 30, 2009 decreased compared to the corresponding period in 2008 due to the absence of initially higher costs included in the 2008 period immediately following the acquisition of Cyries. On a per boe basis the costs are relatively similar between the two periods.

For the six months ended June 30, 2009 the absolute G&A costs are higher; however per boe costs are lower than the prior year period. Costs are higher because the first quarter of 2008 includes less than one month of Cyries operations while the entire 2009 period has costs for the combined entity. However per boe costs are lower in 2009 due to a higher production base.

SemGroup Receivable

During the second quarter of 2009 the Company increased the provision for the un-collectability of the SemCanada and SemCams trade receivables by \$1.8 million reflecting an ultimate recovery of 4% or \$0.6 million. A provision of \$15.7 million (\$13.9 million at December 31, 2008) had been provided for as a result of these companies filing for CCAA protection.

Stock Based Compensation Expense

The Company's stock option plan provides option holders the right to request, upon exercise, to receive a cash payment in exchange for surrendering the option, provided the request is accepted by the Company. 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. In June of 2009 the Company provided employees (excluding officers and directors) the option to surrender options they held with a strike price above \$3.50 per share and in turn receive 40% of their surrendered number of options with a strike price at the then prevailing share price of \$1.40. As a result 3.4 million options were surrendered and 1.3 million options were issued. At June 30, 2009 and August 12, 2009, options to purchase 9.8 million common shares were outstanding, which represents 4.6% of the outstanding common shares of the Company at that time.

For the three and six months ended June 30, 2009, \$35,000 of stock based compensation expense was recorded by the Company compared to \$13.8 million and \$20.9 million respectively for the corresponding periods in 2008.

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 options vested and outstanding. Based on the June 30, 2008 share price of \$1.17, had all of the 9,847,708 stock options outstanding been vested, aggregate stock-based compensation expense and a corresponding liability of \$276,000 would have been recognized.

Interest and Financing Expense

(\$ thousands except where noted)	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
Interest and financing expense	\$3,215	\$3,067	5	\$4,833	\$4,179	16
Per boe (\$/boe)	\$2.06	\$1.86	11	\$1.51	\$1.58	(4)

Interest and financing expense primarily represents interest on bank debt but also includes financing charges and expenses related to bank debt. Interest and financing expense has increased in the 2009 periods compared to 2008 due to overall higher debt levels, partially offset by lower interest costs. Debt levels have increased as capital expenditures have exceeded funds from operations, equity financings and property disposition proceeds. The majority of the Company's bank debt is borrowed by way of Bankers' Acceptances. The second quarter of 2009 also includes costs related to the refinancing of the Company's bank debt facility.

Depletion, Depreciation, and Accretion

(\$ thousands except where noted)	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
Depletion, depreciation and accretion	\$36,800	\$39,045	(6)	\$72,500	\$60,600	19
Per boe (\$/boe)	\$23.60	\$23.65	(0)	\$22.71	\$22.94	(1)

Depletion, depreciation, and accretion ("DD&A") expense is lower for the second quarter of 2009 compared to the prior year period primarily due to lower production. For the first half of 2009 higher production is increasing DD&A expense compared to the prior year period. On a per boe basis DD&A expense is within 1% of each other between the 2009 and 2008 periods.

Funds from Operations and Net Income/(Loss)

(\$ thousands except where noted)	Three months ended June 30,			Six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
Funds from operations	\$5,378	\$52,824	(90)	\$20,278	\$81,337	(75)
per share – basic (\$)	\$0.03	\$0.32	(91)	\$0.11	\$0.63	(83)
per share – diluted (\$)	\$0.03	\$0.31	(90)	\$0.11	\$0.62	(82)
per boe (\$/boe)	\$3.45	\$31.99	(89)	\$6.35	\$30.79	(79)
Net (Loss)/income	(\$22,978)	\$672	(3,319)	(\$37,253)	\$2,362	(1,677)
per share – basic (\$)	(\$0.12)	\$0.00	-	(\$0.21)	\$0.02	(1,150)
per share – diluted (\$)	(\$0.12)	\$0.00	-	(\$0.21)	\$0.02	(1,150)
per boe (\$/boe)	(\$14.73)	\$0.41	(3,692)	(\$11.66)	\$0.89	(1,410)
Weighted average shares outstanding						
basic ('000)	193,197	165,812	17	179,684	129,266	39
diluted ('000)	193,197	168,413	15	179,684	131,242	37

Iteration's funds from operations for the three months ended June 30, 2009 was \$5.4 million compared to \$52.8 million for the same period in 2008. For the six months ended June 30, 2009 the Company's funds from operations of \$20.3 million compares to \$81.3 million for the prior year period. The reduction was primarily a result of significantly weaker commodity prices combined with higher production expense and the additional provision for the SemGroup receivable partially offset by lower royalties.

Iteration's net loss for the three months ended June 30, 2009 was \$23.0 million, as compared to a net income of \$0.7 million for the three months ended June 30, 2008. For the six months ended June 30, 2009 the Company's net loss of \$37.3 million compares to net income of \$2.4 million for the prior year period. The losses primarily arise as a result of lower funds from operations and, higher DD&A expense for the six months ended June 30, 2009, partially offset by a recovery of future income taxes.

Weighted average shares outstanding in the second quarter of 2009 increased approximately 17% over the prior year period primarily due to the 45.0 million common share equity issue completed in May 2009. For the six months ended June 30, 2009 weighted average shares outstanding increased over the prior year period due to the equity issue completed in May 2009 and the 94.0 million shares issued in conjunction with the Cyriac acquisition in March 2008 being outstanding for the entire period.

Selected Quarterly Data

Quarter ended	2009				2008			2007	
	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	
Production (boe/d)	17,137	18,165	18,001	18,507	18,146	10,890	7,989	6,304	
Revenues (\$000)	\$44,936	\$58,693	\$70,656	\$108,444	\$127,175	\$55,564	\$29,265	\$22,161	
Average realized prices (\$/boe)	\$28.82	\$35.93	\$43.08	\$64.32	\$77.02	\$56.08	\$39.84	\$38.21	
Royalties (\$/boe)	\$4.18	\$7.43	\$7.61	\$13.71	\$16.47	\$11.79	\$8.12	\$9.29	
Production expense (\$/boe)	\$15.23	\$15.23	\$11.02	\$10.99	\$12.29	\$10.29	\$11.97	\$6.53	
Transportation expense (\$/boe)	\$0.83	\$0.88	\$0.71	\$0.77	\$1.20	\$1.48	\$1.09	\$1.29	
Operating netback (\$/boe)	\$8.58	\$12.39	\$23.75	\$38.85	\$47.06	\$32.52	\$18.66	\$21.10	
Net G&A expense (\$/boe)	\$1.96	\$1.92	\$1.19	\$1.62	\$1.93	\$2.30	\$2.37	\$2.19	
Net interest expense (\$/boe)	\$2.06	\$0.99	\$1.58	\$1.48	\$1.86	\$1.12	\$1.37	\$0.69	
Funds from operations (\$000)	\$5,378	\$14,900	\$31,152	\$59,338	\$52,824	\$28,511	\$11,103	\$10,561	
per boe (\$/boe)	\$3.45	\$9.11	\$18.81	\$34.85	\$31.99	\$28.77	\$15.11	\$18.21	
per share – basic (\$)	\$0.03	\$0.09	\$0.19	\$0.36	\$0.32	\$0.31	\$0.16	\$0.16	
per share – diluted (\$)	\$0.03	\$0.09	\$0.19	\$0.35	\$0.31	\$0.31	\$0.16	\$0.16	
Net income (loss)	(\$22,978)	(\$14,275)	(\$244,894)	\$26,696	\$672	\$1,689	(\$3,149)	(\$1,985)	
per boe (\$/boe)	(\$14.73)	(\$8.73)	(\$147.87)	\$15.68	\$0.41	\$1.70	(\$4.28)	(\$3.42)	
per share – basic (\$)	(\$0.12)	(\$0.09)	(\$1.48)	\$0.16	\$0.00	\$0.02	(\$0.05)	(\$0.03)	
per share – diluted (\$)	(\$0.12)	(\$0.09)	(\$1.48)	\$0.16	\$0.00	\$0.02	(\$0.05)	(\$0.03)	
Net capital expenditures (\$000)	\$4,196	\$35,360	\$74,043	\$68,837	\$31,408	\$41,774	\$17,610	\$71,316	
Bank debt and working capital deficiency (\$000) as at	\$241,652	\$296,726	\$276,130	\$232,467	\$222,129	\$216,959	\$61,012	\$82,938	

Compared to the immediately preceding quarter Iteration's second quarter 2009 production declined 6% primarily due to facility maintenance turnarounds and natural declines. Revenues have decreased 23% as commodity prices continue to fall (down 20% from the preceding quarter) and lower production. With lower commodity prices, royalties decreased 44% on a per boe basis and fell to 14.5% from 20.7% on a percentage of revenue basis compared to the first quarter of 2009. Production and transportation expense were relatively flat on a per boe basis between the first and second quarter of 2009 as prior period costs are included in both quarters. Operating netback on a per boe basis in the second quarter of 2009 has fallen 31% compared to the first quarter of 2009 primarily due to lower commodity prices partially offset by lower royalties. Between the first and second quarters of 2009 net G&A expense on a per boe basis is relatively unchanged while net interest expense per boe has increased due to overall higher borrowing costs and financing charges related to the new borrowing facility. Funds from operations for the second quarter of 2009 is 64% lower than the first quarter of 2009 due to lower operating netback, higher net interest expense and an additional \$1.8 million provision for the SemGroup receivable. Similarly the net loss between the periods increased 61%. Capital expenditures decreased 88% from the first quarter to the second quarter of 2009 as spring breakup reduced capital activities (traditionally the second quarter is a slower capital activity period absent acquisitions) and the Company curtailed expenditures due to lower funds from operations. Total debt fell \$55 million or 19% between the first and second quarters of 2009 as the Company completed an equity issue for net proceeds of approximately \$54 million in the second quarter and funds from operations exceeded capital expenditures for the quarter.

Capital Expenditures

(\$ thousands)	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	% Change	2009	2008	% Change
Acquisition/(dispositions)	(\$2,151)	\$2,929	(227)	(\$2,378)	\$4,546	(248)
Land	874	18,622	(95)	3,798	21,129	(82)
Seismic	967	1,478	(35)	2,222	4,014	(45)
Drill, complete & facilities	3,459	7,359	(53)	33,207	41,702	(19)
Capitalized G&A	1,047	1,020	3	2,707	1,790	22
Total	\$4,196	\$31,408	(87)	\$39,556	\$73,181	(46)

Wells drilled (net)	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	% Change	2009	2008	% Change
Gas	-	2.1	n/a	4.8	21.6	(78)
Oil	-	4.0	n/a	1.1	6.9	(84)
Injector	-	-	n/a	-	1.0	n/a
Dry	-	-	n/a	-	1.7	n/a
Total	-	6.1	n/a	5.9	31.2	(81)
Success rate (%)	-	100.0	n/a	100.0	94.6	(46)

The Company completed \$2.2 million of property dispositions in the second quarter of 2009 compared to \$2.9 million of property acquisitions in the same period of 2008. Land expenditures have decreased significantly in 2009 from the prior year periods in 2008 as the second quarter of 2008 included successful land sales in the BC and West Alberta core areas. Lower overall activity levels have reduced seismic expenditures approximately 20% in 2009 from the prior year periods in 2008. Similarly drill, complete, equip and facility expenditures were significantly reduced in the second quarter of 2009 compared to the prior year period as the Company did not participate in any wells in the second quarter compared to 6.1 net wells in the prior year period. Costs for the second quarter of 2009 primarily relate to complete and equipping activities from first quarter 2009 activities.

CAPITAL AND LIQUIDITY RESOURCES

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 exploration, 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 \$65 million for 2009. Of this amount approximately \$40 million has been spent in the first half of 2009. For the balance of the year the Company is forecasting funds from operations of approximately \$20 million versus capital expenditures of \$25 million. The \$5 million of capital expenditures in excess of funds from operations for the last half of the year is expected to be funded through the Company's credit facility. 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.

The Company's financial position improved during the quarter due to a \$57.5 million common share equity financing and the establishment of a new credit facility. As at June 30, 2009, the Company had drawn \$246.0 million on its \$265 million credit facility. At that time, the Company had a working capital surplus of \$4.6 million, for a total net debt of \$241.3 million.

Subsequent to the quarter end the Company closed \$40 million of non-core property dispositions, the proceeds of which were used to repay the credit facility. As a result of the dispositions the Company's borrowing base was reduced by \$12.5 million to \$252.5 million. On a pro forma basis total net debt at the end of the second quarter would have been approximately \$200 million including the net proceeds from the dispositions.

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	\$1,769	(\$634)	\$1,135
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 June 30, 2009.

Outstanding Common Shares, Warrants and Options

As at June 30, 2009 and August 12, 2009, there were 210,985,384 common shares and 9,847,708 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 June 30, 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 concurrent with filing its interim financial statements to the first half of 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 June 30, 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 June 30, 2009, there were no material changes in the Company's disclosure controls and procedures or internal control over financial reporting, other than the addition of senior accounting personnel, including a Controller and Manager of Financial Accounting, which will aid the Company in improving its segregation of duties. In addition 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 August 12, 2009 and is management's assessment of Iteration's historical operating and financial results for the three and six months ended June 30, 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 six 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.