

Argosy Energy Inc.
Financial Statements
And
Management Discussion and Analysis
Unaudited
September 30, 2009

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying Unaudited Interim Financial Statements of the Company have been prepared by management and approved by the Board of Directors of the Company.

The Company's independent auditors have not performed a review in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of Interim Financial Statements by an entity's auditors of the comparative figures as at and for the three and nine periods ended September 30, 2008 that are presented in these Interim Financial Statements.

Highlights

\$ 000's except volume, drilling and share data	Three months ended	
	September 30,	
	2008	2009
	Unaudited	Unaudited
Cash flow from operating activities		
Total	3,044	521
Per share basic	0.75	0.09
Net income (loss)		
Total	285	(1,257)
Per share basic	0.07	(0.21)
Per share diluted	0.07	(0.21)
Common shares outstanding	4,067,951	5,858,834
Debt, including working capital deficiency before fair value of derivatives	50,565	19,939
Operational :		
Sales	5,282	1,827
Royalties	1162	78
Operating and transportation costs	657	575
Field Net Back (2)	3,463	1,174
Net Back/ bbl (2)	37.97	15.49
General and administrative	868	811
Volumes :		
Natural gas (mcf/d)	5,230	4,316
Oil (bbl/d)	25	27
NGL's (bbl/d)	95	77
Total Boe/d	992	823
Wells Drilled (Gross) :		
Oil	-	-
Gas	5	-
D&A	-	-
Total	5	0
Capital Expenditures	16,954	287

Management Discussion and Analysis

The following discussion and analysis was prepared on and is dated November 12, 2009 and is management's assessment of Argosy's historical financial and operating results and should be read in conjunction with the audited financial statements and related notes for the years ended December 31, 2008 and 2007.

The financial data presented has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Comparative figures for periods ended prior to the closing date of the Plan of Arrangement on September 30, 2008 are presented in accordance with continuity of interests accounting as if the assets acquired by Argosy had always operated as a stand-alone entity.

The reporting and functional currency is the Canadian dollar.

Argosy Energy Inc. was formed pursuant to a Plan of Arrangement between Accrete Energy Inc. ("Accrete"), Pengrowth Energy Trust, Pengrowth Company, Pengrowth Energy Partnership and Argosy ("the Arrangement") on September 30, 2008 and is a junior energy company focused on the acquisition, exploration, exploitation and development of oil and natural gas in Alberta in western Canada.

Additional information may be found on the Company's web site at www.argosyenergy.com and on the SEDAR web site at www.sedar.com.

Argosy's shares trade on the Toronto Stock Exchange ("TSX") under the symbol GSY.

The Plan of Arrangement

Argosy was inactive from the time of its incorporation to September 30, 2008 at which time, and pursuant to the Arrangement, Argosy acquired certain assets, including producing and exploratory oil and gas properties and certain tax pools from Accrete. Reference should be made to the Accrete Energy Inc. Management Information Circular dated September 2, 2008 (the "Circular") available at www.sedar.com for further details.

Accrete shareholders, pursuant to the Arrangement, received one quarter of a share of Argosy for each Accrete share held and, provided that the applicable shareholder was not an insider of Accrete as contemplated by applicable securities laws, one eighth of a warrant to acquire an Argosy share at an exercise price of \$4.60 per share.

A total of 4,494,667 common shares of the Company were issued to former Accrete shareholders in connection with the exchange of Argosy common shares for Accrete common shares pursuant to the Arrangement.

No Argosy warrants were exercised prior to their expiry date.

At Claresholm, pursuant to the Arrangement, Argosy acquired 16 (13.6 net) natural gas wells, 3 (3 net) oil wells, 3 (2.6 net) potential natural gas wells, 12,682 net undeveloped acres, 47 square kilometers of 3D seismic over such lands, gathering and sales pipelines and a 75% working interest in a natural gas processing facility. Argosy also acquired 1 (.6 net) well that was in the process of being drilled. Argosy targets the Bow Island, Glauconite, Sunburst and Barons formations at depths of 2,000 to 2,300 meters in this area.

At Saxon, pursuant to the Arrangement, Argosy acquired 1 (1 net) producing natural gas well, 15,840 net undeveloped acres together with 36 square miles of 3D seismic and 20 kilometers of 2D seismic over the lands acquired.

At Edson, pursuant to the Arrangement, Argosy acquired 4 (4 net) natural gas wells, 2 of which are producing and 2 of which are still to be tied in, together with 6,400 net undeveloped acres of land. Argosy also acquired various interests in the Atlee Buffalo, Peco, Caroline and Saddle Hills areas pursuant to the Arrangement which would be classified as minor miscellaneous interests.

On September 30, 2008 and concurrent with the closing of the Arrangement, Argosy issued 1,208,051 flow through shares at an issue price of \$5.20 per share and 156,116 common shares at an issue price of \$4.60 per share by way of private placement to certain Argosy directors, officers, employees and consultants for total gross proceeds of \$6,999,999.

At September 30, 2009, there are 5,858,834 common shares and 4,800,000 Special Warrants outstanding.

These financial statements present the historical financial position, results of operations and cash flow of Accrete for periods prior to the closing date of the Arrangement on a carve-out basis following continuity of interest accounting guidelines as if the assets acquired by Argosy had always operated as a stand-alone entity.

The historical financial data for periods prior to the closing date of the Arrangement presented herein was extracted from the books and records of Accrete.

Certain financial statement items were maintained by Accrete at a corporate rather than on a property-by-property basis and accordingly, it was necessary to make allocations of amounts reported.

Going Concern

The unaudited interim financial statements have been prepared by management on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its obligations in the normal course of business. Recent market events, including disruptions in credit markets and other financial systems and the deterioration of global economic conditions have resulted in significant declines in commodity prices. At September 30, 2009, the Company has a working capital deficiency of \$20 million including bank loans outstanding of \$26 million in relation to the available demand operating facility which is fully drawn. The available borrowing limits of the Company's credit facilities are based on the Bank's interpretation of the Company's reserves and future commodity prices of which there can be no assurance that such amount will not decrease at the next scheduled review to be completed on or before April 1, 2010.

Management has restricted capital, non-essential expense and administrative spending and continues to pursue alternative financing opportunities to supplement cash flow to fund its future prospects and commitments (See *Contractual Obligations*). The banking arrangements were reviewed and the credit renewed by Argosy's bank and the funds were received from the exercise of the Special Warrants subsequent to September 30, 2009. No other arrangements have been made as of yet nor can it be assured that such arrangements can or will be made. However, management believes that the financing initiatives that it has undertaken may mitigate the conditions and events which could raise doubt about the validity of the going concern assumption used in preparing these unaudited interim financial statements. If the going concern assumption were not appropriate, adjustments might be necessary to the carrying values of assets and liabilities, the reported revenues and expenses and the balance sheet classifications used in the financial statements.

Forward-Looking Statements

Certain statements included or incorporated herein constitute forward-looking statements. These statements relate to future events or the future performance of Argosy Energy Inc. ("Argosy"). All statements other than statements of historical fact are forward-looking.

Such forward-looking statements or information are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "continue", "might", "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "estimate", "budget", "forecast", "predict", "project", "potential", or the negative of these terms and similar expressions. In addition, these financial statements and accompanying management discussion may contain forward-looking statements attributed to third party industry sources. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

Forward-looking statements include, but are not limited to, statements with respect to:

The performance characteristics of Argosy's oil and natural gas properties; oil and natural gas production levels; the quantity of oil and natural gas reserves; the performance characteristics of oil and natural gas properties; projection of market prices; other trends of the capital markets; the size of and future net revenues from Argosy's oil and natural gas reserves; capital expenditure programs; supply and demand for oil and natural gas and commodity prices; financial conditions; industry conditions; capital expenditure programs; drilling plans; expectations regarding the Argosy's ability to raise capital and to continually add to reserves through acquisitions, exploration and development; treatment under governmental regulatory regimes and tax laws; and realization of the anticipated benefits of acquisitions and dispositions.

Some risks and other factors, which would cause results to differ materially from those expressed in the forward-looking statements contained in these financial statements and accompanying management discussion, but are not limited to:

general economic conditions in Canada, the United States and globally; industry conditions, including fluctuations in the price of oil and natural gas; governmental regulation of the oil and gas industry, including environmental regulation; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; volatility of commodity prices; environmental risks; fluctuation in foreign exchange or interest rates; liabilities inherent in oil and gas operations; geological, technical, drilling and processing problems; unanticipated operating events which can reduce production or cause production to be shut in or delayed; failure to obtain industry partner and other third party consents and approvals, when required; stock market volatility and market valuations; competition for, among other things, capital, acquisitions of reserves, undeveloped land, skilled personnel, and equipment and facilities; the need to obtain required consents, permits or approvals from regulatory authorities; competition for, among other things, capital, acquisition of reserves, undeveloped land, skilled personnel and equipment and facilities; the lack of availability of qualified personnel or management; uncertainties associated with estimating oil and natural gas reserves; aboriginal land claims; Stock market volatility, and the other factors considered under "Risks".

Readers are cautioned that the foregoing lists should not be considered to be exhaustive. Readers are also cautioned that these factors and risks are difficult to predict and that the preparation of financial statements in accordance with Canadian GAAP requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Forward-looking statements and other information contained herein concerning the oil and gas industry and Argosy's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which Argosy believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Argosy is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

Although the assumptions used in the preparation of such information and statements are considered reasonably accurate by the Company at the time of preparation may prove to be incorrect. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations may be material.

Statements relating to “reserves” or “resources” are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described can be profitably produced in the future.

Investors should not place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. These forward-looking statements are made as of the date of this or as of the date specified in the documents incorporated by reference into the financial statements and accompanying management discussion., as the case may be.

Non GAAP Measures

This MD&A contains the term “cash flow” and “netbacks” which should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) as an indicator of the Company’s performance. Argosy’s definition of cash flow and/or netbacks may not be comparable to that reported by other companies.

The Company evaluates its performance based on net earnings, net back and cash flow from operations.

The Company considers cash flow a key measure as it illustrates the Company’s ability to meet obligations necessary to repay debt and fund future growth through capital investment. Cash flow per share is presented using the weighted average shares outstanding in a manner consistent with that used to calculate earnings per share.

The following reconciles cash flow from operating activities, the most comparable GAAP measure to cash flow used in this MD&A:

\$ Thousands	3 Months Ended		9 Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Cash flow provided by operating activities (GAAP)	519	3,068	(22)	8,270
Net changes in non-cash working capital	(171)	(1,460)	863	(1,054)
Cash flow (non – GAAP)	348	1,608	841	7,216

The following table reconciles field and corporate netback to income before taxes the most comparable GAAP measure:

\$ Thousands	3 Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net income (GAAP)	(1,258)	285	(4,474)	1,385
Future income taxes (reduction)	(382)	100	(1,338)	484
Depletion, depreciation and accretion	1,792	1,728	5,929	5,251
Stock based compensation expense	124	20	372	70
Interest expense	290	867	752	2,069
Realized (gain)loss on derivative instruments	(274)	144	(344)	284
Unrealized (gain) loss on derivative instruments	70	(550)	351	-
Corporate netback (non – GAAP)	362	2,594	1,248	9,543
General and administrative expense	811	868	2,920	1,686
Field netback (non – GAAP)	1,172	3,462	4,168	11,229

Business Environment

Cold weather in the consuming regions during the first quarter of 2008 resulted in large withdrawals from storage to feed the increased demand for natural gas for heating and power generation. This, together with reduced supply, and rising oil prices resulted in an increase in the price of natural gas in the first half of 2008.

Near the end of the third quarter of 2008, the upward trend in natural gas prices that had occurred in the first half of 2008 reversed abruptly. Natural gas prices steadily declined throughout the first three quarters of 2009. Natural gas prices that had previously decreased in tandem with the decrease in oil prices failed to rebound with the uptick in oil prices in 2009. A strong growth in natural gas production particularly from shale and tight gas drilling in the U.S., large storage injections, moderate weather and shrinking industrial demand caused by the global financial turmoil contributed to the weakening of natural gas prices.

For the first three quarters of 2008, oil prices remained volatile because of geopolitical tension overseas but strong demand growth in Asia and a weakened US dollar caused them to trend upward to record levels. That trend reversed itself in the last quarter of 2008 as the global credit crisis emerged. Fears of a world wide recession became a reality and demand for oil was diminished resulting in price weakness. Oil prices rebounded although not to the record levels achieved in the first three quarters of 2009 in response to OPEC cutbacks and various geopolitical events.

The hangover from the global credit crisis that erupted in the third quarter of 2008 lingered through most of the first three quarters of 2009 and has caused capital markets to be relatively inaccessible to junior oil and gas producers, and as a result the banks have rigorously assessed credit risks and tightened lending policies.

These factors have negatively impacted company valuations and have negatively impacted the amount of capital investment in natural gas drilling in particular.

Financial Information

	Total Revenue (\$ thousands)	Net Income (Loss) (\$ thousands)	Net Income (Loss) Basic \$/Share	Net Income(Loss) Diluted \$/Share
2009				
First Quarter	3,215	(1,490)	(0.25)	(0.25)
Second Quarter	2,255	(1,726)	(0.30)	(0.30)
Third Quarter	1,827	(1,257)	(0.21)	(0.21)
	7,297	(4,473)	(0.76)	(0.76)
2008 (1)				
First Quarter	4,728	743	0.18	0.17
Second Quarter	6,019	356	0.09	0.08
Third Quarter	5,282	285	0.07	0.07
Fourth Quarter	4,767	(1,337)	(0.23)	(0.23)
Total	20,796	47	0.01	(0.01)
2007 (1)				
First Quarter	2,116	246	0.06	0.06
Second Quarter	3,029	1,041	0.25	0.24
Third Quarter	4,950	319	0.08	0.07
Fourth Quarter	4,694	(581)	(0.14)	(0.14)
Total	14,789	1,025	0.25	0.23

(1) Figures for the quarters ended September 30, 2008 and prior were carved out from the financial information of Accrete Energy Inc.

Production

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Oil (bbl/d)	27	25	29	12
NGL (bbl/d)	77	95	90	94
Total Oil/NGL (bbl/d)	104	120	119	106
Gas (mcf/d)	4,316	5,230	4,900	5,010
Total (boe/d)	823	992	936	941

The reader is cautioned that the use of the term boe's ("barrels of oil equivalent") may be misleading particularly when used in isolation. A boe conversion of 6 mcf to 1 boe may not represent a value equivalency at the wellhead.

Natural Gas Production (mcf/d)

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Atlee-Buffalo	23	35	28	40
Claresholm	3,845	4,647	4,419	4,368
Edson	345	378	332	422
Saxon	103	170	121	179
Total	4,316	5,230	4,900	5,009

In 2009, natural gas production volumes decreased due to normal production declines. Only 1 well (.6 net) was drilled in Claresholm in 2009 and it was not put on stream until the second quarter 2009.

In 2008, 7 (5.4 net) natural gas wells were drilled in that area. All but 1 were put on stream by year end. In addition, 3 (1.2 net) wells were purchased from an industry partner.

Crude Oil Sales (bbl/d)

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Claresholm	27	25	29	12
Total	27	25	29	12

In 2009, oil production increased because 3 (3 net) oil wells were drilled in the new Barons oil project that was initiated in the Claresholm area in the third quarter of 2008. Argosy believes that this project is extensive but the project will entail water flooding to realize its full potential. Drilling on this project was

initially limited soon after the project was initiated due to the decrease in oil prices and remains limited due to capital constraints.

Natural Gas Liquids Sales (bbl/d)

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Claresholm	61	73	75	73
Edson	15	21	14	20
Saxon	1	1	1	1
Total	77	95	90	94

Natural gas liquids production volumes decreased along with the declines in the production of natural gas.

Product Prices

Natural Gas Prices (\$/mcf)

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Atlee-Buffalo	2.90	8.26	3.94	8.85
Claresholm	3.26	8.70	4.26	9.57
Edson	3.20	8.62	4.14	9.47
Saxon	3.47	9.27	4.43	10.05
Average Price	3.26	8.81	4.26	9.57

In 2009, AECO daily index prices averaged \$4.29/mcf for the first quarter, \$3.44/mcf for the second quarter and \$3.26 for the third quarter. That compares with \$7.82, \$10.15 and \$8.81 for the same periods in 2008. The surge in prices enjoyed in 2008 was quashed by strong growth in natural gas supply particularly from shale and tight gas drilling in the U.S., large storage injections, moderate weather and shrinking industrial demand caused by the global financial turmoil. Liquids are recombined to Company production giving it a higher heating content resulting in a premium price being received.

Crude Oil Sales Prices (\$/bbl)

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Claresholm	71.35	106.49	60.37	110.95
Average Price	71.35	106.49	60.37	110.95

The oil stream in 2009 is comprised of more conventional oil production from the Company's Barons oil project at Claresholm. These wells were put on stream later in the third quarter of 2008 missing the record prices that were enjoyed earlier in the year.

Natural Gas Liquids (NGL) Sales Prices (\$/bbl)

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Claresholm	51.54	93.24	45.47	93.57
Edson	42.46	100.75	46.79	95.20
Saxon	71.47	134.27	66.53	125.22
Average Price	49.96	95.61	45.92	94.36

Natural gas liquid prices moved in tandem with oil prices. Saxon natural gas liquids contain more condensate than those in Edson and Claresholm, and thereby command higher prices.

**Revenue
Total Sales
(\$ thousands)**

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Oil	181	249	473	368
NGL	354	838	1,130	2,433
Gas	1,292	4,192	5,694	13,137
Processing	-	3	-	91
Total	1,827	5,282	7,297	16,029

Natural Gas Sales Revenue
(\$ thousands)

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Atlee-Buffalo	6	27	30	98
Claresholm	1,152	3,719	5,143	11,452
Edson	101	300	375	1,093
Saxon	33	146	146	494
Total	1,292	4,192	5,694	13,137

The decrease in natural gas sales revenue is due to decreased prices and declining production.

Crude Oil Sales Revenue
(\$ thousands)

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Claresholm	181	249	473	368
Total	181	249	473	368

Production from the new oil wells that were drilled and put on stream caused oil revenues to increase for the comparative 9 month periods. The decrease in revenue for the 3 month period ended September 30, 2009 versus that recorded in the equivalent period in 2008 primarily due to decreased prices.

Natural Gas Liquids (NGL) Sales Revenue
(\$ thousands)

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Claresholm	289	623	929	1,878
Edson	59	194	182	509
Saxon	6	21	19	46
Total	354	838	1,130	2,433

The decrease in natural gas liquids sales revenue is due to decreased prices and declining volumes.

Processing Revenue
(\$ thousands)

Area	3 Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Claresholm	-	3	-	91
Total	-	3	-	91

Processing fees were charged to third parties utilizing Argosy facilities. In 2008, Argosy bought out its partner in the Claresholm wells from which it derived processing revenue.

Royalties
(\$ thousands)

Area	3 Months Ended				Nine Months Ended			
	September 30,		September 30,		September 30,		September 30,	
	2009		2008		2009		2008	
	Total \$	Rate	Total \$	Rate	Total \$	Rate	Total \$	Rate
Atlee-Buffalo	0	2%	(1)	(4)%	1	3%	2	2%
Claresholm	67	4%	1,194	26%	1,162	18%	3,184	23%
Edson	11	7%	(50)	(10)%	90	16%	64	4%
Saxon	0	0%	19	12%	22	14%	81	15%
Total	78	4%	1,162	22%	1,275	18%	3,331	21%

Royalty rates are price sensitive and have decreased with the sales prices of the related commodities.

For the three quarters of 2009, crown royalties were \$1,212,000 (\$3,166,000 in 2008), gross overriding royalties were \$52,000 (\$166,000 in 2008), and freehold royalties were \$11,000 (\$0 in 2008).

Production and Transportation Expenses
(\$ thousands except per boe information)

Area	3 Months Ended				Nine Months Ended			
	September 30,		September 30,		September 30,		September 30,	
	2009		2008		2009		2008	
	Total \$	\$/boe	Total \$	\$/boe	Total \$	\$/boe	Total \$	\$/boe
Atlee-Buffalo	3	10.52	9	16.83	11	8.90	27	14.29
Claresholm	450	6.70	527	6.55	1,528	6.66	1,045	4.68
Edson	95	14.31	97	12.24	259	13.59	318	12.91
Saxon	27	15.21	24	8.82	55	9.29	79	9.09
Total	575	7.58	657	7.16	1,853	7.26	1,469	5.68

Field compression and plunger lifts were added in the third quarter 2008 for certain wells at Claresholm. Maintenance and repair costs at Claresholm have increased because the wells and natural gas processing plant require more attention as they age. Oil production at Claresholm is trucked, adding to transportation expenses for that area.

Saxon and Edson natural gas is processed by third party processors hence the cost of processing is higher. Atlee-Buffalo is not operated by Argosy. Production and transportation expense for that area includes charges by the operator.

Because production from Atlee-Buffalo, Edson and Saxon is from only a few wells, Argosy can not achieve the economies of scale that it can at Claresholm. It should be noted too, relatively small one time charges can skew the per barrel rate significantly.

Field and Corporate Netbacks

Field Netback

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
\$/boe				
Atlee-Buffalo	6.50	34.50	13.90	37.79
Claresholm	16.53	35.83	16.81	42.91
Edson	8.11	58.19	11.03	49.63
Saxon	7.89	44.16	15.38	44.49
Field Netback	15.49	37.97	16.32	43.57

Field netbacks for the first three quarters of 2009 decreased from those enjoyed in the equivalent period last year primarily because of decreased commodity prices. The decrease was exacerbated by an increase in operating costs offset in part by a decrease in royalties.

Corporate Netback (\$ thousands)

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Field Netback	1,174	3,462	4,168	11,229
General and Administrative	811	868	2,920	1,686
Corporate Netback	363	2,594	1,248	9,543

Field netbacks for the first three quarters of 2009 decreased from those enjoyed in the equivalent period last year because of decreased commodity prices and increased operating costs.

General and administrative expenses for the period ended September 30, 2009, were carved out of the general and administrative costs of Accrete. General and administrative expenses were allocated to the Company based on the ratio of production volumes from the properties that were carved out to Argosy to the total production volumes of Accrete prior to the Arrangement. Effective October 1, 2008, Argosy bore

all of the overhead that had formerly been incurred by Accrete because it retained all of the employees and assumed the office space and other normal administrative costs of Accrete. Accordingly, the comparison of corporate net back between periods is not meaningful.

General and Administrative Expense
(\$ thousands)

	3 Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
Salary & Benefits, net	463	807	1,756	1,320
General Office Expenses	368	143	1,248	537
	831	950	3,004	1,857
Recoveries	(20)	(82)	(84)	(171)
Total	811	868	2,920	1,686

General and administrative expenses for the first nine months of 2008 were carved out of the total general and administrative expenses of Accrete. The general and administrative expenses that were incurred by Accrete were allocated between Argosy and Accrete on basis of relative production volumes.

Effective October 1, 2008, Argosy bore all of the overhead that had formerly been incurred by Accrete because it retained all of the employees and assumed the office space and other normal administrative costs of Accrete. Accordingly, the comparison between the 2008 and 2009 figures is not meaningful.

Approximately \$208,000 (\$208,000 in 2008) of direct salary costs related to geological and geophysical personnel have been capitalized.

Interest Expense

Argosy utilized its operating line of credit and cash flow from operating activities to fund its capital program.

Interest expense for periods ending prior October 1, 2008 is similar to general and administrative expense in that it was carved out of that which was incurred by Accrete. The carve out, in this case, was based on the relative cash requirements for the carved out properties relative to the total cash requirements of Accrete. The Arrangement imposed a formula for the calculation of the bank debt assumed by Argosy that had no relation to the historical funding requirements for the properties that were carved out.

As such, a comparison between the 2008 and 2009 figures is not meaningful.

Stock-Based Compensation

Stock-based compensation is accounted for using the fair value method. Under the fair value method of accounting, this compensation expense is recorded in the statement of income (loss) over the vesting period.

The fair value of the options granted to September 30, 2009 was estimated to be \$ 1,175,000 (\$2.03 per option granted).

This value is charged to stock based compensation cost over the vesting period. A total of \$395,000 of stock based compensation was incurred in the nine months ended September 30, 2009. Of this, \$372,000 was charged to expense and \$23,000 was capitalized.

A total of \$70,000 was incurred in the nine months ended September 30, 2008 but, that figure was based on an allocation similar to that for general and administrative expenses and, as such, the comparison between the 2008 and 2009 figures is not meaningful.

On August 6, 2009 the directors approved the re pricing of options granted to employees other than directors and officers of the Company.

At a special meeting of the Company's shareholders held on October 6, 2009, the shareholders of the Company approved the re pricing of options granted to directors and officers from \$4.60 to \$1.28 being the closing market price of the Company's stock on the TSX on the last trading day prior to the date of the information circular dated September 8, 2009 with respect to the special meeting.

Having received all requisite approvals, all director, officer and employee options were re priced to \$1.28.

The incremental fair value of the options as a result of the re pricing was estimated to be \$25,000 (\$ 0.05 per share) which will be expensed over the vesting period for the outstanding options.

Depletion Depreciation & Accretion

Depletion, depreciation and accretion of the asset retirement obligation for the three month period ended September 30, 2009 totaled \$1,792,000 or \$23.66/Boe. The figure for the previous year was calculated on a carve out basis and is not directly comparable

Costs of \$9,065,000 (\$8,728,000 in 2008) relating to unproved properties have been excluded from costs subject to depletion for the 6 month period ended September 30, 2009. This included the costs of undeveloped land such as that at Ansell and Saxon that has been purchased at land sales for future exploitation.

A total of \$1,713,000 (\$1,480,000 in 2008) related to future development costs were included in the depletion calculation.

Income Taxes

The Company recorded a future income tax reduction of \$1,338,000 for the nine month period ended September 30, 2009.

Argosy has approximately \$36,300,000 million of income tax pools and \$577,000 of operating loss carry forwards at September 30, 2009 and does not anticipate being cash taxable in 2009.

Cash Flow

Cash flow for the 9 months ended September 30, 2009 was \$840,000 (\$0.14 per share) versus \$ 7,216,000 (\$1.77 per share) for the equivalent period last year. The decrease in cash flow occurred partly because of reduced production volumes but primarily because of reduced commodity prices.

Capital Expenditures

(\$ thousands)	3 Months Ended March 31, 2009	3 Months Ended June 30, 2009	3 Months Ended September 30, 2009	9 Months Ended September 30, 2009
	\$			
Drilling and Completions	(218)	(38)	70	(186)
Geology and Geophysical	101	662	32	795
Equipping and Tie-Ins	346	(87)	7	266
Land	184	62	178	424
Office Equipment	10	1	0	11
Total Cash Expenditures	423	600	287	1,310

The credit balance in drilling and completions arises because of the reversal of an over accrual for expenditures in the previous period.

The Company limited its drilling activities because of the lack of availability of funds due to low commodity prices and the lack of available bank financing and capital in equity markets. The Company drilled 1 gas well (0.6 net) during the first nine months of 2009. A success rate of 100% was achieved.

Liquidity and Capital Resources

	<u>\$ (thousands)</u>
2009 Exploration and development program funding	
Cash, Beginning of period	-
Cash flow	841
Change in non-cash working capital	(2,506)
Increase in Bank Debt	3,226
Issue of Capital Stock	(251)
Cash, end of period	-
Net capital expenditures	1,310

For the first three quarters of 2009, the Company limited its drilling activities because of the lack of availability of funds. The proceeds from the issuance of common shares in October 2009 will be used to fund drilling in the Claresholm area that will satisfy the Company's flow through commitment and potentially maintain production levels. It will continue its geological and geophysical activities on other prospects with a view to capitalizing on them when the economy turns.

Commodity prices and production volumes have a large impact on the ability of the Company to generate adequate cash flow. The low commodity prices that prevailed in the first three quarters of 2009 have limited the Company's ability to make investments in drilling and exploration activities. A prolonged period of low commodity prices would negatively affect cash flow from operations that would likely result in a reduction in the amount of cash flow available for investment in drilling programs which would in turn negatively impact future production volumes. A prolonged period of low commodity prices may also affect the availability of funds that might be available by way of bank financing because the bank financing is dependent on the value of the Company's reserves. The value of the Company's reserves would be negatively impacted by commodity pricing and lower production volumes.

The Company will continue to strive for higher operating efficiencies and take advantage of lowered costs that may be available to it due to the economic downturn.

Argosy intends to fund its capital expenditure program from internally generated cash flow, debt, and additional equity or other funding if available on favorable terms.

At September 30, 2009, the Company's credit facility was comprised of Revolving Operating Demand Loan with a credit limit of \$26 million, which was fully drawn, together with an Acquisition / Development Demand Loan with a credit limit of \$2 million of which no amounts had been drawn.

In October 2009, the Company's credit facility was reviewed and was renewed by the Bank. The limits under the facilities remained the same.

The Revolving Operating Demand Loan is subject to the Bank's right of demand and periodic review and bears interest at Bank prime plus a percentage determined in accordance with the bank's pricing grid. The Bank's pricing grid is dependent on the Company's debt to cash flow ratio. The application of the Bank's pricing grid will result in a rate which is 2.5% greater than the Bank's prime rate.

The Acquisition/Development Demand Loan is also subject to the Bank's right of demand and periodic review, requires unspecified monthly principal repayments over the engineering half life of the reserves being financed as determined by the Bank, bears interest at a rate which is 0.5% higher than the Revolving Operating Demand Loan and has a standby fee of one quarter of between .25% and .5% of the undrawn portion of the credit facility.

The next Bank review is scheduled on or before April 1, 2010.

Contractual Obligations

The Company issued 1,208,051 common flow through shares at an issuance price of \$5.20 per share. The tax deductions related to the flow through shares issued in 2008 were renounced to flow through shareholders and booked to the accounts in February 2009. The Company will be required to spend approximately \$5,816,000 in 2009 on qualifying CEE expenditures to fulfill its flow through obligation. At September 30, 2009, \$3,115,000 of such expenditures remains to be made.

As consequence of the Plan of Arrangement, Argosy had agreed to indemnify Accrete or its successors from any claims arising from liabilities not retained by Accrete, for breaches of representations and warranties of Accrete and Argosy for breaches of covenants by Accrete, which survives the effective date of the arrangement for one year. No claims have arisen in respect to the Arrangement.

Accrete entered into an agreement with a major drilling contractor. Accrete was obligated to utilize the contractor's rig for a period of 200 days during the one year term of the agreement that commenced August 15, 2007. Argosy has assumed this obligation pursuant to the Arrangement. The Company has estimated that a liability of up to \$500,000 could be incurred. The Company is continuing to negotiate the settlement of this obligation. In 2009, \$252,000 was paid to the drilling contractor as a good faith gesture; however, a further \$248,000 could be incurred should negotiations fail.

The Company has entered into various commitments related to the leasing of office premises and office equipment. The payments due under such leases are as follows:

(\$ thousands)

	2009	2010	2011	2012	2013	Thereafter
Office Premises	177	708	741	808	879	-
Office equipment	1	1	-	-	-	-
	178	709	741	808	879	-

At September 30, 2009 the Company's credit facilities comprised a Revolving Operating Demand Loan facility with a credit limit of \$26,000,000, that had been fully drawn. In addition the Company's facilities included an Acquisition/Development Demand Loan with a credit limit of \$2,000,000 of which no amount had been drawn. The credit facilities were reviewed in October 2009. The next review is scheduled on or before April 1, 2010.

The Revolving Operating Demand Loan bears interest at Bank prime plus a percentage determined quarterly ranging from .25% to 2.5% greater than the Bank's prime rate in accordance with the Bank's pricing grid. The Bank's pricing grid is dependent on the Company's debt to cash flow ratio where debt is defined by the Bank as working capital deficit, consolidated long term debt including capital leases and retractable preferred shares which are retractable at the option of the holder and cash flow is defined by the Bank as net earnings, depletion, depletion and accretion, future income taxes and other charges to income not requiring a cash payment calculated for the most recently completed quarter and annualized.

The application of the Bank's pricing grid results in a rate which is 2.5% greater than the Bank's prime rate.

The Revolving Operating Demand Loan has no specific terms of repayment aside from the Bank's right of demand and periodic review. The Acquisition/Development Demand Loan requires unspecified monthly principal repayments over the engineering half life of the reserves being financed as determined by the Bank.

The Acquisition/Development Demand Loan is restricted to the acquisition of proved non-producing/undeveloped petroleum and natural gas reserves and/or development of proved producing/undeveloped petroleum and natural gas reserves, bears interest at a rate which is 0.5% higher than the Revolving Operating Demand Loan and bears a standby fee of between .25% and .5% on the undrawn portion of the loan facility.

Security for the facilities includes a general assignment of book debts, a \$75,000,000 debenture with a first floating charge over all assets with a negative pledge and an undertaking to provide fixed charges on the Company's major producing reserves at the request of the bank.

A covenant to the Revolving Operating Demand Loan facility requires that the Company maintain a working capital ratio, exclusive of bank indebtedness, of at least 1 to 1. For purposes of this calculation, the undrawn availability under the facility is added to current assets. The Company was in compliance with this debt covenant at September 30, 2009.

On September 30, 2009, the Company announced that it had successfully completed a bought deal financing of 4,800,000 special warrants at an issue price of \$1.25 per special warrant. Each special warrant

evidenced the right of the holder to receive for no additional consideration, one common voting share of the Company until October 16, 2009 provided certain conditions were met.

Such conditions included regulatory approvals, a receipt for the final prospectus in respect to the distribution of the underlying common voting shares and disinterested shareholder approval of the special warrant offering and issuance of the underlying common voting shares.

The gross proceeds of the special warrant were escrowed until the conditions were satisfied. The special warrants are classified as a separate component of equity because management concluded that there was less than a remote possibility that the underlying shares in respect to the special warrants would not be issued.

All other conditions were satisfied and on October 13, 2009, the Company announced that effective October 9, 2009, the funds related to the gross proceeds of the special warrants were released from escrow and that the Company had issued one common voting share for each special warrant held and that the special warrants were cancelled.

Risk Management

The Company's business, exploration for and development of crude oil and natural gas is inherently risky. There can be no guarantee that crude oil and natural gas can be found and produced on an economic basis. In order to mitigate that risk, the Company operates in several areas in which it has technical and operating expertise. The Company uses the latest technology to further reduce risk and increase the probability of success.

The Company operates all of its production and this allows it to a great extent to control the timing and costs in the areas in which it operates. Programs can thus be expanded or contracted on a timely basis in response to changing parameters. In this time of extreme market volatility, Argosy intends to limit its drilling activities to a level that would potentially maintain current production levels, preserve capital and manage its borrowings. See also "*Liquidity and Capital Resources*".

All of the Company's petroleum and natural gas production is marketed under standard industry terms. The industry has a pre-arranged monthly settlement day for payment of revenues from all buyers of crude oil and natural gas. This occurs on the 25th day following the month in which the production is sold. As a result, the Company collects sales revenues in an predetermined and organized manner. Management monitors purchaser credit positions to mitigate any potential credit losses. To the extent the Company has joint interest activities with industry partners, the Company must collect, on a monthly basis, partners' share of capital and operating expenses. These collections are subject to normal industry credit risk. The Company attempts to mitigate risk from joint venture receivables by obtaining partner approval of capital projects prior to expenditure and collects in advance for significant amounts related to partners' share of capital expenditures in accordance with the industry operating procedures. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners, however, The Company does have the ability to withhold production from joint venture partners in the event of non-payment.

The Company carries insurance to protect itself from catastrophic events and it reviews its coverage at least annually to ensure that the insurance policies that are in place are adequate. The Company follows all environmental and industry regulations and has instituted formal procedures to ensure that this occurs. Such procedures are communicated to all personnel and contractors.

The Company's operations are funded through internally generated cash flow, bank debt and new equity if available on favorable terms.

Cash flow can be materially affected by fluctuations in commodity prices and foreign currency which are out of the Company's control. While substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas

are impacted by changes in the exchange rate between the Canadian and United States dollar. Argosy had no forward exchange rate contracts in place as at or during the three or nine month period ended September 30, 2009.

Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also by world economic events that dictate the levels of supply and demand.

The Company has attempted to mitigate commodity price risk through the use of various financial derivative contracts classified as “held for trading” to manage volatility of commodity gas prices. These contracts can only be undertaken upon approval by the Board of Directors. The Company’s banking documents limit such activities to 50% of actual production.

Such contracts are marked to market at the reporting date and an unrealized gain or loss is booked to the accounts. During the 9 month period ended September 30, 2009, the Company recorded an unrealized loss of \$331,000 on the call and an unrealized loss of \$20,000 on the swap as a result of marking the contracts to market. During the same period, a total \$344,000 was actually received in respect to the swap and that was recorded as a realized gain.

As at September 30, 2009, the following derivative contracts were outstanding:

Type of Hedge	Commodity Hedged	Volume	Price	Period	
Financial fixed price swap	Natural Gas	2,000 GJ/day	Cdn \$4.27/Gj	July 1, 2009 to December 31, 2009	(1)
Financial fixed price call	Natural Gas	2,000 GJ/day	Cdn \$7.70/Gj	January 1, 2010 to March 31, 2011	(1)

(1) A giga joule (GJ) converts to a mcf at the rate of 1.055056 Gj per mcf.

Subsequent to September 30, 2009 the Company entered into the following derivative contract:

Type of Hedge	Commodity Hedged	Volume	Price	Period	
Financial fixed price put	Natural Gas	2,000 GJ/day	Cdn \$5.00/Gj	January 1, 2010 to March 31, 2011	(1)

(1) A giga joule (GJ) converts to a mcf at the rate of 1.055056 Gj per mcf.

Outlook

The Company has chosen to limit its drilling activities to a level that would potentially maintain current production levels, satisfy its flow through commitment and protect capital.

Sensitivities

The Company's performance is affected by factors such as changes in production volumes, commodity prices and interest rates.

The following table illustrates the impact on cash flow and net earnings as a result of changes in commodity prices, volumes and interest rates:

\$ Thousand	Cash Flow and Pretax Earnings
Forecast of impact on the year ended December 31, 2009:	
Change in Canadian crude oil by \$1/ bbl	10
Change in field gate price of Natural Gas by \$1/ mcf	1,735
Change in Natural Gas Liquids price by \$1/ bbl	32
Change of 1% in prime interest rates	260
Change in production of crude oil of 100 bbls/day	2,334
Change in production of Natural gas liquids of 100 bbls/day	1,532
Change in production of Natural gas of 1 million cubic feet per day	1,709

Critical Accounting Estimates

There are no changes from those described in Management's Discussion and analysis for the year ended December 31, 2008.

Risks

There are no changes from those described in Management's Discussion and analysis for the year ended December 31, 2008.

Changes in Legislation

Alberta Royalties

On October 25, 2007, the Government of Alberta released its New Royalty Framework ("NRF") which is to be the basis of royalty regulations that became effective on January 1, 2009. The NRF imposes a regime whereby Alberta Crown Royalty rates are based on production rates, well depths and commodity prices.

The NRF includes a shallow rights reversion policy whereby mineral rights to shallow gas formations that are not being developed would revert back to the Government of Alberta and would be available for lease.

On April 10, 2008 the Government of Alberta introduced new 5 year programs that offered incentives to continue to explore for deeper targets. Under these programs, exploration oil wells over 2,000 meters and similar program for gas wells drilled to depths of 2,500 meters or greater may qualify for 12 months royalty credits to a maximum of \$1 million.

On November 19, 2008, the Government of Alberta announced a five year program of transitional royalty rates. Under this program, new natural gas or conventional oil wells that are drilled between November 19, 2008 and December 13, 2013 and that are drilled to depths between 1,000 and 3,500 meters will be given a one time option, on a well by well basis, to elect to pay royalties under the NRF or the transitional rates.

On March 3, 2009, the Government of Alberta announced an incentive program that would provide a \$200 per meter drilled royalty credit to companies on a sliding scale based on their production levels for the previous year. In addition, a new well incentive program was announced that would offer a maximum five-per-cent royalty rate for the first year of production from new oil or gas wells.

On June 25, 2009, the Government of Alberta announced that the incentive programs announced on March 3, 2009 would be extended to March 2011.

The application of the NRF resulted in the lowering of royalties on the Company's existing production because it is sensitive to lower prices. The incentive programs announced on April 10, 2008 and March 3, 2009 the transitional program announced on November 19, 2008 may reduce royalty costs for 2009 to the extent that qualifying wells are drilled in 2009. Such reductions will be based on drilling activity. The current economic slowdown and low commodity price regime may limit the Company's ability to take full advantage of the incentive programs. See "Liquidity and Capital Resources".

Greenhouse Gas and Air Emissions Legislation

The Federal Government released on April 26, 2007, its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "Action Plan"), also known as ecoACTION and which includes the Regulatory Framework for Air Emissions. This Action Plan covers not only large industry, but regulates the fuel efficiency of vehicles and the strengthening of energy standards for a number of energy-using products. Regarding large industry and industry related projects, the Government's Action Plan intends to achieve the following: (i) an absolute reduction of 150 megatonnes in greenhouse gas emissions by 2020 by imposing mandatory targets; and (ii) air pollution from industry is to be cut in half by 2015 by setting certain targets. New facilities using cleaner fuels and technologies will have a grace period of three years. In order to facilitate companies' compliance with the Action Plan's requirements, while at the same time allowing them to be cost-effective, innovative and adopt cleaner technologies, certain options are provided. These are: (i) in-house reductions; (ii) contributions to technology funds; (iii) trading of emissions with below-target emission companies; (iv) offsets; and (v) access to Kyoto's Clean Development Mechanism.

On March 8, 2007, the Alberta Government introduced Bill 3, the Climate Change and Emissions Management Amendment Act, which intends to reduce greenhouse gas emission intensity from large industries. Bill 3 states that facilities emitting more than 100,000 tonnes of greenhouse gases a year must reduce their emissions intensity by 12% starting July 1, 2007; if such reduction is not initially possible the companies owning the large emitting facilities will be required to pay \$15 per tonne for every tonne above the 12% target. These payments will be deposited into an Alberta-based technology fund that will be used to develop infrastructure to reduce emissions or to support research into innovative climate change solutions. As an alternate option, large emitters can invest in projects outside of their operations that reduce or offset emissions on their behalf, provided that these projects are based in Alberta. Prior to investing, the offset reductions offered by a prospective operation must be verified by a third party to ensure that the emission reductions are real. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact of those requirements on the Company and its operations and financial condition. Bill 3 does not currently have an impact on the Company as it does not own any facilities emitting in excess of 100,000 tonnes per year.

Disclosure Controls and Internal Controls Over Financial Reporting

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under the Canadian securities law. Argosy's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, that the Company's disclosure controls and procedures as of the end of September, 2009 are effective and provide reasonable assurance that material information related to the Company is made known to them by others within the Company.

Argosy's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal controls over financial reporting ("ICFR"). They have, as at the quarter ended September 30, 2009, designed ICFR or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The control framework Argosy's officers used to design the ICFR is the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations.

Argosy's Chief Executive Officer and Chief Financial Officer are required to cause the Company to disclose herein any change in the Company's internal controls over financial reporting that occurred during the Company's most recent interim period that has materially affected, or is reasonably likely to affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls were identified during the period ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that a control system, including the Argosy's disclosure and internal controls and procedures, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should be not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Change in Accounting Policies and Recent Accounting Pronouncements

Goodwill

As of January 1, 2009, the Company adopted CICA Handbook Section 3064 "Goodwill and Intangible Assets", which defines the criteria for the recognition of intangible assets. The adoption of this policy had no impact on the Company's financial statements.

Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. The new Section expands the definition of a business subject to an acquisition and establishes significant new guidance on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination.

Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

Financial Instruments

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are

unobservable and significant to the overall fair value measurement. These amendments will be effective as of December 31, 2009.

International Financial Reporting Standards (“IFRS”)

On February 13, 2008, Canada’s Accounting Standards Board (“AcSB”) confirmed January 1, 2011 as the effective date for the mandatory convergence of Canadian GAAP to IFRS.

Argosy intends to adopt the requirements set out by AcSB and other regulatory bodies. The impact of adopting IFRS is not reasonable to estimate at this time. Argosy has engaged independent consultants to assist in implementation of IFRS. The Company is currently in the initial scoping stages of the project.

The first financial statements that the Company will have to prepare under IFRS will be the unaudited statements for the quarter ended March 31, 2011 that will include unaudited comparative financial information for the quarter ended March 31, 2010. The first audited financial statements that the Company will have to prepare will be those for the year ended December 31, 2011 with comparative financial information for the year ended December 31, 2010. As a result, all of the opening balance sheet figures as at January 1, 2010 must be computed prior to the issuance of the unaudited financial statements for the quarter ended March 31, 2011 so as comparative figures may be shown.

Transactions With Related Parties

The Company has not entered into any transactions with related parties, nor did it have any balances outstanding with related parties at year end.

Off Balance Sheet Arrangements

The Company has not entered into any off-balance sheet transactions.

Argosy Energy Inc.
Balance Sheets
(Unaudited)

(\$ Thousands)	September 30, 2009	December 31, 2008
ASSETS		
Current assets		
Special warrant proceeds restricted for use (Note 6)	6,000	-
Accounts receivable	1,450	3,296
Prepaid expenses	440	606
Future income tax (note 8)	93	-
	<u>7,983</u>	<u>3,902</u>
Property and equipment (note 4)	63,667	68,192
	<u>71,650</u>	<u>72,094</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,840	6,357
Fair value of derivative contracts (notes 2 and 10)	351	-
Bank indebtedness (note 5)	25,989	22,763
	<u>28,180</u>	<u>29,120</u>
Asset retirement obligation (note 7)	842	771
Future income tax (note 8)	6,429	6,171
	<u>35,451</u>	<u>36,062</u>
SHAREHOLDERS' EQUITY		
Share capital (note 6)	35,416	36,986
Special warrants (note 6)	5,814	-
Contributed surplus (note 6)	779	383
Deficit	(5,810)	(1,337)
	<u>36,199</u>	<u>36,032</u>
	<u>71,650</u>	<u>72,094</u>

Going Concern (note 2)
 Commitments (note 11)
 Subsequent events (Notes 4, 6, 10 and 12)

See accompanying notes to financial statements

Argosy Energy Inc.
Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited)

(\$ Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue		(note 2)		(note 2)
Petroleum and natural gas revenue	1,827	5,282	7,297	16,029
Royalties	(78)	(1,162)	(1,275)	(3,331)
Realized gain (loss) on derivative contracts	274	(144)	344	(284)
Unrealized gain (loss) on derivative contracts	(70)	550	(351)	-
	1,953	4,526	6,015	12,414
Expenses				
Production	450	498	1,519	1,141
Transportation	125	159	334	328
General and administrative	811	868	2,920	1,686
Interest	290	867	752	2,069
Stock based compensation (note 6)	124	20	372	70
Depletion, depreciation and accretion	1,792	1,729	5,929	5,251
	3,592	4,141	11,826	10,545
Income before income taxes	(1,639)	385	(5,811)	1,869
Future income tax expense (reduction) (note 8)	382	(100)	1,338	(484)
Net income (loss) and comprehensive income (loss)	(1,257)	285	(4,473)	1,385
Net income (loss) per share (Note 6):				
Basic	(0.21)	0.07	(0.76)	0.34
Diluted	(0.21)	0.07	(0.76)	0.32

See accompanying notes to financial statements.

Argosy Energy Inc.
Statements of Deficit
(Unaudited)

(\$ Thousands)	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
		(note 2)		(note 2)
Deficit, beginning of period	(4,553)	-	(1,337)	-
Net income (loss) for the period	(1,257)	285	(4,473)	1,385
Retained earnings allocated to Accrete	-	(285)	-	(1,385)
Deficit, end of period	<u>(5,810)</u>	<u>-</u>	<u>(5,810)</u>	<u>-</u>

See accompanying notes to financial statements.

Argosy Energy Inc.
Statements of Cash Flows
(Unaudited)

(\$ Thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2009	2008	September 30, 2009	2008
Cash provided by (used in):		(note 2)		(note 2)
Operating Activities				
Net income (loss)	(1,257)	285	(4,473)	1,385
Items not affecting cash:				
Stock based compensation expense	124	20	372	70
Future income tax reduction (expense)	(382)	100	(1,338)	484
Unrealized loss on derivative instruments	70	(550)	351	-
Depletion, depreciation and accretion	1,792	1,729	5,929	5,251
	347	1,584	841	7,190
Change in non-cash working capital (note 9)	174	1,460	(863)	1,054
	521	3,044	(22)	8,244
Investing Activities				
Special warrant proceeds restricted for use	(6,000)	-	(6,000)	-
Property and equipment additions	(288)	(6,862)	(1,310)	(20,273)
Change in non-cash working capital (note 9)	(148)	(362)	(1,643)	809
	(6,436)	(7,224)	(8,953)	(19,464)
Financing Activities				
Bank debt	166	4,631	3,226	11,194
Special warrant proceeds, net of issue costs	5,749	-	5,749	-
Accrete Energy Inc.	-	(451)	-	26
	5,915	4,180	8,975	11,220
Increase (decrease) in cash	-	-	-	-
Cash – beginning of period	-	-	-	-
Cash – end of period	-	-	-	-
Supplemental Information :				
Interest Paid	290	867	752	2,069

See accompanying notes to financial statements.

Argosy Energy Inc.
Notes to the Financial Statements
For the period ended September 30, 2009
(Unaudited)

1. Description of Business

Argosy Energy Inc. (“Argosy”) is an independent public Company engaged in the acquisition, exploration, exploitation, development and production of crude oil and natural gas in Alberta, Canada.

Argosy was inactive from the time of its incorporation under the Business Corporations Act (Alberta) on June 6, 2008 to September 30, 2008 at which time, and pursuant to a Plan of Arrangement between Accrete Energy Inc. (“Accrete”), Pengrowth Energy Trust, Pengrowth Company, Pengrowth Energy Partnership and Argosy (“the Arrangement”), Argosy acquired certain assets including producing and exploratory oil and gas properties and certain tax pools from Accrete effective on the closing date of September 30, 2008.

2. Basis of Presentation and Going Concern

The unaudited interim financial statements have been prepared by management on a going concern basis in accordance with Canadian generally accepted accounting principles, following the same accounting policies and methods of computation as the audited financial statements of Argosy Energy Inc. for the year ended December 31, 2008, except as outlined in note 3.

Certain information and disclosure normally required to be included in notes to annual financial statements have been condensed or omitted. These unaudited interim financial statements should be read in conjunction with the audited financial statements of Argosy Energy Inc. for the year ended December 31, 2008.

The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its obligations in the normal course of business. Market events, including disruptions in credit markets and other financial systems and the deterioration of global economic conditions have resulted in significant declines in commodity prices. At September 30, 2009, the Company has a working capital deficiency of \$20.2 million, including bank loans outstanding of \$26.0 million. The available borrowing limits are based on the bank’s assessment of the Company’s reserves and future commodity prices of which there can be no assurance that such amount will not decrease at the next scheduled review to be completed on or before April 1, 2010.

The Company has outlined its operating commitments in Note 11. Management has restricted capital, non-essential expense and administrative spending and continues to pursue financing opportunities to fund its future prospects and commitments. The Company closed a financing which resulted in the issuance of 4,800,000 additional common voting shares for net proceeds of \$5.8 million subsequent to the end of the third quarter. No other financing agreements have been signed nor can it be assured that such agreements will be reached however management believes the courses of action being taken will mitigate the conditions and events which could raise doubt about the validity of the going concern assumption used in preparing these unaudited interim financial statements. If the going concern assumption were not appropriate, adjustments might be necessary to the carrying values of assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

For the period up to September 30, 2008, these financial statements present the historical financial position, results of operations and cash flow of Accrete on a carve-out basis following continuity of interest accounting as if the assets acquired by Argosy had always operated as a stand-alone entity. Certain financial statement items were maintained by Accrete at a corporate rather than on a property-by-property

basis and accordingly, it was necessary to make allocations of amounts reported in the financial statements of Accrete in order to prepare these financial statements for the carved-out assets. The historical financial statements may not necessarily be indicative of the results that would have been attained if Argosy had operated as a stand-alone entity for the periods prior to September 30, 2008.

3. Change In Accounting Policies

Goodwill

As of January 1, 2009, the Company adopted CICA Handbook Section 3064 “Goodwill and Intangible Assets”, which defines the criteria for the recognition of intangible assets. The adoption of this policy had no impact on the Company’s financial statements.

Business Combinations

In January 2009, the CICA issued Section 1582, “Business Combinations”, which replaces former guidance on business combinations. The new Section expands the definition of a business subject to an acquisition and establishes significant new guidance on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The adoption of this policy had no impact on the Company’s financial statements.

Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, “Consolidated Financial Statements”, and 1602, “Non-controlling Interests”, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The implementation of this section had no impact on the Company’s financial statements.

Financial Instruments

In May 2009, the CICA amended Section 3862, “Financial Instruments – Disclosures”, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments will be effective as of December 31, 2009.

International Financial Reporting Standards (“IFRS”)

On February 13, 2008, Canada’s Accounting Standards Board (“AcSB”) confirmed January 1, 2011 as the effective date for the mandatory convergence of Canadian GAAP to IFRS for Canadian public companies.

Argosy is required to adopt the requirements set out by AcSB and other regulatory bodies. The impact of adopting IFRS is not reasonable to estimate at this time. Argosy has engaged independent consultants to assist in implementation of IFRS. The independent consultants are currently in the initial scoping stages of the project.

The first financial statements that the Company will have to prepare under IFRS will be the unaudited statements for the quarter ended March 31, 2011 that will include unaudited comparative financial information for the quarter ended March 31, 2010. The first audited financial statements that the Company

will have to prepare will be those for the year ended December 31, 2011 with comparative financial information for the year ended December 31, 2010. As a result, all of the opening balance sheet figures as at January 1, 2010 must be computed prior to the issuance of the unaudited financial statements for the quarter ended March 31, 2011 so as comparative figures may be shown.

4. Property and Equipment

(\$ thousands)	As at September 30, 2009 \$	As at December 31, 2008 \$
Petroleum and natural gas properties and equipment	91,915	90,562
Furniture, fixtures and other	187	176
	92,102	90,738
Less: Accumulated depletion and depreciation	28,435	22,546
	63,667	68,192

At September 30, 2009 costs of \$9,065,000 (\$8,728,000 at December 31, 2008) with respect to unproved properties have been excluded from costs subject to depletion. At September 30, 2009 a total of \$1,713,000 (\$1,713,000 at December 31, 2008) of future development costs were included in the depletion calculation. Direct salary costs related to geological and geophysical personnel in the amount of \$209,000 for the nine months ended September 30, 2009 (\$208,000 in 2008) have been capitalized. The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the “ceiling test”). The ceiling test at December 31, 2008 indicated that the net undiscounted recoverable amount from proved oil and natural gas reserves and the lower of cost or market of unproved properties exceeded the net carrying value of the petroleum and natural gas properties and equipment. The prices used in the ceiling test evaluation of the Company’s petroleum and natural gas properties and equipment were as follows:

	Crude Oil		Natural Gas
	West	Texas	Edmonton
	Intermediate	Par Price	AECO Price
	(Cdn\$/bbl) (1)	(Cdn\$/bbl)	(Cdn\$/ mmbtu)
2009	69.70	68.61	7.58
2010	77.71	78.94	7.94
2011	84.57	83.54	8.34
2012	91.89	90.92	8.70
2013	96.85	95.91	8.95
2014-2018 (2)	97.68	101.87	9.54
Thereafter (3)	+ 2%	+2%	+2%

(1) US / Canadian Exchange rates 2009 - 0.825, 2010 - 0.875, 2011 - 0.875, 2012 - 0.925, 2013 and thereafter – 0.95

(2) Average prices for the period

(3) Represents the change in future prices from 2018 to the end of the reserve life

5. Bank Indebtedness

Amounts outstanding :

Credit Facility	September 30, 2009	December 31, 2008
	000's	000's
Revolving operating demand loan	25,989	13,763
Acquisition/development demand loan	-	9,000
	25,989	22,763

At September 30, 2009 the Company's credit facilities comprised a Revolving Operating Demand Loan facility with a credit limit of \$26,000,000 and an Acquisition/Development Demand Loan with a credit limit of \$2,000,000. The credit facilities were reviewed in October 2009. The next review is scheduled for April 1, 2010.

The Revolving Operating Demand Loan bears interest at Bank prime plus a percentage determined quarterly ranging from .25% to 2.5% greater than the Bank's prime rate in accordance with the Bank's pricing grid. The Bank's pricing grid is dependent on the Company's debt to cash flow ratio where debt is defined by the Bank as working capital deficit, consolidated long term debt including capital leases and retractable preferred shares which are retractable at the option of the holder and cash flow is defined by the Bank as net earnings, depletion, depletion and accretion, future income taxes and other charges to income not requiring a cash payment calculated for the most recently completed quarter and annualized. The application of the Bank's pricing grid results in a rate which is 2.5% greater than the Bank's prime rate.

The Revolving Operating Demand Loan has no specific terms of repayment aside from the Bank's right of demand and periodic review. The Acquisition/Development Demand Loan requires unspecified monthly principal repayments over the engineering half life of the reserves being financed as determined by the Bank

The Acquisition/Development Demand Loan is restricted to the acquisition of proved non-producing/undeveloped petroleum and natural gas reserves and/or development of proved producing/undeveloped petroleum and natural gas reserves, bears interest at a rate which is 0.5% higher than the Revolving Operating Demand Loan and bears a standby fee of between .25% and .5% on the undrawn portion of the loan facility.

Security for the facilities includes a general assignment of book debts, a \$75,000,000 debenture with a first floating charge over all assets with a negative pledge and an undertaking to provide fixed charges on the Company's major producing reserves at the request of the bank.

A covenant to the Revolving Operating Demand Loan facility requires that the Company maintain a working capital ratio, exclusive of bank indebtedness, of at least 1 to 1. For purposes of this calculation, the undrawn availability under the facility is added to current assets. The Company was in compliance with this debt covenant at September 30, 2009.

6. Share Capital

Common Voting Shares

Authorized:

An unlimited number of common voting shares and an unlimited number of preferred shares issuable in series for which the directors may fix, among other things, the rights, privileges, restrictions, conditions, voting rights, rates, method of calculation and dates of payment of dividends and terms of redemption, purchase and conversion if any, and any other provisions.

Issued and outstanding, Common Voting Shares:

	Number of Shares	\$ Thousands
Issued on incorporation, June 6, 2008	1	.1
Cancelled on closing of the Arrangement	(1)	(.1)
Issued pursuant to the Arrangement	4,494,667	29,986
Issued on private placement to officers, directors and employees – flow through shares	1,208,051	6,282
Issued on private placement to officers, directors and employees – common shares	156,116	718
Balance, December 31, 2008	5,858,834	36,986
Tax effect flow through shares	-	1,570
Balance, September 30, 2009	5,858,834	35,416

The tax deductions related to the flow through shares issued in 2008 were renounced to flow through shareholders and booked in February 2009.

Special Warrants

On September 30, 2009, the Company completed a bought deal equity financing of special warrants. Each special warrant evidenced the right of the holder to receive for no additional consideration, one common voting share of the Company until October 16, 2009 provided certain conditions were met.

Such conditions included regulatory approvals, a receipt for the final prospectus in respect to the distribution of the underlying common voting shares and disinterested shareholder approval of the special warrant offering and issuance of the underlying common voting shares.

The gross proceeds of the special warrant were escrowed until the conditions were satisfied. The special warrants are classified as a separate component of equity because management concluded that there was less than a remote possibility that the underlying shares in respect to the special warrants would not be issued.

Disinterested shareholders approved the special warrant offering and issuance of the underlying common voting shares at a special meeting of the shareholders of the Company held on October 6, 2009. All other conditions were satisfied and on October 13, 2009, the Company announced that effective October 9, 2009, the funds related to the gross proceeds of the special warrants were released from escrow.

and that the Company had issued one common voting share for each special warrant held and that the special warrants were cancelled.

Issued and outstanding, Special Warrants:

	Number of Special Warrants	\$ Thousands
Issued	4,800,000	6,000
Issuance costs	-	(251)
Income tax recovery – Issuance costs	-	65
	<u>4,800,000</u>	<u>5,814</u>

The following reconciles the weighted average number of common shares outstanding used in calculating net earnings (loss) per common share (“EPS”):

	3 Months Ended		9 Months Ended	
	September	September	September	September
	30 2009	30 2008	30 2009	30 2008
Weighted average common voting shares outstanding - basic	5,858,834	4,067,951	5,858,834	4,067,951
Effect of dilutive stock options	n/a	275,485	n/a	319,289
Weighted average common shares outstanding - diluted	<u>5,858,834</u>	<u>4,343,436</u>	<u>5,858,834</u>	<u>4,387,240</u>

Diluted EPS excludes the effect of stock options in 2009 because their inclusion would be anti-dilutive.

Stock Options

Under the terms of the Argosy Energy Inc. 2008 Incentive Stock Option Plan, (the “plan”), directors, officers, employees (the “Participant(s)”) are eligible to be granted options to purchase common shares. The plan provides that the Company can reserve up to 10% of the common shares that are issued and outstanding for the granting of options.

The maximum number of option shares that may be reserved for issuance to any one Participant under the plan cannot exceed 5% of the issued and outstanding common shares.

The grant price under the plan is defined by the plan to be the closing price on the principal stock exchange on which the common shares are traded on the last business date preceding the date of grant or if the common shares did not trade on that date, the weighted average price for the five trading days preceding the date of grant if the common shares are listed and posted for trading on a stock exchange or the value conclusively determined by the Board of Directors if it is not.

The vesting of stock options is determined by the board of directors and the term, as also determined by the board of directors cannot exceed five years from the date of grant of such options.

A participant’s entitlement under the plan ceases upon ceasing to be a Participant. If such cessation is involuntary, then the vested and unvested options can be exercised for a period of ninety days after such date. Where a Participant is terminated for cause, the Participant may only exercise those options that have become vested. Where a Participant is terminated by the company without cause, the Participant is entitled

to exercise stock options that have vested during the notice period or in the event of compensation being paid in lieu of notice, for 21 days after ceasing to be a Participant.

Options granted under the plan are not assignable and no financial assistance is extended to optionees.

The board of directors is empowered to amend the plan. Any amendment to the plan is subject to the receipt of necessary regulatory approvals and any amendment required by applicable law or regulatory policy to be approved by shareholders does not become effective until so approved.

The following table summarizes information about stock options outstanding at September 30, 2009:

Options outstanding:

Balance September 30, 2008	-
Granted	580,000
Balance, December 31, 2008	580,000
Forfeited	(3,000)
Balance, September 30, 2009	577,000

The Company has accounted for its employee stock options granted using the fair value method at the date of grant in 2008 using the Black-Scholes model.

The fair value of the options granted to September 30, 2009 was estimated to be \$ 1,175,000 (\$2.03 per option granted).

This value is expensed as stock based compensation cost over the vesting period. A total of \$372,000 was charged to expense and a total of \$24,000 was capitalized for a total stock based compensation charge of \$396,000 for the period ended September 30, 2009. Compensation cost has been decreased for forfeited options in the period of forfeiture.

The assumptions used in calculating the fair value include a volatility factor ranging of 46%, a weighted average risk free interest rate of 3% and a weighted average expected life of the options of 5 years.

Grant Price	Options Outstanding	Remaining Contractual Life	Number Exercisable (Vested)	Weighted Average Exercise Price (\$/Share)
\$4.60 (1)	376,000	4 Years	376,000	4.60
\$4.60 (2)	201,000	4 Years	-	4.60
	577,000		376,000	

(1) Five year term, vest equally over a three year period commencing on the date of grant.

(2) Five year term, vest equally over a three year period commencing on the first anniversary of the date of grant.

On August 6, 2009 the directors approved the re pricing of options granted to employees other than directors and officers of the Company.

At a special meeting of the Company's shareholders held on October 6, 2009, the shareholders of the Company approved the re pricing of the directors and officers options from \$4.60 to \$1.28 being the closing market price of the Company's stock on the TSX on the last trading day prior to the date of the information circular dated September 8, 2009 with respect to the special meeting. Having received all requisite approvals, all director, officer and employee options were re priced to \$1.28.

The incremental fair value of the options as a result of the re pricing was \$25,000 (\$0.05 per option) to be expensed over the remaining vesting period of the options.

Contributed Surplus

(\$ thousands)	Nine Months Ended September 30, 2009	Year Ended December 31, 2008
Balance, beginning of period	383	-
Stock Based Compensation	396	383
Balance, end of period	779	383

Management of Capital Structure

The Company's objective in the course of the management of the Company's capital structure is to optimize the cost of capital and maintain flexibility at an acceptable risk.

Capital comprises share capital and net debt which is made up of bank indebtedness and working capital. The Company monitors its capital structure and makes adjustments when possible. In order to do so the Company may issue new common voting shares, renegotiate the terms of its banking facilities, adjust exploration and development capital expenditures and acquire or dispose of assets.

The Company's banking facilities were reviewed with its bank in October 2009. No change was made as a result of this review. The next review is scheduled for April 1, 2010. See Note 6.

In September 2009, the Company issued 4,800,000 special warrants at \$1.25 per special warrant that entitled the holders thereof to one common voting share for each special warrant held subject to regulatory approvals, the receipt of a final prospectus and the approval of the disinterested common voting shareholders. These conditions were satisfied, the special warrants cancelled and the common voting shares underlying such special warrants were issued in October 2009. See Special Warrants in this footnote.

7. Asset Retirement Obligation

Asset retirement obligation comprises:

(\$ thousands)	Nine Months Ended September 30, 2009	Year Ended December 31, 2008
Balance, beginning of period	771	614
Liabilities incurred	31	144
Accretion expense	40	13
Balance, end of period	842	771

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash

flows to settle the asset retirement obligation is approximately \$2,175,000 (2008 \$2,169,000) which will be incurred over the next twenty five years. A credit adjusted risk-free rate of 7%-8% (2008 7%-8%) and an inflation rate of 2% (2008 2%) was used to calculate the fair value of the obligations.

8. Income Taxes

The Company's exploration and development expenditures and undepreciated capital costs total \$36,300,000. These costs may be carried forward indefinitely to reduce future taxable income. The Company also has \$577,000 of non-capital losses that may be applied to reduce taxable income in the next 20 years.

The following reconciles the difference between income tax recorded and the expected income tax expense obtained by applying the expected income tax rate to earnings before taxes:

(\$ thousands)	Three Months		Nine Months	
	Ended		Ended	
	September 30, 2009	2008	September 30, 2009	2008
Income/(Loss) before income taxes	(1,639)	385	(5,811)	1,869
Statutory Rate	29%	29.5%	29%	29.5%
Expected income tax expense at the combined federal and provincial statutory rate	(475)	113	(1,685)	551
Stock based compensation cost	36	6	108	21
Tax-rate changes	57	(19)	238	(87)
Other	0	-	1	-
Future income tax expense	(382)	100	(1,338)	485

The following table summarizes the tax effect of temporary differences:

(\$ thousands)	September 30, 2009	December 31, 2008
Future income tax assets (liabilities):		
Carrying value of capital assets in excess of tax basis	(6,840)	(6,363)
Asset retirement obligation	211	192
Fair value of financial instruments	93	-
Share issuance costs	56	-
Loss carry forward	144	-
	(6,336)	(6,171)
Current future income tax asset:		
Fair value of financial instruments	(93)	-
	(6,429)	(6,171)

9. Supplemental Cash Flow Information

Change in non-cash working capital comprises:

(\$ thousands)	Nine Months Ended September 30	
	2009	2008
Accounts receivable	1,846	222
Prepaid expenses	165	(161)
Accounts payable and accrued liabilities	(4,516)	1,802
Change in non-cash working capital	(2,505)	1,863
Relating to:		
Investing activities	(1,643)	809
Operating activities	(862)	1,054
	(2,505)	1,863

10. Risks and Fair Value of Financial Instruments

The Company has exposure to credit, liquidity and market risk.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, set appropriate limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Credit Risk

All of the Company's petroleum and natural gas production is marketed under standard industry terms. The industry has a pre-arranged monthly settlement day for payment of revenues from all buyers of crude oil and natural gas. This occurs on the 25th day following the month in which the production is sold. As a result, the Company collects sales revenues in an predetermined and organized manner. Management monitors purchaser credit positions to mitigate any potential credit losses. To the extent the Company has joint interest activities with industry partners, the Company must collect, on a monthly basis, partners' share of capital and operating expenses. These collections are subject to normal industry credit risk. The Company attempts to mitigate risk from joint venture receivables by obtaining partner approval of capital projects prior to expenditure and collects in advance for significant amounts related to partners' share of capital expenditures in accordance with the industry operating procedures. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners, however, The Company does have the ability to withhold production from joint venture partners in the event of non-payment. The Company had no material accounts receivable deemed uncollectible. The Company's credit risk is limited to the carrying amount of its accounts receivable, which are due primarily from other entities involved in the oil and gas industry. These amounts are subject to the same risks as the industry as a whole.

(b) Liquidity Risk

Liquidity risk relates to the risk the Company will encounter should it have difficulty in meeting obligations associated with the financial liabilities. The financial liabilities on its balance sheet consist of accounts payable and bank debt. Accounts payable consists of invoices payable to trade suppliers relating to the office and field operating activities and its capital spending program. The Company processes invoices within a normal payment period. The Company anticipates it will continue to have adequate

liquidity to fund its financial liabilities and its commitments through its future funds from operations, financings and available bank debt. The Company was not in default on its bank debt or any of its other financial liabilities. See also note 2.

(c) Market Risk

Market risk is the risk of changes in market prices, such as commodity prices, foreign currency exchange rates and interest rates that will affect the net earnings or value of financial instruments. The objective of managing market risk is to control market risk exposures within acceptable limits, while maximizing returns. The Company may utilize financial derivative contracts to manage market risk. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors. The Company's banking documents limit such activities to 50% of actual production.

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in the commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined below, but also global economic events that dictate the levels of supply and demand. The Company has entered into derivative contracts for the purpose of protecting its cash flow from operations before changes in non-cash working capital. The fair value of these derivative natural gas contracts is determined by reference to market information provided by the Company's bank. During the period ended September 30, 2009, the Company recorded an unrealized loss of \$331,000 on the call and an unrealized loss of \$20,000 on the swap as a result of marking the contracts to market. During the same period, a total \$344,000 was actually received in respect to the swap and that was recorded as a realized gain.

(ii) Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency; however, the United States dollar influences the price of petroleum and natural gas sold in Canada. The Company's financial assets and liabilities are not affected by a change in currency rates. The Company had no foreign exchange contracts in place at September 30, 2009.

(iii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent the changes in market interest rates will impact the Company's debts that have a floating interest rate. The Company had no interest rate swaps or hedges at September 30, 2009.

A change of 1% in the effective interest rate would impact net earnings by approximately \$260,000 in 2009, based on estimated average debt outstanding during the year.

(d) Fair Value of Financial Assets and Liabilities

The Company's financial instruments recognized on the balance sheet consist of restricted cash, accounts receivable, derivative contracts, accounts payable and accrued liabilities and bank indebtedness.

Accounts receivable, prepaid expenses and bank indebtedness are designated as "loans and receivables" and accounts payable are designated as "other liabilities" and are recorded at their amortized costs. The fair value of these instruments approximate their carrying amounts due to their short-terms to maturity. Bank indebtedness bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

Restricted cash and derivative contracts are designated as “held-for-trading” and recorded at the estimated fair market value.

As at September 30, 2009, the following derivative contracts were outstanding:

Type of Hedge	Commodity Hedged	Volume	Price	Period		Unrealized Gain(Loss) \$
Financial fixed price swap	Natural Gas	2,000 GJ/day	Cdn \$4.27/Gj	July 1, 2009 to December 31, 2009	(1)	(20,000)
Financial fixed price call	Natural Gas	2,000 GJ/day	Cdn \$7.70/Gj	January 1, 2010 to March 31, 2011	(1)	(331,000)
						<u>(351,000)</u>

(1) A giga joule (GJ) converts to a mcf at the rate of 1.055056 GJs per mcf.

On October 15, 2009 the Company entered into a financial fixed price put for 2,000 giga joules of natural gas at a price of \$5.00 per giga joule for the period from January 1, 2010 to March 31, 2011.

11. Commitments

As a consequence of the Plan of Arrangement, Argosy has agreed to indemnify Accrete or its successors from any claims arising from liabilities not retained by Accrete, for breaches of representations and warranties of Accrete and Argosy for breaches of covenants by Accrete until September 30, 2009.

The Company issued 1,208,051 common flow through shares at an issuance price of \$5.20 per share. The tax deductions related to the flow through shares issued in 2008 were renounced to flow through shareholders and booked to the accounts in February 2009. The Company will be required to spend approximately \$5,816,000 in 2009 on CEE expenditures to fulfill its flow through obligation. At September 30, 2009, \$3,115,000 of such expenditures remains to be made.

Accrete entered into an agreement with a major drilling contractor. Accrete was obligated to utilize the contractor’s rig for a period of 200 days during the one year term of the agreement that commenced August 15, 2007. Argosy has assumed this obligation pursuant to the Arrangement. The Company has estimated that a liability of up to \$500,000 could be incurred. The Company is currently negotiating the settlement of this obligation. In 2009, \$252,000 was paid to the drilling contractor as a good faith gesture however, a further \$248,000 could be incurred should negotiations fail.

The Company has entered into various commitments related to the leasing of office premises and office equipment. The payments due under such leases are as follows:

Contractual obligations (\$ thousands)	2009	2010	2011	2012	2013	Thereafter
Office Premises	177	708	741	808	879	-
Office equipment	1	1	-	-	-	-
	<u>178</u>	<u>709</u>	<u>741</u>	<u>808</u>	<u>879</u>	<u>-</u>

12. Subsequent Events

On September 30, 2009, the Company announced that it had successfully completed a bought deal financing of special warrants. Each special warrant evidenced the right of the holder to receive for no additional consideration, one common voting share of the Company until October 16, 2009 provided certain conditions were met. Such conditions included regulatory approvals, a receipt for the final prospectus in respect to the distribution of the underlying common voting shares and disinterested shareholder approval of the special warrant offering and issuance of the underlying common voting shares. The gross proceeds of the special warrant were escrowed until the conditions were satisfied. In the event that the foregoing conditions were not met by October 16, 2009, the holder would receive an amount equal to the offering price of the special warrant plus a pro rata share of the accrued interest on the escrowed funds. All conditions were satisfied and on October 13, 2009, the Company announced that effective October 9, 2009, the funds related to the gross proceeds of the special warrants were released from escrow and that the Company had issued one common voting share for each special warrant held and that the special warrants were cancelled.

At a special meeting of the Company's shareholders held on October 6, 2009, the shareholders of the Company also approved the re pricing of directors and officers options from \$4.60 to \$1.28 being the closing market price of the Company's stock on the TSX on the last trading day prior to the date of the information circular dated September 8, 2009 with respect to the special meeting.

All employee, director and officer options were re priced to \$1.28 since all requisite approvals had been obtained.

On October 15, 2009 the Company entered into a financial fixed price put for 2,000 giga joules of natural gas at a price of \$5.00 per giga joule for the period from January 1, 2010 to March 31, 2011.