Q1 2012

First Quarter Results

PETROBANK

PETROBANK REPORTS Q1 2012 FINANCIAL RESULTS AND OPERATIONAL UPDATE

In this report, quarterly comparisons are first quarter 2012 compared to first quarter 2011 unless otherwise noted. All financial figures are unaudited and in Canadian dollars ($) unless otherwise noted.

SUMMARY OF FINANCIAL AND OPERATING RESULTS

Three months ended March 31,	**2012**	2011	% Change
Financial			
($000s, except where noted)			
Oil and natural gas sales	**330,361**	281,297	17
Funds flow from operations [1]	**181,290**	168,384	8
Per share – basic ($)	**1.70**	1.58	8
– diluted ($)	**1.69**	1.57	8
Adjusted net income (loss) attributable to Petrobank shareholders [1]	**82,307**	(21)	-
Per share – basic ($)	**0.77**	0.00	-
– diluted ($)	**0.76**	0.00	-
Capital expenditures [1]			
PetroBakken	**206,421**	307,481	(33)
Heavy Oil Business Unit ("HBU")	**17,878**	54,255	(67)
Total capital expenditures [1]	**224,299**	361,736	(38)
Total assets	**6,363,826**	6,538,606	(3)
Common shares outstanding, end of period (000s)			
Basic	**105,667**	106,257	(1)
Diluted [2]	**109,987**	109,953	-
Operations			
PetroBakken operating netback ($/boe) ([1] [3]			
Oil, NGL and natural gas revenue [4]	**77.36**	74.46	4
Royalties	**11.92**	11.84	1
Production expenses	**12.61**	10.20	24
Operating netback [1] [3] [5]	**52.83**	52.42	1
Average daily production [3]			
PetroBakken – oil and NGL (bbls)	**40,336**	36,140	12
PetroBakken – natural gas (Mcf)	**38,320**	32,534	18
Total conventional (boe) [3] [6]	**46,722**	41,562	12

(1) Non-GAAP measure. See "Non-GAAP Measures" section.

(2) Consists of common shares, stock options, directors deferred common shares, deferred common shares, and incentive shares as at the period end date.

(3) Six Mcf of natural gas is equivalent to one barrel of oil equivalent ("boe").

(4) Net of transportation expenses.

(5) Excludes hedging activities.

(6) HBU heavy oil volumes are excluded from average daily production as HBU operations are considered to be in the exploration and evaluation phase and accordingly are capitalized.

HIGHLIGHTS

Q1 2012 Financial and Operating Highlights

- Funds flow from operations increased eight percent from the first quarter of 2011 to $181.3 million, or $1.69 per diluted share, primarily as a result of PetroBakken's higher production and gross operating netbacks.
- PetroBakken's first quarter production, after dispositions, averaged 46,722 barrels of oil equivalent per day ("**boepd**") (86% light oil and liquids weighted), a 12% increase over the first quarter of 2011.
- Capital expenditures before dispositions totalled $224.3 million in the first quarter with PetroBakken drilling 68 (47 net) wells.
- Petrobank sold the May River property for gross proceeds of $225 million and PetroBakken completed four transactions to sell non-core assets in the first quarter for total gross proceeds of $624 million.
- Both Petrobank and PetroBakken improved their financial liquidity significantly with Petrobank having over $100 million of cash at March 31 and PetroBakken's currently available credit facility capacity rising to more than $1.1 billion.

Petrobank Standalone Highlights

- Kerrobert production averaged 193 barrels of upgraded THAI® oil per day ("**bopd**") in Q1 2012 and continued to increase with April 2012 production averaging 278 bopd.
- We sold the May River property, including the Conklin demonstration project, on February 28, 2012 for cash proceeds of approximately $225 million, net of closing adjustments, and concurrently cancelled our credit facility and withdrew our May River regulatory application.
- We initiated purchases under our Normal Course Issuer Bid ("**NCIB**") and have repurchased and cancelled approximately 2.2 million shares at an average cost of $14.84 per share.
- Through our Automatic Share Repurchase and PetroBakken Share Sale Plan, we have sold 944,600 shares of PetroBakken for cash proceeds of approximately $12.9 million.
- We are revising our 2012 development plan to bring certain incremental conventional cold heavy oil production on-stream. Additionally, we intend to place our horizontal wells at Dawson on conventional cold production in order to pre-condition the reservoir prior to initiation of our THAI® project.

OPERATIONAL UPDATE AND REVISED 2012 DEVELOPMENT PLAN

Kerrobert THAI® Project

Petrobank is pleased to report that THAI® production continues to increase. Production in April 2012 averaged 278 bopd compared to 264 bopd in March and 193 bopd in the first quarter of 2012. These production volumes represent actual sale volumes for each period reported. Our operating philosophy remains unchanged with a focus on gradually increasing production, reducing pump and surface downtime and reducing per-barrel operating costs.

We plan to drill a water disposal well near our Kerrobert Project this summer which will significantly reduce water disposal costs.

Dawson THAI® Demonstration Project

Petrobank deferred completion of the Dawson Demonstration Project in late 2011 to save on costs associated with winter start-up of a THAI® project. Since that time, we have continued to review the Dawson reservoir and project plans. Based on this analysis, we have determined that the Dawson reservoir would benefit from being pre-conditioned for THAI® operations by producing conventional cold heavy oil from our current horizontal production wells. We expect to begin the two-well THAI® demonstration project in 2013 and the full field THAI® development application is expected to be filed after the THAI® demonstration project is on production.

Saskatchewan Conventional Cold Heavy Oil Production

Petrobank has identified multiple opportunities to utilize some of the existing wells on our Saskatchewan lands for conventional cold heavy oil production. Some of these wells offset our Kerrobert THAI® project and others are on our Plover and Luseland properties. While Petrobank's primary focus is THAI® production, we will take advantage of existing opportunities on our lands to increase production. Success with these completions and reactivations may lead to additional conventional drilling opportunities.

2012 Capital Plan and Production

Petrobank forecasts that our 2012 development capital will remain unchanged at approximately $34 million. Capital in our original plan which was allocated to May River and completing the Dawson Demonstration Project has been reallocated to reduce operating costs, add conventional cold heavy oil production and pre-condition the reservoir for our Dawson THAI® project.

NORMAL COURSE ISSUER BID AND PETROBAKKEN SHARE SALE PLAN

In March, we repurchased 1,246,000 common shares under our NCIB at an average cost of $16.05 per share. In April, we entered into an Automatic Share Repurchase and PetroBakken Share Sale Plan (the "**Plan**") pursuant to which our designated broker has been instructed to automatically sell one PetroBakken share for each Petrobank share purchased under the Plan, subject to certain trading parameters set forth in the Plan and to daily and aggregate trading limits imposed by the rules and policies of the Toronto Stock Exchange. The broker may repurchase and sell up to 6,027,401 Petrobank shares and PetroBakken shares, respectively. The Plan will cease on the earlier of the termination of the Plan by Petrobank, the purchase of the maximum number of shares under the NCIB or the expiry of the NCIB on September 13, 2012. Under the Plan, the broker has repurchased 944,600 Petrobank shares and sold 944,600 PetroBakken shares for net proceeds to Petrobank of approximately $380,000**.** Since January, 2012, Petrobank has also received approximately 1.8 million PetroBakken shares under PetroBakken's dividend reinvestment plan ("**DRIP**"), including approximately 1.3 million shares for the March and April 2012 dividends.

PETROBANK'S LIQUIDITY AND CAPITAL RESOURCES

Petrobank and PetroBakken manage their capital structure independently, generate their own cash flows and have the ability to fund their operations through the issuance of secured and unsecured debt as well as equity financing. Petrobank's capital resources are focused on funding corporate and Heavy Oil Business Unit expenditures. At March 31, 2012, on a standalone basis independent of PetroBakken, Petrobank's HBU and Corporate operating segment had cash and cash equivalents of $116.8 million and a net working capital surplus (including cash) of $103.9 million.

Based on Petrobank's current ownership and PetroBakken's current annual dividend of $0.96 per PetroBakken share, Petrobank expects to receive approximately $106 million of dividends annually from PetroBakken, paid monthly. PetroBakken instituted a DRIP in early 2012, which allows shareholders to reinvest monthly cash dividends in new shares at a five percent discount to the then current market price. Due to Petrobank's significant positive working capital balance, we elected to participate at a 100% level in PetroBakken's DRIP starting with the March dividend. We believe that receiving additional shares in PetroBakken is an attractive investment at this time. Petrobank may change our participation level in the future.

Petrobank currently expects to fund our working capital requirements and HBU capital expenditure program with available cash and cash from operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following MD&A is dated May 14, 2012 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes of Petrobank Energy and Resources Ltd. ("Petrobank", "we", "our" or the "Company") as at and for the three months ended March 31, 2012 ("interim Consolidated Financial Statements"), as well as the audited consolidated financial statements as at and for the year ended December 31, 2011 (the "Consolidated Financial Statements") and MD&A for the year ended December 31, 2011. The disclosures throughout the MD&A agree to Note 2 – Segmented Information in the interim Consolidated Financial Statements.

Management is responsible for preparing the MD&A. The Audit Committee of the Petrobank Board of Directors (the "Board") reviewed the MD&A and recommended its approval by the Board. The Board approved the MD&A.

This MD&A and the interim Consolidated Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") which are also generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. For all periods up to and including the year ended December 31, 2010, we prepared our consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants Part V *Pre-changeover Accounting Standards* ("previous Canadian GAAP"). In accordance with the standard related to the first time adoption of IFRS, our transition date to IFRS was January 1, 2010 and therefore the comparative information for 2010 has been prepared in accordance with IFRS.

All amounts are presented in Canadian dollars, unless otherwise stated and all tabular amounts are in thousands of Canadian dollars, except share amounts or as otherwise noted. The energy content of natural gas has been measured in gigajoules ("GJ"). Natural gas volumes have been converted to barrels of oil equivalent ("boe"). Six thousand cubic feet ("Mcf") of natural gas is equal to one barrel ("bbl") based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boes may be misleading, especially if used in isolation.

Additional information for the Company, including the Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com or at www.petrobank.com.

Forward-Looking Statements

In addition to historical information, the MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance. Specifically, this MD&A contains forward-looking statements relating to future capital plans and projects, future production levels, sources of funding and future dividend rates. Forward-looking statements are necessarily based upon assumptions and judgments with respect to the future including, but not limited to, the outlook for commodity markets and capital markets, success of future evaluation and development activities, the successful application of technology, prevailing commodity prices, the performance of producing wells and reservoirs, well development and operating performance, general economic and business conditions, weather, and the regulatory and legal environment. These statements are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development of drilling and related activities; costs and availability of services; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; risks associated with oil and gas operations; the ability to economically test, develop and utilize the Company's patented technologies, the feasibility of the technologies; and other factors, many of which are beyond the control of the Company. Accordingly, there is no representation by Petrobank that actual results achieved during the forecast period will be the same in whole or in part as those forecasts. Except to the extent required by law, Petrobank assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise.

Non-GAAP Measures

This report contains certain financial measures, such as funds flow from operations, funds flow per share, adjusted net income, adjusted net income per share, capital expenditures and operating netback, which are not standardized measures recognized under GAAP and do not have a standardized meaning prescribed by GAAP. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders.

Funds flow from operations reflects cash generated from operating activities before changes in non-cash working capital. Funds flow per share is calculated as funds flow from operations divided by the weighted average number of shares outstanding for the period.

The following table reconciles cash flow from operating activities to funds flow from operations:

	Three months ended March 31,	
	2012	2011
Cash flow from operating activities	**211,789**	130,661
Adjustments:		
Changes in non-cash working capital	**(30,499)**	37,723
Funds flow from operations	**181,290**	168,384

Adjusted net income is determined by adding back to net income any losses or deducting any gains on the derivative financial liability, adding back any losses or deducting any gains on settlement of convertible debentures, and adding back impairments. Adjusted net income per share is calculated as adjusted net income divided by the weighted average number of shares outstanding for the period.

The following table reconciles net income to adjusted net income:

	Three months ended March 31,	
	2012	2011
Net income attributable to Petrobank shareholders	**18,487**	20,585
Adjustments:		
Loss (gain) on derivative financial liability	**19,811**	(28,270)
Loss on settlement of convertible debentures	**44,009**	-
Impairment	**-**	7,664
Adjusted net income attributable to Petrobank shareholders	**82,307**	(21)

Management considers funds flow from operations, funds flow per share, adjusted net income and adjusted net income per share important as they help evaluate performance and demonstrate the Company's ability to generate sufficient cash to fund future growth opportunities and repay debt.

Capital expenditures represent expenditures on property, plant and equipment, exploration and evaluation expenditures and other expenditures.

Operating netback reflects revenues less royalties, transportation costs, and production expenses divided by production for the period. Operating netback demonstrates profitability relative to commodity prices per unit of production.

Funds flow from operations, funds flow per share, adjusted net income, adjusted net income per share, operating netbacks, and capital expenditures do not have standardized meanings and therefore may not be comparable to those reported by other companies, nor should they be viewed as an alternative to cash flow from operations or other measures of financial performance calculated in accordance with GAAP.

Petrobank's Operating Segments

During the three months ended March 31, 2012, the Company comprised of two operating segments: the Heavy Oil Business Unit ("HBU") and PetroBakken Energy Ltd. ("PetroBakken"). Where segmented information is provided throughout this MD&A, the HBU is combined with activities performed at the Petrobank parent company corporate level ("Corporate") and is referred to as "Petrobank Standalone".

The HBU operates our heavy oil projects using Petrobank's patented THAI® heavy oil recovery process in the field. THAI® (Toe to Heel Air Injection), is an evolutionary in-situ combustion technology for the recovery of bitumen and heavy oil. The HBU projects are in the exploration and evaluation phase and accordingly all expenses, net of revenues, are capitalized. Therefore, it is important to note that throughout this MD&A, results relating to the HBU are not included in operational results such as average daily production, revenue, royalties, production expenses, netbacks, or depletion and depreciation expense.

PetroBakken, 59 percent owned by Petrobank as at March 31, 2012, owns conventional oil and gas operations throughout western Canada with a primary focus on light oil developments from the Bakken formation in southeast Saskatchewan and in the Cardium play in Alberta. Petrobank results include 100 percent of PetroBakken's results; the 41 percent minority interest share, which Petrobank does not own, is recorded as income attributable to non-controlling interest ("NCI") on the consolidated statements of operations and comprehensive income and as paid-in capital and NCI on the consolidated statements of financial position.

Comparatives

Comparisons presented in this MD&A are the first quarter of 2012 compared to the first quarter of 2011, unless otherwise noted.

FINANCIAL AND OPERATIONAL REVIEW

PETROBANK STANDALONE

Significant Transactions

- We sold the May River property on February 28, 2012, including the Conklin demonstration project, for cash proceeds of approximately $225 million, net of closing adjustments, and concurrently cancelled our credit facility and withdrew our May River regulatory application.

The HBU operations are in the exploration and evaluation phase and accordingly operating costs and royalties, net of any revenues received, are charged to intangible exploration assets as opposed to being recognized in net income.

The following table includes Petrobank Standalone results only.

	Three months ended March 31,		
	2012	2011	Change
General and administrative	**3,977**	3,121	27%
Share-based compensation	**(794)**	2,042	-
Finance and other	**1,096**	594	85%
Impairment	**-**	7,664	(100%)
Foreign exchange (gain) loss	**(30)**	26	-
Depletion and depreciation expense	**224**	188	19%
Deferred income tax recovery	**-**	2,911	(100%)
Net loss for operating segment	**4,473**	10,724	(58%)

General and Administrative

Total general and administrative costs increased in the first quarter of 2012 primarily due to fewer management fee recoveries, and less office space charged to PetroBakken.

Share-based Compensation

Share-based compensation expenses relate to stock options, deferred common shares, directors deferred common shares and incentive shares (collectively, “Share-Based Awards”) granted. The calculation of this non-cash expense is based on the fair value of the Share-Based Awards granted, amortized over the vesting period of the option or incentive share using the graded vesting method, or immediately upon grant of the deferred common shares and directors deferred common shares.

The decrease in share-based compensation in the first quarter of 2012 is due to the forfeiture of Share-Based Awards as a result of a decrease in the number of employees associated with the sale of our May River oil sands property. The expense incurred related to unvested Share-Based Awards is reversed upon forfeiture.

Finance and Other

Finance and other expenses includes accretion on decommissioning liabilities, amortization of deferred financing costs, and cash interest expense, offset by interest income. Cash interest expense includes interest on bank debt and standby fees.

The Petrobank Standalone segment capitalizes interest on bank debt in accordance with our accounting policy. The increase in finance and other costs in the first quarter of 2012 is due primarily to the accelerated amortization of deferred financing costs upon the repayment and cancellation of the credit facility at the end of February 2012.

Impairment

The impairment of $7.7 million during the first quarter of 2011 related to capitalized operating costs at our HBU's Conklin cash generating unit. Conklin was our oil sands demonstration project operating near Conklin, Alberta. By the end of the third quarter of 2011 we had completed all of our near-term testing operations scheduled for Conklin and we suspended the facility in the fourth quarter of 2011. Our May River oil sands property, which included the Conklin demonstration project, was sold on February 28, 2012 for cash proceeds of approximately $225 million, net of closing adjustments. As such, there is no related impairment in the first quarter of 2012.

Foreign Exchange (Gain) Loss

There is an immaterial foreign exchange impact in the first quarter of 2012 and 2011 as most of the Petrobank Standalone transactions are in Canadian dollars.

Depletion and Depreciation Expense

Petrobank Standalone depletion and depreciation expense includes only depreciation on other fixed assets and other intangible assets.

Deferred Income Tax Recovery

The calculated deferred income tax recovery has not been recorded in the first quarter of 2012 as it is not probable that future taxable profit will be available against which the deferred tax asset can be utilized. The calculated deferred income tax recovery was consistent with income earned adjusted for non-deductible tax items.

Capital Expenditures	Three months ended March 31,		
	2012	2011	Change
Property, plant and equipment	**139**	104	34%
Exploration and evaluation	**17,506**	53,918	(68%)
Other intangible assets	**233**	233	-
Total capital expenditures	**17,878**	54,255	(67%)

Capital Expenditures By Type	Three months ended March 31,		
	2012	2011	Change
Drilling, completions and workovers	**587**	26,133	(98%)
Facilities	**3,583**	21,203	(83%)
Land	**65**	1,050	(94%)
Seismic and exploration	**3,132**	1,133	176%
Other [(1)]	**10,511**	4,736	122%
Total capital expenditures [(2)]	**17,878**	54,255	(67%)

(1) Includes health, safety and environmental, capitalized salaries and benefits for qualifying employees, office furniture and fixtures and computer equipment, capitalized interest expense and operating costs, net of revenue, for projects in the exploration and evaluation phase, and expenditures on other intangible assets.

(2) Includes exploration and evaluation and other intangible asset expenditures.

Exploration and Evaluation Expenditures by CGU – Q1 2012

	Drilling, completions, and workovers	Facilities	Land, Seismic and Exploration	Other [1]	Total
Kerrobert	-	339	217	6,039	6,595
Conklin and May River	-	1,140	39	3,495	4,674
Dawson	587	1,762	6	698	3,053
Plover	-	-	2,879	181	3,060
Other	-	-	56	68	124
Total	**587**	**3,241**	**3,197**	**10,481**	**17,506**

(1) Includes health, safety and environmental, capitalized salaries and benefits for qualifying employees, and capitalized interest and operating costs, net of revenue, for projects in the exploration and evaluation phase.

The majority of HBU expenditures in the first quarter related to drilling three stratigraphic wells at our Plover property, capitalized operating costs, net of revenue, incurred at Kerrobert, and facility commitments related to our May River and Dawson projects.

The HBU operates two significant projects which have not commenced generating significant revenue:

Kerrobert:

Early stage production is trending upwards. January and February 2012 averaged 155 barrels of oil per day ("bopd") and March 2012 averaged 264 bopd resulting in first quarter average production of 193 bopd. Production in April 2012 continued to increase to 278 bopd. These production volumes represent actual sale volumes for each period reported. Recent production continues to average 13 to 14 degrees API, providing evidence that upgraded THAI® oil is being produced.

Since the full Kerrobert field was placed on production in September 2011, we have maintained a consistent and patient operating philosophy to rateably increase sustained production of upgraded THAI® oil. This philosophy includes managing air injection rates in order to gradually build out the combustion front and optimizing the type, configuration and placement of the production pumps to extend their useful life and reduce downtime and maintenance costs. Our optimization strategy also includes reducing downtime of our surface facilities. Based on our experience with the two pilot wells, as the initial cold native oil production transitions to hot upgraded THAI® oil production, we expect production rates to greatly improve. However, our operating approach may extend the time frame for achieving project design production rates.

Our operational plan at Kerrobert is to continue to increase air injection rates, build out the combustion front as mentioned, increase production of upgraded THAI® oil, and reduce per barrel costs with the focus on reaching commercial production levels and beyond in 2012.

Dawson:

Our Dawson demonstration project was initially planned to consist of two THAI® well-pairs. The project is located in the Peace River, Alberta area, situated on a large Bluesky formation of heavy oil/oil sands fairway. In the second half of 2011 we drilled two THAI® well-pairs that are waiting for completion. The surface facilities are on location and are ready to be installed. Completion of this project was deferred in late 2011 to save costs associated with winter start-up of a THAI® project. Since that time, we have continued to review the Dawson reservoir and project plans. Based on this analysis, we have determined that the Dawson reservoir would benefit from being pre-conditioned for THAI® operations by producing conventional cold heavy oil from our current horizontal production wells. We may drill additional horizontal conventional production wells near the demonstration project area during this period to further pre-condition the reservoir for THAI® operations. We expect to begin the two-well THAI® demonstration project in 2013 and the full field THAI® development application is expected to be filed after the THAI® demonstration project is on production.

Commitments

The following is a summary of the estimated costs required to fulfill Petrobank Standalone's remaining contractual commitments as at March 31, 2012:

Type of Commitment	< 1 Year	1-3 Years	4-5 Years	Thereafter	Total
Office operating leases [1]	$ 1,828	$ 1,435	$ 403	$ 479	$ 4,145
Finance leases	588	985	24	-	1,597
Total Commitments	**$ 2,416**	**$ 2,420**	**$ 427**	**$ 479**	**$ 5,742**

(1) Minimum lease payments are net of sub-lease payments received by Petrobank, which reduces rent expense included in general and administrative expenses on the consolidated statement of operations.

Liquidity and Capital Resources

Petrobank Standalone and PetroBakken manage their capital structure independently and generate their own cash flows, and have the ability to fund their operations through the issuance of secured and unsecured debt as well as equity financing. Petrobank may also sell a portion of our ownership in PetroBakken to fund operations. The table below outlines the composition of Petrobank Standalone's capital structure and liquidity as at March 31, 2012:

	Petrobank Standalone
Working capital surplus [1]	**$ 103,925**
Bank debt – principal	**$ -**
Common share capital	**$ 1,562,003**
Credit facility	**$ -**
Committed credit capacity	**$ -**

(1) Working capital surplus is calculated as the operating segment's current assets less current liabilities.

At March 31, 2012, Petrobank Standalone had a working capital surplus of $103.9 million, including $116.8 million in cash and cash equivalents.

Petrobank manages our capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Petrobank considers our capital structure to include common share capital and working capital. In order to maintain or adjust the capital structure, from time to time Petrobank may issue common shares or other securities, sell a portion of our ownership in PetroBakken or other corporate assets or adjust our capital spending to manage current and projected cash levels.

Petrobank received cash proceeds of approximately $225.0 million, net of closing adjustments, on February 28, 2012 from the sale of our May River property. Proceeds from this transaction were used to repay outstanding bank debt and resulted in Petrobank having a significant positive cash and working capital balance. We cancelled our credit facility concurrent with the closing of the sale due to our cash availability and to save on standby fees.

Based on Petrobank's current ownership and PetroBakken's current annual dividend of $0.96 per PetroBakken share, Petrobank expects to receive approximately $106 million of dividends annually from PetroBakken, paid monthly. PetroBakken instituted a dividend re-investment plan ("DRIP") in 2012, which allows shareholders to reinvest monthly cash dividends in new shares at a five percent discount to the then current market price. During the three months ended March 31, 2012, Petrobank received dividends totalling approximately $8.8 million in cash and 1,154,458 PetroBakken common shares from the DRIP. Due to Petrobank's significant positive working capital balance, we elected to participate at a 100 percent level in PetroBakken's DRIP, starting with the March dividend. Petrobank may change its participation level in the future.

Subsequent to quarter end, Petrobank entered into a plan with a designated broker to allow for the repurchase of our common shares under our Normal Course Issuer Bid. As part of this plan, the broker will automatically sell one PetroBakken share for each Petrobank share purchased, up to 6,027,401 shares.

Petrobank currently expects to fund our working capital requirements and HBU capital expenditure program with available cash and cash from operations.

Capital Plan

HBU activity in the remainder of 2012 will focus on increasing Kerrobert production and bringing the project to commerciality. We are also anticipating capital expenditures at Dawson in 2012 in order to convert the horizontal THAI® production wells into conventional production wells and initiate conventional production. We plan to convert or reactivate some of the existing wells on our Saskatchewan lands to cold conventional heavy oil production. We will also continue to invest in other development areas and plan to drill several stratigraphic wells at Plover and Luseland, near our Kerrobert project, and acquire seismic to further delineate these assets for future development. We will also continue with research and development activities at Archon Technologies Ltd., our wholly owned technology subsidiary, to improve and protect our intellectual property.

Dividends

The Petrobank legal entity has not paid or declared any dividends since the date of incorporation.

PETROBAKKEN

Significant Transactions

- On January 30, 2012, PetroBakken closed a private placement of senior unsecured notes (the "Notes") with a principal amount of US$900 million. The Notes bear interest at a rate of 8.625% per annum and mature February 1, 2020.
- On January 31, 2012, PetroBakken exercised the accordion feature on its secured credit facility, which increased the borrowing limit by $150 million to $1.5 billion.
- On January 31, 2012, PetroBakken completed the repurchase of US$450 million of convertible debentures at a price of US$99,000 per US$100,000 of principal amount.
- On February 24, 2012, PetroBakken closed the disposal of its non-core 2.2% interest in the Weyburn unit for gross proceeds of $105.0 million.
- On March 16, 2012, PetroBakken closed the disposal of non-core Southeast Saskatchewan Bakken assets for gross proceeds of $427.0 million.
- In addition to the dispositions completed on February 24, 2012 and March 16, 2012, PetroBakken closed additional non-core asset dispositions in the quarter, primarily consisting of undeveloped land, for gross proceeds of $91.8 million resulting in total gross proceeds from asset divestitures for the quarter of $623.8 million.

Average Daily Production

	Three months ended March 31,		
	2012	2011	Change
Oil and natural gas liquids ("NGL") (bbls)	**40,336**	36,140	12%
Natural gas (Mcf)	**38,320**	32,534	18%
Total PetroBakken (boe)	**46,722**	41,562	12%

Production increased by 12 percent for the three months ended March 31, 2012, primarily due to the increase in oil production, which was due to execution of PetroBakken's new well program, both in Q1 2012 and the second half of 2011. The increase in gas production was primarily the result of gas associated with PetroBakken's light-oil properties and investment in gas conservation infrastructure. In Q1 2012, PetroBakken's capital program resulted in drilling 47 net wells and bringing 36 net wells on production.

In the quarter, PetroBakken completed the disposition of their non-core Weyburn unit (580 boepd) and non-core Bakken assets (2,900 boepd). As these dispositions were completed at the end of February and mid-March respectively, the production impact for the quarter was a net decrease of approximately 700 boepd. When combined with the 450 boepd of non-Cardium central Alberta gas production sold at the end of December 2011, production for Q1 2012, absent dispositions, would have been relatively flat to the record production in Q4 2011.

In southeast Saskatchewan, the Bakken business unit had an active quarter drilling 23 net wells and bringing 18 net wells on production, while averaging 20,700 boepd of production, a decrease of eight percent over the fourth quarter. A portion of the production decrease from the fourth quarter was the result of the non-core Bakken disposition and the moderation of field activity as spring break-up approached, resulting in five net wells waiting to go on production at the end of March.

In Alberta, PetroBakken continued to execute and grow production in the Cardium business unit, which averaged 16,500 boepd and has increased 89 percent over Q1 2011 and seven percent over Q4 2011. PetroBakken was able to bring 13 net wells on production in the quarter, leaving 14 net wells waiting to be completed and/or brought on production at March 31, 2012, which is consistent with a normal operating cycle. In early May 2012, there were 11 net wells waiting to be completed and/or brought on production as PetroBakken continued to bring wells on production over spring break-up.

Field estimates for April production are approximately 40,500 boepd; the decrease is the result of the dispositions, spring break-up curtailing PetroBakken's drilling program and approximately 2,300 boepd of down time due to road bans limiting lease access to service wells.

Average Benchmark and Realized Prices

	Three months ended March 31,		
	2012	2011	Change
WTI (US$/bbl)	**102.93**	94.10	9%
WTI ($/bbl)	**103.04**	92.76	11%
Edmonton Par ($/bbl)	**92.46**	87.97	5%
AECO natural gas ($/Mcf)	**2.30**	3.74	(39%)
US$ per C$1	**1.00**	1.02	(2%)
Oil and NGL			
Realized price per bbl ($/bbl)	**87.63**	82.77	6%
Oil price discount as a % of Edmonton Par	**5%**	6%	(17%)
Natural gas			
Realized price per Mcf ($/Mcf)	**2.50**	4.13	(39%)

In Q1 2012, realized oil and NGL prices increased due to higher oil prices. This was partially offset by a persistent weakening of Edmonton par and other Canadian prices relative to WTI during the quarter. The widening differential reflected decreased demand for Canadian sourced crude in part caused by refinery turnarounds and pipeline issues. While differentials remained wide in April 2012, they have since narrowed closer to historic levels.

Revenue

	Three months ended March 31,		
	2012	2011	Change
Oil and natural gas sales	**330,361**	281,297	17%
Royalties	**(50,683)**	(44,298)	14%
Total PetroBakken revenue	**279,678**	236,999	18%

The change in first quarter sales is due to increased oil volumes and higher oil and NGL prices. The table below summarizes these changes:

Reconciliation of Changes in Sales	Three months ended,
March 31, 2011	281,297
Sales volume	39,718
Realized prices	9,346
March 31, 2012	**330,361**
$ change in oil and natural gas sales	49,064
% change in oil and natural gas sales	17%

Net Realized Prices

	Three months ended March 31,		
	2012	2011	Change
Oil and natural gas sales	**330,361**	281,297	17%
Transportation expense	**1,435**	2,755	(48%)
Total sales, net of transportation expense	**328,926**	278,542	18%
Gross sales ($/boe)	**77.70**	75.20	3%
Transportation costs ($/boe)	**0.34**	0.74	(54%)
Realized price, net of transportation expense ($/boe)	**77.36**	74.46	4%

Net realized price for Q1 2012 improved mainly due to higher oil prices. On a unit of production and total basis, transportation expense decreased due to infrastructure investments made in southeast Saskatchewan resulting in single well batteries being tied to this infrastructure, which led to a reduction in trucking costs.

Royalties

	Three months ended March 31,		
	2012	2011	Change
Royalties [1]	**50,683**	44,298	14%
$ per boe	**11.92**	11.84	1%
Royalties as a % of realized price, net of transportation costs	**15%**	16%	(6%)

[1] PetroBakken royalties include the Saskatchewan Resource Surcharge determined as a percentage of sales from PetroBakken's Saskatchewan Crown lands.

Royalties increased in Q1 2012 on a total and unit of production basis commensurate with the increase in revenues. As a percentage of revenue, royalties decreased due to new production receiving a royalty holiday. On Crown lands in Saskatchewan, the first 37,740 boe of production from horizontal wells receive a royalty incentive but incur Saskatchewan Resource Surcharge of 1.7 percent. On Crown lands in Alberta, horizontal oil wells are subject to a maximum five percent royalty rate for 18 to 48 months or 50,000 to 100,000 boe of production, whichever comes first, depending on well length.

(Loss) Gain on Risk Management Contracts

	Three months ended March 31,		
	2012	2011	Change
Realized (loss) gain:			
Crude oil derivative contracts	**(1,136)**	(1,096)	(4%)
Natural gas derivative contracts	**-**	741	-
Interest rate swap contracts	**(99)**	(234)	58%
	(1,235)	(589)	(110%)
Unrealized (loss) gain:			
Crude oil derivative contracts	**(17,846)**	(36,943)	52%
Natural gas derivative contracts	**-**	(769)	-
Interest rate swap contracts	**132**	(50)	-
	(17,174)	(37,762)	53%
Loss on risk management contracts	**(18,949)**	(38,351)	51%

PetroBakken enters into commodity price derivative contracts to limit exposure to declining commodity prices, thereby protecting project economics and providing increased stability of cash flows, dividends and capital expenditure programs. Commodity prices fluctuate for a number of reasons including changes in economic conditions, political events, weather conditions, disruptions in supply, and changes in demand. PetroBakken's risk management activities are conducted pursuant to risk management policies that have been approved by PetroBakken's Board of Directors.

The majority of PetroBakken's financial commodity derivative contracts are option-based contracts and as such their fair value at a particular point in time is affected by underlying commodity prices, expected commodity price volatility and the duration of the contract. The fair value of fixed price derivative contracts at a particular point in time is determined by the expected future settlements of the underlying commodity or interest rate. At March 31, 2012, the fair value of financial derivative contracts was a liability of $18.7 million (December 31, 2011 - liability of $1.0 million). The fair value of this liability represents the estimated amount that would be paid for settling PetroBakken's outstanding contracts at March 31, 2012 and will be different than what will eventually be realized.

Production Expenses

	Three months ended March 31,		
	2012	2011	Change
Production expenses	**53,635**	38,137	41%
$ per boe	**12.61**	10.20	24%

Production expenses increased in Q1 2012 due to higher production and cost inflation in the Cardium and Bakken as a result of increased demand for services. Costs increased by 15 percent or $1.64 per boe in Q1 2012 from $10.97 in Q4 2011 primarily due to higher costs in the Cardium. Increased Cardium and central Alberta activity has led to higher trucking costs including increased loading and unloading wait-times. Costs are expected to decrease during the year as PetroBakken completes infrastructure in the second and third quarters, which will reduce trucking activities.

Netbacks ($/boe)

Three months ended March 31,	**2012**	2011	Change
Oil, NGL and natural gas sales [(1)]	**77.36**	74.46	4%
Royalties	**11.92**	11.84	1%
Production expenses	**12.61**	10.20	24%
Operating netback [(2)]	**52.83**	52.42	1%

(1) Net of transportation expenses.
(2) Non-GAAP measure. See “Non-GAAP Measures” section within the MD&A.

The slight increase in the Company’s netbacks for Q1 2012 is primarily due to the increase in oil prices, partially offset by increased production expenses.

General and Administrative Expenses

	Three months ended March 31,		
	2012	2011	Change
General and administrative expense	**11,977**	8,810	36%
$ per boe	**2.82**	2.36	20%

General and administrative costs increased in Q1 2012 on an absolute and per boe basis due primarily to additional personnel and office costs as a result of expanding operations.

Share-Based Compensation Expenses

	Three months ended March 31,		
	2012	2011	Change
Share-based compensation expense	**6,206**	5,444	14%

Share-based compensation expenses relate to stock options, deferred common shares, and incentive shares (collectively, “Share-Based Awards”) granted. The calculation of this non-cash expense is based on the fair value of the Share-Based Awards granted, amortized over the vesting period of the option or incentive share using the graded vesting method, or immediately upon grant of the deferred common shares and directors deferred common shares. The increase in share-based compensation is primarily due to new grants, and lower forfeitures of stock options and incentive shares.

Loss (Gain) on Derivative Financial Liability

	Three months ended March 31,		
	2012	2011	Change
Loss (gain) on derivative financial liability	**19,811**	(28,270)	-

The loss (gain) on the derivative liability represents the change in the fair value of derivative financial liability on the convertible debentures between the beginning and the end of the period. The fair value is determined using the Black-Scholes valuation model; refer to Note 6 in the interim Consolidated Financial Statements for further details. The loss in Q1 2012 is primarily due to a higher PetroBakken share price at March 31, 2012 compared to December 31, 2011, partially offset by a lower amount of convertible debentures outstanding following the US$450 million repurchase in January 2012.

Finance and Other Expenses

	Three months ended March 31,		
	2012	2011	Change
Interest on credit facility and other	**9,272**	7,860	18%
Interest expense on convertible debentures	**3,630**	5,729	(37%)
Accretion of the convertible debentures	**3,831**	5,720	(33%)
Interest expense on senior unsecured notes	**12,664**	-	-
Accretion of senior unsecured notes	**352**	-	-
Amortization of deferred financing costs	**496**	1,341	(63%)
Accretion of decommissioning liability	**1,341**	1,344	-
Finance and other expense	**31,586**	21,994	44%

Interest expense on the credit facility includes interest on bank debt and fees on letters of credit. Interest on the credit facility decreased in the first quarter primarily due to lower bank debt outstanding during the period. A portion of the bank debt was repaid at the end of January 2012 when the senior unsecured notes were issued, and the amount outstanding continued to decrease in February and March commensurate with disposition activity. On average, bank debt outstanding for the first quarter was $744.8 million as compared to $892.1 million in the first quarter of 2011.

Accretion and interest expense on the convertible debentures decreased due to the repurchase of US$450 million of the US$750 million principal amount outstanding.

Interest and accretion on senior unsecured notes are due to the issuance of US$900 million of senior unsecured notes on January 30, 2012. Accretion on the senior unsecured notes relates to the amortization of the fees and expenses over the life of the senior unsecured notes.

Gain (Loss) on Dispositions

	Three months ended March 31,		
	2012	2011	Change
Gain (loss) on dispositions	**128,955**	(248)	-

The gain on dispositions in Q1 2012 relates to the disposal of non-core properties for net proceeds of $616.5 million ($623.8 million gross), representing approximately 3,480 boepd (92 percent liquids) of production sold. The loss in Q1 2011 relates to the disposal of minor properties for net proceeds of $1.3 million.

Loss on Settlement of Convertible Debentures

	Three months ended March 31,		
	2012	2011	Change
Loss on settlement of convertible debentures	**44,099**	-	-

The loss on convertible debentures relates to the repurchase of US$450 million principal amount of the convertible debentures and consists of acceleration on the accretion of the retired portion of the convertible debenture liability of $72.1 million, partially offset by a gain on the derivative liability of $28.1 million.

Foreign Exchange Gain

	Three months ended March 31,		
	2012	2011	Change
Foreign exchange gain	**14,119**	14,175	-

PetroBakken recognizes foreign exchange gains and losses primarily due to the appreciation or depreciation of the Canadian dollar relative to the U.S. dollar. PetroBakken's convertible debentures and senior unsecured notes are denominated in U.S. dollars and, as a result, the vast majority of unrealized foreign exchange gains or losses relate to the change in the foreign exchange rate compared to the rate at the end of the previous period. A stronger Canadian dollar at March 31, 2012 compared to December 31, 2011 resulted in a foreign exchange gain in Q1 2012.

Depletion and Depreciation Expense

	Three months ended March 31,		
	2012	2011	Change
Depletion and depreciation expense	**118,645**	100,020	19%
$ per boe	**27.91**	26.74	4%

On an absolute basis, depletion and depreciation expense increased in Q1 2012 primarily due to higher production. On a unit of production basis, the rate increased slightly as positive reserve additions were offset by an increase in future development costs related to undeveloped reserves.

Income Tax Expense

	Three months ended March 31,		
	2012	2011	Change
Income tax expense	**77,710**	10,310	654%

The increase in PetroBakken's income tax expense in Q1 2012 was due primarily to non-deductible differences of $29.3 million on disposed properties related to goodwill associated with the assets, $11.4 million related to the loss on the settlement of convertible debentures and $5.1 million related to the change in the derivative liability valuation. Excluding these items, income tax expense is consistent with income earned adjusted for other non-deductible tax items generating an effective tax rate of 27 percent. Income tax expense for Q1 2012 also includes $1.0 million in current tax expense related to the U.S. asset disposition for proceeds of $7.8 million.

Net Income Attributable to Non-Controlling Interest

	Three months ended March 31,		
	2012	2011	Change
Net income attributable to NCI	**15,829**	22,066	(28%)

The net income attributable to NCI represents the minority interest share, which Petrobank does not own. The non-controlling interest share in PetroBakken averaged approximately 41 percent in the three months ended March 31, 2012 (2011 - 41 percent).

Capital Expenditures

	Three months ended March 31,		
	2012	2011	Change
Property, plant and equipment	**202,284**	304,869	(34%)
Exploration and evaluation	**4,137**	2,612	58%
Total capital expenditures	**206,421**	307,481	(33%)

Capital Expenditures by Type

	Three months ended March 31,		
	2012	2011	Change
Drilling, completions, equipping and recompletions	**177,664**	267,918	(34%)
Facilities	**18,917**	24,882	(24%)
Land	**4,587**	2,388	92%
Seismic	**616**	846	(27%)
Other [(1)]	**4,423**	10,606	(58%)
Capital expenditures before acquisitions	**206,207**	306,640	(33%)
Asset acquisitions	**214**	841	(75%)
Total capital expenditures [(2)]	**206,421**	307,481	(33%)
Proceeds from dispositions	**(616,507)**	(1,284)	47,915%
Net capital expenditures	**(410,086)**	306,197	-

(1) Includes health, safety and environmental, capitalized salaries and benefits for qualifying employees, office furniture and fixtures and leasehold improvements.

(2) Includes exploration and evaluation expenditures.

Drilling Activity (Net), for the three months ended March 31, 2012 and 2011

	Net wells drilled		Net wells pending completion and/or tie-in		Dry and abandoned wells		Success Rate	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Bakken	**23** [(1)]	33 [(1)]	**5**	8	**-**	-	**100%**	100%
Conventional	**7**	4	**4**	3	**2**	-	**71%**	100%
Cardium	**17**	38	**14**	22	**-**	1	**100%**	97%
BC/Other AB	**-**	2	**1**	2	**-**	-	**100%**	100%
Total	**47**	**77**	**24**	**35**	**2**	1	**96%**	**99%**

(1) Includes 16 net bilateral wells (2011 - 21 net).

The majority of capital expenditures in Q1 2012 were focused on drilling, completions, equipping, recompletions, and facilities. PetroBakken's initial capital plan for 2012 contemplated reduced spending, and as a result, capital expenditures in Q1 2012 were lower than the prior year as fewer wells were drilled in the Cardium in central Alberta and in the Bakken in southeast Saskatchewan. PetroBakken expects activity to increase in the second half of the year as $175 million of the proceeds from dispositions is reinvested, primarily in the Cardium business unit. PetroBakken's revised 2012 capital program is expected to be $875 million. Facilities costs were reduced as a result of the significant infrastructure investment throughout 2011 in southeast Saskatchewan mitigating the current quarter requirements. Facilities spending in the first quarter related to expansion of gathering systems at PetroBakken's five major facilities in southeast Saskatchewan, and construction of a battery and expansion of gathering systems at PetroBakken's facilities in the Cardium. Activity in Saskatchewan and the Cardium resulted in the majority of land, property, and seismic acquisitions in Q1 2012.

Goodwill

Goodwill decreased in Q1 2012 due to $91.0 million of goodwill being attributed to the assets disposed of in the Bakken business unit. Goodwill as at March 31, 2012 was $1,374.3 million (December 31, 2011 - $1,465.3 million).

Commitments

The following is a summary of the estimated costs required to fulfill PetroBakken's remaining contractual commitments at March 31, 2012:

Type of Commitment	< 1 Year	1-3 Years	4-5 Years	Thereafter	Total
PetroBakken					
Office operating leases [1]	5,627	13,626	13,805	27,424	60,482
Drilling and completion rigs	20,069	23,375	1,244	-	44,688
Other	1,728	1,506	255	-	3,489
Total Commitments	**$ 27,424**	**$ 38,507**	**$ 15,304**	**$ 27,424**	**$ 108,659**

[1] Minimum lease payments are net of sub-lease payments received by PetroBakken, which reduces rent expense included in general and administrative expenses on the consolidated statement of operations and comprehensive income.

Liquidity and Capital Resources

The table below outlines the composition of PetroBakken's capital structure and liquidity as at March 31, 2012:

	PetroBakken
Working capital deficit [1]	$ 194,340
Bank debt – principal	$ 217,530
Convertible debentures – principal amount (US$)	$ 300,000
Senior unsecured notes – principal amount (US$)	$ 900,000
Common share capital [2]	$ 3,159,667
Credit facility – borrowing base [3]	$ 1,500,000
Available credit capacity	$ 1,282,470

(1) Working capital deficit is calculated as PetroBakken's accounts payable and accrued liabilities less PetroBakken's accounts receivable and prepaid expenses.

(2) The common share capital of PetroBakken eliminates upon consolidation of the interim Consolidated Financial Statements.

(3) PetroBakken's credit facility was reduced to $1.4 billion in April 2012.

PetroBakken's strategy is to provide a reasonable dividend yield to shareholders combined with an accretive long-term growth-oriented business plan. PetroBakken is focused on securing appropriate levels of capitalization to support this business strategy. As commodity prices fluctuate, PetroBakken has the ability to alter the capital program and/or dividend payments in order to maintain acceptable debt levels. PetroBakken will continue to monitor plans and forecasts and make adjustments required to maintain acceptable levels of capitalization.

As at March 31, 2012, PetroBakken had $217.5 million of bank debt drawn on its $1.5 billion credit facility. The borrowing limit on the credit facility was increased from $1.35 billion to $1.5 billion on January 31, 2012 through an exercise of the accordion feature, and was subsequently reduced to $1.4 billion in April 2012 to reflect the issuance of senior unsecured notes and disposed reserves during the first quarter of 2012. PetroBakken's credit facility is with a syndicate of banks and has a maturity date of June 2, 2014 and generally is not subject to periodic reviews unless a significant asset disposition occurs. The credit facility has financial covenants that limit the ratio of secured debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") to 3:1, limit the ratio of total debt (total debt defined as facility debt plus the value of outstanding debentures in Canadian dollars plus the value of the senior unsecured notes in Canadian dollars) to EBITDA to 4:1, and limit secured debt to 50% of total liabilities plus total equity. PetroBakken is in compliance with all of these covenants.

On January 30, 2012, PetroBakken closed a private placement of senior unsecured notes ("Notes") with a principal amount of US$900 million. The Notes bear interest at a rate of 8.625 percent per annum and mature February 1, 2020. The Notes contain covenants that could limit PetroBakken's ability to issue additional debt, pay dividends, and repurchase stock among restrictions. PetroBakken is in compliance with all of these covenants.

As at March 31, 2012, PetroBakken had convertible debentures outstanding of US$300 million with an annual coupon of 3.125 percent. This is a US$450 million decrease from December 31, 2011 as a portion of the proceeds from the Notes issuance was used to repurchase debentures. The convertible debentures have a financial covenant that limits the amount of security and encumbrances to 35 percent of PetroBakken's total assets. PetroBakken is in compliance with this covenant. The debentures have a one-time, one-day early put option on February 8, 2013 that allows those holders that elect to exercise the option to request payment in full for their debentures. In the event that holders request payment, PetroBakken has the option to repay in cash or through the issuance of PetroBakken shares based on the lower of the then current share price and conversion price.

In the first quarter PetroBakken received $623.8 million of gross proceeds from dispositions, the majority of which were from two non-core producing assets in southeast Saskatchewan, as well as two non-producing, non-core asset sales. The proceeds from these transactions were initially used to pay down the revolving credit facility.

As a result of these transactions, PetroBakken has reduced the amount of debt in their capital structure and has diversified and extended the maturity profile of the debt instruments in its capital structure. Due to the reduction in debt and alteration in structure, PetroBakken increased available liquidity at March 31, 2012 to $1.3 billion from $0.15 billion at December 31, 2011.

In addition to the financial resources noted above, other possible sources of funds available to PetroBakken include the following:

- Funds flow from operations;
- Increases under the existing $1.4 billion credit facility;
- Issuance of common shares of PetroBakken;
- Dividend reduction;
- Issuance of additional subordinated or convertible debt;
- Renegotiating the terms of the existing convertible debentures;
- Adjustments to capital program;
- Sale of producing or non-producing assets. Cash generated from a sale may be reduced by any required debt repayments; and
- Monetization of risk management assets.

PetroBakken expects to satisfy ongoing working capital requirements with funds flow from operations, cash and available credit.

Capital Plan

PetroBakken's capital plan is focused on the development of Cardium light oil properties in central Alberta, development of Bakken and conventional Mississippian light oil properties in southeast Saskatchewan, and leveraging their significant undeveloped land base into new resource opportunities. PetroBakken's capital plan is expected to be financed through funds flow from operations and available financial resources.

Dividends

PetroBakken currently pays a monthly dividend of $0.08 per share or the equivalent of $0.96 per share per annum. The dividend represented 25 percent of PetroBakken's funds flow from operations for the first quarter of 2012 before DRIP participation is considered, with the cash dividend representing 14% of first quarter funds flow from operations. The dividend is expected to remain the same for the remainder of 2012 and to be funded from operations and the shareholders participation in the DRIP. In the first quarter, approximately $19.8 million of the $45.6 million of dividends were paid in shares.

SUMMARY OF QUARTERLY RESULTS [1]

	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial ($000s except where noted)								
Oil and natural gas sales from continuing operations	**330,361**	366,881	272,346	274,952	281,297	258,359	228,537	245,954
Funds flow from continuing operations [2]	**181,290**	226,273	147,452	148,440	168,384	155,344	139,325	153,715
Per share – basic ($)	**1.70**	2.13	1.39	1.40	1.58	1.46	1.31	1.46
– diluted ($)	**1.69**	2.10	1.37	1.38	1.57	1.45	1.31	1.43
Adjusted net income (loss) from continuing operations [2]	**82,307**	26,712	7,517	30,659	(21)	17,543	30,556	(15,055)
Per share – basic ($)	**0.77**	0.25	0.07	0.29	0.00	0.17	0.29	(0.14)
– diluted ($)	**0.76**	0.25	0.07	0.28	0.00	0.16	0.29	(0.14)
Adjusted net income (loss) attributable to Petrobank shareholders [2] [3]	**82,307**	26,712	7,517	30,659	(21)	1,974,118	83,161	50,336
Per share – basic ($)	**0.77**	0.25	0.07	0.29	0.00	18.61	0.78	0.48
– diluted ($)	**0.76**	0.25	0.07	0.28	0.00	18.55	0.77	0.43
Capital expenditures [2]								
PetroBakken	**206,421**	274,815	271,861	113,010	307,481	262,758	241,309	122,688
HBU	**17,878**	28,235	30,772	55,641	54,255	37,521	49,385	10,652
Total from continuing operations	**224,299**	303,050	302,633	168,651	361,736	300,279	290,694	133,340
PetroBakken Operations								
Oil equivalent sales price ($/boe) [4] [5]	**77.36**	82.69	75.37	85.02	74.46	67.00	60.63	62.86
Royalties	**11.92**	12.51	12.20	13.15	11.84	9.84	8.64	9.17
Production expenses	**12.61**	10.97	13.13	15.24	10.20	8.97	8.38	7.59
Operating netback [2] [5] [6]	**52.83**	59.21	50.04	56.63	52.42	48.19	43.61	46.10
Average daily production [5]								
Crude oil and NGL (bbls)	**40,336**	41,660	33,112	29,676	36,140	34,754	33,230	34,852
Natural gas (Mcf)	**38,320**	38,083	35,776	33,746	32,534	39,474	41,193	44,469
Total (boe) [5] [7]	**46,722**	48,007	39,074	35,300	41,562	41,333	40,095	42,263

(1) Petrominerales Ltd. ("Petrominerales") has been presented as discontinued operations in the comparative period as this business unit was distributed to Petrobank shareholders at December 31, 2010.

(2) Non-GAAP measure. See "Non-GAAP Measures" section within this MD&A.

(3) The comparative balances prior to 2011 include the operating results of Petrominerales, a $1.9 billion non-cash gain recorded on the disposal and $23.5 million accumulated other comprehensive loss resulting from the historic translations of Petrominerales U.S. dollar amounts. Petrominerales was distributed to Petrobank shareholders on December 31, 2010.

(4) Net of transportation expenses.

(5) Six Mcf of natural gas is equivalent to one boe.

(6) Excludes hedging activities.

(7) HBU bitumen and heavy oil volumes are excluded from average daily production as HBU operations are considered to be in the exploration and evaluation phase and accordingly are capitalized.

Significant factors influencing quarterly results were:

- Production began increasing in the first quarter of 2011 as PetroBakken continued to reduce the backlog of wells waiting to be brought on production. Poor weather conditions in the second quarter and beginning of the third quarter of 2011 resulted in a production decrease in excess of normal declines. Shut-in production was mostly restored by the end of the third quarter of 2011. Execution of our program in the fourth quarter of 2011 and first quarter of 2012 resulted in substantial production increases. During the later part of 2011 and in the first quarter of 2012, PetroBakken completed dispositions of non-core assets representing production of approximately 3,900 boepd, which contributed to the slight decline in production from the fourth quarter of 2011 to the first quarter of 2012.
- Crude oil benchmark prices generally improved throughout 2011 and into 2012, contributing to improving revenue. In the first quarter of 2012 differentials to WTI began to increase as lower demand for Canadian crude reduced the impact of the price increases. Natural gas prices have remained low and oscillated more over this time period, however they haven't had a significant impact on results due to PetroBakken's relatively low gas production weighting. First quarter 2012 netbacks decreased over the prior quarter due to widening pricing differentials and increased production expenses.
- First quarter 2012 capital expenditures decreased from the fourth quarter of 2011 commensurate with our initial capital plan. PetroBakken's capital expenditures in the second half of 2011 reflect increased activity as PetroBakken was catching up on delays caused by the weather conditions in the second and early third quarters of 2011.
- In 2011, production expenses per boe were increased by lower production volumes in the second and third quarters in southeast Saskatchewan, but relatively flat fixed costs, temporary cost increases caused by the poor weather, and cost inflation in the third and fourth quarters as a result of increased industry activity. First quarter 2012 expenses increased over the fourth quarter, primarily due to cost increases in the Cardium for trucking caused by facility constraints, which are expected to be alleviated in the second and third quarters of 2012.

Outstanding Share Data

The number of Petrobank shares outstanding at the date of this MD&A is 104,987,957, a decrease of 678,814 shares from March 31, 2012, which relates the repurchase and cancellation of shares (763,900), partially offset by shares issued upon an asset acquisition (50,000) and related to the exercise of stock options and incentive shares (35,086).

Risks and Uncertainties

There have been no significant changes in the three months ended March 31, 2012 to the risk and uncertainties identified in the MD&A for the year ended December 31, 2011.

Sensitivities

The Company's earnings and cash flow are sensitive to changes in crude oil and natural gas prices, exchange rates and interest rates.

The following factors demonstrate the expected impact on annualized before tax funds flow from operations excluding the effect of hedging for 2012:

Change of:		(millions)
PetroBakken		
Crude oil	US$1.00/bbl WTI reference price (assuming 38,000 bopd)	**$10.0**
	1,000 bopd of production @ US$100.00/bbl WTI	**$25.2**
Natural gas	$1.00/Mcf AECO reference price (assuming 38 MMcf /d)	**$11.8**
	10.0 MMcf per day of production @ $2.00/Mcf AECO	**$5.9**
Currency	US$0.01 in exchange rate	**$10.9**
Interest rate	1% change in interest rate	**$7.4**

Accounting Policies and Estimates

Critical Accounting Policies and Estimates

There have been no changes to the Company's critical accounting policies and estimates in the three months ended March 31, 2012.

Regulatory Policies

Certification of Disclosures in Interim Filings

In accordance with National Instrument 52-109 of the Canadian Securities Administrators, the Company quarterly issues a "Certification of Interim Filings" ("Certification"). The Certification requires certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

The Certification requires certifying officers to state that they designed DC&P, or caused it to be designed under their supervision, to provide reasonable assurance that: (i) material information relating to Petrobank is made known to the certifying officers by others; (ii) information required to be disclosed by Petrobank in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities legislation. In addition, the Certification requires certifying officers to state that they have designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

During the quarter ended March 31, 2012, there has been no change to the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR. The Company has procedures in place relating to DC&P and ICFR and will continue to monitor such procedures as the Company's business evolves.

Outlook

In addition to the plans discussed in this MD&A, please see the Company's and PetroBakken's recent news releases, corporate presentations and Annual Information Forms.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited, thousands of Canadian dollars, except per share amounts)

Three months ended March 31,	Note	**2012**	2011
Revenues			
Oil and natural gas sales		**$ 330,361**	$ 281,297
Royalties		**(50,683)**	(44,298)
Oil and natural gas revenues		**279,678**	236,999
Loss on risk management contracts	13	**(18,949)**	(38,351)
		260,729	198,648
Expenses			
Production		**53,635**	38,137
Transportation		**1,435**	2,755
General and administrative		**15,954**	11,931
Share-based compensation		**5,412**	7,486
Loss (gain) on derivative financial liability	6	**19,811**	(28,270)
Finance and other	8	**32,682**	22,588
(Gain) loss on dispositions	4	**(128,955)**	248
Loss on settlement of convertible debentures	6	**44,009**	-
Impairment		**-**	7,664
Foreign exchange gain		**(14,149)**	(14,149)
Depletion and depreciation expense		**118,869**	100,208
		148,703	148,598
Income before taxes and non-controlling interest ("NCI")		**112,026**	50,050
Income tax expense		**77,710**	7,399
Income before NCI		**34,316**	42,651
Net income attributable to NCI	11	**15,829**	22,066
Net and comprehensive income attributable to Petrobank shareholders		**$ 18,487**	$ 20,585

Earnings per share			
Basic and diluted earnings per share	10	**$ 0.17**	$ 0.19

See accompanying notes to these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, thousands of Canadian dollars)

As at	Note	March 31, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		**$ 116,806**	**$ -**
Accounts receivable		**146,891**	194,296
Prepaid expenses		**12,185**	10,608
Risk management assets	13	**697**	3,677
Assets held for sale	3	**16,705**	315,908
		293,284	524,489
Risk management assets	13	**1,016**	4,317
Exploration assets		**966,231**	1,009,906
Property, plant and equipment		**3,722,708**	3,907,550
Other intangible assets		**6,298**	6,167
Goodwill	4	**1,374,289**	1,465,287
Total assets		**$ 6,363,826**	$ 6,917,716
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		**$ 365,709**	$ 410,650
Current portion of finance lease obligations		**588**	588
Risk management liabilities	13	**12,309**	6,414
Convertible debentures	6	**253,632**	-
Derivative financial liability	6	**24,768**	-
Liabilities held for sale	3	**2,005**	11,874
		659,011	429,526
Bank debt	5	**213,170**	1,262,003
Senior unsecured notes	7	**874,350**	-
Convertible debentures	6	**-**	639,014
Derivative financial liability	6	**-**	33,038
Finance lease obligations		**1,288**	1,401
Other long-term liabilities		**11,425**	11,938
Decommissioning liabilities		**211,397**	218,921
Risk management liabilities	13	**8,148**	2,610
Deferred tax liabilities		**638,122**	561,408
Total liabilities		**2,616,911**	3,159,859
Shareholders' equity			
Common shares	9	**1,562,003**	1,577,351
Contributed surplus		**47,136**	50,449
Paid-in capital		**861,265**	860,200
Deficit		**(157,460)**	(174,422)
Total Petrobank shareholders' equity		**2,312,944**	2,313,578
Non-controlling interest	11	**1,433,971**	1,444,279
Total equity		**3,746,915**	3,757,857
Total liabilities and equity		**$ 6,363,826**	$ 6,917,716

Commitments (Note 15)

Subsequent events (Notes 5 and 12)

See accompanying notes to these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGE IN EQUITY

(Unaudited, thousands of Canadian dollars)

	Note	Common Shares	Contributed Surplus	Paid-in Capital	Deficit	Total
January 1, 2011		$ 1,575,448	$ 42,741	$ 840,772	$ (166,793)	$2,292,168
Total comprehensive income attributable to Petrobank shareholders		-	-	-	20,585	20,585
Issued under employee incentive plans		49	-	-	-	49
Share-based settlements		398	(398)	-	-	-
Share-based compensation		-	2,042	-	-	2,042
Change in paid-in capital		-	-	18,805	-	18,805
March 31, 2011		**$ 1,575,895**	**$ 44,385**	**$ 859,577**	**$ (146,208)**	**$2,333,649**
January 1, 2012		$ 1,577,351	$ 50,449	$ 860,200	$ (174,422)	$ 2,313,578
Total comprehensive income attributable to Petrobank shareholders		-	-	-	18,487	18,487
Share repurchases	9	(18,474)	-	-	(1,525)	(19,999)
Issued under employee incentive plans	9	607	-	-	-	607
Share-based settlements	9	2,519	(2,519)	-	-	-
Share-based compensation		-	(794)	-	-	(794)
Change in paid-in capital		-	-	1,065	-	1,065
March 31, 2012		**$ 1,562,003**	**$ 47,136**	**$ 861,265**	**$ (157,460)**	**$ 2,312,944**

See accompanying notes to these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited, thousands of Canadian dollars)

Three months ended March 31,	Note	2012	2011
Operating Activities			
Net income attributable to Petrobank shareholders		**$ 18,487**	$ 20,585
Net income attributable to NCI		**15,829**	22,066
Unrealized loss on risk management contracts	13	**17,714**	37,762
Share-based compensation		**5,412**	7,486
Loss (gain) on derivative financial liability	6	**19,811**	(28,270)
Accretion	8	**5,546**	7,167
Amortization of deferred financing costs	8	**1,481**	1,566
(Gain) loss on dispositions	4	**(128,955)**	248
Loss on settlement of convertible debentures	6	**44,009**	-
Impairment		**-**	7,664
Unrealized foreign exchange gain		**(12,549)**	(13,855)
Depletion and depreciation expense		**118,869**	100,208
Deferred income taxes		**76,714**	7,399
Current tax on dispositions		**996**	-
Decommissioning liabilities settled		**(2,074)**	(1,642)
		181,290	168,384
Changes in non-cash working capital	14	**30,499**	(37,723)
Net cash provided by operating activities		**211,789**	130,661
Investing Activities			
Expenditures on property, plant and equipment		**(202,423)**	(304,973)
Exploration and evaluation expenditures		**(21,643)**	(56,530)
Other expenditures		**(233)**	(233)
Proceeds from dispositions – net of costs		**836,490**	1,284
Cash dividends received by Petrobank	11	**8,796**	26,352
Capital lease obligations		**(113)**	(197)
Current tax on dispositions		**(996)**	-
Changes in non-cash working capital	14	**(21,872)**	93,637
Net cash provided by (used in) investing activities		**598,006**	(240,660)
Financing Activities			
(Repayment) issuance of bank debt		**(1,050,134)**	139,900
Financing costs relating to bank debt		**(380)**	(1,842)
(Repurchase) issuance of Petrobank common shares	9	**(19,391)**	49
Repurchase of PetroBakken convertible debentures – net of costs	6	**(452,340)**	-
Issuance of PetroBakken senior unsecured notes – net of costs	7	**877,583**	-
Cash dividends paid by PetroBakken	11	**(25,723)**	(44,865)
Equity (repurchased) issued by PetroBakken	11	**(14,351)**	2
Amortization of obligations under gas sale contract		**(206)**	(204)
Changes in non-cash working capital	14	**(8,047)**	(509)
Net cash (used in) provided by financing activities		**(692,989)**	92,531
Net change in cash and cash equivalents		**116,806**	(17,468)
Cash and cash equivalents, beginning of period		**-**	17,468
Cash and cash equivalents, end of period		**$ 116,806**	$ -
Cash and cash equivalents consist of:			
Cash		**$ 66,848**	$ -
Cash equivalents		**$ 49,958**	$ -
Other cash flow information:			
Cash interest paid		**$ 26,652**	$ 13,652
Cash interest received		**$ 88**	$ 96

See accompanying notes to these condensed interim consolidated financial statements.

Note 1 – Corporate Information and Basis of Presentation

Corporate Information

Petrobank Energy and Resources Ltd. ("Petrobank", "we", "our" or the "Company") is a Canadian corporation with shares listed on the Toronto Stock Exchange ("TSX"). The records office and principal address is located at Suncor Energy Centre, East Tower, 1900, 111 – 5th Avenue S.W., Calgary, Alberta, T2P 3Y6.

The Company is principally engaged in the exploration and development of oil and natural gas in western Canada. The condensed interim consolidated financial statements of the Company as at March 31, 2012 and for the three months ended March 31, 2012 and March 31, 2011 comprise the financial statements of the Company and our subsidiaries.

Basis of Presentation

The condensed interim consolidated financial statements for Petrobank as at March 31, 2012 and for the three months ended March 31, 2012 and 2011 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2011. The condensed interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements.

The condensed interim consolidated financials are presented in Canadian dollars and all amounts are rounded to the nearest thousand dollars ($000s), except where otherwise indicated. The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

The condensed interim consolidated financial statements were approved by the Company's Board of Directors on May 14, 2012.

Note 2 – Segmented Information

For the period ended March 31, 2012, the Company comprised of two operating segments: the Heavy Oil Business Unit ("HBU") and PetroBakken Energy Ltd. ("PetroBakken"). Where segmented information is provided throughout these condensed interim consolidated financial statements, the HBU is combined with activities performed at the Petrobank corporate level and is referred to as "Petrobank Standalone".

The HBU operates our heavy oil projects using Petrobank's patented THAI® heavy oil recovery process in the field. THAI® (Toe to Heel Air Injection), is an evolutionary in-situ combustion technology for the recovery of bitumen and heavy oil. The HBU projects are in the exploration and evaluation phase and accordingly all expenses, net of revenues, are capitalized.

PetroBakken (TSX: PBN), 59% owned by Petrobank as March 31, 2012 (December 31, 2011 and March 31, 2011 - 59%) is focused on conventional oil and gas operations throughout western Canada with a primary focus on light oil developments from the Bakken formation in southeast Saskatchewan and in the Cardium play in Alberta.

Results by operating segment for the three months ended March 31, 2012 and 2011 were as follows:

Three months ended March 31,	**2012**			2011		
	PetroBakken	**Petrobank Standalone**	**Total**	PetroBakken	Petrobank Standalone	Total
Revenues						
Oil and natural gas sales	**$ 330,361**	**$ -**	**$ 330,361**	$ 281,297	$ -	$ 281,297
Royalties	**(50,683)**	**-**	**(50,683)**	(44,298)	-	(44,298)
Oil and natural gas revenues	**279,678**	**-**	**279,678**	236,999	-	236,999
Loss on risk management contracts	**(18,949)**	**-**	**(18,949)**	(38,351)	-	(38,351)
	260,729	**-**	**260,729**	198,648	-	198,648
Expenses						
Production	**53,635**	**-**	**53,635**	38,137	-	38,137
Transportation	**1,435**	**-**	**1,435**	2,755	-	2,755
General and administrative	**11,977**	**3,977**	**15,954**	8,810	3,121	11,931
Share-based compensation	**6,206**	**(794)**	**5,412**	5,444	2,042	7,486
Loss (gain) on derivative financial liability	**19,811**	**-**	**19,811**	(28,270)	-	(28,270)
Finance and other	**31,586**	**1,096**	**32,682**	21,994	594	22,588
(Gain) loss on dispositions	**(128,955)**	**-**	**(128,955)**	248	-	248
Loss on settlement of convertible debentures	**44,009**	**-**	**44,009**	-	-	-
Impairment	**-**	**-**	**-**	-	7,664	7,664
Foreign exchange (gain) loss	**(14,119)**	**(30)**	**(14,149)**	(14,175)	26	(14,149)
Depletion and depreciation expense	**118,645**	**224**	**118,869**	100,020	188	100,208
	144,230	**4,473**	**148,703**	134,963	13,635	148,598
Income (loss) before taxes and NCI	**116,499**	**(4,473)**	**112,026**	63,685	(13,635)	50,050
Income tax expense	**77,710**	**-**	**77,710**	10,310	(2,911)	7,399
Income (loss) before NCI	**38,789**	**(4,473)**	**34,316**	53,375	(10,724)	42,651
Net income attributable to NCI	**15,829**	**-**	**15,829**	22,066	-	22,066
Net income (loss) attributable to Petrobank shareholders	**$ 22,960**	**$ (4,473)**	**$ 18,487**	$ 31,309	$ (10,724)	$ 20,585
Identifiable assets	**$ 6,017,918**	**$ 345,908**	**$ 6,363,826**	$ 6,112,769	$ 425,837	$ 6,538,606
Total liabilities	**$ 2,595,730**	**$ 21,181**	**$ 2,616,911**	$ 2,730,282	$ 52,199	$ 2,782,481
Capital expenditures	**$ 206,421**	**$ 17,878**	**$ 224,299**	$ 307,481	$ 54,255	$ 361,736
Dividends paid (received)	**$ 45,556**	**$ (26,424)**	**$ 19,132**	$ 44,865	$ (26,352)	$ 18,513

Any transactions between reportable segments are eliminated on consolidation of these condensed interim consolidated financial statements. With the exception of dividends received by Petrobank Standalone from PetroBakken, there are no significant transactions between the entities representing the reportable segments.

Note 3 – Assets and Liabilities Held for Sale

For the three months ended,	Mar. 31, 2012
Assets held for sale, beginning of period	$ 315,908
Transfers from exploration assets	-
Transfers from property, plant, and equipment	26,713
Transfers from goodwill	-
Dispositions	(315,908)
Loss on assets held for sale	(10,008)
Assets held for sale, end of period	$ 16,705

For the three months ended,	Mar. 31, 2012
Liabilities held for sale, beginning of period	$ 11,874
Transfers from decommissioning liability	2,005
Dispositions	(11,874)
Liabilities held for sale, end of period	$ 2,005

HBU

The disposition of the May River property, which included the Conklin demonstration project, was completed February 28, 2012 for cash proceeds of approximately $225.0 million, net of closing adjustments. There was no gain or loss on the assets held for sale.

PetroBakken

The disposition of PetroBakken's non-core 2.2 percent interest in the Weyburn Unit located in southeast Saskatchewan was completed on February 24, 2012, for gross proceeds of $105.0 million resulting in a gain on assets held for sale of $14.6 million (2011 - $nil).

Prior to March 31, 2012, PetroBakken's management had committed to selling non-core assets located in Alberta which are presented as assets held for sale. The carrying amount exceeds the fair value less costs to sell, resulting in a loss on assets held for sale of $10.0 million.

Note 4 – Dispositions

HBU

On February 28, 2012, the Company closed the disposition of our May River property, which includes the May River and Conklin cash generating units, for cash proceeds of approximately $225.0 million, net of closing adjustments. There was no gain or loss recorded on disposition.

PetroBakken

During the three months ended March 31, 2012, PetroBakken closed non-core asset divestitures for net proceeds of $616.5 million (2011 - $1.3 million) resulting in a net gain of $129.0 million (2011 - $0.3 million loss), including the loss on assets held for sale. Included within the non-core divestitures was the sale of non-core land in Montana for $7.8 million which resulted in current income tax of $1.0 million.

The dispositions completed during the three months ended March 31, 2012, had the following impact on goodwill:

For the three months ended,	**Mar. 31, 2012**
Goodwill, beginning of period	**$ 1,465,287**
Dispositions	**(90,998)**
Goodwill, end of period	**$ 1,374,289**

Note 5 – Bank Debt

Petrobank Standalone

On January 4, 2011, the Petrobank Standalone operating segment closed a $200 million secured credit facility with a syndicate of lenders. We cancelled the credit facility concurrent with the closing of the sale of our May River property on February 28, 2012 due to the cash available to the operating segment and to save on stand-by fees.

PetroBakken

PetroBakken's bank debt consists of borrowings against their covenant based credit facility. The facility is a three year extendible revolving facility in the amount of $1.5 billion from a syndicate of lenders with an initial maturity date of June 2, 2014. The maturity date may, at the request of PetroBakken and with consent of the lenders, be extended on an annual basis.

On January 31, 2012 the facility was increased from $1.35 billion to $1.5 billion.

In April 2012, the revolving credit facility was reduced to a limit of $1.4 billion to reflect the issuance of senior unsecured notes and disposed reserves on the non-core asset divestitures during the first quarter of 2012.

As at March 31, 2012	**Petrobank Standalone**	**PetroBakken**	**Petrobank Consolidated**
Bank debt outstanding	$ -	$ 217,530	$ 217,530
Deferred financing costs [1]	-	(4,360)	(4,360)
Bank debt	**$ -**	**$ 213,170**	**$ 213,170**

[1] Deferred financing costs are amortized straight line over the term of the credit facility.

Note 6 – Convertible Debentures

PetroBakken

On January 18, 2012, PetroBakken invited eligible holders of PetroBakken's 3.125 percent convertible debentures to submit offers to sell their existing debentures to PetroBakken for cash consideration. As a result of this invitation, on January 31, 2012, PetroBakken completed the repurchase of US$450 million of the US$750 million of convertible debentures at a price of US$99,000 per US$100,000 of principal amount. This resulted in a loss of $44.0 million, which consists of acceleration on the accretion of the convertible debentures of $72.1 million, partially offset by a gain of $28.1 million on the retirement of a portion of the derivative liability.

The remaining US$300 million of convertible debentures mature in February 2016. Individual holders have a one-time put option right of prepayment of the debentures for 100 percent of the par value plus accrued interest on February 8, 2013. A holder has a 10 day period between December 10, 2012 and December 20, 2012 to exercise their put option. PetroBakken can elect to make the repayment to any holders exercising their put option in either cash or common shares. If settlement in common shares is elected by PetroBakken, the share price used is based on the 20 day weighted average trading price ending five days prior to payment or the conversion price As the debentures can be redeemed in less than one year at the option of the holder, they have been reclassified as current as at March 31, 2012.

The initial conversion price upon issuance of the convertible debentures was US$39.61 per share, which is subject to adjustment in certain circumstances, including dividends paid by PetroBakken. Due to dividends paid to PetroBakken shareholders to March 31, 2012, the conversion price has been adjusted to US$35.15 per share. Upon conversion, based on the current conversion price, a total of 8,534,851 common shares may be issued.

The following table summarizes the liability component of the Company's debentures at March 31, 2012:

For the three months ended,	Mar. 31, 2012
Liability component, beginning of period	$ 639,014
Repurchase of convertible debentures – net of costs	(380,250)
Accretion	3,831
Changes in exchange rate	(8,963)
Liability component, end of period	**$ 253,632**

The following assumptions were used in determining the fair value of the derivative financial liability:

As at	Mar. 31, 2012
Risk free interest rate	1.33%
Annual dividend per share [(1)]	-
Expected life (years)	3.9
Expected volatility [(2)]	48%
US/CDN $ FX rate	1.00
Market share price	CDN$16.61
Conversion share price	US$35.15

(1) Dividend per share is nil because the share conversion price is adjusted to reflect dividends paid.

(2) Expected volatility includes a premium for the difference between US$/CDN$ exchange rates.

The following table summarizes the derivative financial liability:

For the three months ended,	Mar. 31, 2012
Derivative financial liability, beginning of period	$ 33,038
Repurchase of convertible debenture	(28,081)
Loss	19,811
Derivative financial liability, end of period	**$ 24,768**

Note 7– Senior Unsecured Notes

On January 30, 2012, PetroBakken closed a private placement of senior unsecured notes (the "Notes") with a principal amount of US$900 million at an initial discount of 99.5 percent of face value. The Notes bear interest at a rate of 8.625 percent per annum and mature on February 1, 2020. PetroBakken has the option to redeem the Notes beginning on February 1, 2016 at the following redemption prices (expressed as a percentage of the principal amount of the debenture): 2016 - 104.313 percent; 2017 - 102.156 percent; 2018 and thereafter - 100 percent. The Notes are subordinate to PetroBakken's credit facility. The Notes have been classified as a liability and will be carried at amortized cost, net of a $20.8 million transaction cost and a $4.5 million initial discount on principal proceeds. PetroBakken accretes the transaction costs and initial discount up to the principal balance at maturity using the effective interest method. The accretion and interest paid are expensed as finance and other expense in the condensed interim consolidated statement of operations and comprehensive income.

The US dollar denominated Notes are translated for accounting purposes based on the Canadian dollar exchange rate on the date of issuance and at the end of the applicable reporting period.

The following table summarizes the Notes:

For the three months ended,	**Mar. 31, 2012**
Notes, beginning of period	**$ -**
Proceeds, net of face value discount	**898,366**
Transaction costs	**(20,783)**
Accretion	**352**
Changes in foreign exchange rate	**(3,585)**
Notes, end of period	**$ 874,350**

Note 8 – Finance and Other

The finance and other balance includes the following:

Three months ended March 31,	**2012**			2011		
	Petrobank Standalone	**PetroBakken**	**Total**	Petrobank Standalone	PetroBakken	Total
Interest expense on credit facilities and other	**$ 791**	**$ 9,272**	**$ 10,063**	$ 362	$ 7,860	$ 8,222
Interest income and other	**(96)**	**-**	**(96)**	(96)	-	(96)
Interest expense on convertible debentures	**-**	**3,630**	**3,630**	-	5,729	5,729
Accretion of convertible debentures	**-**	**3,831**	**3,831**	-	5,720	5,720
Interest expense on senior unsecured notes	**-**	**12,664**	**12,664**	-	-	-
Accretion of senior unsecured notes	**-**	**352**	**352**	-	-	-
Borrowing costs capitalized [(1)]	**(606)**	**-**	**(606)**	-	-	-
Amortization of deferred financing costs	**985**	**496**	**1,481**	225	1,341	1,566
Accretion of decommissioning liabilities	**22**	**1,341**	**1,363**	103	1,344	1,447
Finance and other expenses	**$ 1,096**	**$ 31,586**	**$ 32,682**	$ 594	$ 21,994	$ 22,588

(1) The HBU credit facility was a general borrowing and related borrowing costs were capitalized in accordance with IAS 23, *Borrowing Costs*.

Note 9 – Share Capital

The equity account balances include only those of the Petrobank parent entity. PetroBakken's equity account balances eliminate upon consolidation of these financial statements.

Authorized

The authorized capital of Petrobank consists of an unlimited number of common shares without nominal or par value, and an unlimited number of preferred shares, issuable in series, without nominal or par value.

Normal Course Issuer Bid ("NCIB")

Petrobank is authorized to purchase up to 7,273,401 common shares, representing approximately 10 percent of the public float of the Company's shares. On any trading day, Petrobank may not purchase more than 132,632 common shares. Petrobank is authorized to make purchases during the period from September 14, 2011 to September 13, 2012, or until such earlier time as the NCIB is completed or terminated at the option of Petrobank. All shares acquired under the NCIB will be cancelled.

During the three months ended March 31, 2012, the Company repurchased 1,246,000 shares (2011 - nil) under the normal course issuer bid for a total cost of $20.0 million. The shares had an average price of $16.05 per share. Of the amount paid, $18.5 million was charged to share capital and $1.5 million to retained earnings. 900,000 of the repurchased shares were cancelled in March 2012; the remaining 346,000 shares were cancelled in early April 2012.

Common Shares

Changes in Common Shares	Number	Amount
Balance at December 31, 2011	106,400,220	$ 1,577,351
Repurchase of common shares under NCIB	-	(18,474)
Cancellation of common shares under NCIB	(900,000)	-
Exercise of stock options, incentive shares and DCS	166,551	607
Share-based settlements	-	2,519
Balance at March 31, 2012	**105,666,771**	**$ 1,562,003**

Stock Options

The following is a continuity of stock options outstanding:

	Stock Options	Weighted-Average Exercise Price
Balance at December 31, 2011	3,989,827	$ 16.55
Granted	274,460	16.15
Exercised	(162,085)	3.75
Forfeited	(574,702)	16.52
Balance at March 31, 2012	**3,527,500**	**$ 17.11**

Deferred Common Shares

The following is a continuity of deferred common shares ("DCS") outstanding:

	DCS
Balance at December 31, 2011	397,871
Granted	12,864
Exercised	(1,555)
Balance at March 31, 2012	**409,180**

Directors Deferred Common Shares

The balance of outstanding directors DCS at March 31, 2012 is 43,131 (December 31, 2011 - 43,131).

Incentive Shares

The following is a continuity of incentive shares outstanding:

	Incentive Shares
Balance at December 31, 2011	374,999
Granted	65,500
Exercised	(2,911)
Forfeited	(96,677)
Balance at March 31, 2012	**340,911**

Note 10 – Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to Petrobank shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution of stock options, deferred common shares, directors deferred common shares and incentive shares (collectively, "Share-Based Awards").

The following tables provide a reconciliation of the numerators and the denominators of the basic and diluted per share computations for income attributable to Petrobank shareholders.

Three months ended March 31,	**2012**	2011
Net income attributable to Petrobank shareholders adjustments		
Basic earnings	**$ 18,487**	$ 20,585
Impact of PetroBakken dilution on net income	**(323)**	(207)
Diluted earnings	**$ 18,164**	$ 20,378
Weighted average common share adjustments		
Weighted average common shares outstanding, basic	**106,409,269**	106,248,411
Effect of Share-Based Awards	**1,112,680**	1,203,326
Weighted average common shares outstanding, diluted	**107,521,949**	107,451,737

In determination of the weighted average number of diluted common shares outstanding for the three months ended March 31, 2012, 1,892,985 stock options are excluded because the effect would be anti-dilutive (2011 - 1,146,221).

Note 11 – Non-Controlling Interest

The components of the Company's non-controlling interest in PetroBakken are as follows:

Balance at December 31, 2011	$	1,444,279
Attributable income		15,829
Share-based compensation		6,206
Common shares repurchased		(14,463)
Changes in ownership interest [1]		(953)
Cash dividends paid or declared by PetroBakken		(25,723)
Cash dividends received by Petrobank		8,796
Balance at March 31, 2012	**$**	**1,433,971**

(1) Reflects the book values of the NCI share related to PetroBakken shares issued in connection with the dividend re-investment plan and PetroBakken stock options, deferred common shares, and incentive shares exercised in the period.

Note 12 – Capital Management

The Company's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. Petrobank Standalone and PetroBakken manage their capital structure independently, generate their own cash flows, and have the ability to fund their operations through the issuance of secured and unsecured debt as well as equity financing. Petrobank Standalone may also dispose of all or a portion of our ownership in PetroBakken to fund operations. The table below outlines the composition of Petrobank's consolidated capital structure:

	Petrobank Standalone	PetroBakken	**Petrobank Consolidated**
Working capital surplus (deficit) [1]	$ 103,925	$ (194,340)	**$ (90,415)**
Bank debt – principal	$ -	$ 217,530	**$ 217,530**
Convertible debentures – principal amount (US$)	$ -	$ 300,000	**$ 300,000**
Senior unsecured notes – principal amount (US$)	$ -	$ 900,000	**$ 900,000**
Common share capital [2]	$ 1,562,003	$ 3,159,667	**$ 1,562,003**
Credit facility [3]	$ -	$ 1,500,000	
Available credit capacity	$ -	$ 1,282,470	

(1) Working capital surplus (deficit) is calculated as cash and cash equivalents, accounts receivable and prepaid expenses less accounts payable and accrued liabilities and the current portion of finance lease obligations.

(2) The common share capital of PetroBakken eliminates upon consolidation of these financial statements.

(3) PetroBakken's credit facility was reduced to $1.4 billion in April 2012.

Petrobank Standalone

We manage our capital structure and make adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. We consider our capital structure to include common share capital and working capital. In order to maintain or adjust the capital structure, from time to time we may issue common shares or other securities, sell a portion of our ownership in PetroBakken or other corporate assets or adjust our capital spending to manage current and projected cash levels.

Petrobank received cash proceeds of approximately $225.0 million, net of closing adjustments, on February 28, 2012 from the sale of our May River property. Proceeds from this transaction were used to repay outstanding bank debt and result in Petrobank having a significant positive cash and working capital balance. We cancelled our credit facility concurrent with the closing of the sale due to our cash availability and to save on standby fees.

Based on Petrobank's current ownership and PetroBakken's current annual dividend of $0.96 per PetroBakken share, Petrobank expects to receive approximately $106 million of dividends annually from PetroBakken, paid monthly. PetroBakken instituted a dividend re-investment plan ("DRIP") in 2012, which allows shareholders to reinvest monthly cash dividends in new shares at a five percent discount to the then current market price. During the three months ended March 31, 2012, Petrobank received dividends totalling approximately $8.8 million in cash and 1,154,458 PetroBakken common shares from the DRIP. Due to Petrobank's significant positive working capital balance, we elected to participate at a 100 percent level in PetroBakken's DRIP, starting with the March dividend. Petrobank may change its participation level in the future.

Subsequent to quarter end, Petrobank entered into a plan with a designated broker to allow for the repurchase of our common shares under the NCIB. As part of this plan, the broker will automatically sell one PetroBakken share for each Petrobank share purchased, up to 6,027,401 shares.

The Petrobank legal entity has not paid or declared any dividends since the date of incorporation.

PetroBakken

PetroBakken's policy is to maintain a strong capital base in order to provide flexibility for the future development of the business.

PetroBakken manages their capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. PetroBakken considers their capital structure to include common shares, bank debt outstanding, convertible debentures, senior unsecured notes and working capital. In order to maintain or adjust the capital structure, from time to time PetroBakken may issue common shares, debt or other securities, sell assets or adjust capital spending or dividend payments to manage current and projected debt levels.

PetroBakken monitors their leverage and adjusts the capital structure based on the ratio of non-convertible debt to annualized earnings before interest, taxes and non-cash items. At March 31, 2012, the ratio of non-convertible debt to annualized first quarter 2012 earnings before interest, taxes and non-cash items was 1.3 to 1, which is within a range acceptable to management. PetroBakken uses the ratio of non-convertible debt to annualized earnings before interest, taxes and non-cash items as a key indicator of PetroBakken's leverage and to monitor the strength of the statement of financial position. In order to facilitate the management of this ratio, PetroBakken prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, changes in capital structure, execution of PetroBakken's business plan and general industry conditions. The annual budget is approved by the PetroBakken Board of Directors and updates are prepared and reviewed as required.

PetroBakken is in compliance with all covenants on the credit facility agreement. The credit facility has financial covenants that limit the ratio of secured debt (defined as total drawn on credit facility) to earnings before interest, taxes, depreciation and amortization ("EBITDA") to 3:1, limit the ratio of total debt (defined as total drawn on credit facility plus value of outstanding convertible debenture in Canadian dollars plus the value of the senior unsecured notes in Canadian dollars) to EBITDA on a trailing 12 month basis to 4:1, and limit secured debt to 50 percent of total liabilities plus total equity.

PetroBakken's convertible debentures are considered to be equity as opposed to debt for capital management purposes. PetroBakken has the option to repay the principal and interest amount in common shares or cash at the put or maturity date. PetroBakken is in compliance with the covenants on their convertible debentures. The convertible debenture agreement stipulates that the ratio of secured debt to total assets is not to exceed 35 percent.

PetroBakken is in compliance with all covenants on the Notes. The Notes contain covenants that could limit the Company's ability to issue additional debt, pay dividends, and repurchase stock among other restrictions.

PetroBakken had positive cash flow from operations for the three months ended March 31, 2012 and a credit facility with $1,282.5 million of available capacity as at March 31, 2012 (December 31, 2011 - $156.7 million).

Note 13 – Financial Instruments and Financial Risk Management

The Company identifies and analyzes the risks faced by the Company and may utilize financial instruments to mitigate these risks.

PetroBakken had the following crude oil price risk management contracts outstanding at March 31, 2012:

Crude Oil Price Risk Management Contracts – WTI (1)

Term	Volume (bopd)	Average Price ($/bbl)	Benchmark
Apr. 2012 – Jun. 2012	20,000	$83.92 floor / $112.45 ceiling	US$ WTI
Jul. 2012 – Dec. 2012	12,000	$78.02 floor / $118.94 ceiling	US$ WTI
Jan. 2013 – Jun. 2013	11,250	$78.11 floor / $120.25 ceiling	US$ WTI
Jul. 2013 – Dec. 2013	9,000	$79.03 floor / $120.41 ceiling	US$ WTI
Jan. 2014 – Jun. 2014	4,000	$80.63 floor / $113.19 ceiling	US$ WTI
Jul. 2014 – Dec. 2014	1,500	$82.50 floor / $118.13 ceiling	US$ WTI

(1) Prices are the volume weighted average prices for the period.

There were additional crude oil contracts entered into subsequent to March 31, 2012. Below is a summary of crude oil derivative contracts in place as at the date of this report:

Crude Oil Price Risk Management Contracts – WTI (1)

Term	Volume (bopd)	Average Price ($/bbl)	Benchmark
Apr. 2012 – Jun. 2012	20,000	$83.92 floor / $112.45 ceiling	US$ WTI
Jul. 2012 – Dec. 2012	12,000	$78.02 floor / $118.94 ceiling	US$ WTI
Jan. 2013 – Jun. 2013	11,250	$78.11 floor / $120.25 ceiling	US$ WTI
Jul. 2013 – Dec. 2013	9,250	$79.19 floor / $120.22 ceiling	US$ WTI
Jan. 2014 – Jun. 2014	4,250	$80.88 floor / $113.20 ceiling	US$ WTI
Jul. 2014 – Dec. 2014	1,750	$82.86 floor / $117.45 ceiling	US$ WTI

(1) Prices are the volume weighted average prices for the period.

The fair value of the commodity risk management contracts as at March 31, 2012 is an $18.7 million liability (December 31, 2011 - $0.8 million liability).

PetroBakken had the following interest rate swap contracts in place at March 31, 2012:

Term	Notional Principal / Month	Fixed Annual Rate (%)
Apr. 2012 Maturity	C$50 million	1.300%
Apr. 2012 – Jun. 2012	C$25 million	2.094%

The fair value of the interest rate swap contracts as at March 31, 2012 was a $0.1 million liability (December 31, 2011 - $0.2 million liability).

Fair Value of Financial Derivative Contracts

The following table summarizes the change in the fair value of PetroBakken's derivative contracts:

	Crude Oil	Interest	Total
Risk management liability, as at December 31, 2011	$ (842)	$ (188)	$ (1,030)
Unrealized (loss) gain	(17,846)	132	(17,714)
Risk management liability, as at March 31, 2012	**$ (18,688)**	**$ (56)**	**$ (18,744)**

The net risk management liability consists of current and non-current assets and liabilities. The table below summarize the components of the net risk management liability as at March 31, 2012:

	Crude Oil	Interest	Mar. 31, 2012
Current			
Risk management asset	$ 697	$ -	$ 697
Risk management liability	(12,253)	(56)	(12,309)
Non-current			
Risk management asset	1,016	-	1,016
Risk management liability	(8,148)	-	(8,148)
Net risk management liability	**$ (18,688)**	**$ (56)**	**$ (18,744)**

The unrealized (loss) gain represents the change in fair value of the underlying risk management contracts to be settled in the future. The realized (loss) gain represents the risk management contracts settled in the period. The table below summarizes the components of the realized and unrealized risk management gains and losses for the three months ended March 31, 2012 and 2011:

Three months ended March 31.	**2012**	2011
Realized (loss) gain on risk management contracts:		
Crude oil derivative contracts	**$ (1,136)**	$ (1,096)
Natural gas derivative contracts	**-**	741
Interest rate swap contracts	**(99)**	(234)
	(1,235)	(589)
Unrealized (loss) gain on risk management contracts:		
Crude oil derivative contracts	**(17,846)**	(36,943)
Natural gas derivative contracts	**-**	(769)
Interest rate swap contracts	**132**	(50)
	(17,714)	(37,762)
Loss on risk management contracts	**$ (18,949)**	$ (38,351)

Note 14 – Changes in Non-Cash Working Capital

Three months ended March 31,	**2012**	2011
Change in:		
Accounts receivable	**$ 47,405**	$ (26,241)
Prepaid expenses and other assets	**(1,577)**	(3,754)
Accounts payable and accrued liabilities	**(44,941)**	81,655
Other	**(307)**	3,745
	580	55,405
Changes relating to:		
Attributable to operating activities	**$ 30,499**	$ (37,723)
Attributable to investing activities	**$ (21,872)**	$ 93,637
Attributable to financing activities	**$ (8,047)**	$ (509)
	$ 580	$ 55,405

Note 15 – Commitments

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments at March 31, 2012:

Type of Commitment	< 1 Year	1-3 Years	4-5 Years	Thereafter	Total
Petrobank Standalone					
Office operating leases [1]	$ 1,828	$ 1,435	$ 403	$ 479	$ 4,145
Finance leases	588	985	24	-	1,597
PetroBakken					
Office leases [1]	5,627	13,626	13,805	27,424	60,482
Drilling and completion rigs	20,069	23,375	1,244	-	44,688
Other	1,728	1,506	255	-	3,489
Total Commitments	**$ 29,840**	**$ 40,927**	**$ 15,731**	**$ 27,903**	**$ 114,401**

[1] Minimum lease payments are net of sub-lease payments received by the Company, which reduces rent expense included in general and administrative expenses on the condensed interim consolidated statement of operations.