

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 10, 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 nine months ended September 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 nine months ended September 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 Sept 30,		Nine months ended Sept 30,	
	2009	2008	2009	2008
Funds from operations	\$10,095	\$59,338	\$30,373	\$140,676
Changes in non-cash working capital	7,240	(13,563)	16,435	(13,664)
Cash flow from operations	\$17,335	\$45,775	\$46,808	\$127,012

OUTLOOK FOR 2009

Iteration is updating its guidance for 2009 results issued on August 12, 2009 primarily due to higher projected commodity prices. The information below presents the Company's expected results for the full year of 2009 (which incorporates the actual results for the first nine months of 2009, and the forecast for the balance of the year), the August 12, 2009 guidance and the difference between the two.

	2009 Current Forecast	2009 Previous August 12 Forecast	Change
Production (boe/d)			
Annual average	15,600 – 16,100	15,600 – 16,100	0%
Capital program ⁽¹⁾			
Expenditures (\$ million)	67	65	3%
Net wells drilled	24	24	0%
Funds from operations			
Annual (\$ million)	47	40	18%
Annual per basic share (\$)	0.24	0.20	20%
Year end net debt (\$ million)	200	205	(2%)
Average Pricing:	(Oct – Dec 2009)	(July – Dec 2009)	
Natural gas – AECO (Cdn\$/mcf)	5.00	3.75	33%
Oil – WTI (US\$/bbl)	75.00	65.00	15%
Foreign exchange rate (US\$/Cdn)	0.95	0.90	6%

Note:

(1) The Alberta drilling credits are included as a reduction to capital expenditures. The amount of drilling credits is forecast to be \$3.1 million (\$4.7 million in the previous guidance).

Gas prices began to strengthen in the fourth quarter of 2009 and oil prices have also improved since the second quarter of 2009. A stronger Canadian dollar versus the US dollar since the second quarter has offset some of the price increases. In addition, the Company has approximately 1,150 boed of production currently shut-in, most of which is gas. If gas prices remain at current levels the majority of this production is expected to come back on starting in late 2009.

Capital expenditures have remained essentially the same as our previous forecast, however we have altered the wells drilled due to timing of operations. The 6 (6.0 net) well program at Rainbow in North Alberta will be split between the fourth quarter of 2009 and the first quarter of 2010 due to wet surface conditions delaying the start of the program. Manyberries in South Alberta is proceeding and we have added 5 (4.9 net) additional wells to this program based on early success and lower costs.

Funds from operations are expected to be higher than previously forecast mainly due to higher commodity prices. Royalty rates for the year are forecast to be approximately 18% for the year, slightly below the previous forecast of 19%. Lower than expected rates in the third quarter of 2009 will be partially offset by higher rates due to higher expected commodity prices in the fourth quarter. Production expenses of \$12.36 per boe were lower than budgeted in the third quarter due to realized cost saving initiatives and are expected to be approximately \$14.00 per boe for the year, slightly below our previous forecast of \$14.25 per boe.

General and Administrative (“G&A”) expense is expected to average \$2.25 per boe in 2009 versus previous guidance of \$2.20 per boe primarily due to higher consulting expenses. Interest expense is expected to be approximately \$1.80 per boe for 2009.

Year-end debt is expected to be approximately \$200 million (previous forecast was \$205 million) slightly above third quarter of 2009 levels as the expected increase in cash flow is about \$2 million less than forecast capital expenditures for the fourth quarter.

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 three months of 2009 would be approximately \$4 million. The impact of a US\$5.00/bbl increase in WTI for oil for the last three months of 2009 would be approximately \$1.2 million. The impact of a one cent weakening of the Canadian Dollar versus the U.S. dollar for the last three months of 2009 would be approximately \$0.4 million.

OUTLOOK FOR 2010

Iteration is projecting commodity prices for 2010 to improve over expected 2009 levels resulting in significantly higher funds from operations and capital expenditures in 2010. With increased capital expenditures combined with the fourth quarter drilling program and the return of shut-in production, 2010 production is expected to rise throughout the year to approximately 16,000 boed in December 2010. The table below provides the initial guidance for 2010 results along with our latest forecast for 2009 and the change between the two.

	2010 Forecast	2009 Forecast November 10	Change
Production (boe/d)			
Annual average	14,500 – 15,100	15,600 – 16,100	(7%)
Capital program ⁽¹⁾			
Expenditures (\$ million)	95	67	42%
Net wells drilled	75	25	200%
Funds from operations			
Annual (\$ million)	95	47	102%
Annual per basic share (\$)	0.45	0.24	88%
Year end net debt (\$ million)	200	200	0%
Average Pricing:	(Jan – Dec 2010)	(Jan – Dec 2009)	
Natural gas – AECO (Cdn\$/mcf)	5.75	4.10	40%
Oil – WTI (US\$/bbl)	75.00	61.50	22%
Foreign exchange rate (US\$/Cdn\$)	0.95	0.88	8%

Note:

(1) The Alberta drilling credits are included as a reduction to capital expenditures. The amount of drilling credits included is forecast to be \$30 million (\$3.1 million in the 2009 guidance).

Capital expenditures are expected to increase 42% over 2009 levels after taking into account drilling credits. The program will be split approximately 60% to oil opportunities targeting 50 net wells and approximately 40% to gas opportunities targeting 25 net wells. The majority of the oil drilling will be focused at Manyberries in South Alberta, while the gas drilling will be directed toward East Alberta, West Alberta and North East BC.

Funds from operations are expected to double from 2009 levels mainly due to higher commodity prices and lower operating costs despite lower average production levels. Royalty rates for the year are forecast to be approximately 21% for 2010, slightly higher than 2009 levels due to higher forecast commodity prices. Production expenses are expected to average \$12.60 per boe in 2010, consistent with levels expected in the last half of 2009 but lower than the average for all of 2009.

G&A expense is expected to average \$2.45 per boe in 2010 slightly above expected 2009 levels primarily due to lower average production levels. Interest expense is expected to be approximately \$2.00 per boe in 2010. Year-end debt is expected to remain at forecast year-end 2009 levels of \$200 million as capital expenditures are expected to equal funds from operations for the year.

The Company's capital budget will be responsive to changes in commodity prices. With rising prices there is a significant inventory of drilling opportunities that can be undertaken. However, should commodity prices be lower than forecast, the Company intends to scale back operations to ensure that the projected capital program remains in line with projected funds from operations. As disclosed in the second quarter 2009 report, the Company has instituted a hedging program. Initial hedges have been put in place affecting about 7% of forecast production and as a result are not expected to materially affect projected funds from operations. The Company intends to enter into additional hedges to build up its portfolio with the goal of having potentially 35% of production hedged up to two years forward. Hedge transactions will be taken into account when determining capital expenditures and funds from operations.

The impact on the Company's 2010 funds from operations of a \$1.00/mcf increase in average AECO price for natural gas would be approximately \$17 million. The impact of a US\$5.00/bbl increase in WTI for oil would be approximately \$6 million. The impact of a one cent weakening of the Canadian Dollar versus the U.S. dollar would be approximately \$2 million.

The Company's forecast for the remainder of 2009 and all of 2010 is predicated on there being a swift resolution to the recent moratorium on licensing any wells with H2S in Alberta, and that Iteration will be able to proceed with its planned drilling program. Iteration is currently waiting on the ERCB to define potential changes to licensing wells that have the potential for minor amounts of H2S.

OPERATING RESULTS

Production

Daily production	Three months ended			Nine months ended		
	Sept 30,			Sept 30,		
<i>Average for the period</i>	2009	2008	% Change	2009	2008	% Change
Natural gas (mcf/d)	64,176	75,645	(15)	72,634	66,700	9
Natural gas liquids (bbls/d)	1,357	1,678	(19)	1,406	1,385	2
Light oil (bbls/d)	3,030	3,956	(23)	3,140	3,138	-
Heavy oil (bbls/d)	136	265	(49)	172	217	(21)
Total production (boed)	15,219	18,507	(18)	16,824	15,857	6

Average daily production for the three months ended September 30, 2009 was 18% below the same period in 2008 primarily due to lower drilling activity over the past nine months, property dispositions, shut-in production, and natural production declines. The Company completed its non-core disposition program selling approximately 1,000 boed of production (80% gas) most of which occurred at the end of July 2009. Shut-in production due to low commodity prices averaged approximately 1,150 boed for the third quarter of 2009.

Average daily production for the nine months ended September 30, 2009 was 6% 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 includes approximately 7 months of Cyries production.

Commodity Prices

Industry benchmarks	Three months ended			Nine months ended		
	Sept 30,			Sept 30,		
<i>Average for the period</i>	2009	2008	% Change	2009	2008	% Change
Natural gas (AECO \$/mcf)	\$2.94	\$7.73	(62)	\$3.79	\$8.64	(56)
Edmonton Light crude (\$/bbl)	\$71.50	\$121.85	(41)	\$62.35	\$115.14	(46)
Hardisty Lloyd blend (\$/bbl)	\$63.45	\$103.57	(39)	\$55.33	\$94.30	(41)

Realized commodity prices	Three months ended			Nine months ended		
	Sept 30,			Sept 30,		
<i>Average for the period</i>	2009	2008	% Change	2009	2008	% Change
Natural gas (\$/mcf)	\$3.02	\$8.13	(63)	\$4.02	\$9.05	(56)
Natural gas liquids (\$/bbl)	\$34.47	\$74.78	(54)	\$33.55	\$61.79	(46)
Light oil (\$/bbl)	\$68.77	\$109.59	(37)	\$59.17	\$115.29	(49)
Heavy oil (\$/bbl)	\$63.02	\$100.38	(37)	\$49.66	\$85.56	(42)
Total (\$/boe)	\$30.08	\$64.32	(53)	\$31.73	\$67.28	(53)

Commodity prices for 2009 continue to be significantly below those experienced in 2008 and as a result the Company's realized price on a per boe basis is over 50% lower for the three and nine months ended September 30, 2009 compared to the prior year periods. The drop in the Company's realized prices is consistent with the drop in the average benchmark prices. On a relative basis gas prices have decreased more than an oil prices in both the three and nine month periods.

Price Risk Management

The Company, from time to time, may enter into financial contracts for the purpose of protecting its funds from operations from the volatility of commodity prices. The Company has a general hedging program of potentially having up to 35% of its production hedged up to two years forward. In implementing this program the Company intends to build its hedge position through a portfolio of contracts over time. To that end the Company has hedged approximately 7% of its forecast 2010 production. At September 30, 2009 the fair value of its derivative contracts was a liability of approximately \$0.4 million based on the contracts outlined below.

- 1,000 bbl per day fixed price swap for the fourth quarter of 2009 at \$80 Canadian WTI/bbl
- 200 bbl per day collar for 2010 with a floor price of \$70 Canadian WTI/bbl and a ceiling price of \$91 Canadian WTI/bbl
- 200 bbl per day collar for 2010 with a floor price of \$70 Canadian WTI/bbl and a ceiling price of \$97 Canadian WTI/bbl
- 3,500 GJ per day fixed price swap for November 1, 2009 to October 31, 2010 at \$4.98/GJ
- 2,000 GJ per day fixed price swap for November 1, 2010 to October 31, 2011 at \$6.00/GJ

Revenue

Production revenue before royalties (\$ thousands)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2009	2008	% Change	2009	2008	% Change
Production revenue	\$42,117	\$108,444	(61)	\$145,746	\$291,183	(50)

Production revenue for the three months ended September 30, 2009 decreased 61% compared to the corresponding period in 2008 primarily due to the 53% decrease in realized commodity prices and an 18% decrease in production. For the nine months ended September 30, 2009 production revenue decreased 50% 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 nine months ended September 30, 2009 and 2008 gas represented 42% and 55% respectively of the Company's revenue and approximately 70% of the Company's production.

Royalties

(\$ thousands except where noted)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2009	2008	% Change	2009	2008	% Change
Royalties	\$6,720	\$23,115	(71)	\$25,379	\$61,993	(59)
Per boe (\$/boe)	\$4.80	\$13.71	(65)	\$5.53	\$14.32	(61)
Percentage of revenue (%)	15.8	21.3	(26)	17.4	21.3	(18)

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. 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 Sept 30,			Nine months ended Sept 30,		
	2009	2008	% Change	2009	2008	% Change
Total production expenses	\$17,308	\$18,080	(4)	\$65,941	\$47,842	38
Per boe (\$/boe)	\$12.36	\$10.62	16	\$14.36	\$11.01	30

Note: Production expenses for the three and nine month periods ended September 30, 2008 have been restated by \$455 and \$1,180 respectively for costs previously allocated from general and administrative expenses.

For the third quarter of 2009 production expenses decreased compared to the same period in 2008 due to lower production partially offset by higher per unit costs. Per unit production costs have increased as fixed costs associated with shut in production in the 2009 period are still incurred by the Company and spread over a lower production base. For the nine months ended September 30, 2009 both absolute and per unit costs are higher than the 2008 period. Higher production accounts for part of the increase, however late charges from vendors and partners, particularly in the first half of 2009, for prior year periods increased costs.

Transportation Expenses

(\$ thousands except where noted)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2009	2008	% Change	2009	2008	% Change
Transportation expenses	\$1,411	\$1,290	9	\$4,146	\$4,741	(13)
Per boe (\$/boe)	\$1.01	\$0.77	31	\$0.90	\$1.10	(18)

Transportation expenses for the third quarter of 2009 increased compared to the prior year period primarily due to higher charges for interruptible gas transportation. For the nine months ended September 30, 2009 transportation expenses decreased compared to the same period in 2008 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 Sept 30,			Nine months ended Sept 30,		
	2009	2008	% Change	2009	2008	% Change
Production revenue	\$30.08	\$64.32	(53)	\$31.73	\$67.28	(53)
Royalties	(4.80)	(13.71)	(65)	(5.53)	(14.32)	(61)
Production expenses	(12.36)	(10.62)	16	(14.36)	(11.01)	30
Transportation expenses	(1.01)	(0.77)	31	(0.90)	(1.10)	(18)
Operating netback	\$11.91	\$39.22	(70)	\$10.94	\$40.85	(73)

The operating netback per boe (before general and administrative expenses) realized for the three and nine months ended September 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.

General and Administrative Expenses

(\$ thousands except where noted)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2009	2008	% Change	2009	2008	% Change
General and administrative costs before the following :	\$4,953	\$4,282	16	\$13,954	\$12,397	13
Capitalized overhead	(1,012)	(1,045)	(3)	(3,719)	(2,835)	31
Overhead recoveries	(242)	(30)	706	(347)	(158)	120
General and administrative expense	\$3,699	\$3,207	15	\$9,888	\$9,404	5
Per boe (\$/boe)	\$2.64	\$1.88	40	\$2.15	\$2.16	0

Note: General and administrative costs prior to any deductions or recoveries for the three and nine month periods ended September 30, 2008 have been restated by \$455 and \$1,180 respectively for costs previously allocated to production expense.

G&A expenses for the three and nine months ended September 30, 2009 increased compared to the corresponding periods in 2008. The Company has incurred additional staffing and consulting expenses associated with new systems and processes that have been put in place. Office costs also increased in the third quarter of 2009 as part of its ongoing lease obligation.

Stock-Based Compensation Expense

The Company's stock option plan provides option holders the right to request, upon exercise, receipt of 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 September 30, 2009 and November 10, 2009, options to purchase 10.7 million common shares were outstanding, which represents 5.1% of the outstanding common shares of the Company at such dates.

For the three and nine months ended September 30, 2009, \$36,000 and \$71,000 of stock-based compensation expense was recorded by the Company compared to a recovery of \$16.5 million and expense of \$4.4 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 September 30, 2009 share price of \$1.20, had all of the 10,706,240 stock options outstanding been vested, aggregate stock-based compensation expense and a corresponding liability of \$481,000 would have been recognized.

Interest and Financing Expense

(\$ thousands except where noted)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2009	2008	% Change	2009	2008	% Change
Interest and financing expense	\$2,557	\$2,526	1	\$7,390	\$6,705	10
Per boe (\$/boe)	\$1.83	\$1.48	24	\$1.61	\$1.54	5

Interest and financing expense primarily represents interest on bank debt but also includes financing charges and expenses related to bank debt. For the third quarter of 2009 interest and financing expense has remained relatively flat compared to 2008 as the impact of lower average debt levels between the periods was offset by a higher interest rate. For the nine months ended September 30, 2009 interest and financing expense increased compared to the 2008 period due to higher average debt levels and financing charges which were partially offset by lower interest costs. The majority of the Company's bank debt is borrowed by way of Bankers' Acceptances.

Depletion, Depreciation, and Accretion

(\$ thousands except where noted)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2009	2008	% Change	2009	2008	% Change
Depletion, depreciation and accretion	\$32,335	\$40,639	(20)	\$104,835	\$101,239	4
Per boe (\$/boe)	\$23.09	\$23.87	(3)	\$22.82	\$23.30	(2)

Depletion, depreciation, and accretion (“DD&A”) expense is lower for the third quarter of 2009 compared to the prior year period primarily due to lower production. For the nine months of 2009 higher production increased DD&A expense slightly compared to the prior year period. On a per boe basis DD&A expense is within 3% of each other between the 2009 and 2008 periods.

Funds from Operations and Net Income/(Loss)

(\$ thousands except where noted)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2009	2008	% Change	2009	2008	% Change
Funds from operations	\$10,095	\$59,338	(83)	\$30,373	\$140,676	(78)
per share – basic (\$)	\$0.05	\$0.36	(86)	\$0.16	\$0.99	(84)
per share – diluted (\$)	\$0.05	\$0.35	(86)	\$0.16	\$0.97	(84)
per boe (\$/boe)	\$7.21	\$34.85	(79)	\$6.61	\$32.38	(80)
Net (Loss)/income	(\$16,487)	\$26,696	(162)	(\$53,740)	\$29,058	(285)
per share – basic (\$)	(\$0.08)	\$0.16	(150)	(\$0.28)	\$0.21	(233)
per share – diluted (\$)	(\$0.08)	\$0.16	(150)	(\$0.28)	\$0.20	(240)
per boe (\$/boe)	(\$11.78)	\$15.68	(175)	(\$11.70)	\$6.69	(275)
Weighted average shares outstanding						
basic ('000)	210,985	166,020	27	190,232	141,607	34
diluted ('000)	210,985	168,046	25	190,232	144,693	31

The Company’s funds from operations for the three and nine months ended September 30, 2009 decreased approximately 80% compared to the same periods in 2008. The reduction was primarily a result of significantly weaker commodity prices combined with higher production expense. This was partially offset by lower royalties.

The Company’s net loss for the three months ended September 30, 2009 was \$16.5 million, as compared to a net income of \$26.7 million for the three months ended September 30, 2008. For the nine months ended September 30, 2009 the Company’s net loss of \$53.7 million compares to net income of \$29.1 million for the prior year period. The losses primarily arise as a result of lower funds from operations partially offset by a recovery of future income taxes.

Weighted average shares outstanding in the third quarter of 2009 increased approximately 27% over the prior year period primarily due to the 45 million common share equity issue completed in May 2009. For the nine months ended September 30, 2009 weighted average shares outstanding increased over the prior year period due to the equity issue completed in May 2009 and the 94 million shares issued in conjunction with the Cyries acquisition in March 2008 being outstanding for the entire period in 2009.

Capital Expenditures

(\$ thousands)	Three months ended			Nine months ended		
	Sept 30,			Sept 30,		
	2009	2008	% Change	2009	2008	% Change
Land	\$117	\$3,204	(96)	\$3,915	\$24,333	(84)
Seismic	388	2,143	(82)	2,610	6,157	(57)
Drill, complete & facilities	4,452	26,082	(83)	37,994	68,299	(45)
Capitalized G&A	1,011	985	3	3,719	2,775	34
Capital Expenditures	5,968	32,414	(82)	48,239	101,564	(53)
Acquisition/(dispositions)	(38,748)	36,930	(205)	(41,126)	41,476	(199)
Net Capital Expenditures	(\$32,780)	\$69,344	(147)	\$7,113	\$142,018	(95)

Wells Drilled (net)	Three months ended			Nine months ended		
	Sept 30,			Sept 30,		
	2009	2008	% Change	2009	2008	% Change
Gas	1.0	13.1	(92)	5.8	34.7	(83)
Oil	1.0	5.9	(83)	2.1	12.8	(84)
Injector	0.8	1.0	(20)	0.8	2.0	(60)
Dry	1.5	2.0	(25)	1.5	3.7	(59)
Total	4.3	22.0	(80)	10.2	53.2	(81)
Success rate (%)	65.1	90.9	(28)	85.3	93.0	(8)

The Company completed \$39 million of non-core property dispositions (primarily in West Central Alberta) in the third quarter of 2009 compared to \$43 million of property acquisitions (primarily in South Alberta and the Peace River Arch area) in the same period of 2008. Land expenditures have decreased significantly in 2009 from the prior year periods in 2008 where the majority of the expenditures were spent in the second quarter in the BC and West Alberta core areas. Lower overall activity levels have reduced seismic expenditures approximately 82% in 2009 compared to the prior year periods in 2008. Similarly drill, complete, equip and facility expenditures were significantly reduced in the third quarter and for all of 2009 compared to the prior year periods as the Company has reduced activity levels with lower gas prices. During the third quarter of 2009 the Company commenced drill operations in East Alberta at Lloydminster (dry), Fort Saskatchewan (gas well) and in South Alberta at Grand Forks (water-flood injector). The Manyberries (oil well) in South Alberta followed when access to surface leases was permitted. This program continued in the fourth quarter and another 7 (6.5 net) oil wells have been drilled. In addition, the Company participated in one (0.5 net) non-operated dry hole in the third quarter of 2009. The Company has recorded Alberta drilling incentive credits of \$0.5 million in the third quarter of 2009.

Selected Quarterly Data

Quarter ended	2009				2008			2007
	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31
Production (boe/d)	15,219	17,137	18,165	18,001	18,507	18,146	10,890	7,989
Revenues (\$000)	\$42,117	\$44,936	\$58,693	\$70,656	\$108,444	\$127,175	\$55,564	\$29,265
Average realized prices (\$/boe)	\$30.08	\$28.82	\$35.93	\$43.08	\$64.32	\$77.02	\$56.08	\$39.84
Royalties (\$/boe)	\$4.80	\$4.18	\$7.43	\$7.61	\$13.71	\$16.47	\$11.79	\$8.12
Production expense (\$/boe)	\$12.36	\$15.23	\$15.23	\$10.78	\$10.62	\$12.00	\$10.03	\$11.71
Transportation expense (\$/boe)	\$1.01	\$0.83	\$0.88	\$0.71	\$0.77	\$1.20	\$1.48	\$1.09
Operating netback (\$/boe)	\$11.91	\$8.58	\$12.39	\$23.56	\$39.22	\$47.35	\$32.78	\$18.92
Net G&A expense (\$/boe)	\$2.64	\$1.96	\$1.92	\$1.43	\$1.88	\$2.22	\$2.56	\$2.64
Net interest expense (\$/boe)	\$1.83	\$2.06	\$0.99	\$1.58	\$1.48	\$1.86	\$1.12	\$1.37
Funds from operations (\$000)	\$10,095	\$5,378	\$14,900	\$31,152	\$59,338	\$52,824	\$28,511	\$11,103
per boe (\$/boe)	\$7.21	\$3.45	\$9.11	\$18.81	\$34.85	\$31.99	\$28.77	\$15.11
per share – basic (\$)	\$0.05	\$0.03	\$0.09	\$0.19	\$0.36	\$0.32	\$0.31	\$0.16
per share – diluted (\$)	\$0.05	\$0.03	\$0.09	\$0.19	\$0.35	\$0.31	\$0.31	\$0.16
Net income (loss)	(\$16,487)	(\$22,978)	(\$14,275)	(\$244,894)	\$26,696	\$672	\$1,689	(\$3,149)
per boe (\$/boe)	(\$11.78)	(\$14.73)	(\$8.73)	(\$147.87)	\$15.68	\$0.41	\$1.70	(\$4.28)
per share – basic (\$)	(\$0.08)	(\$0.12)	(\$0.09)	(\$1.48)	\$0.16	\$0.00	\$0.02	(\$0.05)
per share – diluted (\$)	(\$0.08)	(\$0.12)	(\$0.09)	(\$1.48)	\$0.16	\$0.00	\$0.02	(\$0.05)
Net capital expenditures (\$000)	\$(32,780)	\$4,196	\$35,360	\$74,043	\$68,837	\$31,408	\$41,774	\$17,610
Bank debt and working capital deficiency (\$000) as at	\$198,515	\$241,652	\$296,726	\$276,130	\$232,467	\$222,129	\$216,959	\$61,012

Compared to the immediately preceding quarter, the Company's third quarter 2009 production declined 11% primarily due to the disposition of non-core properties (approximately 600 boed for the quarter), an increase in shut in gas production (on average an additional 400 boed was shut-in for the third quarter over the second quarter) and natural declines. Revenues decreased 5% as the slight improvement in commodity prices was more than offset by lower production. With slightly higher commodity prices and the shut-in of marginal gas production, royalties increased 15% on a per boe basis and from 14.5% to 15.8% on a percentage of revenue basis compared to the second quarter of 2009. Production expense declined 19% on a per boe basis between the second and third quarter of 2009 due to lower prior period costs recorded in the third quarter. Operating netback improved 39% on a per boe basis in the third quarter of 2009 compared to the second quarter of 2009 primarily due to lower production expense.

Between the second and third quarters of 2009 net G&A expense on a per boe basis increased 35% primarily due to higher office costs and lower production. Comparing the same time periods, net interest expense per boe decreased due to lower debt levels.

Funds from operations for the third quarter of 2009 almost doubled the level achieved in the second quarter of 2009 due to higher operating netback and the absence of the \$1.8 million bad debt provision booked in the second quarter for the SemGroup receivable. Similarly the net loss between the periods decreased 28%.

Net capital expenditures decreased from the second quarter to the third quarter of 2009 due to \$39 million of non core dispositions completed in July 2009. Excluding dispositions, capital expenditures between these periods were relatively flat as the majority of drilling operations didn't start until later in the third quarter due to surface access restrictions.

Bank debt and working capital deficiency fell \$43 million or 18% between the second and third quarters of 2009 primarily due to the non core property dispositions completed in July. Bank debt and working capital deficiency has now been reduced \$98 million since the end of the first quarter of 2009.

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 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 a drilling and exploration program of \$67 million for 2009, net of drilling incentive credits. Of this amount approximately \$48 million has been spent in the first nine months of 2009. For the fourth quarter of 2009 the Company is forecasting funds from operations of approximately \$17 million versus capital expenditures of \$19 million. The \$2 million of capital expenditures in excess of funds from operations is expected to be funded through the Company's credit facility. The preliminary capital budget for 2010 is \$95 million including drilling incentive credits, which is equal to forecast funds from operations. The capital budget tends to be weighted more towards the first and third quarters however the Company's credit facility is expected to be adequate to fund any cash shortfall in these periods. 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 the \$39 million of non-core property dispositions. As at September 30, 2009, the Company had drawn \$200 million on its \$252.5 million credit facility. At that time, the Company had a working capital surplus of \$1.5 million, for a total net debt of \$198.5 million.

Subsequent to the quarter end the Company's lending syndicate re-determined the borrowing base as part of its mid year review to \$225 million and, as a result, no debt repayments are required. The borrowing base is next scheduled to be reviewed by April 30, 2010.

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	\$885	(\$317)	\$568
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.

Related Party Transactions

There were no related party transactions during the three months ended September 30, 2009.

Outstanding Common Shares and Options

As at September 30, 2009 and November 10, 2009, there were 210,985,384 common shares and 10,706,240 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.

On January 20, 2009 the CICA issued EIC-173 "Credit Risk and the Fair value of Financial Assets and Financial Liabilities". Under the requirements of EIC-173, an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. Iteration adopted the requirements of EIC-173 effective January 1, 2009. This has had no material impact on Iteration's financial statements or additional disclosure.

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 September 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 nine months 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 September 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 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 was 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 September 30, 2009, there were no material changes in the Company's disclosure controls and procedures or internal control over financial reporting, other than the continued implementation of a new information management system which, once fully functional, will allow management to obtain financial and operational information in a timelier 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 November 10, 2009 and is management's assessment of Iteration's historical operating and financial results for the three and nine months ended September 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 and 2010.

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 results and financial position for 2009 and 2010. 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, which are made as of November 10, 2009, 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
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
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.