

Argosy Energy Inc.
Consolidated Financial Statements
And
Management Discussion and Analysis
Unaudited
September 30, 2010

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Directors:

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Managing Director, Toscana Capital Corporation

Michael Kanovsky
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Kenneth Faircloth
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Jacob Roorda
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Peter Salamon
President & CEO, Argosy Energy Inc.

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Auditor:

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Legal Counsel:

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Reserve Engineers:

GLJ Petroleum Consultants Ltd.

Highlights

\$ 000's except volume, drilling and share data (Unaudited)	3 Months Ended September 30, 2010	3 Months Ended September 30, 2009	%
			Change
Cash flow from operating activities ⁽¹⁾			
Total	869	521	66.8
Per share basic	0.06	0.09	(33.3)
Net loss			
Total	(1,000)	(1,257)	(20.4)
Per share basic	(0.07)	(0.21)	(66.7)
Per share diluted	(0.07)	(0.21)	(66.7)
Common shares outstanding	15,601,201	5,858,834	166.3
Warrants	1,847,183	-	-
Net debt, including working capital deficiency before fair value of derivatives	8,678	19,939	(56.5)
Operational :			
Petroleum and natural gas sales	2,456	1,827	25.6
Royalties	100	78	288.2
Production and transportation costs	566	575	(1.6)
Field Net Back ⁽²⁾	1,790	1,174	52.4
Net Back/ bbl ⁽²⁾	21.06	15.49	40.0
General and administrative before acquisition and disposition expenses	772	811	(4.8)
Volumes :			
Natural gas (mcf/d)	4,656	4,316	7.8
Oil (bbl/d)	64	27	137.0
NGL's (bbl/d)	84	77	9.0
Total Boe/d	924	823	12.3
Wells Drilled (Gross) :			
Oil	-	-	
Gas	2	-	
D&A	-	-	
Total	2	-	
Capital Expenditures	6,470	287	

⁽¹⁾⁽²⁾Argosy's definition of cash flow from operating activities and/or netbacks may not be comparable to that reported by other companies.

Management Discussion and Analysis

The following discussion and analysis was prepared on and is dated November 15, 2010 and is management's assessment of Argosy's historical financial and operating results and should be read in conjunction with the consolidated unaudited interim financial statements for the three and nine month periods ended September 30, 2010 and 2009 and the audited financial statements and related notes for the years ended December 31, 2009 and 2008.

The financial data presented has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

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.

On May 14, 2010, Argosy acquired 100% of the issued and outstanding shares of its only subsidiary, Radius Resources Corp. (Radius), as part of a restructuring process undertaken by Radius. Radius has oil and gas operations primarily focused in the Ante Creek area of Alberta.

As at the date of this MD&A and at September 30, 2010, there are 15,601,201 common shares, 1,847,183 common share purchase warrants and 1,433,000 stock options outstanding.

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.

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; the implementation of International Financial Reporting Standards 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, they 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.

In this MD&A production data is commonly stated in barrels of oil equivalent using a six (6) to one (1) conversion ratio when converting thousands of cubic feet of natural gas to barrels of oil and a one (1) to one (1) conversion ratio for natural gas liquids. An oil equivalency of six (6) to one (1) thousand cubic feet of natural gas is based on energy equivalent at the burner tip and does not represent a value equivalency at the well head.

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 backs and cash flow.

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,	
	2010	2009	2010	2009
Cash flow provided by(used in) operating activities (GAAP)	869	521	369	(22)
Net changes in non-cash working capital	(272)	(174)	2,361	863
Cash flow (non – GAAP)	597	347	2,730	841

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

\$ Thousands	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Net income (Loss) (GAAP)	(1,000)	(1,258)	(396)	(4,474)
Future income taxes (reduction)	(278)	(382)	(654)	(1,338)
Depletion, depreciation and accretion	1,879	1,792	6,195	5,929
Stock based compensation expense	146	124	469	372
Interest expense	213	290	687	752
Realized gain on derivative instruments	(183)	(274)	(256)	(344)
Unrealized (gain) loss on derivative instruments	(150)	70	(656)	351
Gain on acquisition Radius	-	-	(2,228)	-
Corporate netback (non – GAAP)	626	362	3,161	1,248
General and administrative expense	1,163	811	3,096	2,920
Field netback (non – GAAP)	1,789	1,173	6,257	4,168

Argosy's Business Objective

Argosy's goal is to add quality, low cost reserves and production and to create sustainable value through exploitation of its principal properties at Claresholm, Ante Creek and Edson. The Corporation also focuses on expanding its existing asset base through the generation of lower risk development prospects, through Crown land sales, farm-ins, farm-outs and the acquisition of additional properties where viewed as strategic.

Argosy's strategy is to initiate, develop and operate prospects and to maintain high working interests in all operations. Argosy pursues prospects that have medium risk, have multi-zone potential, are economic even under the current market conditions and which have predictable results that can be repeated.

Business Environment

AECO C spot prices averaged Cdn \$3.53 / Mcf for the 3rd quarter of 2010 versus Cdn \$ 3.91 for the 2nd quarter and Cdn \$4.92/ Mcf for the 1st quarter of 2010.

Comparable prices for 2009 were \$2.98 for the 3rd quarter, \$3.44 for the 2nd quarter and \$4.29 for the 1st quarter.

Benchmark AECO C spot prices declined steadily during the first nine months of 2010 although they increased on a year over year basis.

Cold weather at the beginning of the year, a warm spring and hot summer served to increase the demand for natural gas for heating and cooling in North America during those periods. A modest recovery in the industrial sector further spurred on demand. Increases in US natural gas production as a result of technological advances in completion techniques, moderating weather towards the end of the third quarter and the lack of an active hurricane season all combined to offset any gains on the demand side of the equation. As a result, storage levels began to rise and prices fell.

Benchmark Edmonton Par prices averaged \$ 74.90 for the 3rd quarter, \$75.14 for the 2nd quarter and \$78.64 for the 1st quarter of 2010.

Comparable figures for 2009 were \$72.22 for the 3rd quarter, \$62.90 for the 2nd quarter and \$43.18 for the 1st quarter.

Global demand for oil is slowly recovering from the lows that were incurred as a result of the global economic crisis of 2008. Prices, however, remain volatile.

Financial Information

	Total Revenue (\$ thousands)	Net Income (Loss) (\$ thousands)	Net Income (Loss) Basic \$/Share	Net Income(Loss) Diluted \$/Share
2010				
First Quarter	3,193	(191)	(0.01)	(0.01)
Second Quarter	3,064	795	0.05	0.05
Third Quarter	2,456	(1,000)	(0.06)	(0.06)
	8,713	(396)	(0.02)	(0.02)
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)
Fourth Quarter	2,296	(1,757)	(0.16)	(0.16)
	9,593	(6,230)	(0.87)	(0.87)
2008				
Fourth Quarter	4,767	(1,337)	(0.23)	(0.23)
Total	4,767	(1,337)	(0.23)	(0.23)

Operational Activities

Production

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Oil (bbl/d)	64	27	38	29
NGL (bbl/d)	84	77	90	90
Total Oil/NGL (bbl/d)	148	104	128	119
Gas (mcf/d)	4,656	4,316	5,080	4,900
Total (boe/d) ⁽¹⁾	924	823	974	936

(1) 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.

The results of the drilling activity that was undertaken in 2009 and 2010 together with the acquisition of Radius resulted in an increase in production. This was offset in part by normal production declines and by the sale of the Saxon property in August 2010.

The production included in the table above includes the production from Radius' Ante Creek property from the date of acquisition on May 14, 2010 to September 30, 2010. The Company sold its Saxon property effective August 1, 2010.

Natural Gas Production (mcf/d)

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Ante Creek	216	-	73	-
Atlee-Buffalo	32	23	32	28
Claresholm	3,718	3,845	4,005	4,419
Edson	316	345	343	332
Saxon	374	103	627	121
Total	4,656	4,316	5,080	4,900

Production from wells that were drilled late in 2009 and during the first three quarters of 2010 nearly offset normal production declines at Claresholm. A well drilled in 2009, completed in 2010 and tied in mid way through the 1st quarter resulted in an increase in production in the Saxon area. The Company closed the sale of its interests in the Saxon area on August 12, 2010.

The production included in the table above includes the production from Radius' Ante Creek property from the date of acquisition on May 14, 2010 to September 30, 2010.

Crude Oil Sales (bbl/d)

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Ante Creek	40	-	13	-
Claresholm	24	27	25	29
Total	64	27	38	29

An enhanced recovery pilot project has been initiated at Pearce within Argosy's Claresholm focus area. Argosy expects to see the effects of this water flood by the end of the 4th quarter of 2010.

The production included in the table above includes the production from Radius' Ante Creek property from the date of acquisition on May 14, 2010 to September 30, 2010.

Natural Gas Liquids Sales (bbl/d)

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Ante Creek	5	-	2	-
Claresholm	60	61	64	75
Edson	17	15	18	14
Saxon	2	1	6	1
Total	84	77	90	90

Wells drilled late in 2009 and 2010 were put on stream late in the 1st quarter and early in the 2nd quarter nearly offset normal production declines at Claresholm. A well drilled in 2009, completed in 2010 and tied in mid way through the 1st quarter resulted in an increase in production in the Saxon area but the area was sold on August 12, 2010.

The production included in the table above includes the production from Radius' Ante Creek property from the date of acquisition on May 14, 2010 to September 30, 2010. The Company closed the sale of its interests in the Saxon area on August 12, 2010.

Product Prices**Natural Gas Prices (\$/mcf)**

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Ante Creek	4.32	-	4.32	-
Atlee-Buffalo	3.63	2.90	4.19	3.94
Claresholm	3.98	3.26	4.58	4.26
Edson	3.92	3.20	4.49	4.14
Saxon	4.69	3.47	4.63	4.43
Average Price	4.04	3.26	4.58	4.26

Benchmark AECO C spot prices averaged \$4.11 for the first three quarters of 2010 but declined steadily during the first nine months of 2010. AECO C spot prices averaged Cdn \$3.53 / Mcf for the 3rd quarter of 2010 versus Cdn \$ 3.91 for the 2nd and Cdn \$4.92/ Mcf for the 1st quarter of 2010.

AECO C prices averaged \$3.56 for the first three quarters of 2009 and were \$2.98 for the 3rd quarter, \$3.44 for the 2nd quarter and \$4.29 for the 1st quarter.

Certain 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		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Ante Creek	70.88	-	70.88	-
Claresholm	74.82	71.35	75.90	60.37
Average Price	72.37	71.35	74.12	60.37

Benchmark Edmonton Par prices averaged \$ 74.90 for the 3rd quarter, \$75.14 for the 2nd quarter and \$78.64 for the 1st quarter of 2010.

Comparable figures for 2009 were \$72.22 for the 3rd quarter, \$62.90 for the 2nd quarter and \$43.18 for the 1st quarter.

Company prices were consistent with Edmonton Par benchmark.

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

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Ante Creek	45.87	-	45.87	-
Claresholm	59.79	51.54	64.27	45.47
Edson	51.11	42.46	69.43	46.79
Saxon	16.00	71.47	83.30	66.53
Average Price	56.68	49.96	65.04	45.92

Natural gas liquid prices moved in tandem with oil prices. Saxon natural gas liquids contain more condensate than those in Edson and Claresholm, and therefore it commands a higher price.

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

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Oil	347	181	767	473
NGL	431	354	1,597	1,130
Gas	1,678	1,292	6,350	5,694
Total	2,456	1,827	8,714	7,297

Increased volumes and increased prices resulted in increased sales amounts.

Natural Gas Sales Revenue
(\$ thousands)

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Ante Creek	57	-	86	-
Atlee-Buffalo	10	6	36	30
Claresholm	1,361	1,152	5,014	5,143
Edson	114	101	420	375
Saxon	136	33	794	146
Total	1,678	1,292	6,350	5,694

Natural gas sales for the 3rd quarter of 2010 increased over that recorded for the 3rd quarter of 2009 primarily because of a combination increased volumes brought on by drilling activity and increased market prices.

Natural gas volumes increased from 4,316 mcf/d for the 3rd quarter of 2009 to 4,656mcf/d for the 3rd quarter of 2010. Prices increased from an average of \$3.26 /mcf for the 3rd quarter of 2009 to \$4.04 for the 3rd quarter of 2010.

Natural gas sales for the 1st 3 quarters of 2010 increased over that recorded for the 3 quarters of 2009 primarily because of a combination of increased volumes brought on by drilling activity and increased prices. Natural gas volumes increased from 4,900 mcf/d for the 1st 3 quarters of 2009 to 5,080 mcf/d for the 1st 3 quarters of 2010. Prices increased from an average of \$4.26/mcf for the 1st 3 quarters of 2009 to \$4.58 for the 1st three quarters of 2010.

Crude Oil Sales Revenue
(\$ thousands)

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Ante Creek	178	-	261	-
Claresholm	169	249	506	473
Total	347	249	767	473

Oil sales for 2010 increased over that recorded for 2009 primarily because of a combination increased volumes brought on by the acquisition of Radius and increased market prices.

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

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Ante Creek	15	-	21	-
Claresholm	332	289	1,119	929
Edson	82	59	302	182
Saxon	2	6	155	19
	431	354	1,597	1,130

In general, the increase natural gas liquids sales revenue paralleled that for natural gas.

Royalties
(\$ thousands)

Area	3 Months Ended				9 Months Ended			
	September 30,				September 30,			
	2010		2009		2010		2009	
	Rate	Total \$	Rate	Total \$	Rate	Total \$	Rate	Total \$
Ante Creek	10%	37	-	-	10%	37	-	-
Atlee-Buffalo	5%	1	2%	-	3%	1	3%	1
Claresholm	5%	94	4%	67	7%	448	18%	1,162
Edson	15%	70	7%	11	15%	211	16%	90
Saxon	-30%	(48)	-	-	1%	322	14%	22
Total	4%	111	4%	78	7%	596	18%	1,275

Royalty rates at Claresholm decreased on a quarter on quarter basis because the older wells in the field are subject to rate reductions as their production declines. This is offset by newer wells that are subject to higher crown rates because of higher production rates and because of higher rates for freehold and overriding royalties on wells drilled late in 2009 and early in 2010 on farm in lands.

However, royalties were positively affected particularly at Claresholm because of a favorable gas cost allowance adjustment received in the 2nd quarter of 2010. The gas cost allowance adjustment was \$256,000. If the gas cost adjustment had not been received, the overall rate would have been 11% for Claresholm for the nine months ended September 30, 2010.

Production from the well at Saxon that was put on in the first quarter of 2010 qualifies for a low royalty incentive. The negative rate shown for Saxon production occurs because royalties were accrued in prior periods and reversed in the 3rd quarter when the incentive status was clarified.

For the nine months ended September 30, 2010, crown royalties were \$183,000 (\$1,212,000 in 2009), gross overriding royalties were \$181,000 (\$52,000 in 2009), and freehold royalties were \$232,000 (\$11,000 in 2009).

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

Area	3 Months Ended				9 Months Ended			
	September 30,				September 30,			
	2010		2009		2010		2009	
	\$/boe	Total \$	\$/boe	Total \$	\$/boe	Total \$	\$/boe	Total \$
Ante Creek	10.67	80	-	-	10.67	80	-	-
Atlee-Buffalo	9.35	5	10.52	3	9.43	14	8.90	11
Claresholm	6.31	409	6.70	450	5.97	1,233	6.66	1,528
Edson	10.80	70	14.31	95	10.33	211	13.59	259
Saxon	10.21	58	15.21	27	10.61	323	9.29	55
Total	7.32	622	7.58	575	7.00	1,861	7.26	1,853

Per unit costs at Claresholm for 2010 were reduced as a result of a concerted effort to control costs. Argosy focused particularly on control of fixed costs. Fixed costs include rental field compression, plunger lifts and tanks that were added for certain wells. A review was conducted and rental units were eliminated where it was determined that they added minimal value and were replaced by company owned units where warranted.

Atlee Buffalo volumes are very low and even minor repair and maintenance items have a significant impact on the rate per boe. Over all though, Atlee Buffalo is not material.

Claresholm natural gas is processed in a Company operated processing plant. Atlee Buffalo, Saxon, Ante Creek and Edson natural gas is processed by third party processors hence the cost of processing is higher. The transportation expense for Saxon gas is relatively expensive because the Company is charged for the use of several outside owned pipeline segments in order to move its gas to the processing facility.

Field and Corporate Netbacks

Field Netback

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
\$/boe				
Ante Creek	33.74	-	33.74	-
Atlee-Buffalo	11.40	6.50	14.87	13.90
Claresholm	21.93	16.53	24.03	16.81
Edson	15.03	8.11	19.62	11.03
Saxon	26.02	7.89	20.12	15.38
Field Netback	21.93	15.49	23.51	16.32

Field netbacks for 2010 increased from those in the equivalent period last year because of increased volumes and prices while royalties declined.

Corporate Netback
(\$ thousands)

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Field Netback	1,789	1,173	6,257	4,168
General and Administrative	1,163	811	3,096	2,920
Corporate Netback	626	362	3,161	1,248

Corporate netback increased because of increased production volumes and market prices while royalties declined due to lower rates. A decrease in G&A caused by voluntary reductions in remuneration further contributed to increased corporate netback.

General and Administrative Expense
(\$ thousands)

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Salary & Benefits, net	503	463	1,492	1,756
General Office Expenses	309	368	1,056	1,248
Acquisition and disposition costs	391	-	721	-
	1,203	831	3,269	3,004
Recoveries	(40)	(20)	(173)	(84)
Total	1,163	811	3,096	2,920

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 required that the Company account for acquisition and disposition related costs as expenses in the periods in which the costs were incurred and the services received.

Of the total of \$721,000 of acquisition and disposition costs incurred in 2010, \$391,000 was incurred in the 3rd quarter of 2010 and it related primarily to the disposition of the Saxon property while \$330,000 was incurred in the 1st and 2nd quarter and that related primarily to the acquisition of Radius. It should be noted that \$384,000 of additional costs related to the acquisition of Radius was expensed in the fourth quarter of 2009 as well.

Approximately \$189,000 (\$208,000 in 2009) of direct salary costs related to geological and geophysical personnel have been capitalized for the nine month period ended September 30, 2010. No other salary or overhead charges are capitalized.

Interest Expense

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

Interest expense for the 9 Months ending September 30, 2010 was \$687,000 (\$752,000 in 2009) reflecting higher interest rates offset in part by a decrease in average loan balance outstanding.

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 in 2008 was estimated to be \$ 1,175,000 (\$2.03 per option granted). The fair value of the options granted in 2009 was estimated to be \$373,000 (\$0.79 per option granted). The fair value of the options granted in 2010 was estimated to be \$222,000 (\$0.58 per option granted).

This value is expensed as stock-based compensation cost over the vesting period. For the 9 months ended September 30, 2010 a total of \$469,000 (\$372,000 in 2009) was charged to expense and a total of \$38,000 (\$23,000 in 2009) was capitalized for a total stock based compensation charge of \$507,000 (\$395,000 in 2009). Compensation cost has been decreased for forfeited options in the period of forfeiture.

Depletion Depreciation & Accretion

Depletion, depreciation and accretion of the asset retirement obligation for the 3 month period ended September 30, 2010 totaled \$1,879,000 or \$22.10/Boe. This compares to \$1,792,000 or \$23.66/Boe for the comparable period in 2009.

Costs of \$3,747,000 (\$9,065,000 in the third quarter of 2009) relating to unproved properties have been excluded from costs subject to depletion. The excluded items include the costs of undeveloped land such as that at Ansell that has been purchased at land sales for future exploitation. Unproved property decreased because of the disposal of the Saxon property in the 3rd quarter of 2010.

At September 30, 2010 a total of \$3,227,000 (\$1,713,000 at September 30, 2009) of future development costs were included in the depletion calculation.

Income Taxes

The Company recorded a future income tax reduction of \$654,000 for the nine month period ended September 30, 2010.

Argosy has approximately \$33,202,000 of income tax pools and \$2,500,000 of operating loss carry forwards at September 30, 2010 and does not anticipate being cash taxable in 2010.

Cash Flow

Cash flow for the 9 month period ended September 30, 2010 was \$2,730,000 (\$0.18 per share) versus \$840,000 (\$0.14 per share) for the equivalent period last year.

Cash flow increased on a year over year basis because of increased prices and lower royalties offset in part by higher operating and general and administrative costs.

Capital Expenditures

(\$ thousands)	3 Months Ended September 30, 2010	3 Months Ended June 30, 2010	3 Months Ended March 31, 2010	9 Months Ended September 30, 2010
Drilling and Completions	1,773	683	4,497	6,953
Geology and Geophysical	185	201	94	480
Equipping and Tie-Ins	301	107	637	1,045
Land (net)	(39)	17	143	121
Property Dispositions(net)	(16,710)	-	-	(16,710)
Radius acquisition	-	2,569	-	2,569
Office Equipment	2	1	4	7
Total Cash Expenditures	(14,488)	3,578	5,375	(5,535)

Included in drilling and completions expenditures for the first quarter are drilling expenditures related to the 2 (2 net) natural gas wells spudded in 2009 as well as 2 (2 net) natural gas wells drilled in the Claresholm area. During the second quarter, 1 (1 net) oil well was drilled at Claresholm. During the third quarter, 2 (2 net) natural gas wells were drilled at Claresholm. 1 (1 net) of the Saxon wells was a dry hole. All but one of the remaining wells has been put on stream by the end of the third quarter.

Liquidity and Capital Resources

(\$ thousands)

2010 Exploration and development program funding

Cash, Beginning of period	4,300
Cash flow	2,730
Change in non-cash working capital	(2,438)
Decrease in Bank Debt	(13,225)
Issue of Capital Stock	3,699
Radius acquisition	(2,569)
Saxon disposition	16,710
Cash, end of period	(601)
Net capital expenditures	8,606

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

Commodity prices and production volumes have a large impact on the ability of the Company to finance its capital program. Commodity prices and production volumes affect Argosy's ability to generate adequate cash flow. Moreover, bank financing is dependent on the value of the Company's reserves which are in turn affected by commodity prices, production volumes and drilling success.

It should be noted that a prolonged period of low commodity prices would negatively affect cash flow from operations and 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 and reserves. 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.

A prolonged period of low commodity prices may also affect the availability of funds that might be available in the equity markets as well.

At September 30, 2010 the Company's credit facilities comprised a Revolving Operating Demand Loan Facility with a credit limit of \$20,000,000 and an Acquisition/Development Demand Facility with a credit limit of \$4,000,000. At that date the Company had drawn \$8,504,000 against the Revolving Operating Demand Loan Facility and nil against the Acquisition/Development Demand Facility.

The Revolving Operating Demand Loan bears interest at Bank prime plus a percentage determined quarterly ranging from 0.25% 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, adjusted for 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 resulted 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 0.25% and 0.5% on the undrawn portion of the loan facility.

The last scheduled review of the Company's borrowing limits occurred on October 1, 2010. The next review is scheduled for April 1, 2011. There can be no assurance that other amounts or terms will not change at the next scheduled bank review of the Company's borrowing limits.

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, 2010. There is no similar working capital requirement for the Acquisition/Development Demand Loan. There is no debt to equity requirements related to either of the facilities.

Radius

In December 2009, Argosy entered in to an agreement for a business combination with Radius Resources Corp. ("Radius"). The proposed business combination is part of a proposal that was put forward by Radius pursuant to the provisions of the Bankruptcy and Insolvency Act (BIA) (the "Proposal").

The Radius acquisition affords Argosy the opportunity to further exploit the oil potential of the properties owned by Radius.

On March 19, 2010, Argosy entered into a definitive purchase and sale agreement (the “Definitive Agreement”) to complete the business combination.

Radius received approval of its unsecured creditors on April 6, 2010 and on April 13, 2010 received the approval of the Registrar in Bankruptcy.

On May 14, 2010, Argosy completed the acquisition of 100% of the issued and outstanding shares of Radius. This resulted in the settlement of all claims against Radius (both secured and unsecured).

Consideration paid by Argosy consisted of 748,000 common shares of Argosy and \$2.6 million in cash.

Radius entered into a farm-in agreement with Argosy. Pursuant to the terms of the farm-in agreement, Radius agreed to pay \$1,300,000 towards drilling costs to earn a 50% working interest in two wells that were spudded in the Saxon area in late December 2009. The farm-in agreement also specified that if the relevant costs exceed the amount that was budgeted, and Radius is unable to reimburse Argosy that Radius’ interest in the two wells would be reduced proportionately. In addition, Argosy could have elected to convert Radius’ working interest share to a 3% non-convertible overriding royalty in the event of the assignment or attachment by Radius of its interests in the wells or on the change of control of Radius.

Argosy advanced \$1,300,000 to Radius to enable it to pay the commitment referred to in the preceding paragraph. Radius in turn, paid \$1,300,000 of costs of the two Saxon wells. As the note was unsecured and because the proposal was made pursuant to the BIA, the amount was extinguished.

Subsequent to the end of the third quarter, Argosy received \$1,208 cash and 64,262 common shares of Argosy in respect to the final settlement of the note receivable from Radius Resources pursuant to the Proposal.

Contractual Obligations

The Company’s banking commitments are outlined in *Liquidity and Capital Resources*.

The Company entered into a guaranteed day commitment with a drilling contractor. The Company is required to utilize the contractor’s rigs for 120 days within a year, commencing on October 31, 2009. Argosy will be required to pay \$7,000 for each day that it is short of the 120 commitment. At September 30, 2010, the company had utilized the contractor’s rigs for 95 days therefore the maximum exposure under the contract is \$175,000.

In 2010 the Company issued 500,000 common flow through shares at an issuance price of \$2.00 per share. The tax deductions related to the flow through will be renounced to flow through shareholders and booked to the accounts in February 2011. The Company will be required to spend approximately \$1,000,000 in 2010 on CEE expenditures to fulfill its flow through obligation.

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)	2010	2011	2012	2013	2014	Thereafter
Office Premises	177	741	808	879	609	-
Office equipment	1	-	-	-	-	-
	178	741	808	879	609	-

Risk Management

There have been no changes in risk from those described in Management's Discussion and Analysis for the year ended December 31, 2009. The most important business risks that face Argosy in the Canadian oil and gas industry together with its strategies to mitigate such risks are as follows:

Exploration Risk

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 has cautiously moved forward with its exploration and development plans as capital has become available see *Liquidity and Capital Resources*.

Credit Risks

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 a 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.

Catastrophic Events

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 formal procedures to ensure that this occurs. Such procedures are communicated to all personnel and contractors.

Liquidity Risk

The Company's operations are funded through internally generated cash flow, bank debt and new equity if available on favorable terms. (See *Liquidity and Capital Resources*)

Market Risk

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 period ended September 30, 2010 or the year ended December 31, 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.

The financial derivative contracts are marked to market at the reporting date and an unrealized gain or loss is booked to the accounts. During the nine month period ended, September 30, 2010, the Company recorded an unrealized asset of \$324,000 on the call and an unrealized liability of \$20,000 on the puts as a result of marking the contracts to market. During the same period, a total \$256,000 was actually received in respect to the derivative contracts and that was recorded as a realized gain.

As at September 30, 2010, the following derivative contracts were outstanding:

Type of Hedge	Commodity Hedged	Volume	Price	Period	Fair Value \$ 000	Unrealized Gain(Loss) \$ 000
Financial fixed price bought put	Natural Gas	2,000 GJ/day	Cdn \$5.00 /Gj	January 1, 2010 to March 31, 2011	324	479
Financial fixed price sold call	Natural Gas	2,000 GJ/day	Cdn \$7.70/Gj	January 1, 2010 to March 31, 2011	-	197
Financial fixed price sold put	Natural Gas	2,000 GJ/day	Cdn \$3.50/Gj	May 1, 2010 to December 31, 2011	(20)	(20)
					<u>304</u>	<u>656</u>

Note: A gigajoule (GJ) converts to a mcf at the rate of 1.055056 GJs per mcf.

Outlook

The Company will focus on core projects that can deliver quality, low cost production and reserve additions with a bias towards oil over natural gas. An enhanced oil recovery pilot project has been implemented in

the Pearce area. If pressure is restored and maintained, capital spending will be focused on this area later in 2010. Furthermore, industry land sale and acquisition activity has heightened in Southern Alberta that has been sparked by speculation that a large heretofore unexploited oil pool has been identified by industry participants. Argosy's Claresholm area is ideally situated on this play. Argosy will direct additional capital budget funds to oil well drilling in the Claresholm area if further information indicates that the aforementioned oil pool exists.

We expect there will be a continuous supply of industry divestitures in the near future and we will analyze and evaluate these for accretive opportunities. In fact, Argosy closed an acquisition of an additional oil and natural gas property at Ante Creek for \$626,000 subsequent to the end of the third quarter.

We will in turn, continue to review our current inventory and focus on those projects that fit our corporate mandate while rationalizing those projects that cannot be capitalized in a reasonable time frame.

Sensitivities

\$ Thousand	Cash Flow and Pretax Earnings
<hr/>	
Forecast of impact on year ended December 31, 2010	
Change in Canadian crude oil of \$1/bbl	13
Change in natural gas price of \$0.10 / mcf	178
Change in natural gas liquids price of \$1 / bbl	32
Change in interest rate of 1%	202
Change in production of crude oil of 100 bbls/day	2,597
Change in production of natural gas liquids of 100 bbls/day	2,279
Change in production of natural gas production of 1,000 mcf/day	1,415

Critical Accounting Estimates

There have been no changes from those described in Management's Discussion and Analysis for the year ended December 31, 2009.

Changes in Legislation

The Government of Alberta made certain changes to its royalty regime in addition to those described in Management's Discussion and Analysis for the year ended December 31, 2009. It announced that it had finalized royalty curves for conventional oil and gas production as well as initiatives to encourage the exploration and development of unconventional and deep resource pools.

Changes were made to moderate the increase in royalties on production for prices higher than \$5.25 per gigajoule for natural gas and \$535 per cubic meter for oil. The new formula will be applied to production from wells on all Alberta Crown lands effective January 1, 2011 with the exception of those wells for which the Transitional Well formula was chosen. Royalties levied on production from wells for which the Transitional Royalty formulas were chosen, will remain on those rates until December 31, 2013.

The Natural Gas Deep Development Drilling Program ("NGDDP") provides royalty relief to horizontal wells to the extent that they are drilled after May 1, 2010 and that they exceed 2,000 meters vertical and 3,500 meters measured depth.

Disclosure Controls and Internal Controls over Financial Reporting

Argosy's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that (i) material

information relating to the Company and its consolidated subsidiaries is made known to Argosy's Chief Executive Officer and Chief Financial Officer by others; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

Argosy's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, Internal Controls over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The control framework Argosy's that officers used to design the ICFR is the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations.

ICFR has inherent limitations no matter how well designed such controls may be. Control systems can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

No material changes in Argosy's internal controls over financial reporting were identified during the three months ended September 30, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of September 30, 2010, that the Company's disclosure controls and procedures as at such date are effective to provide reasonable assurance that material information related to the Company, including its consolidated subsidiary, is made known to them by others within those entities.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure procedures provide a reasonable level of assurance that they are effective, such controls and procedures cannot provide absolute assurance that the objectives of the control system will be met and it should 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

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.

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.

Argosy has begun the process to transition to IFRS from Canadian GAAP as it currently exists. The process is being managed internally with the assistance of outside consultants that have been engaged to provide guidance and assistance. The major steps in Argosy's implementation plan are;

- Selection of appropriate accounting policies that comply with IFRS
- Preparation of an opening IFRS balance sheet as at January 1, 2010.
- Assessing and addressing the impact on IT systems, processes and controls and business management

- Preparation of interim and annual financial statements for 2010, including disclosures.

The Company is in the process of finalizing its selection of the major oil and gas accounting policies that comply with IFRS. To that end, this quarter, position papers for the major oil and gas accounting policies have been submitted to and reviewed by the external auditors after which they were submitted to the Board of Directors for review and comment. Once comments on these position papers have been received and addressed, the accounting staff will quantify the impact of the proposed changes on our financial statements with a view to presenting the financial impacts to the audit committee of the board of directors in the last quarter of 2010.

As a result of the accounting staff's work to date, it has been determined that IFRS may result in policy changes that could significantly impact the Company's financial statements. The most significant changes are expected to be to the accounting for petroleum and natural gas assets and equipment, asset retirement obligations ("ARO"), flow through shares, stock-based compensation and future income taxes.

IFRS standards require that a corporation make a choice with respect to the initial recording of petroleum and natural gas assets. A corporation could choose to report its petroleum and natural gas assets at either the amount which would have been recorded if it had always followed IFRS standards, at fair value or at a deemed cost that would be equal to historic cost as calculated under Canadian GAAP. Argosy's current plan is to use the latter choice.

Furthermore, Argosy will be required to reclassify certain assets that are included in petroleum and natural gas assets to Exploration and Evaluation ("E&E") expenditures. Typically these E&E expenditures would include the cost of undeveloped land and the costs of exploration activities such as geological and seismic expenditures related to those lands. E&E expenditures will initially be capitalized and are not depleted but rather must be assessed for impairment whenever there are indicators that impairment may be possible.

Under IFRS, petroleum and natural gas assets other than E&E expenditures will comprise development assets that are carried at cost less accumulated depletion and depreciation and any accumulated impairment losses. It should be noted that the provisions of IFRS do not specify the category of reserves to be used for purposes of a company's depletion calculations.

Impairment testing for petroleum and natural gas assets must be performed for each cash generating unit of the Company. Impairment tests are based on the fair value of the assets or their value in use. Impairments may be recovered in the future if the loss has decreased or is determined to no longer exist. The Company expects to base these assessments on its reserve values and expected cash flows but these amounts may be affected by discounting at the then current market rate which may vary materially from one reporting period to another.

A major difference between current Canadian standards and IFRS appears to be the discount rate used to measure the asset retirement obligation. Under current Canadian standards, a credit adjusted risk free rate is used in calculating the provision. Under IFRS, a risk free rate should be used when the expected cash flows are risked. Within the industry, there has been a debate as to whether there should be a risk component applied to conventional property estimated cash outflows used in determining the provision. We are monitoring the matter and will be deciding which rate is the most appropriate in our circumstance. A lower discount rate will increase the provision on transition to IFRS with a corresponding charge to retained earnings or deficit.

IFRS requires that stock-based awards that vest in installments to be accounted for as though each installment or vesting is a separate award. This will likely result in stock-based compensation expense increasing in the vesting periods immediately following new grants. Moreover, the estimate of the number of stock-based awards that are expected to vest or be forfeited will have an impact on the amount of the stock -based compensation that is recorded under IFRS.

The International Accounting Standards Board ("IASB") decided not to finalize the income tax exposure draft into a new Income Tax standard. Therefore, it is anticipated that the existing IFRS standard, IAS 12

will be applicable to the Company. IAS 12 requires that the Company must recognize deferred taxes on temporary differences between the carrying value of assets and liabilities and their tax basis. This is similar to the current standards.

To the extent that the adoption of IFRS will result in changes in the carrying values of assets and depreciation charges new temporary differences will be created which in turn will affect the carrying value of deferred taxes.

The Company continues to review the impact of IFRS on its agreements. It is expected that although the transition to IFRS may require minor changes to its agreements that there will be no material effect.

The Company is inventorying the potential impact of the conversion to IFRS on ICFR and disclosure controls and procedures with respect to the conversion process and the ensuing reporting processes.

Based on a preliminary review, Argosy has concluded that its main internal and its critical web based systems appear to be capable of the transition. It however has to assess the effect of the conversion on its spread sheet based sub systems.

As the Company has not finalized its accounting policy choices, it is unable to quantify the impact on the financial statements at this time. Moreover, IFRS standards are evolving and may change during the implementation period. Argosy recognizes that it will have to be flexible in its transition plans.

The outside consultants that Argosy has engaged in respect to the IFRS transition continue to provide timely and useful guidance. The accounting staff that is involved in the transition has received and continues to receive training through various workshops and conferences.

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 quarter end.

Off Balance Sheet Arrangements

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

Argosy Energy Inc.
Consolidated Balance Sheets
(Unaudited)

(\$ Thousands)	September 30, 2010	December 31, 2009
ASSETS		
Current assets		
Cash	601	4,300
Accounts receivable	1,020	2,011
Prepaid expenses	933	473
Fair value of derivative contracts (note 10)	304	-
Future income tax (note 8)	-	99
	2,858	6,883
Note receivable – Radius Resources Corp. (note 6)	-	1,300
Property and equipment (note 3)	56,907	65,806
	59,765	73,989
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	2,647	5,955
Fair value of derivative contracts (note 10)	-	352
Future income tax (note 8)	81	-
Bank indebtedness (note 4)	8,504	21,729
	11,232	28,036
Asset retirement obligation (note 7)	1,357	973
Future income tax (note 8)	4,793	6,030
	17,382	35,039
SHAREHOLDERS' EQUITY		
Share capital (note 5)	48,655	45,333
Contributed surplus (note 5)	1,691	1,184
Deficit	(7,963)	(7,567)
	42,383	38,950
	59,765	73,989

Basis of Presentation (note 2)
 Commitments (note 12)
 Subsequent events (note 13)

See accompanying notes to unaudited consolidated financial statements

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

(\$ Thousands except for per share information)	Three Months Ended September 30		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue:				
Petroleum and natural gas revenue	2,456	1,827	8,714	7,297
Royalties	(100)	(78)	(596)	(1,275)
Realized gain on derivative contracts (note 10)	183	274	256	344
Unrealized gain (loss) on derivative contracts (note 10)	150	(70)	656	(351)
	<u>2,689</u>	<u>1,953</u>	<u>9,030</u>	<u>6,015</u>
Expenses :				
Production	451	450	1,540	1,519
Transportation	115	125	321	334
General and administrative	1,163	811	3,096	2,920
Interest	213	290	687	752
Stock based compensation (note 5)	146	124	469	372
Depletion, depreciation and accretion	1,879	1,792	6,195	5,929
	<u>3,967</u>	<u>3,592</u>	<u>12,308</u>	<u>11,826</u>
Loss before other income and income taxes	(1,278)	(1,639)	(3,278)	(5,811)
Other:				
Gain on acquisition – Radius Resources Corp. (Note 2)	-	-	2,228	-
Loss before income taxes	(1,278)	(1,639)	(1,050)	(5,811)
Future income tax reduction (expense) (note 8)	278	382	654	1,338
Loss and comprehensive loss	<u>(1,000)</u>	<u>(1,257)</u>	<u>(396)</u>	<u>(4,473)</u>
Net loss per share (Note 5):				
Basic	(0.06)	(0.21)	(0.03)	(0.76)
Diluted	(0.06)	(0.21)	(0.03)	(0.76)

See accompanying notes to unaudited consolidated financial statements.

Argosy Energy Inc.
Consolidated Statements of Deficit
Unaudited

(\$ Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Deficit, beginning of period	(6,963)	(4,553)	(7,567)	(1,337)
Net loss for the period	(1,000)	(1,257)	(396)	(4,473)
Deficit, end of period	(7,963)	(5,810)	(7,963)	(5,810)

See accompanying notes to unaudited consolidated financial statements.

Argosy Energy Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(\$ Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cash provided by (used in):				
Operating Activities				
Net loss	(1,000)	(1,257)	(396)	(4,473)
Items not affecting cash:				
Stock based compensation expense	146	124	469	372
Future income (tax reduction) expense	(278)	(382)	(654)	(1,338)
Unrealized gain (loss) on derivative instruments	(150)	70	(656)	351
Gain on acquisition - Radius	-	-	(2,228)	-
Depletion, depreciation and accretion	1,879	1,792	6,195	5,929
	597	347	2,730	841
Change in non-cash working capital (note 9)	272	174	(2,361)	(863)
	869	521	369	(22)
Investing Activities				
Special warrant proceeds restricted for use	-	(6,000)	-	(6000)
Property and equipment additions	(2,222)	(288)	(8,606)	(1,310)
Radius acquisition (note 2)	-	-	(2,569)	-
Saxon disposition	16,710	-	16,710	-
Change in non-cash working capital (note 9)	122	(148)	(76)	(1,643)
	14,610	(6,436)	5,459	(8,953)
Financing Activities				
Bank indebtedness	(15,021)	166	(13,226)	3,226
Share issuances, net of issue costs	-	5,749	3,699	5,749
	(15,021)	5,915	(9,527)	8,975
Increase (decrease) in cash	458	-	(3,699)	-
Cash – beginning of period	143	-	4,300	-
Cash – end of period	601	-	601	-
Supplemental Information :				
Interest Paid	213	290	687	752

See accompanying notes to unaudited consolidated financial statements.

Argosy Energy Inc.
Notes to the Consolidated Unaudited Financial Statements
For the Period Ended September 30, 2010
(Unaudited)

1. Description of Business

Argosy Energy Inc. (“Argosy” or the “Company”) 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 September 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.

On May 14, 2010, Argosy acquired 100% of the issued and outstanding shares of its only subsidiary, Radius Resources Corp. (Radius). Radius has oil and gas operations primarily focused in the Ante Creek area of Alberta.

2. Basis of Presentation

Significant Accounting Policies

The unaudited consolidated interim financial statements include the accounts of Radius, its wholly owned subsidiary and have been prepared by management in accordance with accounting principles generally accepted in Canada and following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2009.

The reporting and measurement currency is the Canadian dollar.

The disclosures provided are incremental to those included with the annual financial statements. The unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2009 and notes thereto.

Use of Estimates

As the determination of certain assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgment. Areas requiring the use of management estimates include estimates of revenues, royalties and production costs at a specific reporting date but for which actual revenues and costs have not yet been received, estimates on capital projects which are in progress or recently been completed where actual costs have not been received at a specific reporting date, collectability of accounts receivable, recoverability of petroleum and natural gas interests, rates of depletion and depreciation, accrued liabilities, determination of asset retirement obligations, the assessment of impairment of oil and gas assets, assumptions used in the calculation of stock-based compensation, allocation of proceeds for units between common shares and warrants, and the determination of the valuation allowance for future tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

Amounts recorded for depreciation and depletion, and amounts used for ceiling test calculations are based on estimates of oil and natural gas reserves. The Company’s reserve estimates are reviewed annually by an

independent engineering firm. By their nature, these estimates of reserves and future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies adopted by the Company.

Acquisition of Radius

On May 14, 2010, Argosy completed the acquisition of 100% of the issued and outstanding shares of Radius as part of a restructuring process undertaken by Radius pursuant to the provisions of the Bankruptcy and Insolvency Act. This process resulted in the settlement of all claims (both secured and unsecured) for consideration consisting of 748,000 common shares of Argosy and \$2.6 million in cash. The transactions were approved by Radius' creditors on March 19, 2010 and by the Registrar in Bankruptcy on April 13, 2010.

The acquisition affords Argosy the opportunity to further exploit the oil potential of the properties owned by Radius.

The net assets acquired and the consideration paid were as follows:

Net Assets Acquired at Assigned Values:	
Cash	61,264
Accounts receivable	164,284
Prepaid expenses and deposits	261,651
Accounts payable and accrued liabilities	(44,684)
Asset retirement obligation	(303,340)
Property and equipment	3,973,000
Future income tax asset	1,268,530
	<u>\$5,380,705</u>
Consideration:	
Cash	\$2,629,588
748,000 Argosy common shares	523,600
Total consideration	<u>3,153,188</u>
Gain on acquisition	<u>2,227,517</u>
	<u>\$5,380,705</u>

The Argosy common shares were valued at \$0.70 being the closing price of Argosy shares on the TSX on May 14, 2010. The fair value of the accounts receivable is equal to the gross contractual amount of such receivables and all receivables are expected to be collected. The value for the producing properties was established by reference to an engineering report by GLJ Petroleum Consultants Ltd. for reserves other than Saxon using proved plus probable reserves discounted at a rate of 15%. The value of Radius' recent investment in the Saxon property was deemed to be equal to its cost which equated fair value. The value of undeveloped lands was estimated by management.

The excess in value of net assets acquired over the consideration paid was credited to income as gain on the acquisition of Radius.

Transaction costs incurred of \$330,000 in 2010 and \$384,000 incurred in 2009 in connection with the acquisition were expensed.

Included in the consolidated statements of loss are the following amounts:

000's	
<u>Radius amounts since acquisition :</u>	
Petroleum and natural gas revenue	413
Royalties	(37)
Production expenses	(95)
General and administrative expenses	(248)
	<u>33</u>

If Radius had been acquired on January 1, 2010, the consolidated figures for Argosy for the nine months ended September 30, 2010 for the captions listed below would have been as follows:

000's \$ Nine months ended September 30, 2010	As Stated	Radius Prior to Acquisition	Pro Forma
Petroleum and natural gas revenue	8,714	497	9,211
Net loss	(396)	148	(248)

3. Property and Equipment

(\$ 000's)	September 30, 2010 \$	December 31, 2009 \$
Petroleum and natural gas properties and equipment	92,916	95,723
Furniture, fixtures and other	195	188
	<u>93,111</u>	<u>95,911</u>
Less: Accumulated depletion and depreciation	36,204	30,105
	<u>56,907</u>	<u>65,806</u>

At September 30, 2010 costs of \$3,747,000 (\$9,065,000 at September 30, 2009) with respect to unproved properties have been excluded from costs subject to depletion.

At September 30, 2010 a total of \$3,227,000 (\$1,713,000 at September 30, 2009) of future development costs were included in the depletion calculation.

Direct salary costs related to geological and geophysical personnel in the amount of \$189,000 for the nine months ended September 30, 2010 (\$209,000 in the equivalent period in 2009) have been capitalized.

4. Bank Indebtedness

Amounts outstanding:

(000's)	September 30, 2010	December 31, 2009
Credit Facility		
Revolving operating demand loan	8,504	21,729
Acquisition/development demand loan	-	-
	<u>8,504</u>	<u>21,729</u>

At September 30, 2010 the Company's credit facilities comprised a Revolving Operating Demand Loan facility with a credit limit of \$20,000,000 and an Acquisition/Development Demand Facility with a credit limit of \$4,000,000.

The Revolving Operating Demand Loan bears interest at Bank prime plus a percentage determined quarterly ranging from 0.25% 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, adjusted for 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 resulted 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 0.25% and 0.5% on the undrawn portion of the loan facility.

The last scheduled review of the Company's borrowing limits occurred on October 1, 2010 at which time no changes were made to the banking facilities. There can be no assurance that other amounts or terms will not change at the next review scheduled on or before April 1, 2011.

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, 2010. There is no similar working capital requirement for the Acquisition/Development Demand Loan. There is no debt to equity requirements related to either of the facilities.

5. 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)
Issued on conversion of special warrants	4,800,000	6,000
Issued on private placement	444,363	738
Issued on private placement , flow through	1,750,000	3,245
Share issuance costs, net of tax	-	(382)
Balance, December 31, 2009	12,853,197	45,017
Issued on private placement	1,500,004	2,483
Issued on private placement, flow through	500,000	1,000
Issued in connection with the acquisition of Radius Resources Inc.	748,000	524
Tax effect, flow through shares	-	(875)
Share issuance costs, net of tax	-	(26)
Balance September 30, 2010	15,601,201	48,123

Warrants

	Number of Warrants	\$ Thousands
Opening Balance December 31, 2008	-	
Private placement	1,097,180	316
Balance, December 31, 2009	1,097,180	316
Private Placement	750,003	216
Balance September 30, 2010	1,847,183	532

In December 2009 Argosy Energy Inc. agreed to the terms for a non-brokered private placement financing comprising:

1,944,367 units of the corporation at a price \$1.80 per unit, each unit consisting of one Argosy share and 0.5 of an Argosy warrant. 444,363 of these units were issued in 2009 and the remainder were issued in the first quarter of 2010.

1.75 million units at a price of \$2 per unit, each flow-through unit consisting of one Argosy share issued on a flow-through basis and 0.5 of an Argosy warrant.

Each whole Argosy warrant issued in connection with the December financing entitles the holder thereof to receive one Argosy share at an exercise price of \$2.25 per share for a period of 18 months. The exercise period of the Argosy warrants may be accelerated in the event that the 20-day trading volume weighted average price of the Argosy shares meets or exceeds \$3.00 during the period such warrants remaining remain outstanding.

The gross proceeds from the financing were escrowed with counsel for Argosy and were released in December 2009 to Argosy upon receipt of TSX approval except for the amount of \$2.7 million (1,500,000 units at \$1.80 per unit) which was used to close Radius acquisition. On March 8, 2010, the \$2.7 million was released from escrow. 1,500,004 units comprising 1,500,004 common shares and 750,003 warrants were issued at that time.

The allocation of the issue price of units between common shares and share purchase warrants was based on fair values of the common shares and warrants. The fair market value of the common shares was based on the closing price of the Company's shares on the Toronto Stock Market on the closing date. The common share purchase warrants were valued using a Black-Scholes model using the following assumptions:

- Share price \$1.27
- Exercise price \$2.25
- Time to expiry 1.5 years
- Risk free rate 1.3%
- Volatility 83%

The tax deductions related to the flow through shares issued in 2008 were renounced to flow through shareholders and booked in February 2009. The tax deductions related to the flow through shares issued in 2009 were renounced to flow through shareholders and was booked in February 2010. The tax deductions related to the flow through shares issued in 2010 will be renounced to flow through shareholders and was booked in February 2011.

On May 14, 2010 Argosy issued 748,000 common shares with a deemed value of \$0.70 in partial consideration in connection with the acquisition of Radius (note 2). The deemed value was based on the closing price of Argosy's shares on the TSX on that date.

Subsequent to the end of the third quarter, Argosy received \$1,208 cash and 64,262 common shares of Argosy in respect to the final settlement of the note receivable from Radius Resources pursuant to the proposal filed by Radius in accordance with the provisions of the Bankruptcy and Insolvency Act,.

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

	Three Months Ended September 30, 2010	Three Months Ended June 30, 2010	Three Months Ended March 31, 2010	Nine Months, Ended September 30, 2010	Year Ended December 31, 2009
Weighted average common voting shares outstanding - basic	15,601,201	14,995,003	13,253,198	14,625,068	7,099,884
Effect of dilutive stock options	-	-	-	-	-
Effect of dilutive warrants	-	-	-	-	-
Weighted average common voting shares outstanding - diluted	15,601,201	14,995,003	13,253,198	14,625,068	7,099,884

Diluted EPS excludes the effect of stock options in the first quarter of 2010 and in 2009 because their inclusion would be anti-dilutive. Diluted EPS excludes the effect of stock options in the third quarter of 2010 because they are out of the money.

Diluted EPS excludes the effect of warrants because they are out of the money.

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.

On April 21, 2010, the Board of Directors approved the granting of 383,000 options to directors, officers and employees. The exercise price of these options was \$0.91 being the closing market price of the Company’s stock on the TSX on the last trading day prior to the date of grant. These options vest 1/3 on grant with the remainder equally over a two year period commencing on the date of grant and expire 5 years after the date of grant.

Effective August 9, 2010, the Board of Directors approved the granting of 20,000 options to an employee. The exercise price of these options was \$0.79 being the closing market price of the Company’s stock on the TSX on the last trading day prior to the date of grant. These options vest 1/3 six months after the date of grant with the remainder equally over a two year period commencing on that date and expire 5 years after the date of the grant.

Options outstanding:

The following table summarizes information about stock options outstanding at September 30, 2010:

Balance, December 31, 2009				1,050,000	
Granted				403,000	
Forfeited				(20,000)	
<hr/>					
Balance September 30, 2010				1,433,000	
<hr/>					
Grant Price (\$/Share)	Repriced	Options Outstanding	Remaining Contractual Life	Number Exercisable (Vested)	
4.60	1.28	571,000	3.00 Years	380,667	
1.20	n/a	465,000	4.25 Years	155,000	
0.91	n/a	377,000	4.58 Years	125,667	
0.79	n/a	20,000	4.83 Years	-	
<hr/>					
				1,433,000	661,334
<hr/>					

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

The total fair value of the options granted in 2008 was estimated to be \$ 1,175,000 (\$2.03 per option granted).

The total fair value of the options granted in 2009 was estimated to be \$373,000 (\$0.79 per option granted).

The total fair value of the options granted in April 2010 was estimated to be \$222,000 (\$0.58 per option granted).

The total fair value of the options granted in August 2010 was estimated to be \$9,800 (\$0.49 per option granted).

The weighted average value of stock options outstanding is \$1.32.

The fair value of the options granted is expensed as stock based compensation cost over the vesting period. For the nine months ended September 30, 2010 a total of \$469,000 (\$372,000 in 2009) was charged to expense and a total of \$38,000 (\$24,000 in 2009) was capitalized for a total stock based compensation charge of \$507,000 (\$411,000 in 2009) . Compensation cost has been decreased for forfeited options in the period of forfeiture.

The following assumptions were used to establish the total fair value for the 2009 options:

- Share price \$1.20
- Exercise price \$1.20
- Expected life 5 years
- Risk free rate 1.3%
- Volatility 83%

The following assumptions were used to establish the total fair value for the 2010 options granted in April:

- Share price \$0.91
- Exercise price \$0.91
- Expected life 5 years
- Risk free rate 3.5%
- Volatility 76%

The following assumptions were used to establish the total fair value for the 2010 options granted in August:

- Share price \$0.79
- Exercise price \$0.79
- Expected life 5 years
- Risk free rate 2.29%
- Volatility 75%

In 2009 the shareholders of the Company approved the repricing of the 2008 options from \$4.60 to \$1.28. The incremental fair value of the options as a result of the repricing amounted to \$143,000 (\$0.33 per option) which is being expensed over the remaining vesting period of the options.

Contributed Surplus

(\$ thousands)	Three Months Ended September 30, 2010	Three Months Ended June 30, 2010	Three Months Ended March 31, 2010	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
Balance, beginning of period	1,533	1,318	1,184	1,184	383
Stock Based Compensation	158	215	134	507	801
Balance, end of period	1,691	1,533	1,318	1,691	1,184

6. Note Receivable – Radius Resources Corp.

Pursuant to the terms of a farm-in agreement, Radius agreed to pay \$1,300,000 towards drilling costs to earn a 50% working interest in two wells that were spudded in the Saxon area in late December 2009.

The funds advanced were only to be used to pay for and were only advanceable against Radius' share of costs under the farm in agreement. The advances are evidenced by a promissory note that was repayable on demand, was unsecured and was interest free.

See note 2, on May 14, 2010, Argosy acquired all of the issued and outstanding shares of Radius as part of a Proposal put forward by Radius pursuant to the provisions of the Bankruptcy and Insolvency Act (BIA) (the "Proposal"). The note receivable was extinguished by virtue of the Proposal.

Subsequent to the end of the third quarter, Argosy received \$1,208 cash and 64,262 common shares of Argosy in respect to the final settlement of the note receivable from Radius Resources pursuant to the Proposal.

7. Asset Retirement Obligation

Asset retirement obligation comprises:

(\$ thousands)	Three Months Ended September 30, 2010	Three Months Ended June 30, 2010	Three Months Ended March 31, 2010	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
Balance, beginning of period	1,361	1,037	973	973	771
Saxon disposition	(68)	-	-	(68)	-
Liabilities incurred	38	306	47	391	139
Accretion expense	26	18	17	61	63
Balance, end of period	1,357	1,361	1,037	1,357	973

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 \$3,117,000 (2009 \$2,175,000) which will be incurred over the next twenty five years. A credit adjusted risk-free rate of 7% - 8.5% (2009 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 \$33,202,000. These costs may be carried forward indefinitely to reduce future taxable income. The Company also has \$2,500,000 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 Ended		Nine Months Ended	
	September 30, 2010	2009	September 30, 2010	2009
Loss before income taxes	(1,278)	(1,639)	(1,050)	(5,811)
Statutory rate	28%	29%	28%	29%
Expected income tax expense (recovery) at the combined federal and provincial statutory rate	(358)	(475)	(294)	(1,685)
Stock based compensation cost	41	36	131	108
Acquisition transaction Costs	-	-	29	-
Gain on acquisition	-	-	(623)	-
Tax-rate changes	38	57	100	238
Other	1	-	3	1
Future income tax expense (reduction)	(278)	(382)	(654)	(1,338)

The following table summarizes the tax effect of temporary differences:

(\$ thousands)	September 30, 2010	December 31, 2009
Future income tax assets (liabilities):		
Carrying value of capital assets in excess of tax basis	(6,008)	(6,526)
Asset retirement obligation	338	244
Fair value of financial instruments	(81)	99
Share issuance costs	219	108
Loss carry forward	625	144
Alberta royalty tax reduction	33	-
	(4,874)	(5,931)
Current future income tax asset (liability):		
Fair value of financial instruments	81	(99)
	(4,793)	(6,030)

9. Supplemental Cash Flow Information

Change in non-cash working capital comprises:

(\$ thousands)	Nine Months Ended September 30,	
	2010	2009
Accounts receivable	1,084	1,846
Prepaid expenses	(198)	165
Accounts payable and accrued liabilities	(3,323)	(4,516)
Future income tax	-	-
Change in non-cash working capital	(2,437)	(2,505)
Relating to:		
Investing activities	(2,361)	(1,643)
Operating activities	(76)	(862)
	(2,438)	(2,505)

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 a 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'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. The Company had no material trade accounts receivable deemed uncollectible. As at September 30, 2010 the Company's receivables consisted of \$235,000 (December 31, 2009 - \$663,000) from joint venture partners, \$726,000 (December 31, 2009 - \$579,000) of receivables from petroleum and natural gas marketers, and \$59,000 (December 31, 2009 - \$26,000) in other trade receivables.

At September 30, 2010, the Company considers its receivables, net of allowance for doubtful accounts, to be aged as follows:

<u>Accounts receivable aging (\$ thousands)</u>	
Not past due	1,019
Past due by less than 120 days	1
Past due by more than 120 days	-
<u>Total</u>	<u>1,020</u>

(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, accrued liabilities, 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 4.

(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 fair 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. See Note 11 Argosy recorded a net unrealized gain of \$656,000 on the derivative contracts that were outstanding at September 30, 2010. A total \$256,000 was settled during 2010 in respect to the

derivative natural gas contracts and that was recorded as a realized gain. If natural gas prices had increased \$0.10, petroleum and natural gas revenue would have increased \$ 139,000 from \$8,713,000 to \$8,852,000 for the nine months ended September 30, 2010 and \$43,000 from 2,456,000 to \$2,499,000 for the three months ended September 30, 2010. As well, loss before income taxes would have decreased \$129,000 for the nine months ended September 30, 2010 and \$41,000 for the three months ended September 30, 2010.

(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 during 2010.

(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, 2010. If interest rates had increased 1%, interest expense would have increased \$109,000 from \$687,000 to \$ 793,000 for the nine months ended September 30, 2010 and \$39,000 from \$213,000 to \$252,000 for the three months ended September 30, 2010.

(d) Fair Value of Financial Assets and Liabilities

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

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

Derivative contracts are designated as "held-for-trading" and recorded at the estimated fair market value.

As at September 30, 2010, the following derivative contracts were outstanding:

Type of Hedge	Commodity Hedged	Volume	Price	Period	September 30, 2010 Fair Value \$ 000	Unrealized Gain(Loss) \$ 000
Financial fixed price bought put	Natural Gas	2,000 GJ/day	Cdn \$5.00 /Gj	January 1, 2010 to March 31, 2011	324	479
Financial fixed price sold call	Natural Gas	2,000 GJ/day	Cdn \$7.70/Gj	January 1, 2010 to March 31, 2011	-	197
Financial fixed price sold put	Natural Gas	2,000 GJ/day	Cdn \$3.50/Gj	May 1, 2010 to December 31, 2011	(20)	(20)
					304	656

Note: A gigajoule (GJ) converts to a mcf at the rate of 1.055056 GJs per mcf.

11. Capital Structure

The Company's objective in the course of the management of the Company's capital structure is to maintain a flexible capital structure that will allow it to execute on its capital expenditure program, which includes expenditures on oil and gas activities that may or may not be successful.

The Company considers that its capital structure comprises share capital of \$48,655,000.

The Company monitors its capital structure and makes adjustments when possible. Business conditions including current economic trends, the underlying risk characteristics of the Company's assets, the depth and breadth of its exploration and development portfolio, the desired pace of investment, the availability of farm ins and farm outs, current and forecasted energy prices, the potential bank credit that could be obtained as a result of reserve growth and forecasted debt levels are all factors that the Company uses as inputs to its capital management process.

In order to maintain or adjust its capital structure, the Company may issue new common voting shares if available on favorable terms and/or renegotiate the terms of its banking facilities. Equity financing may not be readily available to junior oil and gas producers given current market conditions. The availability of bank credit is generally reducing and related costs are increasing. See Note 4, 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, 2010. There is no similar working capital requirement for the Acquisition/Development Demand Loan. There is no debt to equity requirements related to either of the facilities.

The Company may also consider other sources of debt with different characteristics than existing bank debt, adjust exploration and development capital expenditures and acquire or dispose of assets.

12. Commitments

See Note 4, Bank Indebtedness. The outstanding balance of the Revolving Operating Demand Loan is \$8,504,000 at September 30, 2010.

The Company entered into a guaranteed day commitment with a drilling contractor. The Company is required to utilize the contractor's rigs for 120 days within a year commencing on October 31, 2009. Argosy will be required to pay \$7,000 for each day that it is short of the 120 commitment. At September 30, 2010, the company had utilized the contractor's rigs for 95 days therefore the maximum exposure under the contract is \$175,000.

In 2010 the Company issued 500,000 common flow through shares at an issuance price of \$2.00 per share. The tax deductions related to the flow through will be renounced to flow through shareholders and booked to the accounts in February 2011. The Company will be required to spend approximately \$1,000,000 in 2010 on CEE expenditures to fulfill its flow through obligation.

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)	2010	2011	2012	2013	2014	Thereafter
Office Premises	177	741	808	879	609	-
Office equipment	1	-	-	-	-	-
	178	741	808	879	609	-

13. Subsequent Events

Subsequent to the end of the third quarter, Argosy received \$1,208 cash and 64,262 common shares of Argosy in respect to the final settlement of the note receivable from Radius Resources pursuant to the proposal filed by Radius in accordance with the provisions of the Bankruptcy and Insolvency Act.

Subsequent to the end of the end of the third quarter, Argosy closed an acquisition of additional oil and natural gas property at Ante Creek for \$626,000.