PETROBANK

Q2 2011

SECOND QUARTER RESULTS

FINANCIAL & OPERATING HIGHLIGHTS

Summary of Results [1]

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	% Change	**2011**	2010	% Change
Financial						
($000s, except where noted)						
Oil and natural gas sales from continuing operations	**274,952**	245,954	12	**556,249**	521,660	7
Funds flow from continuing operations [2]	**148,440**	153,715	(3)	**316,824**	342,086	(7)
Per share – basic ($)	**1.40**	1.46	(4)	**2.98**	3.33	(11)
– diluted ($)	**1.38**	1.43	(3)	**2.93**	3.20	(8)
Adjusted net income (loss) from continuing operations [2] [3]	**25,513**	(45,815)	-	**17,828**	(61,116)	-
Per share – basic ($)	**0.24**	(0.44)	-	**0.17**	(0.59)	-
– diluted ($)	**0.23**	(0.44)	-	**0.16**	(0.59)	-
Adjusted net income attributable to Petrobank shareholders [2] [3] [4]	**25,513**	19,576	30	**17,828**	69,011	(74)
Per share – basic ($)	**0.24**	0.19	26	**0.17**	0.67	(75)
– diluted ($)	**0.23**	0.15	53	**0.16**	0.58	(72)
Capital expenditures [5]						
PetroBakken	**113,010**	122,688	(8)	**420,491**	307,804	37
Heavy Oil Business Unit ("HBU")	**55,641**	10,652	422	**109,896**	34,586	218
Total capital expenditures from continuing operations	**168,651**	133,340	26	**530,387**	342,390	55
Total assets	**6,571,119**	7,003,720	(6)	**6,571,119**	7,003,720	(6)
Common shares outstanding, end of period (000s)						
Basic	**106,303**	105,993	-	**106,303**	105,993	-
Diluted [6]	**110,155**	110,167	-	**110,155**	110,167	-
Operations						
PetroBakken operating netback ($/boe) [2] [7]						
Crude oil and NGL sales price ($/bbl) [8]	**96.37**	70.98	36	**88.55**	73.61	20
Natural gas sales price ($/Mcf) [8]	**4.19**	4.11	2	**4.16**	4.57	(9)
Oil equivalent sales price [8]	**85.02**	62.86	35	**79.34**	66.65	19
Royalties	**13.15**	9.17	43	**12.45**	9.43	32
Production expenses	**15.24**	7.59	101	**12.52**	7.69	63
Operating netback [2] [7] [9]	**56.63**	46.10	23	**54.37**	49.53	10
Average daily production [7]						
PetroBakken – oil and NGL (bbls)	**29,676**	34,852	(15)	**32,890**	36,245	(9)
PetroBakken – natural gas (Mcf)	**33,746**	44,469	(24)	**33,143**	38,598	(14)
Total conventional (boe) [7] [10]	**35,300**	42,263	(16)	**38,414**	42,678	(10)

(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 Management's Discussion and Analysis ("MD&A").
(3) Net income has been adjusted for the IFRS accounting effects of changes in the gain on derivative financial liability. For the three and six months ended June 30, 2011, adjusted net income includes a $32.8 million and $61.0 million reduction (2010 - $60.8 million and $76.4 million) for this gain. Management considers adjusted net income a better measure of the Company's economic performance period over period.
(4) Net income attributable to Petrobank shareholders for the three and six months ended June 30, 2010 includes the operating results of Petrominerales.
(5) Includes expenditures on property, plant and equipment, exploration and evaluation and other intangible assets.
(6) Consists of common shares, stock options, directors deferred common shares, deferred common shares, and incentive shares as at the period end date.
(7) Six Mcf of natural gas is equivalent to one barrel of oil equivalent ("boe").
(8) Net of transportation expenses.
(9) Excludes hedging activities.
(10) HBU bitumen and heavy oil volumes are excluded from average daily production as Conklin and Kerrobert operations are considered to be in the exploration and evaluation phase and accordingly are capitalized.

All financial figures are unaudited and in Canadian dollars ($) unless noted otherwise. All financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including comparative figures pertaining to Petrobank's 2010 results. A reconciliation of comparative figures is provided in the notes to the Unaudited Condensed Interim Consolidated Financial Statements for the three and six month periods ended June 30, 2011.

HIGHLIGHTS

Quarterly comparisons are second quarter 2011 compared to second quarter 2010 unless otherwise noted. The results of Petrominerales Ltd. ("Petrominerales") (TSX:PMG), previously majority owned by Petrobank, have been separately disclosed as discontinued operations up until December 31, 2010, the date this business unit was spun off to Petrobank shareholders.

Q2 2011 Financial Highlights

- Net income from continuing operations, adjusted for gains on derivative financial liabilities, for the three months ended June 30, 2011 of $25.5 million increased $71.3 million compared to the same period in the prior year. The increase is primarily due to higher revenue as a result of higher pricing, a non-cash gain arising from the disposition of PetroBakken non-core assets, and certain costs related to convertible debentures in the second quarter of 2010 which did not exist in the current period.
- PetroBakken's production averaged 35,300 barrels of oil equivalent ("boe") per day in the second quarter of 2011, representing a 15% decrease compared to the first quarter of 2011, and a 16% decrease from the prior year period. Light oil production increases, primarily from PetroBakken's Cardium play, were more than offset by shut-in production of approximately 6,200 boe per day for the quarter due to an extended spring break-up that prevented access to leases.
- PetroBakken's operating netback (excluding hedging activity) of $56.63 per boe in the second quarter increased 8% compared to the first quarter of 2011, and 23% over the prior year period, primarily as a result of higher pricing that more than offset increased royalty and production expenses.
- Capital expenditures were $168.7 million in the second quarter, up 26% from a year ago. The increases are attributable to our Heavy Oil Business Unit's ten well-pair expansion project at Kerrobert, which has experienced cumulative cost overruns of approximately $30 million, long lead equipment purchases for our May River project and increased activity at our Dawson project.

Heavy Oil Business Unit Q2 2011 Operational Highlights

- Eight of the Kerrobert expansion well-pairs have completed the Pre-Ignition Heating Cycle ("PIHC") and are now on air injection.
- Our Dawson demonstration project is proceeding and we anticipate that drilling will start in the fourth quarter of 2011.
- The Energy Resources Conservation Board ("ERCB") has determined that two parties who filed Statements of Concerns are entitled to participate in the ERCB's consideration of the May River application. We anticipate that the ERCB will schedule a hearing for the application shortly, with the hearing likely to take place in late 2011 or early 2012.

OPERATIONAL UPDATE

Kerrobert Project

Our Kerrobert project operations are underway with eight of the ten new well-pairs on air injection and in the initial production phase. The first expansion well-pair was placed on air injection and production in the middle of May, with an additional four well-pairs placed on air injection by the end of the second quarter. The PIHC for the remaining five well-pairs began at the end of the second quarter and currently three of these well-pairs are on air injection, with the remainder expected to be on air injection by September.

Our operating procedures continue to evolve. We have been able to reduce the duration of the PIHC from a planned eight weeks to approximately four weeks. Following the PIHC, the vertical wells commence air injection at low rates and the horizontal production wells are brought on production with a progressive cavity pump. The initial clean-up fluids consist of water, including condensed water from the PIHC steam injection, and some native oil. As these fluids are produced, the combustion gas volume increases, the temperature in the horizontal well begins to rise and the well begins to produce an oil and water emulsion at low rates. Well bore temperatures will increase and combustion gas, along with some native oil and occasional upgraded THAI® oil, will be produced. As we measure the combustion gas communication and rising well bore temperatures, we will increase the air injection in stages to facilitate the combustion zone development.

The second quarter was a period of transition for the Kerrobert project. We completed the drilling of the expansion wells, began operations on the new wells and started dismantling the temporary facilities in anticipation of the new wells being tied into the new central processing facility ("CPF"). Very wet weather delayed our access to the CPF and well-site until mid-July. We experienced significant down time on the original Kerrobert wells due to pump changes, decommissioning of the original Kerrobert facilities and delayed tie-in to the new CPF. These activities resulted in second quarter Kerrobert production of approximately 40 bopd.

Dawson Project

We received final ERCB and Alberta Environment ("AENV") approval for our Dawson demonstration project during the fourth quarter of 2010. This project will consist of two THAI® well-pairs plus associated surface facilities. We expect that one well-pair will be drilled during 2011 and the second will be drilled in 2012.

In the second quarter of 2011, we drilled two stratigraphic evaluation wells. We are currently decommissioning the surface facilities from our first two wells at the Kerrobert project and will begin moving the facilities to our Dawson project in the third quarter of 2011. Civil work has begun and it is expected that drilling will commence in mid-September. Drilling activities for the remainder of 2011 will include completing an observation well as an air injector, as well as drilling a water disposal well, an observation well and one horizontal production well.

PIHC is planned to start in the fourth quarter of 2011, and air injection is expected to commence before year-end.

The environmental assessment and regulatory application associated with the Dawson 10,000 bopd expansion project are underway with the application to the ERCB and AENV scheduled to be submitted during the fourth quarter of 2011. We expect that the regulatory review cycle could take up to 18 months.

Conklin Demonstration Project

With our Kerrobert and Dawson projects both moving forward, we are now evaluating options for the Conklin demonstration project to become predominantly a field scale testing site for future technology enhancements to the THAI® process. We have received approval from the ERCB to conduct a wet combustion process on P1B and have submitted an application to the ERCB to drill another air injector further along the P1B well bore to evaluate our new multi-THAI® configuration.

May River Project

The May River application was previously submitted to the Board of the ERCB (the "Board") for review. The Board recently determined that two of the parties who filed Statements of Concern are entitled to participate in the Board's consideration of the May River application. We anticipate that the Board will schedule a hearing in respect of the May River application shortly, with the hearing likely to take place in late 2011 or early 2012.

Now that we have received clarity from the Board with respect to the Statements of Concern we plan to continue our consultation with these parties to clarify and resolve their issues prior to the hearing.

As previously disclosed, we drilled 11 oil sands evaluation wells to further evaluate resource potential and further delineate the resource for future expansion phases of the May River property. Our external reserves evaluator, McDaniel & Associates Consultants Ltd., updated our 2010 reserve report to reflect these drilling results. May River best estimate contingent resources increased 11% to 624.1 million barrels at June 1, 2011 (see "Resources and Contingent Resources"). May River proved plus probable reserves remains relatively unchanged at 90.6 million barrels. These reserves are not included in our contingent resource estimates. Our June 28, 2011 press release provides more information about our updated May River reserve and resource estimates.

Land Acquisition

On May 27, 2011, Petrobank acquired 566 acres of petroleum and natural gas rights on the Kerrobert trend in Saskatchewan situated adjacent to the 4,092 acres of land that we purchased on March 31, 2011. This is the third acquisition of land that we have made in six months on the same trend as Kerrobert and we currently control 13,533 gross and 11,517 net acres of land on the trend. To define the resource potential of our new lands, we purchased three third party 3-D seismic surveys and plan to drill two stratigraphic delineation wells.

Archon Technologies Ltd. ("Archon")

Archon, our wholly-owned technology subsidiary, continues to expand research and development efforts and review and assess several other enhanced oil recovery techniques. Archon currently has eight patents granted, or pending, and is preparing applications for eight new patents.

Now that we have signed a collaboration agreement with Pemex Exploración y Producción, we are actively engaged with them to evaluate potential reservoirs for the use of THAI®.

During the second quarter, Archon entered into a new Technology License and Royalty Agreement ("License Agreement") with Petrominerales. The License Agreement gives Petrominerales the right to use Archon's patented THAI® in-situ combustion technology and related technologies (the "Technologies") for the development of heavy oil resources in Colombia. In addition, Petrominerales has an exclusive right to sublicense the Technologies to third parties in Colombia for up to 10 years, provided certain contractual commitments are met, including commencing a pilot project within three years.

In exchange for the right to use and sublicense the Technologies in Colombia, Petrominerales has agreed to pay Archon a specified royalty based upon production, and has granted Archon the right to acquire a working interest in third party THAI® heavy oil joint ventures with Petrominerales. Archon, or an Archon affiliate, can elect to participate in a third party heavy oil joint venture for up to 25% of Petrominerales' share in the joint venture. For heavy oil projects that are 100% Petrominerales working interest, Archon does not have a right to acquire a working interest and Petrominerales is solely obligated to pay a specified royalty rate to Archon.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following MD&A is dated August 15, 2011 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 June 30, 2011 and for the three and six months ended June 30, 2011 and 2010 ("interim Consolidated Financial Statements"), as well as the audited consolidated financial statements as at and for the year ended December 31, 2010 (the "Consolidated Financial Statements") and MD&A for the year ended December 31, 2010.

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 ("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, 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 continuing operations, funds flow per share, adjusted net income, adjusted net income per share 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. Specifically, funds flow from continuing operations and funds flow per share reflect cash generated from continuing operating activities before changes in non-cash working capital. Adjusted net income is determined by adding back any losses or deducting any gains on the derivative financial liabilities. Management considers funds flow from continuing 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. Operating netback is determined by dividing sales revenue less transportation, and production expenses by sales volumes. Profitability relative to commodity prices per unit of production is demonstrated by an operating netback. Funds flow from continuing operations, funds flow per share, adjusted net income, adjusted net income per share and operating netbacks may not be comparable to those reported by other companies nor should they be viewed as an alternative to cash flow from continuing operations, net income or other measures of financial performance calculated in accordance with GAAP.

Petrobank's Business Units

During the first half of 2011, the Company comprised of two business units: the Heavy Oil Business Unit ("HBU") and PetroBakken Energy Ltd. ("PetroBakken").

The HBU is operating the Kerrobert heavy oil project and Conklin oil sands project using Petrobank's patented THAI® technology. The Kerrobert and Conklin 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, or depletion and depreciation expense.

PetroBakken, 59 percent owned by Petrobank as at June 30, 2011, 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 NCI on the consolidated statements of operations and retained earnings and as paid-in capital and NCI on the consolidated balance sheets.

On December 31, 2010, the Company completed the spin-off of Petrominerales Ltd., the Company's former Latin American Business Unit, whereby Petrobank shareholders received Petrobank's 65 percent proportionate interest in Petrominerales. To properly reflect this reorganization in the Company's 2011 financial statements, the results of Petrominerales have been segregated from ongoing operations and separately disclosed as "Discontinued Operations" in the comparative balances.

Comparatives

Comparisons presented in this MD&A are the second quarter of 2011 compared to the second quarter of 2010, unless otherwise noted.

Net Income

Throughout this MD&A, reference is made to net income, which represents "Net income attributable to Petrobank shareholders" on the Company's consolidated financial statements.

FINANCIAL AND OPERATIONAL REVIEW

The financial and operational review includes only continuing operations, which consists of the HBU and PetroBakken. As discussed previously, Petrominerales, which operates in Colombia and Peru, was spun-off to Petrobank shareholders on December 31, 2010. This business unit has not been included in the 2011 consolidated results of the Company, and has been segregated from the 2010 comparative balances and presented as "Discontinued Operations."

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. Therefore, the following production, pricing, revenue, royalties and production expense tables include only PetroBakken results.

Average Daily Production

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
PetroBakken						
Oil and NGL (bbls)	**29,676**	34,852	(15%)	**32,890**	36,245	(9%)
Natural gas (Mcf)	**33,746**	44,469	(24%)	**33,143**	38,598	(14%)
Total PetroBakken (boe)	**35,300**	42,263	(16%)	**38,414**	42,678	(10%)

Production decreased by 16 percent and 10 percent respectively for the three and six months ended June 30, 2011. The decrease in production was primarily the result of an extensive spring break-up due to extreme weather conditions, particularly in southeast Saskatchewan, which adversely impacted PetroBakken's ability to service existing wells, transport oil from well batteries, and execute new well activity. Overall PetroBakken estimates that temporarily shut-in production, as a result of extremely poor surface conditions, averaged 6,200 boe per day ("boepd") for the quarter, which mainly impacted oil production. The majority of this production is expected to be restored in August. During the quarter, PetroBakken drilled 4.0 net wells compared to 27.4 net wells a year ago. Natural gas production decreased quarter over quarter primarily due to non-core dispositions in 2010 and natural declines.

Spring break-up conditions persisted in southeast Saskatchewan throughout the quarter, compared to ending in mid-May last year, and portions of this area are still wet. Shut-in production for this area averaged more than 4,500 boepd for the quarter. These conditions also prevented PetroBakken from drilling wells in the quarter and accessing and stimulating the 13.7 net Bakken wells that were unfrac'd at the end of the first quarter. Subsequent to the end of second quarter, 6.0 wells have now been frac'd and returned to production, with the balance expected to be frac'd and back on production before the end of the third quarter.

The production decrease in southeast Saskatchewan was partially offset by PetroBakken's ability to execute and grow production from our Cardium assets, which has increased 98 percent from the second quarter of 2010 and 7 percent from the first quarter of 2011. Lease conditions did result in temporarily shut-in production of 1,250 barrels of oil per day ("bopd"), which should be fully restored by mid-August. Operations in this area continued until mid-April and PetroBakken was able to place 11.9 net Cardium

wells on production, leaving an inventory of 4.6 net Cardium wells completed but waiting to be brought on production and 8.4 net wells drilled but not completed at the end of the quarter. All of these wells are expected to be on production in the third quarter.

Since quarter-end, PetroBakken's staff has been busy both servicing existing wells and drilling and completing new wells. PetroBakken estimates that the majority of the shut-in production has been restored with field estimates for production in early August exceeding 39,000 boepd.

Average Benchmark and Realized Prices

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
WTI (US$/bbl)	**102.56**	78.06	31%	**98.33**	78.47	25%
WTI ($/bbl)	**99.20**	80.13	24%	**95.98**	81.04	18%
Edmonton Par ($/bbl)	**103.07**	75.21	37%	**95.52**	77.66	23%
AECO natural gas ($/Mcf)	**3.88**	3.88	-	**3.81**	4.42	(14%)
US$ per C$1	**0.97**	0.97	-	**0.98**	0.97	1%
PetroBakken – oil and NGL						
Realized price per bbl ($/bbl)	**97.05**	72.30	34%	**89.25**	74.65	20%
Oil price discount as a % of Edmonton Par	**6%**	4%	50%	**7%**	4%	75%
PetroBakken – natural gas						
Realized price per Mcf ($/Mcf)	**4.19**	4.11	2%	**4.16**	4.57	(9%)

In the second quarter and first six months of 2011, realized oil and NGL prices increased due to higher oil prices. Contributing to this increase was a strengthening of Edmonton par prices relative to WTI due to increased demand for Canadian sourced crude.

Revenue

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
PetroBakken						
Oil and natural gas sales	**274,952**	245,954	12%	**556,249**	521,660	7%
Royalties	**(42,240)**	(35,258)	20%	**(86,538)**	(72,799)	19%
Total PetroBakken revenue	**232,712**	210,696	10%	**469,711**	448,861	5%

The change in second quarter and first six months of 2011 sales is primarily due to higher oil and NGL prices, which more than offset lower production. The table below summarizes these changes:

Reconciliation of Changes in Oil and Natural Gas Sales

	Three months ended	Six months ended
PetroBakken		
June 30, 2010	245,954	521,660
Sales volume	(54,235)	(64,633)
Realized prices	83,233	99,222
June 30, 2011	**274,952**	**556,249**
$ change in oil and natural gas sales	28,998	34,589
% change in oil and natural gas sales	12%	7%

Net Realized Prices

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
PetroBakken						
Oil and natural gas sales	**274,952**	245,954	12%	**556,249**	521,660	7%
Transportation expense	**1,820**	4,204	(57%)	**4,575**	6,804	(33%)
Total sales, net of transportation expense	**273,132**	241,750	13%	**551,674**	514,856	7%
Gross sales ($/boe)	**85.59**	63.95	34%	**80.00**	67.53	18%
Transportation costs ($/boe)	**0.57**	1.09	(48%)	**0.66**	0.88	(25%)
Realized price, net of transportation expense ($/boe)	**85.02**	62.86	35%	**79.34**	66.65	19%

Net realized price for the second quarter and first six months of 2011 improved mainly due to higher oil prices. On a unit of production and total basis, transportation expense decreased due to infrastructure added in southeast Saskatchewan which resulted in tied-in production and reduced trucking costs.

Royalties

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
PetroBakken [(1)]	**42,240**	35,258	20%	**86,538**	72,799	19%
PetroBakken – $ per boe	**13.15**	9.17	43%	**12.45**	9.43	32%
PetroBakken – royalties as a % of realized price, net of transportation costs	**15%**	15%	-	**16%**	14%	14%

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

Royalties increased in the second quarter and first six months of 2011 on a total and unit of production basis due to higher oil prices. 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 5 percent royalty rate for 18 to 48 months or 50,000 to 100,000 boe of production, whichever comes first, depending on well length.

Gain (Loss) on Risk Management Contracts

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
Realized gain (loss):						
Crude oil derivative contracts	**(3,578)**	(741)	383%	**(4,674)**	(1,139)	310%
Natural gas derivative contracts	**435**	1,012	(57%)	**1,176**	1,253	(6%)
Interest rate swap contracts	**(212)**	(731)	(71%)	**(446)**	(1,593)	(72%)
	(3,355)	(460)	629%	**(3,944)**	(1,479)	(167%)
Unrealized gain (loss):						
Crude oil derivative contracts	**37,626**	16,889	123%	**683**	14,938	(95%)
Natural gas derivative contracts	**(404)**	(1,813)	(78%)	**(1,173)**	1,250	-
Interest rate swap contracts	**(135)**	131	-	**(185)**	1,470	-
	37,087	15,207	144%	**(675)**	17,658	-
Gain (loss) on risk management contracts	**33,732**	14,747	129%	**(4,619)**	16,179	-

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 change 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 June 30, 2011, the fair value of financial derivative contracts was a liability of $13.7 million. The fair value of this liability represents the estimated amount required to settle PetroBakken's outstanding contracts at June 30, 2011 and will be different than what will eventually be realized. Refer to Note 19 in the interim Consolidated Financial Statements for more detail on the gain (loss) on risk management contracts in the second quarter and six months ended June 30, 2011 and 2010.

Production Expenses

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
PetroBakken	**48,947**	29,189	68%	**87,084**	59,431	47%
PetroBakken – $ per boe	**15.24**	7.59	101%	**12.52**	7.69	63%

Production expenses increased in the second quarter and first six months of 2011 on a total dollar and per boe basis due to extremely poor surface lease conditions in southeast Saskatchewan and central Alberta, resulting in higher seasonal costs and temporarily shut-in production, increased road and lease maintenance and trucking partial loads of produced fluid. The poor weather in the quarter has increased operating costs by an estimated $2.00 per boe. As production declined, the impact of the fixed component of production expenses increased, which resulted in an increased cost per boe of about $1.50 in the quarter. Production expenses in the third quarter are expected to fall on a per boe basis with higher production and normal field operating conditions.

General and Administrative Expenses

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
HBU and Corporate	**3,877**	2,242	73%	**6,998**	3,885	80%
PetroBakken	**9,594**	9,355	3%	**18,404**	16,941	9%
Total general and administrative expense	**13,471**	11,597	16%	**25,402**	20,826	22%
PetroBakken – $ per boe	**2.99**	2.43	23%	**2.65**	2.19	21%

HBU and Corporate

Total general and administrative costs increased in the second quarter and first six months of 2011 primarily due to expanding operations and Petrobank's sponsorship of the new Telus World of Science - Calgary.

PetroBakken

General and administrative costs increased in the second quarter and first six months of 2011 on an absolute and per boe basis due primarily to additional personnel and office costs as a result of expanding operations and consolidation of office space.

Share-Based Compensation Expenses

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
HBU and Corporate	**2,532**	3,031	(16%)	**4,574**	5,620	(19%)
PetroBakken	**3,704**	10,544	(65%)	**9,148**	17,841	(49%)
Total share-based compensation expense	**6,236**	13,575	(54%)	**13,722**	23,461	(42%)

Share-based compensation expenses relate to stock options, deferred common shares, directors deferred common shares and incentive shares (collectively, "the rights") granted. The calculation of this non-cash expense is based on the fair value of the rights 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 is primarily due to forfeitures of stock options and incentives shares at PetroBakken.

Gain (Loss) on Dispositions

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
PetroBakken	**15,440**	(5,565)	-	**15,192**	1,363	1,015%

The gain on dispositions for the second quarter and first six months of 2011 relates to the disposal of non-core properties for net proceeds of $21.3 million in the second quarter of 2011 and $22.6 million in the first six months of 2011. The loss in the second quarter of 2010 and gain in the first six months of 2010 primarily relates to the disposal of four divestiture packages in Alberta representing approximately 3,000 boepd (55 percent natural gas) for net proceeds of $121.8 million.

Gain (Loss) on Derivative Financial Liability

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
HBU and Corporate	**-**	14,705	-	**-**	(17,769)	-
PetroBakken	**32,778**	46,099	(29%)	**61,048**	94,195	(35%)
Total gain (loss) on derivative financial liability	**32,778**	60,804	(46%)	**61,048**	76,426	(20%)

The gain (loss) 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.

HBU and Corporate

Petrobank's convertible debentures were fully converted to common shares of the Company in 2010. As such, there are no expenses associated with these financial instruments during the three and six months ended June 30, 2011.

PetroBakken
The gain is primarily due to a lower share price at June 30, 2011 compared to March 31, 2011 for the second quarter and compared to December 31, 2010 for the six months ended.

Exploration and Evaluation Impairment

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
HBU and Corporate	**5,146**	6,415	(20%)	**12,810**	17,104	(25%)

Exploration and evaluation impairment relate to impairment of capital additions at our HBU's Conklin cash generating unit ("CGU"). Conklin is the Company's oil sands demonstration project operating near Conklin, Alberta. Petrobank continues to evaluate the technical feasibility and commercial viability of the THAI® production technology in a bitumen resource, and to use the project for the ongoing development of the Company's THAI® production technology and other enhancements. However, the carrying value of the assets in this CGU is not estimated to be recovered in full from development based on current results. Impairment was based on value in use using management estimates as no reserve value has been assigned to this specific project area.

Capital additions at Conklin decreased in the three and six months ended June 30, 2011 compared to the same periods in 2010 due to decreased spending as the Company focused resources on other projects.

Finance and Other Expenses

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
HBU and Corporate	**681**	109	525%	**1,275**	1,906	(33%)
PetroBakken	**23,497**	19,334	22%	**45,491**	34,768	31%
Total finance and other expenses	**24,178**	19,443	24%	**46,766**	36,674	28%

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

HBU and Corporate
Following the conversion of all Petrobank's outstanding convertible debentures into common shares in the second quarter of 2010, finance and other expenses has been reduced to only accretion expense on decommissioning liabilities and the amortization of deferred financing costs and bank standby fees. The Company capitalizes interest on bank debt in accordance with our accounting policy. The increase in finance and other relates primarily to higher standby fees incurred as a result of the $200 million credit facility, which closed in January 2011 and only became drawn in the second quarter.

PetroBakken
Cash interest expense increased in the second quarter of 2011 and first six months of the year primarily due to higher bank debt outstanding in these periods. Bank debt was repaid at the end of January 2010 when the convertible debentures were issued, and increased throughout 2010 into 2011 to fund the 2010 corporate acquisitions and capital expenditures. On average, bank debt outstanding for the second quarter was $1.04 billion as compared to $548 million in 2010, and $815 million in the first six months of 2011 as compared to $440 million in the first six months of 2010.

Foreign Exchange Gain (Loss)

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
HBU and Corporate	**(1)**	(631)	(100%)	**(27)**	8,656	-
PetroBakken	**4,584**	(26,601)	-	**18,759**	(17,739)	-
Total foreign exchange gain (loss)	**4,583**	(27,232)	-	**18,732**	(9,083)	-

HBU and Corporate
The Company recognized a foreign exchange loss in the three months ended June 30, 2010, and a foreign exchange gain in the six months ended June 30, 2010 due to changes in the Canadian dollar relative to the U.S. dollar upon revaluation and conversion of Petrobank's U.S. dollar denominated convertible debentures into common shares. As Petrobank's debentures were fully converted in 2010, there is no similar loss or gain in the three or six months ended June 30, 2011.

PetroBakken
As PetroBakken's convertible debentures are denominated in U.S. dollars, the vast majority of unrealized foreign exchange gains and 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 June 30, 2011 compared to the rates at March 31, 2011 and December 31, 2010 resulted in a foreign exchange gain for three and six months ended June 30, 2011.

Depletion and Depreciation (D&D)

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
HBU and Corporate	**203**	115	77%	**391**	214	83%
PetroBakken	**83,348**	97,682	(15%)	**183,368**	195,290	(6%)
Total depletion and depreciation expense	**83,551**	97,797	(15%)	**183,759**	195,504	(6%)
PetroBakken – $ per boe	**25.95**	25.40	2%	**26.37**	25.28	4%

HBU and Corporate
HBU and Corporate D&D includes depreciation on other fixed assets and other intangible assets. The Company commenced depreciating other intangible assets in January, 2011, after proved reserves were assigned to a THAI® project. These assets are being depreciated using the straight line method over 15 years.

PetroBakken
On a total basis D&D expense decreased in second quarter and first six months as a result of lower production.

Deferred Income Taxes (Recovery)

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
HBU and Corporate	**(2,149)**	(8,689)	(75%)	**(5,060)**	(16,375)	(69%)
PetroBakken	**31,396**	19,907	58%	**41,706**	43,430	(4%)
Total deferred income taxes (recovery)	**29,247**	11,218	161%	**36,646**	27,055	35%

The deferred income tax expense in the second quarter and for the six months ended June 30, 2011 is consistent with income earned after adjustments for non-deductible and non-taxable items.

Net Income Attributable to Non-Controlling Interest

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
PetroBakken						
Net income attributable to NCI	**48,358**	20,678	134%	**70,424**	64,847	9%

The net income attributable to NCI represents the NCI share of PetroBakken's net income. The NCI share in PetroBakken averaged approximately 41 percent in both the three and six months ended June 30, 2011 (2010 – 42 percent and 39 percent, respectively).

Capital Expenditures

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	**2011**	2010	Change
HBU and Corporate						
Property, plant and equipment	**272**	383	(29%)	**376**	652	(42%)
Exploration and evaluation	**55,062**	10,136	443%	**108,975**	33,708	223%
Other intangible assets	**307**	133	131%	**545**	226	141%
	55,641	10,652	422%	**109,896**	34,586	218%
PetroBakken ("PBN")						
Property, plant and equipment	**86,358**	101,461	(15%)	**391,227**	248,416	57%
Exploration and evaluation	**26,652**	21,227	26%	**29,264**	59,388	(51%)
	113,010	122,688	(8%)	**420,491**	307,804	37%
Total capital expenditures	**168,651**	133,340	26%	**530,387**	342,390	55%

Capital Expenditures By Type

	Three months ended June 30, 2011			Six months ended June 30, 2011		
	HBU	**PBN**	**Total**	**HBU**	**PBN**	**Total**
Drilling	34,700	43,951	78,651	60,833	286,386	347,219
Facilities	15,470	31,679	47,149	36,673	82,044	118,717
Land	685	24,250	24,935	1,735	26,638	28,373
Seismic	205	960	1,165	1,338	1,806	3,144
Asset acquisitions	-	2,614	2,614	-	3,455	3,455
Other [(1)]	4,581	9,556	14,137	9,317	20,162	29,479
Total capital expenditures	**55,641**	**113,010**	**168,651**	**109,896**	**420,491**	**530,387**

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

Q2 HBU and Corporate Exploration and Evaluation Expenditures by CGU

	Drilling, completions, and workovers	Facilities	Land and Seismic	Other [1]	Total
HBU and Corporate					
Kerrobert	30,369	6,038	60	1,303	37,770
Conklin	2,644	338	54	2,342	5,378
May River	-	9,009	8	125	9,142
Dawson	1,687	85	34	211	2,017
Other	-	-	734	21	755
Total	**34,700**	**15,470**	**890**	**4,002**	**55,062**

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

Year to Date HBU and Corporate Exploration and Evaluation Expenditures by CGU

	Drilling, completions, and workovers	Facilities	Land and Seismic	Other [1]	Total
HBU and Corporate					
Kerrobert	48,030	22,009	89	2,575	72,703
Conklin	5,267	338	1,106	5,198	11,909
May River	4,997	14,020	30	296	19,343
Dawson	2,539	306	41	306	3,192
Other	-	-	1,807	21	1,828
Total	**60,833**	**36,673**	**3,073**	**8,396**	**108,975**

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

HBU and Corporate

The majority of HBU expenditures in the second quarter focused on our Kerrobert 10 well-pair expansion project, where the majority of costs relate to drilling, completions, and facility construction. Additional HBU expenditures in the quarter include engineering and procurement costs related to the May River property, drilling an observation well and workovers and operating expenses at Conklin and an undeveloped land acquisition near Kerrobert.

PetroBakken

The majority of PetroBakken's capital expenditures in the second quarter and first six months were focused on drilling, completions, recompletions, facilities, and land. The decrease in capital in the second quarter was due fewer wells being drilled, as a result of delays in the drilling program both in central Alberta and southeast Saskatchewan caused by severe spring break-up conditions. Despite limited activity, the second quarter of 2011 does include costs to complete wells that were drilled in the first quarter. The increase in the capital expenditures in the first six months is due to the increased activity in the Cardium in central Alberta, where drilling and completion costs per well are higher than southeast Saskatchewan. This was partially offset by fewer wells drilled in Saskatchewan. Facilities expenditures increased in the second quarter and first six months of 2011 due to costs to equip and tie-in drilled wells, completion of two Bakken oil batteries in southeast Saskatchewan, expansion of gathering systems to PetroBakken's five major facilities in southeast Saskatchewan, and expansion of gathering systems to our facility in the Cardium. Activity in the Cardium, Saskatchewan, and new play areas in Alberta resulted in the majority of land, property, and seismic acquisitions in 2011.

Goodwill

There were no changes to goodwill in the second quarter. Goodwill as at June 30, 2011 was $1.5 billion.

SUMMARY OF QUARTERLY RESULTS

	2011		2010				2009 – Previous GAAP [1]	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial ($000s except where noted)								
Oil and natural gas sales from continuing operations	**274,952**	281,297	258,359	228,537	245,954	275,706	276,334	101,316
Funds flow from continuing operations [2]	**148,440**	168,384	155,344	139,325	153,715	188,371	166,833	62,243
Per share – basic ($)	**1.40**	1.58	1.46	1.31	1.46	1.88	1.80	0.71
– diluted ($)	**1.38**	1.57	1.45	1.31	1.43	1.77	1.59	0.67
Adjusted net income (loss) from continuing operations [2] [3]	**25,513**	(7,685)	9,504	22,311	(45,815)	(15,301)	20,740	35,315
Per share – basic ($)	**0.24**	(0.07)	0.09	0.21	(0.44)	(0.15)	0.22	0.38
– diluted ($)	**0.23**	(0.07)	0.09	0.21	(0.44)	(0.15)	0.22	0.37
Adjusted net income (loss) attributable to Petrobank shareholders [2] [3] [4]	**25,513**	(7,685)	1,966,079	74,916	19,576	49,435	57,108	54,846
Per share – basic ($)	**0.24**	(0.07)	18.53	0.71	0.19	0.49	0.61	0.59
– diluted ($)	**0.23**	(0.07)	18.44	0.69	0.15	0.43	0.56	0.56
Capital expenditures [5]								
PetroBakken	**113,010**	307,481	262,758	241,309	122,688	185,116	177,278	107,820
HBU	**55,641**	54,255	37,521	49,385	10,652	23,935	15,554	26,737
Total from continuing operations	**168,651**	361,736	300,279	290,694	133,340	209,051	192,832	134,557
PetroBakken Operations								
Operating netbacks by product								
Crude oil and NGL sales price ($/bbl) [6]	**96.37**	81.92	75.19	68.43	70.98	76.08	71.63	67.65
Royalties	**15.04**	13.03	10.94	9.67	10.36	10.56	11.26	10.75
Production expenses [9]	**15.32**	9.81	8.65	7.92	7.05	7.29	7.99	6.86
Operating netback [2] [8]	**66.01**	59.08	55.60	50.84	53.57	58.23	52.38	50.04
Natural gas sales price ($/Mcf) [6] [7]	**4.19**	4.13	3.96	3.82	4.11	5.20	4.61	3.55
Royalties	**0.53**	0.65	0.66	0.62	0.60	0.60	0.63	0.54
Production expenses [9]	**2.47**	2.13	1.78	1.77	1.68	1.88	1.60	1.11
Operating netback [2] [7] [8]	**1.19**	1.35	1.52	1.43	1.83	2.72	2.38	1.90
Oil equivalent sales price ($/boe) [6] [7]	**85.02**	74.46	67.00	60.63	62.86	70.41	65.05	60.66
Royalties	**13.15**	11.84	9.84	8.64	9.17	9.68	10.14	9.62
Production expenses	**15.24**	10.20	8.97	8.38	7.59	7.80	8.23	6.83
Operating netback [2] [7] [8]	**56.63**	52.42	48.19	43.61	46.10	52.93	46.68	44.21
Average daily production [7]								
Crude oil and NGL (bbls)	**29,676**	36,140	34,754	33,230	34,852	37,654	38,796	15,185
Natural gas (Mcf)	**33,746**	32,534	39,474	41,193	44,469	32,662	40,951	16,177
Total (boe) [7] [10]	**35,300**	41,562	41,333	40,095	42,263	43,098	45,621	17,881

(1) As Petrobank's transition date to IFRS was January 1, 2010, 2009 comparative information has not been restated.
(2) Non-GAAP measure. See "Non-GAAP Measures" section within this MD&A.
(3) Net income has been adjusted for the effects of the gain (loss) on the derivative financial liabilities.
(4) 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.
(5) Includes expenditures on property, plant and equipment, exploration and evaluation and other intangible assets.
(6) Net of transportation expenses.
(7) Six Mcf of natural gas is equivalent to one boe.
(8) Excludes hedging activities.
(9) Determined based on production volumes where as in prior periods was determined using production values.
(10) HBU bitumen and heavy oil volumes are excluded from average daily production as Conklin and Kerrobert operations are considered to be in the exploration and evaluation phase and accordingly are capitalized.

Significant factors influencing quarterly results were:

- Base production declines and delays in bringing production on-stream resulted in a decline in liquids production from the fourth quarter of 2009 to the third quarter of 2010. Production began to increase in the fourth quarter of 2010 and into the first quarter of 2011 as PetroBakken began to reduce the backlog of wells waiting to be brought on production. Poor weather conditions in the second quarter of 2011, particularly in southeast Saskatchewan, led to wells being shut-in and delays in the drilling program, resulting in a decline in production. This shut-in production is expected to be restored as conditions improve and combined with new well activity is expected to result in increased production in the third quarter.
- Crude oil benchmark prices have generally improved throughout 2010 and into 2011, contributing to improving operating netbacks, revenue, and funds flow from operations. Natural gas prices have remained low and oscillated more over this time period, however they have not had a significant impact on these results due to PetroBakken's relatively low gas production weighting. Second quarter 2011 netbacks increased over the first quarter primarily due to increased WTI prices.
- Production expenses per boe declined in the first and second quarters of 2010 due to non-core property dispositions and field optimization. Since that time, production expenses per boe have increased, primarily due to lower production volumes in southeast Saskatchewan, but consistent fixed costs, and temporary cost increases caused by the poor weather.
- PetroBakken second quarter 2011 capital expenditures followed the typical seasonal pattern and declined compared to the other three calendar quarters as activity was limited due to spring break-up.

Commitments

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments as at June 30, 2011:

Type of Commitment	2011	2012	2013	2014	2015	Thereafter	Total
HBU and Corporate							
Office operating leases ($) [1]	$ 1,689	$ 4,424	$ 4,594	$ 4,681	$ 4,710	$ 15,237	$ 35,335
Finance leases ($)	360	578	581	486	97	-	2,102
PetroBakken							
Office operating leases ($) [1]	2,131	4,914	6,629	6,655	6,699	35,756	62,784
Drilling and completion rigs ($)	5,055	9,003	8,698	6,902	-	-	29,658
Total Commitments	**$ 9,235**	**$ 18,919**	**$ 20,502**	**$ 18,724**	**$ 11,506**	**$ 50,993**	**$129,879**

[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 consolidated statement of operations.

Liquidity and Capital Resources

Petrobank 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's consolidated capital structure and liquidity as at June 30, 2011:

	HBU and Corporate	PetroBakken	**Petrobank Consolidated**
Working capital deficit [1]	$ 21,386	$ 32,743	**$ 54,129**
Bank debt – principal	$ 45,524	$ 1,142,768	**$ 1,188,292**
Convertible debentures – principal amount (US$)	$ -	$ 750,000	**$ 750,000**
Common share capital [2]	$ 1,576,423	$ 3,149,005	**$ 1,576,423**
Credit facility	$ 200,000	$ 1,350,000	
Available credit capacity [3]	$ 154,476	$ 207,232	

(1) Working capital is calculated as current assets less current liabilities, excluding any current portion of risk management asset or liability.

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

(3) Availability on the credit facility is reduced in certain circumstances based on the collateral value of Petrobank's ownership in PetroBakken.

HBU and Corporate

At June 30, 2011, on a standalone basis independent of PetroBakken, Petrobank's HBU and Corporate had bank debt of $45.5 million and a working capital deficit of $21.4 million.

Petrobank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Petrobank considers its capital structure to include common share capital, bank debt and working capital. In order to maintain or adjust the capital structure, from time to time Petrobank may issue common shares or other securities, obtain project financing, sell assets or adjust its capital spending to manage current and projected debt levels.

Based on Petrobank's current ownership and PetroBakken's payment of an annual dividend of $0.96 per common share, Petrobank expects to receive $105 million of dividends annually from PetroBakken, paid monthly. Petrobank can also raise funds by selling a portion of its ownership in PetroBakken.

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

Petrobank expects to satisfy ongoing working capital requirements with dividends received from PetroBakken, available credit and cash from operations.

PetroBakken

PetroBakken's strategy is to provide a reasonable dividend yield to shareholders while delivering an accretive 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 June 30, 2011, PetroBakken had $1.14 billion of bank debt drawn on the $1.35 billion credit facility. PetroBakken's credit facility is with a syndicate of banks and has a maturity date of June 2, 2014. The amount of the facility is based on, among other things, reserves, results from operations, current and forecasted commodity prices and the current economic environment. The credit facility provides that advances may be made by way of direct advances, banker's acceptances, or standby letters of

credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances, and at the bank's U.S. base rate plus an applicable margin for U.S. dollar advances. The applicable margin charged by the bank is based on a sliding scale ratio of PetroBakken's debt to earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA"). The facility is secured by a $2.0 billion demand debenture and a securities pledge on PetroBakken's assets. The credit facility has financial covenants that limit the ratio of secured debt to 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) 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.

As at June 30, 2011, PetroBakken had convertible debentures outstanding of US$750 million with an annual coupon of 3.125%. The convertible debenture has a financial covenant that limits the amount of security and encumbrances to 35% of PetroBakken's total assets. PetroBakken is in compliance with this covenant.

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 credit facility;
- Issuance of common shares of PetroBakken;
- Commencement of a dividend reinvestment program or a dividend reduction;
- Issuance of subordinated or convertible debt;
- Adjustments to capital program as commodity prices fluctuate;
- Sale of producing or non-producing assets. Cash generated from a sale may be reduced by any required debt payments; and
- Monetization of risk management assets.

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

Capital Plan

HBU activity in the remainder of 2011 will focus on: start-up of the 10 well-pair expansion at Kerrobert; drilling, completions and facilities construction of the initial two well-pair project at Dawson; additional resource evaluation, and procurement of long lead items for the first phase of the May River development.

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, exploration and development of the northeast British Columbia properties, and leveraging our significant undeveloped land base into new resource opportunities.

Outstanding Share Data

The number of Petrobank shares outstanding at the date of this MD&A is 106,321,640, an increase of 18,175 shares from June 30, 2011, which relates to the exercise of stock options and incentive shares.

Risks and Uncertainties

There have been no significant changes in the three and six months ended June 30, 2011 to the risk and uncertainties identified in the MD&A for the year ended December 31, 2010.

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 2011:

Change of:		(millions)
PetroBakken		
Crude oil	US$1.00/bbl WTI reference price (assuming 30,000 bopd)	**$8.4**
	1,000 bopd of production @ US$100/bbl WTI	**$26.6**
Natural gas	$1.00/mcf AECO reference price (assuming 34 MMcf /d)	**$10.5**
	10.0 MMcf per day of production @ $4.00/mcf AECO	**$12.0**
Currency	US$0.01 in exchange rate	**$8.6**
Interest rate	1% change in interest rate	**$9.7**

Accounting Policies and Estimates

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with IFRS, which require management to make judgments, estimates and assumptions, which may have a significant impact on the financial statements. The following is a discussion of those accounting policies and estimates that are considered critical in the determination of the Company's financial results.

Exploration and Evaluation Assets

Costs incurred in the exploration and evaluation ("E&E") stage, occurring subsequent to obtaining a right or license to explore, but prior to establishing commercial viability and technical feasibility, are considered to be intangible exploration assets. Intangible exploration costs are not depleted and are carried forward until commercial viability and technically feasibility are determined to exist. A review of intangible exploration costs by project is carried out at least annually in making this assessment. For heavy oil business unit projects, management considers commercial viability and technical feasibility to exist when projects are expected to be free cash flow positive (operating cash flow is higher than maintenance capital investments) for the remaining life of the project, as demonstrated by assignment of proved reserves, combined with management's judgment of other factors impacting current project status and forecast operating and financial results. Intangible exploration assets not pertaining to a heavy oil business unit project are considered commercially viable and technically feasible when proved reserves have been assigned. Once commercial viability and technical feasibility have been determined to exist, costs are tested for impairment and reclassified to oil and natural gas assets within property, plant and equipment.

Intangible exploration assets are also assessed for impairment when facts and circumstances suggest that the carrying amount may exceed recoverable amount. The intangible exploration assets will be allocated to a cash generating unit for the purpose of assessing impairment. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. Impairment will be charged to the consolidated statement of operations in the period incurred.

Property, Plant and Equipment
Oil and natural gas assets are accumulated in cost centres based on CGUs. CGUs are depreciated and depleted using the unit-of-production method based upon estimated proved plus probable reserves before royalties. Costs subject to depletion include estimated costs to develop proved plus probable reserves and exclude estimated salvage value. Reserve and production volumes of oil and natural gas are converted to common units on the equivalency basis of six thousand cubic feet ("Mcf") to one standard barrel of oil ("bbl"), reflecting the approximate relative energy content.

Impairment
An impairment test will be performed whenever events and circumstances indicate that the carrying value of the asset or CGU may exceed the recoverable amount, unless there is goodwill allocated to the CGU, in which case the impairment test must be performed annually. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Intangible exploration assets are allocated to the CGU they relate to for purposes of impairment testing. In assessing the recoverable amount for oil and gas assets, the discounted future net cash flows associated with the CGU's proved plus probable reserves is used. If there is indication of an impairment loss, the costs carried on the statement of financial position in excess of the recoverable amount are charged to net income.

Business Combinations and Goodwill
The purchase price used in a business combination is based on the fair value at the date of acquisition. The cost of the acquisition is measured at the fair value of the assets acquired, net of liabilities assumed. The excess of cost over fair value of the net assets and liabilities acquired is recorded as goodwill. Goodwill is allocated to the CGU or group of CGUs expected to benefit from the synergies of the combination.

Goodwill is assessed for impairment by assessing the recoverable amount of the CGU or group of CGUs that the goodwill is allocated to. If goodwill is impaired, the carrying value is reduced to the estimated fair value and an impairment loss is recorded in net income.

Reserve Estimates
For the basis of these financial statements, proved reserves are those reserves claimed to have a reasonable certainty (normally at least 90% confidence) of being recoverable under existing economic and political conditions, with existing technology.

Unproved reserves are based on geological and/or engineering data similar to that used in estimates of proved reserves, but technical, contractual, or regulatory uncertainties preclude such reserves being classified as proved. Probable reserves are attributed to known accumulations, and claim a 50% confidence level of recovery.

Reserves are determined pursuant to National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities.*

Decommissioning Liabilities
The Company recognizes the estimated fair value of future decommissioning liabilities associated with capital assets as a liability in the period in which they are incurred, which is normally when the asset is purchased or developed. The liability is based on the estimated costs to abandon and reclaim the net ownership interest in all wells, gathering lines and facilities, and the estimated timing of the costs to be incurred in future periods. Actual decommissioning liabilities settled during the period reduce the decommissioning liability.

Convertible Debentures
The Company separates convertible debentures with a cash settlement option into debt and derivative financial liability components on the consolidated statement of financial position. On initial recognition, the debt component is recorded as a liability at amortized cost. The debt component is accreted up using the effective interest method to the face value at maturity. The unwinding of the discount on the convertible bonds is recorded as a financing expense.

On initial recognition, and at each subsequent reporting period, the derivative financial liability is recorded at fair value determined using the Black-Scholes option pricing model. The resulting gains or losses are recorded as a separate line item in the consolidated statement of operations.

Deferred Taxes
The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets or liabilities are recorded to reflect differences between the accounting and tax base of assets and liabilities. Deferred income taxes are measured using tax rates that are expected to apply to the period when the deferred tax asset is realized or deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The effect of any changes in tax rates is recognized in net income in the period in which the change occurs or in shareholders' equity, depending on the nature of the item(s) affected by the adjustment.

A complete summary of Petrobank's significant accounting policies can be found in Note 2 to Petrobank's March 31, 2011 unaudited condensed interim consolidated financial statements. There have been no significant changes to the Company's critical accounting policies in the three months ended June 30, 2011.

Changes in Accounting Policies

Reconciliations
The following is a reconciliation of net income from previous Canadian GAAP to IFRS for the three and six months ended June 30, 2010.

Three months ended June 30, 2010	HBU and Corporate	PetroBakken	Petrominerales	Total
Net income (loss) attributable to Petrobank shareholders – previous GAAP	(5,568)	(8,956)	55,574	41,050
Depletion and depreciation	-	36,474	-	36,474
Exploration and evaluation impairment	(6,415)	-	-	(6,415)
Gain (loss) on disposition	-	(5,565)	-	(5,565)
Share-based compensation	(329)	(3,249)	-	(3,578)
Gain (loss) on derivative financial liabilities	14,705	46,099	-	60,804
Expense on amendment of terms of convertible debentures	(24,345)	-	-	(24,345)
Gain (loss) on unrealized foreign exchange on convertible debentures	6	(1,635)	-	(1,629)
Accretion on convertible debentures	(12)	1,035	-	1,023
Accretion on decommissioning liabilities	8	(125)	-	(117)
Deferred income taxes	8,456	(8,485)	-	(29)
Net income (loss) attributable to NCI	-	(27,110)	-	(27,110)
Net income from discontinued operations	-	-	9,817	9,817
Net income (loss) attributable to Petrobank shareholders – IFRS	**(13,494)**	**28,483**	**65,391**	**80,380**

Six months ended June 30, 2010	HBU and Corporate	PetroBakken	Petrominerales	Total
Net income attributable to Petrobank shareholders – previous GAAP	1,380	15,610	106,559	123,549
Depletion and depreciation	-	71,626	-	71,626
Exploration and evaluation impairment	(17,104)	-	-	(17,104)
Gain (loss) on disposition	-	1,363	-	1,363
Share-based compensation	333	(5,310)	-	(4,977)
Gain (loss) on derivative financial liabilities	(17,769)	94,195	-	76,426
Expense on amendment of terms of convertible debentures	(66,730)	-	-	(66,730)
Gain (loss) on unrealized foreign exchange on convertible debentures	(146)	(45)	-	(191)
Accretion on convertible debentures	(157)	1,761	-	1,604
Accretion on decommissioning liabilities	16	(217)	-	(201)
Deferred income taxes	11,980	(18,732)	-	(6,752)
Net income (loss) attributable to NCI	-	(56,744)	-	(56,744)
Net income from discontinued operations	-	-	23,568	23,568
Net income (loss) attributable to Petrobank shareholders – IFRS	**(88,197)**	**103,507**	**130,127**	**145,437**

Pending Accounting Pronouncements

Our IFRS consolidated financial statements for the year ending December 31, 2011 must use the standards that are in effect on December 31, 2011, and therefore we have prepared our interim Consolidated Financial Statements using the standards that are expected to be effective at the end of 2011. However, our IFRS accounting policies will only be finalized when our first annual IFRS financial statements are prepared for the year ending December 31, 2011.

The International Accounting Standards Board ("IASB") has issued the following new accounting standards which are applicable beginning after July 1, 2011 or later periods:

- IFRS 9, *Financial Instruments*:
  In an effort to reduce the complexity of accounting for financial instruments, the IASB has engaged in a project to replace International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*.

- IFRS 10, *Consolidated Financial Statements*:
  IFRS 10 supersedes IAS 27, *Consolidated and Separate Financial Statements*, and Standing Interpretations Committee ("SIC") 12, *Consolidation – Special Purpose Entities*, and provides additional guidance to determine whether an investee should be consolidated by identifying the concept of control.

- IFRS 11, *Joint Arrangements:*
  IFRS 11 presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method.

- IFRS 12, *Disclosure of Interests in Other Entities*:
  IFRS 12 outlines disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles, and other off-balance sheet vehicles.

IFRS 13, *Fair Value Measurement*:
IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements.

The IASB has also announced the following conforming amendments due to release of IFRS 10 and 11:

- IAS 27, *Separate Financial Statements*:
  IAS 27, as amended in 2011, deals only with separate financial statements (i.e., unconsolidated); all consolidation guidance has been moved to IFRS 10.

- IAS 28*, Investments in Associates and Joint Ventures:*
  IAS 28, as amended in 2011, prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Company expects to adopt the above standards and amendments on January 1, 2013, when they become effective.

Additional amendments to existing standards include the following:

- IAS 1, Presentation of Items of Other Comprehensive Income:
  In June 2011, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, to split items of other comprehensive income between those that are reclassified to income and those that do not. The standard is required to be adopted for periods beginning on or after July 1, 2012.

- IAS 19, *Employee Benefits*:
  In June 2011, the IASB issued amendments to IAS 19 to revise certain aspects of the accounting for pension plans and other benefits. The amendments eliminate the corridor method of accounting for defined benefit plans, change the recognition pattern of gains and losses, and require additional disclosures. The standard is required to be adopted for periods beginning on or after January 1, 2013.

We are evaluating the impact that all new or revised standards may have on our results of operations and financial position.

Regulatory Policies

Certification of Disclosures in Interim Filings
In accordance with Multilateral 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 three and six months ended June 30, 2011, there has been no change in the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR. The Company has continually had in place systems 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.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

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

		Three months ended June 30,		Six months ended June 30,	
	Note	**2011**	2010 *(Note 22)*	**2011**	2010 *(Note 22)*
Oil and natural gas sales		**$ 274,952**	$ 245,954	**$ 556,249**	$ 521,660
Royalties		**(42,240)**	(35,258)	**(86,538)**	(72,799)
Oil and natural gas revenues		**232,712**	210,696	**469,711**	448,861
Gain (loss) on risk management contracts	19	**33,732**	14,747	**(4,619)**	16,179
		266,444	225,443	**465,092**	465,040
Production		**48,947**	29,189	**87,084**	59,431
Transportation		**1,820**	4,204	**4,575**	6,804
General and administrative		**13,471**	11,597	**25,402**	20,826
Share-based compensation	15	**6,236**	13,575	**13,722**	23,461
(Gain) loss on dispositions	10	**(15,440)**	5,565	**(15,192)**	(1,363)
Gain on derivative financial liabilities	12	**(32,778)**	(60,804)	**(61,048)**	(76,426)
Expense on amendment of terms of convertible debentures	12	**-**	24,345	**-**	66,730
Exploration and evaluation impairment	6	**5,146**	6,415	**12,810**	17,104
Finance and other	5	**24,178**	19,443	**46,766**	36,674
Foreign exchange (gain) loss		**(4,583)**	27,232	**(18,732)**	9,083
Depletion and depreciation expense	7, 8	**83,551**	97,797	**183,759**	195,504
		130,548	178,558	**279,146**	357,828
Income from continuing operations before taxes and non-controlling interest ("NCI")		**135,896**	46,885	**185,946**	107,212
Deferred income taxes	14	**29,247**	11,218	**36,646**	27,055
Income from continuing operations before NCI		**106,649**	35,667	**149,300**	80,157
Net income attributable to NCI	17	**48,358**	20,678	**70,424**	64,847
Net income from continuing operations attributable to Petrobank shareholders		**58,291**	14,989	**78,876**	15,310
Net income from discontinued operations (net of tax)	4	**-**	65,391	**-**	130,127
Net income attributable to Petrobank shareholders		**58,291**	80,380	**78,876**	145,437
Other comprehensive income:					
Foreign currency translation differences		**-**	29,825	**-**	12,449
Less: foreign currency translation differences related to NCI		**-**	(10,141)	**-**	(4,233)
Comprehensive income attributable to Petrobank shareholders		**$ 58,291**	$ 100,064	**$ 78,876**	$ 153,653
Earnings per share					
Basic earnings from continuing operations		**$ 0.55**	$ 0.14	**$ 0.74**	$ 0.15
Basic earnings from discontinued operations		**$ -**	$ 0.62	**$ -**	$ 1.27
Basic earnings per share	16	**$ 0.55**	$ 0.76	**$ 0.74**	$ 1.42
Diluted earnings per share from continuing operations		**$ 0.54**	$ 0.14	**$ 0.72**	$ 0.15
Diluted earnings per share from discontinued operations		**$ -**	$ 0.57	**$ -**	$ 1.15
Diluted earnings per share	16	**$ 0.54**	$ 0.71	**$ 0.72**	$ 1.30

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	June 30, 2011	Dec. 31, 2010 *(Note 22)*
Assets			
Current assets			
Cash and cash equivalents		**$ -**	$ 17,468
Accounts receivable	19	**141,733**	163,311
Prepaid expenses and other assets		**16,547**	12,000
Risk management assets	19	**2,339**	2,231
		160,619	195,010
Other assets		**-**	27
Risk management assets	19	**1,595**	-
Exploration assets	6	**1,340,204**	1,340,411
Property, plant and equipment	7	**3,496,932**	3,163,656
Other intangible assets	8	**5,734**	5,375
Goodwill	9	**1,524,124**	1,524,124
Deferred tax assets		**41,911**	36,852
Total assets		**$ 6,571,119**	$ 6,265,455
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		**$ 211,760**	$ 376,012
Current portion of finance lease obligations		**649**	838
Risk management liabilities	19	**11,934**	12,682
		224,343	389,532
Bank debt	11	**1,181,282**	824,845
Convertible debentures	12	**593,899**	600,844
Derivative financial liabilities	12	**15,093**	76,141
Finance lease obligations		**1,620**	1,831
Other long-term liabilities		**9,616**	5,170
Decommissioning liabilities	13	**150,061**	142,819
Risk management liabilities	19	**5,723**	2,597
Deferred tax liabilities		**538,931**	497,225
Total liabilities		**2,720,568**	2,541,004
Shareholders' equity			
Common shares	15	**1,576,423**	1,575,448
Contributed surplus		**46,523**	42,741
Paid-in capital		**858,140**	840,772
Retained earnings		**(87,917)**	(166,793)
Total Petrobank shareholders' equity		**2,393,169**	2,292,168
Non-controlling interest	17	**1,457,382**	1,432,283
Total shareholders' equity		**3,850,551**	3,724,451
Total liabilities and equity		**$ 6,571,119**	$ 6,265,455

Commitments and contingencies (Note 21)

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	Accumulated Other Comprehensive Income	Retained Earnings	Total
January 1, 2010		$ 904,498	$ 38,726	$ 875,924	$ -	$ (31,318)	$ 1,787,830
Total comprehensive income attributable to Petrobank shareholders		-	-	-	-	145,437	145,437
Gain on translation of Petrominerales attributable to Petrobank shareholders		-	-	-	8,216	-	8,216
Shares issued for exercise of stock options		9,463	-	-	-	-	9,463
Shares issued upon conversion of convertible debt (net of costs)		651,160	-	-	-	-	651,160
Transfer from contributed surplus related to stock options exercised		3,262	(3,262)	-	-	-	-
Share-based compensation		-	5,620	-	-	-	5,620
Change in paid-in capital		-	-	91,897	-	-	91,897
June 30, 2010		$1,568,383	$ 41,084	$ 967,821	$ 8,216	$ 114,119	$ 2,699,623
January 1, 2011		$1,575,448	$ 42,741	$ 840,772	$ -	$ (166,793)	$ 2,292,168
Total comprehensive income attributable to Petrobank shareholders for the period		-	-	-	-	78,876	78,876
Shares issued for exercise of stock options	15	183	-	-	-	-	183
Transfer from contributed surplus related to stock options exercised	15	792	(792)	-	-	-	-
Share-based compensation		-	4,574	-	-	-	4,574
Change in paid-in capital		-	-	17,368	-	-	17,368
June 30, 2011		**$1,576,423**	**$ 46,523**	**$ 858,140**	**$ -**	**$ (87,917)**	**$ 2,393,169**

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 June 30,		Six months ended June 30,	
		2011	2010	**2011**	2010
Operating Activities	Note				
Net income attributable to Petrobank shareholders		**$ 58,291**	$ 80,380	**$ 78,876**	$ 145,437
Net income from discontinued operations	4	**-**	(65,391)	**-**	(130,127)
Net income attributable to NCI	17	**48,358**	20,678	**70,424**	64,847
Share-based compensation	15	**6,236**	13,575	**13,722**	23,461
(Gain) loss on disposal of non-current assets held for sale	10	**(15,440)**	5,565	**(15,192)**	(1,363)
Gain on derivative financial liabilities	12	**(32,778)**	(60,804)	**(61,048)**	(76,426)
Expense on amendment of terms of convertible debentures	12	**-**	24,345	**-**	66,730
Exploration and evaluation impairment	6	**5,146**	6,415	**12,810**	17,104
Unrealized foreign exchange (gain) loss		**(4,592)**	27,280	**(18,448)**	(5,690)
Depletion and depreciation expense	7, 8	**83,551**	97,797	**183,759**	195,504
Unrealized (gain) loss on risk management contracts	19	**(37,087)**	(15,207)	**675**	(17,658)
Accretion on convertible debentures	5	**5,785**	5,930	**11,505**	11,393
Accretion on decommissioning liabilities	5, 13	**1,459**	1,312	**2,906**	2,655
Amortization of deferred financing costs	5	**1,295**	1,148	**2,861**	2,212
Deferred income taxes	14	**29,247**	11,218	**36,646**	27,055
Realized foreign exchange loss related to financing	12	**-**	-	**-**	18,184
Decommissioning liabilities settled	13	**(1,031)**	(526)	**(2,672)**	(1,232)
		148,440	153,715	**316,824**	342,086
Changes in non-cash working capital	20	**36,533**	(5,998)	**(1,190)**	(19,613)
Net cash provided by operating activities from continuing operations		**184,973**	147,717	**315,634**	322,473
Net cash provided by operating activities from discontinued operations		**-**	232,096	**-**	275,008
		184,973	379,813	**315,634**	597,481
Investing Activities					
Expenditures on property, plant and equipment		**(86,630)**	(101,844)	**(391,603)**	(249,068)
Exploration and evaluation expenditures		**(81,714)**	(31,363)	**(138,239)**	(93,096)
Other expenditures		**(307)**	(133)	**(545)**	(226)
Acquisitions	10	**-**	(141,230)	**-**	(482,749)
Proceeds from dispositions	10	**21,305**	15,723	**22,589**	121,755
Dividends received by Petrobank	17	**26,352**	34,509	**52,704**	60,861
Capital lease obligations		**(202)**	-	**(399)**	-
Changes in non-cash working capital	20	**(234,307)**	(93,621)	**(140,670)**	(98,614)
Net cash provided by investing activities from continuing operations		**(355,503)**	(317,959)	**(596,163)**	(741,137)
Net cash provided by investing activities from discontinued operations		**-**	(80,955)	**-**	(175,179)
		(355,503)	(398,914)	**(596,163)**	(916,316)
Financing Activities					
Issuance (repayment) of bank debt		**218,605**	221,406	**358,505**	(282,427)
Financing costs relating to bank debt		**(3,062)**	(1,750)	**(4,904)**	(1,750)
Dividends paid by PetroBakken Energy Ltd.	17	**(44,947)**	(45,265)	**(89,812)**	(86,952)
Issuance of common shares	15	**135**	30	**183**	8,381
Equity issued (repurchased) by PetroBakken Energy Ltd.		**1**	(3,140)	**4**	(3,140)
Issuance of convertible debentures	12	**-**		**-**	769,651
Early conversion of convertible debentures	12	**-**	(27,953)	**-**	(29,317)
Realized loss on foreign exchange contract	12	**-**	-	**-**	(18,184)
Amortization of obligations under gas sale contract		**(206)**	(206)	**(410)**	(410)
Changes in non-cash working capital	20	**4**	1,086	**(505)**	(866)
Net cash provided by financing activities from continuing operations		**170,530**	144,208	**263,061**	354,986
Net cash provided by financing activities from discontinued operations		**-**	2,205	**-**	2,747
		170,530	146,413	**263,061**	357,733
Effect of exchange rate changes relating to discontinued operations		**-**	3,258	**-**	2,195
Net change in cash and cash equivalents		**-**	130,570	**(17,468)**	41,093
Cash and cash equivalents, beginning of period		**-**	47,477	**17,468**	136,954
Cash and cash equivalents, end of period		**$ -**	$ 178,047	**$ -**	$ 178,047
Cash and cash equivalents consist of:					
Continuing operations					
Cash		**$ -**	$ 7,347	**$ -**	$ 7,347
Cash equivalents		**$ -**	$ -	**$ -**	$ -
Discontinued operations					
Cash		**$ -**	$ 3,829	**$ -**	$ 3,829
Cash equivalents		**$ -**	$ 166,871	**$ -**	$ 166,871

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 registered 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 June 30, 2011 and December 31, 2010 and for the three and six months ended June 30, 2011 and 2010 comprise the Company and our subsidiaries.

Basis of Presentation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its 2011 interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting,* and are presented in Canadian dollars with all values rounded to the nearest thousand dollars ($000s), except where otherwise indicated. The accounting policies followed in these interim financial statements are the same as those applied in the company's interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 22 contains the reconciliations between Canadian GAAP and IFRS for the comparative periods and a description of the transition adjustments, including detail of the exemptions and elections taken by the Company on transition from Canadian GAAP to IFRS.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of August 15, 2011, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010, and the Company's interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

Measurement Uncertainty and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial position, as well as the reported amounts of revenues, expenses, and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from estimated amounts.

Amounts recorded for depletion and depreciation costs and amounts used for exploration assets, property, plant and equipment and goodwill impairment calculations are based on estimates of crude oil and natural gas reserves and future costs required to develop those reserves. Share-based compensation is based upon expected volatility and option life estimates. Decommissioning liabilities and related accretion expense are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates. The derivative financial liabilities related to the convertible debentures and the gain or loss on derivative financial liabilities is based on estimated fair value using the Black-Scholes model. The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

Note 2 – Changes in Accounting Policies

Pending Accounting Pronouncements

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") have issued the following new accounting standards or amendments to existing standards which are applicable beginning after July 1, 2011 or later periods:

- IFRS 9, *Financial Instruments*:
  In an effort to reduce the complexity of accounting for financial instruments, the IASB has engaged in a project to replace International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*.
- IFRS 10, *Consolidated Financial Statements*:
  IFRS 10 supersedes IAS 27, *Consolidated and Separate Financial Statements*, and Standing Interpretations Committee ("SIC") 12, *Consolidation – Special Purpose Entities*, and provides additional guidance to determine whether an investee should be consolidated by identifying the concept of control.
- IFRS 11, *Joint Arrangements:*
  IFRS 11 presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method.
- IFRS 12, *Disclosure of Interests in Other Entities*:
  IFRS 12 outlines disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles, and other off-balance sheet vehicles.

- IFRS 13, *Fair Value Measurement*:
  IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements.

The IASB has also announced the following conforming amendments due to release of IFRS 10 and 11:

- IAS 27, *Separate Financial Statements*:
  IAS 27, as amended in 2011, deals only with separate financial statements (i.e., unconsolidated); all consolidation guidance has been moved to IFRS 10.
- IAS 28*, Investments in Associates and Joint Ventures:*
  IAS 28, as amended in 2011, prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Company expects to adopt the above standards and amendments on January 1, 2013, when they become effective.

Additional amendments to existing standards include the following:

- IAS 1*, Presentation of Items of Other Comprehensive Income*:
  In June 2011, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, to split items of other comprehensive income between those that are reclassified to income and those that are not. The standard is required to be adopted for periods beginning on or after July 1, 2012.
- IAS 19, *Employee Benefits*:
  In June 2011, the IASB issued amendments to IAS 19 to revise certain aspects of the accounting for pension plans and other benefits. The amendments eliminate the corridor method of accounting for defined benefit plans, change the recognition pattern of gains and losses, and require additional disclosures. The standard is required to be adopted for periods beginning on or after January 1, 2013.

We are evaluating the impact that all new or revised standards may have on our results of operations and financial position.

Note 3 – Segmented Information

For the periods ended June 30, 2011, the Company comprised of two operating segments: the Heavy Oil Business Unit ("HBU") and PetroBakken Energy Ltd. ("PetroBakken"). Prior to December 31, 2010, the Company also included Petrominerales Ltd. ("Petrominerales"). Where segmented information is provided throughout these condensed interim consolidated financial statements, the HBU is combined with activities performed at the Petrobank corporate level ("Corporate").

The HBU operates the Kerrobert heavy oil project and Conklin oil sands demonstration project using Petrobank's patented THAI® technology. The Kerrobert and Conklin projects are in the exploration and evaluation ("E&E") stage and accordingly, all expenses, net of revenues, are capitalized.

PetroBakken (TSX: PBN), 59% owned by Petrobank as at June 30, 2011 (December 31, 2010: 59%, June 30, 2010: 58%), 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.

On December 31, 2010, Petrobank and Petrominerales (TSX: PMG), an entity focused on oil exploration and production in Colombia and Peru, completed a corporate reorganization which resulted in Petrobank shareholders receiving Petrobank's proportionate interest in Petrominerales. Pursuant to this distribution, a new Alberta corporation was formed ("New Petrominerales") which acquired all the outstanding shares of Petrominerales. Petrobank shareholders received 0.6142 shares of New Petrominerales and one replacement common share of Petrobank for each Petrobank common share held. Petrobank has no continuing involvement in this operating segment subsequent to the distribution. As such, the results of operations of Petrominerales are presented as discontinued operations in the condensed interim consolidated statement of operations and comprehensive income for all periods prior to the distribution. Unless otherwise noted, all disclosures in the notes accompanying the condensed interim consolidated financial statements reflect only continuing operations.

Results by operating segment for the three and six months ended June 30, 2011 and 2010 were as follows:

Three months ended June 30,	**2011**			2010			
	PetroBakken	HBU and Corporate	Total	PetroBakken	Petrominerales	HBU and Corporate	Total
Oil and natural gas sales	**$ 274,952**	**$ -**	**$ 274,952**	$ 245,954	$ -	$ -	$ 245,954
Royalties	**(42,240)**	**-**	**(42,240)**	(35,258)	-	-	(35,258)
Oil and natural gas revenues	**232,712**	**-**	**232,712**	210,696	-	-	210,696
Gain (loss) on risk management contracts	**33,732**	**-**	**33,732**	14,747	-	-	14,747
	266,444	**-**	**266,444**	225,443	-	-	225,443
Production	**48,947**	**-**	**48,947**	29,189	-	-	29,189
Transportation	**1,820**	**-**	**1,820**	4,204	-	-	4,204
General and administrative	**9,594**	**3,877**	**13,471**	9,355	-	2,242	11,597
Share-based compensation	**3,704**	**2,532**	**6,236**	10,544	-	3,031	13,575
(Gain) loss on disposition	**(15,440)**	**-**	**(15,440)**	5,565	-	-	5,565
Gain on derivative financial liabilities	**(32,778)**	**-**	**(32,778)**	(46,099)	-	(14,705)	(60,804)
Expense on amendment of terms of convertible debentures	**-**	**-**	**-**	-	-	24,345	24,345
Exploration and evaluation impairment	**-**	**5,146**	**5,146**	-	-	6,415	6,415
Finance and other	**23,497**	**681**	**24,178**	19,334	-	109	19,443
Foreign exchange (gain) loss	**(4,584)**	**1**	**(4,583)**	26,601	-	631	27,232
Depletion and depreciation expense	**83,348**	**203**	**83,551**	97,682	-	115	97,797
	118,108	**12,440**	**130,548**	156,375	-	22,183	178,558
Net income (loss) from continuing operations before taxes and NCI	**148,336**	**(12,440)**	**135,896**	69,068	-	(22,183)	46,885
Deferred income taxes (recovery)	**31,396**	**(2,149)**	**29,247**	19,907	-	(8,689)	11,218
Net income (loss) from continuing operations before NCI	**116,940**	**(10,291)**	**106,649**	49,161	-	(13,494)	35,667
Net income attributable to NCI	**48,358**	**-**	**48,358**	20,678	-	-	20,678
Net income (loss) from continuing operations attributable to Petrobank shareholders	**$ 68,582**	**$ (10,291)**	**$ 58,291**	$ 28,483	$ -	$ (13,494)	$ 14,989
Net income from discontinued operations (net of tax)	**-**	**-**	**-**	-	65,391	-	65,391
Net income (loss) attributable to Petrobank shareholders	**$ 68,582**	**$ (10,291)**	**$ 58,291**	$ 28,483	$ 65,391	$ (13,494)	$ 80,380
Identifiable assets	**$ 6,093,444**	**$ 477,675**	**$ 6,571,119**	$ 5,530,641	$ 1,153,589	$ 319,490	$ 7,003,720
Total liabilities	**$ 2,635,259**	**$ 85,309**	**$ 2,720,568**	$ 2,113,565	$ 438,729	$ 20,868	$ 2,573,162
Capital expenditures	**$ 113,010**	**$ 55,641**	**$ 168,651**	$ 122,688	$ 115,056	$ 10,652	$ 248,396
Dividends paid (received)	**$ 44,947**	**$ (26,352)**	**$ 18,595**	$ 45,265	$ 12,399	$ (34,509)	$ 23,155

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at June 30, 2011 and December 31, 2010, and for the three and six months ended June 30, 2011 and 2010
(Unaudited, all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

Six months ended June 30,	**2011**			2010			
	PetroBakken	HBU and Corporate	Total	PetroBakken	Petrominerales	HBU and Corporate	Total
Oil and natural gas sales	**$ 556,249**	**$ -**	**$ 556,249**	$ 521,660	$ -	$ -	$ 521,660
Royalties	**(86,538)**	**-**	**(86,538)**	(72,799)	-	-	(72,799)
Oil and natural gas revenues	**469,711**	**-**	**469,711**	448,861	-	-	448,861
Gain (loss) on risk management contracts	**(4,619)**	**-**	**(4,619)**	16,179	-	-	16,179
	465,092	**-**	**465,092**	465,040	-	-	465,040
Production	**87,084**	**-**	**87,084**	59,431	-	-	59,431
Transportation	**4,575**	**-**	**4,575**	6,804	-	-	6,804
General and administrative	**18,404**	**6,998**	**25,402**	16,941	-	3,885	20,826
Share-based compensation	**9,148**	**4,574**	**13,722**	17,841	-	5,620	23,461
Gain on disposition	**(15,192)**	**-**	**(15,192)**	(1,363)	-	-	(1,363)
(Gain) loss on derivative financial liabilities	**(61,048)**	**-**	**(61,048)**	(94,195)	-	17,769	(76,426)
Expense on amendment of terms of convertible debentures	**-**	**-**	**-**	-	-	66,730	66,730
Exploration and evaluation impairment	**-**	**12,810**	**12,810**	-	-	17,104	17,104
Finance and other	**45,491**	**1,275**	**46,766**	34,768	-	1,906	36,674
Foreign exchange (gain) loss	**(18,759)**	**27**	**(18,732)**	17,739	-	(8,656)	9,083
Depletion and depreciation expense	**183,368**	**391**	**183,759**	195,290	-	214	195,504
	253,071	**26,075**	**279,146**	253,256	-	104,572	357,828
Net income (loss) from continuing operations before taxes and NCI	**212,021**	**(26,075)**	**185,946**	211,784	-	(104,572)	107,212
Deferred income taxes (recovery)	**41,706**	**(5,060)**	**36,646**	43,430	-	(16,375)	27,055
Net income (loss) from continuing operations before NCI	**170,315**	**(21,015)**	**149,300**	168,354	-	(88,197)	80,157
Net income attributable to NCI	**70,424**	**-**	**70,424**	64,847	-	-	64,847
Net income (loss) from continuing operations attributable to Petrobank shareholders	**$ 99,891**	**$ (21,015)**	**$ 78,876**	$ 103,507	$ -	$ (88,197)	$ 15,310
Net income from discontinued operations (net of tax)	**-**	**-**	**-**	-	130,127	-	130,127
Net income (loss) attributable to Petrobank shareholders	**$ 99,891**	**$ (21,015)**	**$ 78,876**	$ 103,507	$ 130,127	$ (88,197)	$ 145,437
Capital expenditures	**$ 420,491**	**$ 109,896**	**$ 530,387**	$ 307,804	$ 231,265	$ 34,586	$ 573,655
Dividends paid (received)	**$ 89,812**	**$ (52,704)**	**$ 37,108**	$ 86,952	$ 12,399	$ (60,861)	$ 38,490

Any transactions between reportable segments are eliminated on consolidation of these condensed interim consolidated financial statements. There are no significant transactions among the entities representing the reportable segments.

Note 4 – Discontinued Operations

As described in Note 3, Petrominerales was distributed to Petrobank shareholders on December 31, 2010. The Company followed International Financial Reporting Issues Committee Interpretation 17, *Distributions of Non-cash Assets to Owners,* ("IFRIC 17") in accounting for this transaction. In accordance with this guidance, a dividend was recorded at the fair value of the distribution, determined using the closing bid price of the Petrominerales common shares on the date of the distribution. The difference between the fair value and the carrying value of assets and liabilities of Petrominerales, including non-controlling interest, was recognized as a gain in the consolidated statement of operations and comprehensive income for the year ended December 31, 2010. Accumulated other comprehensive income ("AOCI") related to the historical translations of Petrominerales U.S. dollar amounts in the consolidated financial statements was also recorded in net income upon distribution.

The operating results of Petrominerales for the three months ended and six months ended June 30, 2010 were as follows:

	Three months ended June 30, 2010	Six months ended June 30, 2010
Oil sales	$ 327,086	$ 584,513
Royalties	(26,395)	(51,967)
Oil revenues	300,691	532,546
Production	26,816	41,442
Purchased oil	29,764	38,372
Transportation	31,349	56,274
General and administrative	6,318	11,558
Share-based compensation	2,509	5,228
Finance and other	3,622	7,176
Foreign exchange loss	827	3,484
Depletion and depreciation	54,367	103,613
	155,572	267,147
Income before taxes	145,119	265,399
Current income taxes	23,982	53,704
Deferred income taxes	21,676	14,101
Net income before NCI	99,461	197,594
Income attributable to NCI	34,070	67,467
Net income from discontinued operations	$ 65,391	$ 130,127

Note 5 – Finance and Other

The finance and other balance includes the following:

Three months ended June 30,	2011			2010		
	HBU and Corporate	**PetroBakken**	**Total**	HBU and Corporate	PetroBakken	Total
Interest expense on credit facilities and other	**$ 626**	**$ 9,650**	**$ 10,276**	$ 7	$ 5,267	$ 5,274
Interest income	**(6)**	**-**	**(6)**	(23)	-	(23)
Amortization of deferred financing costs	**234**	**1,061**	**1,295**	-	1,148	1,148
Accretion on convertible debentures	**-**	**5,785**	**5,785**	241	5,689	5,930
Interest expense on convertible debentures	**-**	**5,655**	**5,655**	409	6,006	6,415
Borrowing costs capitalized [1]	**(286)**	**-**	**(286)**	(613)	-	(613)
Accretion on decommissioning liabilities	**113**	**1,346**	**1,459**	88	1,224	1,312
Finance and other expenses	**$ 681**	**$ 23,497**	**$ 24,178**	$ 109	$ 19,334	$ 19,443

Six months ended June 30,	2011			2010		
	HBU and Corporate	**PetroBakken**	**Total**	HBU and Corporate	PetroBakken	Total
Interest expense on credit facilities and other	**$ 988**	**$ 17,510**	**$ 18,498**	$ 11	$ 9,985	$ 9,996
Interest income	**(102)**	**-**	**(102)**	(42)	-	(42)
Amortization of deferred financing costs	**459**	**2,402**	**2,861**	-	2,212	2,212
Accretion on convertible debentures	**-**	**11,505**	**11,505**	1,655	9,738	11,393
Interest expense on convertible debentures	**-**	**11,384**	**11,384**	2,920	10,352	13,272
Borrowing costs capitalized [1]	**(286)**	**-**	**(286)**	(2,812)	-	(2,812)
Accretion on decommissioning liabilities	**216**	**2,690**	**2,906**	174	2,481	2,655
Finance and other expenses	**$ 1,275**	**$ 45,491**	**$ 46,766**	$ 1,906	$ 34,768	$ 36,674

[1] The HBU and Corporate convertible debentures were a specific borrowing relating to a project in the E&E stage. As such, all related borrowing costs were capitalized to exploration assets, with the offset to finance and other. The HBU and Corporate credit facility is a general borrowing and related borrowing costs are capitalized in accordance with IAS 23, *Borrowing Costs*.

Note 6 – Exploration Assets

Exploration assets comprise the Company's projects in the E&E stage which are pending determination of technical and commercial feasibility. The following is a continuity schedule of the Company's exploration assets for the six month period ended June 30, 2011 and the twelve month period ended December 31, 2010:

For the period ended	**June 30, 2011**	Dec. 31, 2010
Exploration assets, beginning of period	**$ 1,340,411**	$ 972,892
Less: Petrominerales exploration assets	**-**	(88,071)
Additions	**141,201**	229,786
Acquisitions	**-**	370,059
Dispositions	**(4,247)**	(5,089)
Impairment	**(12,810)**	(33,388)
Transfers to property, plant, and equipment	**(124,351)**	(105,778)
Total	**$ 1,340,204**	$ 1,340,411

Impairment of $5.1 million and $12.8 million related to the HBU's Conklin cash generating unit ("CGU") was recorded in the condensed interim consolidated statement of operations and comprehensive income during the three and six months ended June 30, 2011 (2010 - $6.4 million and $17.1 million). Conklin is the Company's oil sands demonstration project operating near Conklin, Alberta. Petrobank continues to evaluate the technical feasibility and commercial viability of the THAI® production technology in a bitumen resource, and to use the project for the ongoing development of the Company's THAI® production technology and other enhancements. The carrying amount of the assets in this CGU is not estimated to be recovered in full from development based on current results. The impairment was based on value in use; as no reserves have been assigned to the Conklin project itself, valuation assumptions were based on management forecasts and incorporated an eight percent discount rate.

During the three and six months ended June 30, 2011, PetroBakken transferred $63.1 million and $124.4 million (12 months ended December 31, 2010 - $105.8 million) to property, plant, and equipment in respect to properties where technical and commercial feasibility were established. No impairment was recorded at the time of transition.

Note 7 – Property, Plant and Equipment

	Oil and natural gas assets [1]	Other	Total
Cost			
As at January 1, 2011	$ 4,117,803	$ 24,235	$ 4,142,038
Additions	384,079	11,570	395,649
Dispositions	(3,150)	-	(3,150)
Transfers from exploration assets	124,351	-	124,351
As at June 30, 2011	$ 4,623,083	$ 35,805	$ 4,658,888
Depletion, Depreciation and Impairment			
As at January 1, 2011	$ 966,403	$ 11,979	$ 978,382
Charge for the period	181,054	2,520	183,574
As at June 30, 2011	$ 1,147,457	$ 14,499	$ 1,161,956
Carrying amount as at June 30, 2011	**$ 3,475,626**	**$ 21,306**	**$ 3,496,932**

	Oil and natural gas assets [1]	Other	Total
Cost			
As at January 1, 2010 [2]	$ 2,984,001	$ 16,911	$ 3,000,912
Additions	695,331	7,324	702,655
Dispositions	(97)	-	(97)
Acquisitions	332,790	-	332,790
Transfers from exploration assets	105,778	-	105,778
As at December 31, 2010	$ 4,117,803	$ 24,235	$ 4,142,038
Depletion, Depreciation and Impairment			
As at January 1, 2010	$ 584,012	$ 8,264	$ 592,276
Charge for the period	382,391	3,715	386,106
As at December 31, 2010	$ 966,403	$ 11,979	$ 978,382
Carrying amount as at December 31, 2010	**$ 3,151,400**	**$ 12,256**	**$ 3,163,656**

(1) Oil and natural gas assets relate entirely to PetroBakken at June 30, 2011 and 2010, and December 31, 2010.

(2) Opening balance and 2010 continuity excludes Petrominerales.

Other fixed assets are mainly comprised of office furniture and fixtures and computer equipment.

Note 8 – Other Intangible Assets

	June 30, 2011	Dec. 31, 2010
Other intangible assets, beginning of period	**$ 5,375**	$ 4,743
Additions from internal development	**545**	632
Depreciation charge	**(186)**	-
Other intangible assets, end of period	**$ 5,734**	$ 5,375

Other intangible assets comprise of certain patents, licenses, trademarks, agreements and other capital costs incurred to develop the Company's THAI® and related technologies. These assets have an estimated useful life of 15 years and began depreciating using the straight line method on January 1, 2011, when THAI® reserves were first assigned to the Company by our independent reserve engineers.

Note 9 – Goodwill

	June 30, 2011	Dec. 31, 2010
Goodwill, beginning of period	**$ 1,524,124**	$ 1,060,981
Additional amounts recognized from business combinations occurring during the period	**-**	463,143
Goodwill, end of period	**$ 1,524,124**	$ 1,524,124

For purposes of impairment testing, goodwill is allocated to the following CGU or group of CGUs that is expected to benefit from the synergies of the acquisition resulting in the goodwill. The CGU or group of CGUs represents the lowest level for which goodwill is monitored for internal purposes.

Cash generating units	**June 30, 2011**	Dec. 31, 2010
HBU		
May River	**$ 28,119**	$ 28,119
PetroBakken		
Bakken and Conventional (Saskatchewan)	**1,024,551**	1,024,551
BC	**8,311**	8,311
Cardium (Alberta)	**463,143**	463,143
Total	**$ 1,524,124**	$ 1,524,124

In assessing goodwill for impairment, the carrying amount of the CGU or group of CGUs is compared to the recoverable amount of the CGU or group of CGUs, which is based on the higher of fair value less costs to sell and value in use. When the assets of a CGU have been assigned reserves by the Company's independent reserves evaluators, the value in use is calculated using the discounted value of proved plus probable reserves.

The key assumptions used in determining value in use are the discount rate, commodity prices, volumes, and inventory of undrilled locations. The values assigned to the key assumptions represent management's assessment of the future trends in the oil and natural gas industry, and are based on both external and internal sources. At June 30, 2011, a discount rate of 10 percent (December 31, 2010 - 10 percent) was used in the assessment for impairment for all PetroBakken's CGUs.

When the assets of a CGU are in the E&E stage, and no proved plus probable reserves have been assigned, the recoverable amount is determined by management using internal estimates and third party information.

Note 10 – Acquisitions and Dispositions

Business Combinations

Result Energy Inc.

On April 1, 2010, PetroBakken acquired all of the issued and outstanding shares of Result Energy Inc. ("Result") for $441.8 million, net of cash and working capital acquired. The common shares issued were valued using the share price of PetroBakken on April 1, 2010. Result was a publicly traded company with the majority of its production and prospect inventory in the Cardium formation in west central Alberta. As such, goodwill consists largely of the strategic benefit that the increased presence in the Cardium formation will bring to PetroBakken. None of the goodwill recognized is expected to be deductible for income tax purposes.

The condensed interim consolidated statement of operations and comprehensive income includes the results of operations for the period following the closing of the transaction on April 1, 2010. These amounts have not been disclosed separately below as it is impracticable to do so as operations were consolidated on the acquisition date.

This transaction has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed are recorded at fair value. The following table summarizes the net assets acquired pursuant to the acquisition:

Net assets acquired		**Amount**
Capital and exploration assets	$	261,334
Working capital		2,672
Decommissioning liabilities		(3,590)
Fair value of financial instruments		440
Goodwill		206,094
Deferred tax liability		(22,432)
Total net assets acquired	**$**	**444,518**

Consideration paid		**Amount**
Cash (net of cash acquired)	$	141,230
PetroBakken common shares issued (11,232,904)		303,288
Total purchase price	**$**	**444,518**

Asset Divestitures

During the three month period ended June 30, 2011, PetroBakken closed non-core asset divestitures for net proceeds of $21.3 million (2010 - $15.7 million) resulting in a gain on asset disposal of $15.4 million (2010 - $5.6 million loss).

During the six month period ended June 30, 2011, PetroBakken closed non-core asset divestitures for net proceeds of $22.6 million (2010 - $121.8 million) resulting in a gain on asset disposal of $15.2 million (2010 - $1.4 million).

Note 11 – Bank Debt

HBU and Corporate

On January 4, 2011, Petrobank's HBU and Corporate operating segment closed a $200 million secured credit facility with a syndicate of lenders. The credit facility has an initial term of three years, but may, at the request of the Company and if agreed to by a majority of lenders, be extended beyond the initial term. The credit facility bears interest at the Canadian prime rate or U.S. base rate (for Canadian dollar and U.S. dollar borrowings, respectively), plus a margin based on collateral value of Petrobank's ownership in PetroBakken. The credit facility is secured by a portion of the Company's shares of PetroBakken and a general security assignment on other corporate assets and stipulates that the HBU and Corporate operating segment maintain a coverage ratio of not less than 2:1. Coverage ratio is defined in the agreement as earnings before interest, depletion, depreciation and amortization ("EBITDA") divided by interest expense. Availability on the credit facility is reduced in certain circumstances based on the collateral value of Petrobank's ownership in PetroBakken.

PetroBakken

PetroBakken maintains a covenant based revolving credit facility with a syndicate of banks. The facility's lending amount was increased during the second quarter of 2011 from $1.2 billion to $1.35 billion. The term of the facility was extended to June 2, 2014. The credit facility bears interest at the prime rate plus a margin based on a sliding scale ratio of PetroBakken's debt to EBITDA. The facility is secured by a $2.0 billion demand debenture and a securities pledge on PetroBakken's assets.

	HBU and Corporate	PetroBakken	Petrobank Consolidated
Bank debt outstanding	$ 45,524	$ 1,142,768	$ 1,188,292
Deferred financing costs [1]	(1,619)	(5,391)	(7,010)
Bank debt	**$ 43,905**	**$ 1,137,377**	**$ 1,181,282**

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

Note 12 – Convertible Debentures

HBU and Corporate

3.0% Convertible Debentures

In May 2007, Petrobank issued US$250 million of debentures convertible into common shares of Petrobank at a conversion price of US$28.49 per debenture. The debentures had an annual coupon of 3.0% and were to mature in May 2012. The debentures have been classified as a liability, net of the fair value of the conversion feature, which has been classified as a derivative financial liability. The US$250 million issuance resulted in $194.2 million being classified as a liability and $74.6 million being classified as a derivative financial liability. At issuance and each subsequent reporting period, including immediately prior to conversion, the fair value of the derivative financial liability was determined using the Black-Scholes valuation model. Changes in the fair value of the derivative financial liability are recorded as a separate line item in the condensed interim consolidated statement of operations and comprehensive income.

In June 2009, convertible debentures with a face value of US$244.9 million were converted into common shares. In May 2010, Petrobank forced conversion of the remaining 3.0% debentures, upon which 179,009 common shares were issued and $8.5 million was credited to share capital. The revaluation of the financial derivative liability immediately prior to conversion resulted in a gain recorded to the consolidated statement of operations of $1.5 million for the three months ended June 30, 2010.

The following assumptions were used in the Black-Scholes valuation model to fair value the financial derivative liability immediately prior to conversion:

As at	May 7, 2010
Risk free interest rate	1.75%
Annual dividend per share	-
Expected life (years)	2.00
Expected volatility	33%
CDN/US $ FX rate	1.04
Market price	CDN $47.19
Conversion price	US $28.49

5.125% Convertible Debentures

In July 2009, Petrobank issued US$400 million of convertible debentures maturing in July 2015. The debentures were convertible into common shares of Petrobank at a conversion price of US$38.08 per debenture and had an annual coupon rate of 5.125%. The debentures have been classified as a liability, net of the fair value of the conversion feature which has been classified as a derivative financial liability. The US$400 million issuance resulted in $369.3 million being classified as a liability and $83.6 million being classified as a derivative financial liability.

In January 2010, Petrobank completed the first early conversion offering which resulted in US$250.7 million principal amount being exercised prior to maturity. On conversion, a total of 7,452,099 common shares were issued and $385.6 million was credited to share capital. Petrobank recorded an expense of $42.4 million as a result of an amendment to the terms of the convertible debentures, which included a $1.4 million cash payment and issuing 868,988 additional shares on early conversion.

In April 2010, the remaining US$149.3 million principal amount was converted. On conversion, a total of 3,920,446 common shares were issued and $217.3 million was credited to share capital. Petrobank recorded an expense of $24.3 million as a result of an amendment to the terms of the convertible debentures, which consisted of a cash payment. The revaluation of the financial derivative liability immediately prior to conversion resulted in a gain recorded to the consolidated statement of operations of $13.2 million.

The following assumptions were used in the Black-Scholes valuation model to fair value the financial derivative liability as at the conversion dates:

As at	April 19, 2010	Jan. 14, 2010
Risk free interest rate	3.21%	2.87%
Annual dividend per share	-	-
Expected life (years)	5.23	5.5
Expected volatility	33%	33%
CDN/US $ FX rate	1.02	1.03
Market price	CDN $51.60	CDN $55.60
Conversion price	US $38.08	US $38.08

PetroBakken

On January 25, 2010, PetroBakken issued US$750 million of convertible debentures maturing in February, 2016. The debentures are convertible into common shares of PetroBakken and have an annual coupon rate of 3.125% and an initial conversion price of US$39.61 per debenture. The conversion price is subject to change in certain circumstances, including for dividends paid by PetroBakken. Due to dividends paid to PetroBakken shareholders to June 30, 2011, the conversion price has been adjusted to US$37.23 per debenture. Upon conversion, based on the current conversion price, a total of 20,145,044 common shares may be issued; however, PetroBakken has the option to repay the debentures in cash. If the repayment is to be in cash, the cash amount to be paid is variable and is equal to the total shares to be issued multiplied by the 20 weighted average market price at the date of conversion. In addition, the bondholders 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. The bondholders must exercise their put option within a 10 day period between December 10 and December 20, 2012.

The debentures have been classified as a liability, net of the fair value of the conversion feature which has been classified as a derivative financial liability. The US$750 million issuance, including transaction costs, resulted in $617.1 million being classified as a liability and $152.6 million being classified as a derivative financial liability. At issuance and each subsequent reporting period, the fair value of the derivative financial liability was determined using the Black-Scholes valuation model. The following assumptions were used to fair value the derivative financial liability at June 31, 2011, December 31, 2010 and issuance:

As at	**June 30, 2011**	Dec. 31, 2010	Jan. 25, 2010
Risk free interest rate	**2.28%**	2.55%	2.65%
Annual dividend per share [1]	**-**	-	-
Expected life (years)	**4.50**	5.00	6.00
Expected volatility [2]	**34%**	36%	31%
CDN/US $ FX rate	**1.04**	1.01	1.06
Market price	**CDN $13.24**	CDN $21.71	CDN $31.70
Conversion price	**US $37.23**	US $38.19	US $39.61

(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 U.S. dollar denominated convertible debentures are initially translated for accounting purposes based on the Canadian dollar exchange rate on the date of issuance. Subsequently, the debt component of the convertible debentures is translated for accounting purposes based on the Canadian dollar exchange rate as at the financial position date. Any change is recorded as unrealized foreign exchange gain or loss for the period. PetroBakken entered into currency swap agreements prior to the date of issuance and the actual Canadian dollar proceeds received by PetroBakken resulted in an $18.2 million realized foreign exchange loss in the first six months of 2010.

The following table summarizes the liability component of the Company's debentures at June 30, 2011 and December 31, 2010:

	HBU	**PetroBakken**	**Total**
Liability component of debentures, January 1, 2011	$ -	$ 600,844	$ 600,844
Accretion	-	11,505	11,505
Changes in exchange rate	-	(18,450)	(18,450)
Liability component of debentures, June 30, 2011	**$ -**	**$ 593,899**	**$ 593,899**

	HBU	PetroBakken	Total
Liability component of debentures, January 1, 2010	$ 341,992	$ -	$ 341,992
Liability component of debenture issuance	-	617,101	617,101
Accretion	1,656	21,557	23,213
Conversion into common shares [1]	(336,284)	-	(336,284)
Changes in exchange rate	(7,364)	(37,814)	(45,178)
Liability component of debentures, December 31, 2010	**$ -**	**$ 600,844**	**$ 600,844**

[1] The conversion value represents the carrying amount of the liability portion on the conversion date.

The following table summarizes the derivative financial liability of the Company's debentures at June 30, 2011 and December 31, 2010:

	HBU	PetroBakken	Total
Derivative financial liability, January 1, 2011	$ -	$ 76,141	$ 76,141
Accumulated gain	-	(61,048)	(61,048)
Derivative financial liability, June 30, 2011	**$ -**	**$ 15,093**	**$ 15,093**

	HBU	PetroBakken	Total
Derivative financial liability, January 1, 2010	$ 257,275	$ -	$ 257,275
Issuance of convertible debenture	-	152,550	152,550
Accumulated loss (gain)	17,769	(76,409)	(58,640)
Conversion into common shares [1]	(275,044)	-	(275,044)
Derivative financial liability, December 31, 2010	**$ -**	**$ 76,141**	**$ 76,141**

[1] The conversion value represents the fair value of the derivative liability immediately prior to conversion.

Note 13 – Decommissioning Liabilities

The total future decommissioning liabilities were estimated by management based on the Company's net ownership interest in all wells, gathering lines and facilities, estimated costs to reclaim and abandon the wells, gathering lines and facilities and the estimated timing of the costs to be incurred in future periods.

Changes to decommissioning liabilities were as follows:

	June 30, 2011	Dec. 31, 2010
Decommissioning liabilities, beginning of year	**$ 142,819**	$ 133,505
Less: Petrominerales decommissioning liabilities	**-**	(17,112)
Obligations incurred	**4,891**	9,969
Obligations acquired	**657**	16,799
Obligations disposed	**(42)**	(1,930)
Obligations settled	**(2,672)**	(4,528)
Accretion expense	**2,906**	5,437
Changes in estimated future cash flows	**1,502**	679
Decommissioning liabilities, end of period	**$ 150,061**	$ 142,819

The decommissioning liabilities have been calculated using an inflation rate of two percent per annum and discounted using a risk free rate of four percent per annum. Most of these obligations are not expected to be paid for several years, extending up to 29 years in the future for the HBU and 45 years in the future for PetroBakken, and are expected to be funded from general resources of the Company at their respective settlement dates. The total undiscounted amount of estimated cash flows required to settle the obligations at June 30, 2011 is $14.8 million (December 31, 2010 - $13.7 million) for the obligations in our HBU, and $209.4 million (December 31, 2010 - $204.8 million) for the obligations in PetroBakken.

Note 14 – Income Taxes

Deferred income taxes are comprised of the following amounts:

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Deferred tax expense	**$ 29,247**	$ 11,218	**$ 36,646**	$ 27,055

Deferred income taxes differ from the amount that would have been expected by applying the statutory tax rate to income before taxes. The principal reasons for this difference are as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Income from continuing operations before taxes and NCI	**$ 135,896**	$ 46,885	**$ 185,946**	$ 107,212
Canadian statutory income tax rate	**27.01%**	28.00%	**27.01%**	28.00%
Expected tax expense	**$ 36,706**	$ 13,128	**$ 50,224**	$ 30,019
Increase (decrease) in tax expense resulting from:				
Non-taxable gain on derivative financial liability	**(9,027)**	(17,509)	**(16,813)**	(22,383)
Expense on amendment of terms of convertible debentures	**-**	(1,269)	**-**	10,176
Non-taxable foreign exchange gains	**(633)**	3,957	**(2,541)**	1,850
Share-based compensation	**1,704**	3,911	**3,755**	6,755
Accretion on convertible debentures	**1,594**	1,710	**3,169**	3,231
Valuation of temporary differences at deferred tax rates	**(939)**	5,397	**(1,536)**	(7,217)
Changes in estimates and other	**(158)**	1,893	**388**	4,624
Deferred income taxes	**$ 29,247**	$ 11,218	**$ 36,646**	$ 27,055

Note 15 – Share Capital

The equity account balances at June 30, 2011, December 31, 2010 and January 1, 2010 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.

Common Shares

Changes in Common Shares	Number	Amount
Balance at January 1, 2010	93,616,958	$ 904,498
Issued upon conversion of debentures	11,551,554	659,309
Costs associated with conversion of debentures	-	(11,647)
Tax effect of share issue costs	-	3,248
Exercise of stock options and deferred common shares	1,131,614	14,615
Cancelled shares from prior plan of arrangement	(63,793)	-
Transfer from contributed surplus related to stock options and deferred common shares exercised	-	5,425
Balance at December 31, 2010	106,236,333	$ 1,575,448
Exercise of stock options and incentive shares	67,132	183
Transfer from contributed surplus related to stock options and incentive shares exercised	-	792
Balance at June 30, 2011 [(1)]	**106,303,465**	**$ 1,576,423**

(1) All shares outstanding are fully paid.

Stock Options

The Company has established a stock option plan whereby the Company may grant stock options to our directors, officers, employees and consultants. The plan allows for the issuance of up to five percent of the outstanding common shares of the Company. The exercise price of each option is no less than the five day weighted average trading price of the Company's common shares on the Toronto Stock Exchange prior to the date of grant. Stock option terms are determined by the Company's Board of Directors but typically, options granted to new employees upon hire vest evenly every year over a period of four years from the date of grant. Annual grants to directors, officers, employees and consultants typically vest four years from the date of employment. Options expire between five and 10 years after the date of grant. The following is a continuity of stock options outstanding:

	Stock Options	Weighted-Average Exercise Price
Balance at January 1, 2010	4,091,079	$ 10.71
Granted	927,194	24.02
Exercised	(1,116,814)	0.60
Forfeited	(701,942)	13.73
Balance at December 31, 2010	3,199,517	$ 17.44
Granted	285,398	17.73
Exercised	(64,426)	2.84
Expired	(8,000)	33.68
Forfeited	(206,785)	24.07
Balance at June 30, 2011	**3,205,704**	**$ 17.29**

The weighted average share price at the time the options were exercised in the three and six month periods ended June 30, 2011 was $16.83 and $18.63, respectively.

The following summarizes information about stock options outstanding as at June 30, 2011:

Stock Options Outstanding				**Stock Options Exercisable**	
Range of Exercise Prices	Number	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
0.05	283,450	4.63	$ 0.05	235,700	$ 0.05
0.06 – 4.00	543,475	4.51	2.54	101,629	2.54
4.01 – 10.00	172,850	3.53	6.43	133,350	6.26
10.01 – 16.00	258,480	6.34	15.08	153,000	15.90
16.01 – 24.00	1,009,124	5.28	20.18	37,045	18.21
24.01 – 31.00	730,700	6.08	29.02	253,250	28.65
31.01 – 38.47	207,625	4.49	35.96	33,125	35.44
	3,205,704	**5.22**	**$ 17.29**	**947,099**	**$ 13.35**

Deferred Common Shares

The Company has a deferred common share compensation plan whereby the Company may grant deferred common shares to its officers and employees. The plan allows holders to receive one common share upon payment of $0.05 per share. The deferred common shares ("DCS") typically vest after three years or immediately upon resignation or retirement, and expire 10 years from the date of grant. Up to 500,000 DCS have been approved for issuance under this plan.

The following is a continuity of DCS outstanding:

	DCS
Balance at January 1, 2010	204,310
Granted	21,819
Adjustment due to spin-off of Petrominerales	177,512
Exercised	(14,800)
Balance at December 31, 2010	388,841
Granted	9,030
Balance at June 30, 2011	**397,871**

At June 30, 2011, 248,212 DCS are exercisable (December 31, 2010 - 116,200).

Directors Deferred Common Shares

The Company has a directors deferred common share plan whereby the Company may grant DCS to non-employee directors. The plan allows the holder to receive one common share upon the vesting and payment of $0.05 per share exercise price. The directors DCS granted typically vest after three years from the date of grant or immediately upon ceasing to be a director, and expire 10 years after the date of grant. Up to 500,000 directors DCS have been approved for issuance under this plan.

The following is a continuity of directors DCS outstanding:

	Directors DCS
Balance at January 1, 2010	-
Granted	6,123
Adjustment due to spin-off of Petrominerales	5,143
Balance at December 31, 2010	11,266
Granted	15,893
Balance at June 30, 2011	**27,159**

At June 30, 2011 and December 31, 2010, there are no directors DCS exercisable.

Incentive Shares

The Company has an incentive plan for directors, officers, employees and consultants. The plan allows the holder to receive one common share upon the vesting and payment of $0.05 per share exercise price. The terms of the incentive shares granted are determined by the Company's Board of Directors but typically, incentive shares granted to new employees upon hire vest evenly every year over a period of four years from the date of employment. Annual grants to directors, officers, employees and consultants typically vest four years from the date of employment. Incentive shares expire between five and 10 years after the date of grant. Up to 500,000 incentive shares have been approved for issuance under this plan.

The following is a continuity of incentive shares outstanding:

	Incentive Shares
Balance at January 1, 2010	-
Granted	100,844
Adjustment due to spin-off of Petrominerales	113,673
Forfeited	(4,893)
Balance at December 31, 2010	209,624
Granted	29,648
Exercised	(2,706)
Forfeited	(15,372)
Balance at June 30, 2011	**221,194**

At June 30, 2011, 34,146 incentive shares are exercisable (December 31, 2010 - nil). The weighted average share price at the time the incentive shares were exercised in the three and six month periods ended June 30, 2011 was $19.03.

Share-Based Compensation

The fair values of Petrobank stock options, DCS, directors DCS and incentive shares granted have been estimated on their respective grant dates using the Black-Scholes valuation model and the following assumptions:

Six months ended June 30,	**2011**	2010
All Share-Based Rights		
Risk free interest rate	**1.5 – 2.8%**	2.25%
Expected volatility [1]	**33%**	33%
Stock options		
Expected life (years) [2]	**3.5**	2-4
Forfeiture rate	**5%**	5%
Weighted-average fair value	**$ 5.02**	$ 12.66
Deferred common shares		
Expected life (years)	**8**	8
Forfeiture rate	**0%**	0%
Weighted-average fair value	**$ 19.99**	$ 53.89
Directors deferred common shares		
Expected life (years)	**8**	8
Forfeiture rate	**0%**	0%
Weighted-average fair value	**$ 16.44**	$ 40.03
Incentive shares		
Expected life (years) [2]	**3.5**	2.75 – 3.75
Forfeiture rate	**5%**	5%
Weighted-average fair value	**$ 18.43**	$ 40.35

(1) Expected volatility has been based on expected future volatility of the Company's publicly traded shares, based on peer assessment and actual volatility for the six month period ended June 30, 2011. Limited reliance has been placed on historical volatility prior to 2011 given the spin-off of Petrominerales at December 31, 2010.

(2) Expected life of stock options and incentive shares has been estimated based on time to vest plus one year. For the grant as a whole, this results in an average expected life of 3.5 years. Expected life of deferred common shares and directors deferred common shares are based on expected pattern of exercise and expiry dates.

Note 16 – Earnings Per Share

Basic earnings per share is calculated by dividing net income before discontinued operations by the weighted average number of common share outstanding during the period. Diluted earnings per share reflect the potential dilution of stock options, DCS, directors DCS, incentive shares and convertible debentures.

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, before and after discontinued operations.

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Net income from continuing operations attributable to Petrobank shareholders adjustments				
Basic earnings	**$ 58,291**	$ 14,989	**$ 78,876**	$ 15,310
Impact of PetroBakken dilution on net income	**(427)**	(49)	**(680)**	(238)
Interest expense on Petrobank convertible debentures, net of tax [1]	**-**	29	**-**	-
Diluted earnings from continuing operations	**$ 57,864**	$ 14,969	**$ 78,196**	$ 15,072
Interest expense on Petrobank convertible debentures, net of tax [1]	**-**		**-**	1,272
Net income from discontinued operations attributable to Petrobank shareholders	**-**	65,391	**-**	130,127
Impact of Petrominerales dilution on net income	**-**	(3,842)	**-**	(7,871)
Diluted earnings	**$ 57,864**	$ 76,518	**$ 78,196**	$ 138,600
Weighted average common share adjustments				
Weighted average common shares outstanding, basic	**106,273,964**	105,204,044	**106,260,999**	102,736,421
Effect of convertible debentures	**-**	891,390	**-**	2,995,905
Effect of Share-Based Rights	**1,154,860**	1,418,904	**1,972,875**	1,274,584
Weighted average common shares outstanding, diluted	**107,428,824**	107,514,338	**108,233,874**	107,006,910

[1] Petrobank's convertible debentures are anti-dilutive when calculating diluted earnings per share from continuing operations for the six months ended June 30, 2010; however they are dilutive when calculating diluted earnings per share attributable to Petrobank shareholders for the same period.

In determination of the weighted average number of diluted common shares outstanding for the three and six months ended June 30, 2011, 1,835,591 and 1,702,956 stock options are excluded because the effect would be anti-dilutive (2010 - 423,584 and 539,657).

Note 17 – Non-Controlling Interest

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

		PetroBakken
Balance at January 1, 2010	$	1,057,500
Attributable income		89,058
Share-based compensation		34,154
Common shares repurchased		(36,434)
Changes in ownership interest [1]		359,802
Dividends paid or declared by PetroBakken		(177,205)
Dividends received or receivable by Petrobank		105,408
Balance at December 31, 2010	$	1,432,283
Attributable income		70,424
Share-based compensation		9,148
Changes in ownership interest [1]		(17,365)
Dividends paid or declared by PetroBakken		(89,812)
Dividends received or receivable by Petrobank		52,704
Balance at June 30, 2011	**$**	**1,457,382**

(1) Reflects the book values of the NCI share related to PetroBakken shares issued in connection with acquisitions and changes in NCI due to PetroBakken stock options, deferred common shares, and incentive shares exercised in the period.

Note 18 – 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 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 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:

	HBU and Corporate	PetroBakken	**Petrobank Consolidated**
Working capital deficit [1]	$ 21,386	$ 32,743	**$ 54,129**
Bank debt – principal	$ 45,524	$ 1,142,768	**$ 1,188,292**
Convertible debentures – principal amount (US$)	$ -	$ 750,000	**$ 750,000**
Common share capital [2]	$ 1,576,423	$ 3,149,005	**$ 1,576,423**
Credit facility	$ 200,000	$ 1,350,000	
Available credit capacity [3]	$ 154,476	$ 207,232	

(1) Working capital is calculated as current assets less current liabilities, excluding any current portion of risk management asset or liability.

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

(3) Availability on the credit facility is reduced in certain circumstances based on the collateral value of Petrobank's ownership in PetroBakken.

HBU and Corporate

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include common share capital, bank debt and working capital. In order to maintain or adjust the capital structure, from time to time the Company may issue common shares or other securities, obtain project financing, sell assets or adjust its capital spending to manage current and projected debt levels.

Petrobank is in compliance with all covenants on its credit facility agreement. The credit facility has financial covenants that limit the ratio of the HBU and Corporate business unit's EBITDA to interest expense to 2:1.

Based on Petrobank's current ownership and PetroBakken's payment of an annual dividend of $0.96 per common share, Petrobank expects to receive $105 million of dividends annually from PetroBakken, paid monthly. Petrobank can also raise funds by selling a portion of our ownership in PetroBakken.

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

PetroBakken

PetroBakken monitors leverage and adjusts its capital structure based on the ratio of bank debt to annualized earnings before interest, taxes and non-cash items. At June 30, 2011, the ratio of debt to annualized second quarter 2011 earnings before interest, taxes and non-cash items was 1.7 to 1, which is within a range acceptable to management. PetroBakken uses the ratio of bank 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 its credit facility agreement. The credit facility has financial covenants that limit the ratio of secured debt (defined as total drawn on credit facility) to 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) to EBITDA on a trailing 12 month basis to 4:1, and limit secured debt to 50% 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 its convertible debentures. The convertible debenture agreement stipulates that the ratio of secured debt to total assets is not to exceed 35%.

PetroBakken had positive cash flow from operations for the three and six months ended June 30, 2011 and a credit facility with $207.2 million of available capacity as at June 30, 2011.

Note 19 – Financial Instruments and Financial Risk Management

The Company has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of these risks and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these condensed interim consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's financial risk management framework and monitors risk management activities. The Company identifies and analyzes the risks it faces and may utilize financial instruments to mitigate these risks.

Credit Risk

A substantial portion of the Company's accounts receivable are with customers and joint-venture participants in the oil and natural gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers and participants. At June 30, 2011, crude oil, natural gas and natural gas liquid production of the Company's Canadian oil production is sold to a number of oil and gas marketers. The Company's policy to mitigate the risk associated with these balances is to establish marketing relationships with large purchasers and, where practical, obtain support in the form of guarantees or letters of credit.

The composition of the Company's accounts receivable is as follows:

As at	**June 30, 2011**	Dec. 31, 2010
Oil and natural gas customers	**$ 122,625**	$ 144,952
Other	**19,108**	18,359
Total	**$ 141,733**	$ 163,311

Receivables from oil and natural gas marketers are normally collected 25 days after the month following production. Receivables from joint-venture partners related to capital and operating expenses are generally collected between 45 and 90 days after the month of billing. The Company historically has not experienced any collection issues with its oil and natural gas customers or joint interest partners.

Cash and cash equivalents consist of cash bank balances and short term deposits maturing in less than 90 days. The Company manages the credit exposure related to short term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding investment vehicles with higher risk.

The carrying amount of accounts receivable and cash and cash equivalents represent the Company's maximum credit exposure. The Company had a $2.0 million allowance for doubtful accounts as at June 30, 2010 (December 31, 2010 - $1.9 million). The allowance for doubtful accounts substantially relates to items that are past due.

The Company's accounts receivables are aged as follows:

	June 30, 2011	Dec. 31, 2010
Not past due [1]	**$ 137,201**	$ 155,452
Past due	**4,532**	7,859
Total	**$ 141,733**	$ 163,311

[1] Defined as less than 90 days after billing.

Liquidity Risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions without incurring unacceptable losses or jeopardizing the Company's business objectives.

The Company prepares annual capital expenditure budgets, which are monitored and updated as considered necessary. Production is monitored regularly to provide current cash flow estimates and the Company utilizes authorizations for expenditures on projects to manage capital expenditures. To facilitate the capital expenditure program, the Company has revolving credit facilities, as outlined in Note 11.

The following are the contractual maturities of financial liabilities at June 30, 2011:

Financial Liability	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	$ 211,760	$ -	$ -	$ 211,760
Finance lease obligations [1]	649	1,704	376	2,729
Risk management liabilities	11,934	5,723	-	17,657
Bank debt – principal	-	1,188,292	-	1,188,292
PetroBakken convertible debentures – principal (US$)	-	-	750,000[2]	750,000
Total [3]	**$ 224,343**	**$1,195,719**	**$ 723,601**	**$2,143,663**

(1) Represents the future minimum lease payments under the capital leases. Difference from capital lease obligation disclosed on the condensed interim consolidated statement of financial position is due to interest rates of 6.7% to 9.0%.

(2) Bondholders have a one-time put option for prepayment of the debentures on February 8, 2013, payable in common shares of cash at the Company's option.

(3) US$ amounts have been converted using a period end exchange rate of $0.9643.

Market Risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's cash flows, net income, liquidity or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures where considered appropriate and maximize returns.

The Company may utilize derivative instruments to manage market risk. The Board of Directors periodically reviews the results of all risk management activities and all outstanding positions.

Foreign Currency Risk

PetroBakken is exposed to foreign currency fluctuations as the convertible debentures are denominated in U.S. dollars. The Company is also exposed as Canadian revenues are strongly linked to U.S. dollar denominated benchmark prices. When appropriate, the Company may enter into agreements to fix the exchange rate of Canadian dollars to U.S. dollars in order to manage exchange rate risks. The Company had no forward exchange rate contracts in place as at June 30, 2011.

At June 30, 2011, if the Canadian dollar had depreciated five percent against the U.S. dollar with all other variables held constant, net income attributable to Petrobank shareholders would have been $15.3 million lower for the three and six months ended June 30, 2011 (2010 - $14.6 million lower), due to the period end valuation of U.S. dollar denominated risk management contracts outstanding and convertible debentures.

Commodity Price Risk

Changes in commodity prices may significantly impact the results of the Company's operations and cash generated from operating activities, and can also impact the Company's borrowing base under its secured credit facilities. Lower commodity prices can also reduce the Company's ability to raise capital. Crude oil prices are impacted by world economic and political events that dictate the levels of supply and demand. Natural gas prices in Canada are influenced primarily by North American supply and demand. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives.

The Company's policy is to only enter into commodity contracts considered appropriate to a maximum of 50% of forecasted production volumes.

PetroBakken had the following crude oil price risk management contracts outstanding at June 30, 2011:

Crude Oil Price Risk Management Contracts – WTI [(1)]

Term	Volume (bopd)	Average Price ($/bbl)	Benchmark
Jul. 1, 2011 – Dec. 31, 2011	2,500	$78.00 floor / $95.40 ceiling	C$ WTI
Jul. 1, 2011 – Dec. 31, 2011	4,500	$76.11 floor / $101.43 ceiling	US$ WTI
Jul. 1, 2011 – Jun. 30, 2012	2,000	$75.00 floor / $99.59 ceiling	US$ WTI
Jul. 1, 2011 – Dec. 31, 2012	1,000	$75.00 floor / $98.25 ceiling	US$ WTI
Jan. 1, 2012 – Jun. 30, 2013	3,250	$75.00 floor / $120.75 ceiling	US$ WTI
Jan. 1, 2012 – Dec. 31, 2013	1,750	$80.00 floor / $134.12 ceiling	US$ WTI
Jul. 1, 2012 – Jun. 30, 2013	1,000	$75.00 floor / $117.45 ceiling	US$ WTI
Jul. 1, 2013 – Dec 31, 2013	2,000	$75.00 floor / $127.37 ceiling	US$ WTI

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

The following crude oil derivative contracts were entered into subsequent to June 30, 2011:

Term	Volume (bopd)	Average Price ($/bbl)	Benchmark
Jan. 1, 2012 – Jun. 30, 2013	500	$75.00 floor / $130.20 ceiling	US$ WTI
Jul. 1, 2013 – Jun. 30, 2014	500	$80.00 floor / $127.65 ceiling	US$ WTI

The average of the above volumes is as follows:

Term	Volume (bopd)	Average Price ($/bbl) [(1)]	Benchmark
2011	10,000	$75.55 floor / $98.70 ceiling	US$ WTI
2012	8,000	$76.09 floor / $118.60 ceiling	US$ WTI
2013	5,375	$76.86 floor / $126.79 ceiling	US$ WTI
2014	250	$80.00 floor / $127.65 ceiling	US$ WTI

(1) Canadian dollar contracts are converted at an exchange rate of $0.9643.

The following natural gas price risk management contracts were outstanding as at June 30, 2011:

Natural Gas Price Risk Management Contracts – AECO

Term	Volume (GJ/d)	Price ($/GJ)	Type
Jul. 1, 2011 – Dec. 31, 2011	2,000	$6.00	Fixed Price Swap

The fair value of the commodity risk management contract liability as at June 30, 2011 is $13.3 million (December 31, 2010 - $12.8 million liability). If crude oil prices had been 10% lower on June 30, 2011, with all other variables held constant, the change in the fair value of the risk management contracts would have resulted in net income attributable to Petrobank shareholders that was $22.2 million higher for the three and six months then ended (2010 - $16.5 million higher). If natural gas prices had been 10% lower on June 30, 2011, with all other variables held constant, the change in the fair value of the risk management contracts would have resulted in net income attributable to Petrobank shareholders that was $0.1 million higher for the three and six months then ended (2010 - $0.5 million higher).

Long-Term Physical Gas Sale Contract

PetroBakken is committed to deliver 2,209 GJ per day of natural gas under an escalating price contract which expires on October 31, 2012. The wellhead price under this contract for the six months ended June 30, 2011 was $5.57 per GJ. PetroBakken applies the expected purchase and sale exemption to this contract and accordingly does not apply hedge accounting principles to this contract. The obligation under gas sales contract is included on other long-term liabilities on the balance sheet.

Interest Rate Risk

The Company is exposed to interest rate cash flow risk on floating interest rate bank debt, to the extent it is drawn, due to fluctuations in market interest rates and interest rate risk on fixed rate convertible debentures. The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk.

PetroBakken had the following interest rate swap contracts in place at June 30, 2011:

Term	**Notional Principal / Month**	**Fixed Annual Rate (%)**
Jul. 2011 – Jan. 2012	C$50 million	1.620%
Jul. 2011 – Jan. 2012	C$25 million	1.653%
Jul. 2011 – Feb. 2012	C$25 million	1.540%
Jul. 2011 – Feb. 2012	C$25 million	1.510%
Jul. 2011 – Apr. 2012	C$50 million	1.300%
Jul. 2011 – Jun. 2012	C$25 million	2.094%

The fair value of the interest rate swap contracts as at June 30, 2011 was a liability of $0.4 million (December 31, 2010 - $0.2 million). If interest rates had been one percent higher or lower at June 30, 2011, net income attributable to Petrobank shareholders would have increased by $0.9 million (2010 - $2.4 million higher) for the three and six months then ended due to the change in fair value of the interest rate swaps.

Fair Value of Financial Derivative Contracts

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

	Crude Oil	Natural Gas	Interest	Total
Risk management asset (liability), as at December 31, 2010	$ (14,835)	$ 2,022	$ (235)	$ (13,048)
Unrealized gain (loss)	683	(1,173)	(185)	(675)
Risk management asset (liability), as at June 30, 2011	**$ (14,152)**	**$ 849**	**$ (420)**	**$ (13,723)**

The net risk management asset (liability) consists of current and non-current assets and liabilities. The tables below summarize the components of the net risk management asset (liability) as at June 30, 2011 and December 31, 2010:

	Crude Oil	Natural Gas	Interest	June 30, 2011
Current				
Risk management asset	$ 1,483	$ 849	$ 7	$ 2,339
Risk management liability	(11,519)	-	(415)	(11,934)
Non-current				
Risk management asset	1,595	-	-	1,595
Risk management liability	(5,711)	-	(12)	(5,723)
Net risk management asset (liability)	**$ (14,152)**	**$ 849**	**$ (420)**	**$ (13,723)**

	Crude Oil	Natural Gas	Interest	Dec 31, 2010
Current				
Risk management asset	$ -	$ 2,022	$ 167	$ 2,189
Risk management liability	(12,318)	-	(364)	(12,682)
Non-current				
Risk management asset	-	-	42	42
Risk management liability	(2,517)	-	(80)	(2,597)
Net risk management asset (liability)	**$ (14,835)**	**$ 2,022**	**$ (235)**	**$ (13,048)**

The unrealized gain (loss) represents the change in fair value of the underlying risk management contracts to be settled in the future. The realized gain (loss) 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 periods ended June 30, 2011 and 2010:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Realized gain (loss) on risk management contracts:				
Crude oil derivative contracts	**$ (3,578)**	$ (741)	**$ (4,674)**	$ (1,139)
Natural gas derivative contracts	**435**	1,012	**1,176**	1,253
Interest rate swap contracts	**(212)**	(731)	**(446)**	(1,593)
	(3,355)	(460)	**(3,944)**	(1,479)
Unrealized gain (loss) on risk management contracts:				
Crude oil derivative contracts	**37,626**	16,889	**683**	14,938
Natural gas derivative contracts	**(404)**	(1,813)	**(1,173)**	1,250
Interest rate swap contracts	**(135)**	131	**(185)**	1,470
	37,087	15,207	**(675)**	17,658
Gain (loss) on risk management contracts	**$ 33,732**	$ 14,727	**$ (4,619)**	$ 16,179

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, risk management assets and liabilities, derivative financial liabilities, finance lease obligations, bank debt, convertible debentures and obligations under gas sale contract included within other long-term liabilities on the condensed interim consolidated statement of financial position. The carrying value and fair value of these financial instruments at June 30, 2011 is disclosed below by financial instrument category, as well as any related gain, loss, expense or revenue for the six months ended June 30, 2011:

Financial Instrument	Carrying Value	Fair Value	Gain / (Loss)	Finance Expense	Revenue
Held at Fair Value Through Profit and Loss					
Risk management liabilities (net)	13,723	13,723	(4,619) [1]	-	-
Derivative financial liabilities	15,093	15,093	61,048 [2]	-	-
Loans and Receivables					
Accounts receivable	141,733	141,733	-	-	-
Other Liabilities					
Accounts payable and accrued liabilities	211,760	211,760	-	-	-
Bank debt	1,181,282	1,188,292	-	21,346 [3]	-
Convertible debentures	593,899	683,448 [4]	18,450 [5]	22,889 [6]	-
Obligations under gas sale contract	1,106	(2,051) [7]	-	-	410 [8]

(1) Included in gain (loss) on risk management contracts on the condensed interim consolidated statement of operations and comprehensive income. Of this amount, the unrealized loss of $0.7 million is included on the condensed interim consolidated statement of cash flow.

(2) Included in gain on convertible debentures on the condensed interim consolidated statements of operations and comprehensive income and cash flow.

(3) Included in finance and other expense on the condensed interim consolidated statement of operations and comprehensive income. The effective yield on bank debt at June 30, 2011 was 3.6% (December 31, 2010 - 3.5%).

(4) The Company estimated the fair value of the convertible debenture based on the market transactions closed on June 30, 2011.

(5) Included in foreign exchange (gain) loss on the condensed interim consolidated statements of operations and comprehensive income and cash flow.

(6) Included in finance and other expense on the condensed interim consolidated statement of operations and comprehensive income. The effective yield on the convertible debenture is 7.8%.

(7) The estimated fair value of the long-term physical gas sale contract is based on AECO forward strip pricing and is in an asset position at June 30, 2011.

(8) Included in oil and natural gas revenues on the condensed interim consolidated statement of operations and comprehensive income. The amortization of obligations under gas sale contract is included on the condensed interim consolidated statement of cash flow.

The Company classifies the fair value of cash and cash equivalents, risk management liabilities and derivative financial liabilities according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Cash and cash equivalents are classified as Level 1. The risk management contracts (Level 2) are recorded at their fair value based on quoted market prices in the futures market on the financial position date; accordingly, there is no difference between fair value and carrying value. The derivative financial liabilities related to the convertible debentures (Level 2) are recorded at fair value using the Black-Scholes valuation model which uses inputs including quoted prices in active markets and other factors which can be substantially observed or corroborated in the marketplace.

Due to the short term nature of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities, their carrying values approximate their fair values. Bank debt at June 30, 2011 bears interest at a floating rate of interest and accordingly fair value, less deferred financing costs, approximates the carrying value.

Note 20 – Changes in Non-Cash Working Capital

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Change in:				
Accounts receivable	**$ 47,819**	$ 11,654	**$ 21,578**	$ 6,313
Prepaid expenses and other assets	**(793)**	(153)	**(4,547)**	5,936
Accounts payable and accrued liabilities	**(245,907)**	(112,662)	**(164,252)**	(95,052)
Other	**1,111**	(44)	**4,856**	(88)
	(197,770)	(101,205)	**(142,365)**	(82,891)
Working capital deficiencies acquired	**-**	2,672	**-**	(36,202)
	$ (197,770)	$ (98,533)	**$ (142,365)**	$ (119,093)
Changes relating to:				
Attributable to operating activities	**$ 36,533**	$ (5,998)	**$ (1,190)**	$ (19,613)
Attributable to financing activities	**$ 4**	$ 1,086	**$ (505)**	$ (866)
Attributable to investing activities	**$ (234,307)**	$ (93,621)	**$ (140,670)**	$ (98,614)
	$ (197,770)	$ (98,533)	**$ (142,365)**	$ (119,093)
Other cash flow information:				
Cash interest paid	**$ 16,027**	$ 11,391	**$ 29,679**	$ 31,387
Cash interest received	**$ 6**	$ 19	**$ 102**	$ 23

Note 21 – Commitments and Contingencies

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments at June 30, 2011:

Type of Commitment	2011	2012	2013	2014	2015	Thereafter	Total
HBU and Corporate							
Office operating leases ($) [1]	$ 1,689	$ 4,424	$ 4,594	$ 4,681	$ 4,710	$ 15,237	$ 35,335
Finance leases ($)	360	578	581	486	97	-	2,102
PetroBakken							
Office operating leases ($) [1]	2,131	4,914	6,629	6,655	6,699	35,756	62,784
Drilling and completion rigs ($)	5,055	9,003	8,698	6,902	-	-	29,658
Total Commitments	**$ 9,235**	**$ 18,919**	**$ 20,502**	**$ 18,724**	**$ 11,506**	**$ 50,993**	**$129,879**

[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.

The development of certain of the Company's assets and the success of its operations are dependent on obtaining sufficient financing to fund its working capital requirements and future capital expenditure commitments. The Company plans to fund these commitments with funds flow from operations, available credit facilities, new debt and potentially through the issuance of equity.

The Company is party to certain legal actions arising in the normal course of business, the outcome of which cannot be reasonably determined. In the opinion of management, the resolution of these matters will not have a material effect on the Company's financial position or results of operations.

Note 22 – Transition to IFRS

IFRS 1 Exemptions Applied

Generally, an entity must retrospectively restate its results for all standards in effect at the first reporting date when adopting IFRS. However, IFRS 1, *First Time Adoption of International Financial Reporting Standards*, provides certain exemptions from the general requirements of IFRS to assist with the transition process. The Company has elected to apply the following exemptions with regards to full retrospective application of IFRS on transition (January 1, 2010):

Exemption/Election	Impact
Estimates	Estimates made under Canadian GAAP are consistent with estimates made under IFRS after adjustments for changes in accounting policies.
Deemed cost of property, plant and equipment	As described in *Notes to the Reconciliation* (a).
Decommissioning liabilities included in the cost of property, plant, and equipment	As described in *Notes to the Reconciliation* (e).
Share-based payment transactions	As described in *Notes to the Reconciliation* (g).
Cumulative translation differences	As described in *Notes to the Reconciliation* (m).
Business combinations	The Company elected not to retrospectively apply IFRS 3, *Business Combinations* to business combinations that occurred prior to the transition date and such business combinations have not been restated. Goodwill from business combinations that took place prior to transition date were tested for impairment on transition and were determined not to be impaired.

Reconciliation of Canadian GAAP to IFRS

The Company has prepared the following reconciliations of its previously reported Canadian GAAP balances to IFRS:

- Shareholders' equity at January 1, 2010, June 30, 2010 and December 31, 2010;
- Consolidated statements of financial position at January 1, 2010 and December 31, 2010; and
- Consolidated statements of operations and comprehensive income for the three and six month periods ended June 30, 2010 and the year ended December 31, 2010.

Notes describing the details of the adjustments follow the reconciliations.

The Company's first time adoption of IFRS did not have any material impact on total operating, investing, or financing cash flows. Therefore, a reconciliation of cash flows has not been presented.

Reconciliation of Equity

	Note	Jan. 1, 2010	Jun. 30, 2010	Dec. 31, 2010
Shareholders' equity Canadian GAAP		$ 2,291,804	$ 2,857,568	$ 2,454,687
Exploration and evaluation impairment	a	(229,737)	(246,841)	(263,125)
Assets held for sale	c	(48,656)	(47,293)	(39,397)
Depletion and depreciation	i	-	108,721	191,500
Convertible debentures				
Impact to convertible debentures – equity portion	d	(76,811)	-	-
Impact to share capital	d	18,991	210,993	210,742
Impact to retained earnings	d	(193,647)	(115,808)	(269,871)
Decommissioning liabilities	e	(79,678)	(79,741)	(79,429)
Deferred income taxes	j	99,135	83,298	64,198
Income attributable to NCI	l	-	(68,885)	(37,230)
Share-based compensation recorded by PetroBakken and Petrominerales	g	(3,933)	(9,402)	(17,904)
Adjustment to NCI on transition	l	10,362	10,362	10,362
Accumulated other comprehensive income	d, e, i, j, m	-	884	4,173
Accumulated other comprehensive income allocated to NCI under IFRS	m	-	(4,233)	12,500
Adjustment to retained earnings on spin-off of Petrominerales	k	-	-	50,962
Shareholders' equity IFRS		**$ 1,787,830**	**$ 2,699,623**	**$ 2,292,168**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at June 30, 2011 and December 31, 2010, and for the three and six months ended June 30, 2011 and 2010
(Unaudited, all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

Reconciliation of the consolidated statement of financial position at the date of transition, January 1, 2010:

				Effect of Transition to IFRS by Business Unit						
As at January 1, 2010	**Previous GAAP**	**Reclassification upon transition to IFRS**		**HBU and Corporate**		**PetroBakken**		**Petrominerales**		**IFRS**
Assets										
Current assets										
Cash and cash equivalents	$ 136,954	$ -		$ -		$ -		$ -		**$ 136,954**
Accounts receivable	204,148	-		-		-		-		**204,148**
Prepaid expenses	19,622	-		-		-		-		**19,622**
Deferred tax asset	782	(782)	j	-		-		-		**-**
	361,506	(782)		-		-		-		**360,724**
Other assets	27,859	-		-		-		-		**27,859**
Exploration assets	-	1,202,629	a, c, e	(229,737)	a	-		-		**972,892**
Property, plant and equipment	4,316,222	(1,402,977)	a, b, c	-		-		-		**2,913,245**
Other intangible assets	-	4,743	b	-		-		-		**4,743**
Goodwill	1,060,981	-		-		-		-		**1,060,981**
Deferred tax assets	-	12,339	j	-		-		-		**12,339**
Non-current assets held for sale	-	188,168	c	-		(48,656)	c	-		**139,512**
Total assets	$ 5,766,568	$ 4,120		$ (229,737)		$ (48,656)		$ -		**$ 5,492,295**
Liabilities and shareholders' equity										
Current liabilities										
Accounts payable and accrued liabilities	$ 481,916	$ -		$ -		$ -		$ -		**$ 481,916**
Risk management liabilities	2,694	-		-		-		-		**2,694**
Convertible debentures	80,409	-		-		-		-		**80,409**
	565,019	-		-		-		-		**565,019**
Bank debt	748,185	-		-		-		-		**748,185**
Convertible debentures	348,957	-		(6,965)	d	-		-		**341,992**
Derivative financial liabilities	-	-		257,275	d	-		-		**257,275**
Other long-term liabilities	3,961	-		-		-		-		**3,961**
Decommissioning liabilities	69,122	(15,295)	c, e	3,918	e	65,711	e	10,049	e	**133,505**
Risk management liabilities	3,442	-		-		-		-		**3,442**
Deferred tax liabilities	482,570	4,028	j	(59,153)	j	(29,963)	j	(10,019)	j	**388,620**
		-		1,157	d	-		-		
Non-current liabilities held for sale	-	15,387	c	-		-		-		**15,387**
Total liabilities	2,221,256	4,120		196,232		35,748		30		**2,457,386**
Shareholders' equity										
Common shares	880,183	-		18,991	d	-				**904,498**
		-		5,324	f	-		-		
Convertible debentures	76,811	-		(76,811)	d	-		-		**-**
Contributed surplus	33,436	-		5,290	g	-		-		**38,726**
Paid-in capital	875,924	-		-		-		-		**875,924**
Accumulated other comprehensive loss	(29,894)	-		-		-		29,894	m	**-**
Retained earnings	455,344	-		(378,763)		(72,089)		(35,810)		**(31,318)**
Total Petrobank shareholders' equity	2,291,804	-		(425,969)		(72,089)		(5,916)		**1,787,830**
Non-controlling interest	1,253,508	-		-		(13,249)	l	2,887	l	**1,247,079**
		-		-		934	g	2,999	g	
Total shareholders' equity	3,545,312	-		(425,969)		(84,404)		(30)		**3,034,909**
Total liabilities and equity	$ 5,766,568	$ 4,120		$ (229,737)		$ (48,656)		$ -		**$ 5,492,295**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at June 30, 2011 and December 31, 2010, and for the three and six months ended June 30, 2011 and 2010
(Unaudited, all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

Reconciliation of the consolidated statement of financial position at December 31, 2010:

				Effect of Transition to IFRS by Business Unit							
As at December 31, 2010	Previous GAAP	Reclassification upon transition to IFRS		HBU and Corporate		PetroBakken		Petrominerales		IFRS
Assets										
Current assets										
Cash and cash equivalents	$ 17,468	$ -		$ -		$ -		$ -		**$ 17,468**
Accounts receivable	163,311	-		-		-		-		**163,311**
Prepaid expenses	12,000	-		-		-		-		**12,000**
Risk management assets	2,231	-	-	-		-		-		**2,231**
Deferred tax asset	3,455	(3,455)	j	-		-		-		**-**
	198,465	(3,455)		-		-		-		**195,010**
Other assets	27	-		-		-		-		**27**
Exploration assets	-	1,867,030	a, c, e	(263,125)	a	-		(263,494)	k	**1,340,411**
Property, plant and equipment	4,685,461	(1,907,139)	a, b, c, e	-		134,935	i	54,465	i	**3,163,656**
		-		-		-		195,934	k	
Other intangible assets	-	5,375	b	-		-		-		**5,375**
Goodwill	1,518,633	5,491	e	-		-		-		**1,524,124**
Deferred tax assets	-	36,852	j	-		-		-		**36,852**
Non-current assets held for sale	-	39,397	c	-		(39,397)	c	-		**-**
Total assets	$ 6,402,586	$ 43,551		$ (263,125)		$ 95,538		$ (13,095)		**$ 6,265,455**
Liabilities and shareholders' equity										
Current liabilities										
Accounts payable and accrued liabilities	$ 376,012	$ -		$ -		$ -		$ -		**$ 376,012**
Capital lease obligations	838	-		-		-		-		**838**
Risk management liabilities	12,682	-		-		-		-		**12,682**
Deferred tax liability	608	(608)	j	-		-		-		**-**
	390,140	(608)		-		-		-		**389,532**
Bank debt	824,845	-		-		-		-		**824,845**
Convertible debentures	567,140	-		-		33,704	d	(3,336)	d	**600,844**
	-	-		-		-		3,336	k	
Derivative financial liabilities	-	-		-		76,141	d	238,907	d	**76,141**
	-	-		-		-		(238,907)	k	
Capital lease obligations	1,831	-		-		-		-		**1,831**
Other long-term liabilities	5,170	-		-		-		-		**5,170**
Decommissioning liabilities	66,252	19,616	c, e	3,869	e	66,177	e	8,901	e	**142,819**
				-		-		(21,996)	k	
Risk management liabilities	2,597	-		-		-		-		**2,597**
Deferred tax liabilities	533,350	24,543	j	(69,364)	j	6,105	j	(294)	j	**497,225**
		-		976	d	1,615	d	-		
		-				-		294	k	
Total liabilities	2,391,325	43,551		(64,519)		183,742		(13,095)		**2,541,004**

Reconciliation of the consolidated statement of financial position at December 31, 2010 continued:

			Effect of Transition to IFRS by Business Unit			
As at December 31, 2010	**Previous GAAP**	**Reclassification upon transition to IFRS**	**HBU and Corporate**	**PetroBakken**	**Petrominerales**	**IFRS**
Shareholders' equity						
Common shares	1,359,382	-	210,742 d	-		**1,575,448**
		-	5,324 f	-	-	
Contributed surplus	37,516	-	5,225 g	-	-	**42,741**
Paid-in capital	840,772	-	-	-	-	**840,772**
Retained earnings	217,017	-	(419,897)	36,087	-	**(166,793)**
Total Petrobank shareholders' equity	2,454,687	-	(198,606)	36,087	-	**2,292,168**
Non-controlling interest	1,556,574	-	-	(13,249) l	2,887 l	**1,432,283**
		-	-	12,200 g	5,704 g	
		-	-	(194,113) d	(101,201) d	
		-	-	70,871 l	(33,641) l	
		-	-	-	138,751 k	
		-	-	-	(12,500) m	
Total shareholders' equity	4,011,261	-	(198,606)	(88,204)	-	**3,724,451**
Total liabilities and equity	$ 6,402,586	$ 43,551	$ (263,125)	$ 95,538	$ (13,095)	**$ 6,265,455**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at June 30, 2011 and December 31, 2010, and for the three and six months ended June 30, 2011 and 2010
(Unaudited, all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

Reconciliation of consolidated statement of operations and comprehensive income for the three months ended June 30, 2010:

Three months ended June 30, 2010	Previous GAAP	Reclassification upon transition to IFRS		Effect of Transition to IFRS: HBU and Corporate		Effect of Transition to IFRS: PetroBakken		Effect of Transition to IFRS: Petrominerales		IFRS
Oil and natural gas sales	$ 245,954	$ -		$ -		$ -		$ -		**$ 245,954**
Royalties	(35,258)	-		-		-		-		**(35,258)**
Gain on risk management contracts	14,747	-		-		-		-		**14,747**
Interest income	23	(23)	h	-		-		-		**-**
	225,466	(23)		-		-		-		**225,443**
Production	29,189	-		-		-		-		**29,189**
Transportation	4,204	-		-		-		-		**4,204**
General and administrative	11,597	-		-		-		-		**11,597**
Share-based compensation	9,997	-		329	g	3,249	g	-		**13,575**
Interest	19,177	(19,177)	h	-		-		-		**-**
Loss on disposition	-	-		-		5,565	c	-		**5,565**
Gain on derivative financial liabilities	-	-		(14,705)	d	(46,099)	d	-		**(60,804)**
Expense on amendment of terms of convertible debenture	-	-		24,345	d	-		-		**24,345**
Exploration and evaluation impairment	-	-		6,415	a	-		-		**6,415**
Finance and other	-	20,349	h	12	d	(1,035)	d	-		**19,443**
	-	-		(8)	e	125	e	-		
Foreign exchange loss (gain)	25,603	-		(6)	d	1,635	d	-		**27,232**
Depletion and depreciation	135,466	(1,195)	h	-		(36,474)	i	-		**97,797**
	235,233	(23)		16,382		(73,034)		-		**178,558**
Income from continuing operations before taxes and NCI	(9,767)	-		(16,382)		73,034		-		**46,885**
Deferred income taxes (recovery)	11,189	-		(1,095)	j	8,485	j	-		**11,218**
	-	-		(7,361)	d	-		-		
Income from continuing operations before NCI	(20,956)	-		(7,926)		64,549		-		**35,667**
Net income attributable to NCI	(6,432)	-		-		27,110	l	-		**20,678**
Net income from continuing operations attributable to Petrobank shareholders	(14,524)	-		(7,926)		37,439		-		**14,989**
Net income from discontinued operations	55,574	-		-		-		9,817	e, g, i j, l	**65,391**
Net income attributable to Petrobank shareholders	41,050	-		(7,926)		37,439		9,817		**80,380**
Other comprehensive income:										
Foreign currency translation differences	28,442	-		-		-		1,383	m	**29,825**
Foreign currency translation differences related to NCI	-	-		-		-		(10,141)	m	**(10,141)**
Comprehensive income attributable to Petrobank shareholders	$ 69,492	$ -		$ (7,926)		$ 37,439		$ 1,059		**$ 100,064**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at June 30, 2011 and December 31, 2010, and for the three and six months ended June 30, 2011 and 2010
(Unaudited, all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

Reconciliation of consolidated statement of operations and comprehensive income for the six months ended June 30, 2010:

Six months ended June 30, 2010	Previous GAAP	Reclassification upon transition to IFRS		Effect of Transition to IFRS: HBU and Corporate		PetroBakken		Petrominerales		IFRS
Oil and natural gas sales	$ 521,660	$ -		$ -		$ -		$ -		**$ 521,660**
Royalties	(72,799)	-		-		-		-		**(72,799)**
Gain on risk management contracts	16,179	-		-		-		-		**16,179**
Interest income	41	(41)	h	-		-		-		**-**
	465,081	(41)		-		-		-		**465,040**
Production	59,431	-		-		-		-		**59,431**
Transportation	6,804	-		-		-		-		**6,804**
General and administrative	20,826	-		-		-		-		**20,826**
Share-based compensation	18,484	-		(333)	g	5,310	g	-		**23,461**
Interest	35,664	(35,664)	h	-		-		-		**-**
Gain on disposition	-	-		-		(1,363)	c	-		**(1,363)**
Loss (gain) on derivative financial liabilities	-	-		17,769	d	(94,195)	d	-		**(76,426)**
Expense on amendment of terms of convertible debenture	-	-		66,730	d	-		-		**66,730**
Exploration and evaluation impairment	-	-		17,104	a	-		-		**17,104**
Finance and other	-	38,077	h	157	d	(1,761)	d	-		**36,674**
	-			(16)	e	217	e	-		
Foreign exchange loss (gain)	8,892	-		146	d	45	d	-		**9,083**
Depletion and depreciation	269,584	(2,454)	h	-		(71,626)	i	-		**195,504**
	419,685	(41)		101,557		(163,373)		-		**357,828**
Income from continuing operations before taxes and NCI	45,396	-		(101,557)		163,373		-		**107,212**
Deferred income taxes (recovery)	20,303	-		(4,260)	j	18,732	j	-		**27,055**
	-	-		(7,720)	d	-		-		
Income from continuing operations before NCI	25,093	-		(89,577)		144,641		-		**80,157**
Net income attributable to NCI	8,103	-		-		56,744	l	-		**64,847**
Net income from continuing operations attributable to Petrobank shareholders	16,990	-		(89,577)		87,897		-		**15,310**
Net income from discontinued operations	106,559	-		-		-		23,568	e, g, i j, l	**130,127**
Net income attributable to Petrobank shareholders	123,549	-		(89,577)		87,897		23,568		**145,437**
Other comprehensive income:										
Foreign currency translation differences	11,565	-		-		-		884	m	**12,449**
Foreign currency translation differences related to NCI	-	-		-		-		(4,233)	m	**(4,233)**
Comprehensive income attributable to Petrobank shareholders	$ 135,114	$ -		$ (89,577)		$ 87,897		$ 20,219		**$ 153,653**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at June 30, 2011 and December 31, 2010, and for the three and six months ended June 30, 2011 and 2010
(Unaudited, all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

Reconciliation of consolidated statement of operations and comprehensive income for the year ended December 31, 2010:

Year ended December 31, 2010	Previous GAAP	Reclassification upon transition to IFRS		Effect of Transition to IFRS: HBU and Corporate		Effect of Transition to IFRS: PetroBakken		Effect of Transition to IFRS: Petrominerales		IFRS
Oil and natural gas sales	$ 1,008,556	$		$ -		$ -		$ -		**$ 1,008,556**
Royalties	(142,064)			-		-		-		**(142,064)**
Loss on risk management contracts	(8,426)	-		-		-		-		**(8,426)**
Interest income	101	(101)	h	-		-		-		**-**
	858,167	(101)		-		-		-		**858,066**
Production	124,481	-		-		-		-		**124,481**
Transportation	15,270	-		-		-		-		**15,270**
General and administrative	43,151	-		-		-		-		**43,151**
Share-based compensation	32,393	-		(65)	g	11,266	g	-		**43,594**
Interest	77,511	(77,511)	h	-		-		-		**-**
Gain on disposition	-	-		-		(9,259)	c	-		**(9,259)**
Loss (gain) on derivative financial liabilities	-	-		17,769	d	(76,409)	d	-		**(58,640)**
Expense on amendment of terms of convertible debenture	-	-		66,730	d	-		-		**66,730**
Exploration and evaluation impairment	-	-		33,388	a	-		-		**33,388**
Finance and other	-	82,428	h	154	d	(3,977)	d	-		**79,022**
	-	-		(49)	e	466	e	-		
Foreign exchange (gain) loss	(28,310)	-		149	d	(2,267)	d	-		**(30,428)**
Depletion and depreciation	526,059	(5,018)	h	-		(134,935)	i	-		**386,106**
	790,555	(101)		118,076		(215,115)		-		**693,415**
Income from continuing operations before taxes and NCI	67,612	-		(118,076)		215,115		-		**164,651**
Deferred income taxes (recovery)	28,117	-		(10,211)	j	36,068	j	-		**46,254**
	-	-		(7,720)	d	-		-		
Income from continuing operations before NCI	39,495	-		(100,145)		179,047		-		**118,397**
Net income attributable to NCI	18,187	-		-		70,871	l	-		**89,058**
Net income from continuing operations attributable to Petrobank shareholders	21,308	-		(100,145)		108,176		-		**29,339**
Net income from discontinued operations	164,553	-		-		-		(61,719)	d, e, g i, j, l	**102,834**
Gain on spin-off of Petrominerales	-	-		-		-		1,919,505	k	**1,919,505**
AOCI recognized on spin-off of Petrominerales	70,076	-		-		-		(46,569)	m	**23,507**
Net and comprehensive income attributable to Petrobank shareholders	$ 115,785	$ -		$ (100,145)		$ 108,176		$ 1,904,355		**$ 2,028,171**

Notes to the Reconciliation

a. Deemed cost of property, plant and equipment and impairment

The Company elected an IFRS 1 exemption whereby, upon transition to IFRS, oil and gas assets were measured as follows:

(i) Exploration and evaluation assets were reclassified from capital assets to exploration assets at the amount that was recorded under Canadian GAAP. Exploration and evaluation assets on transition are those unproved properties excluded from the full cost pool under Canadian GAAP.

(ii) Capital assets included in the Canadian GAAP full cost pool were allocated to CGUs using Proved plus Probable reserve values. These assets are recorded as property, plant and equipment on the consolidated statement of financial position.

On adoption of IFRS 1, the exploration assets and oil and natural gas assets were tested for impairment based on value in use. The Company has adopted an accounting policy to allocate exploration and evaluation assets to individual cash generating units for the purpose of assessing impairment under IFRS. For CGUs where reserves have been assigned, value in use was based on proved plus probable reserves values discounted at 10 percent for conventional oil and gas projects, and eight percent for heavy oil and oil sands projects. Where reserves have not been assigned, valuation assumptions include internal economic forecasts and market based transactions on comparable projects.

As described above, the Company allocates exploration and evaluation assets to individual CGUs for the purpose of assessing impairment under IFRS. As CGUs were not defined by the Company's accounting policies under Canadian GAAP, and were not employed in the performance of impairment testing, this represents a GAAP difference. The Company assessed a number of factors in determining the most appropriate level of aggregation of assets into CGUs, which resulted in allocating assets by project for the purposes of impairment testing under IFRS.

Under Canadian GAAP, at January 1, 2010, in accordance with Accounting Guideline 16, *Oil and Gas Accounting – Full Cost* ("AcG 16"), management evaluated impairment of oil and gas assets excluded from the full cost pool on a property basis. Factors used by the Company in assessing property in accordance with Canadian GAAP included geographical area and geological formation. On this basis, there was no impairment of unproved properties.

The impairment tests at transition resulted in an adjustment to the HBU's exploration assets allocated to the Conklin CGU and Other CGU. Impairment tests performed at each period end during 2010 resulted in additional impairment of the Conklin CGU. Although the Company continues to evaluate the technical feasibility and commercial viability of the underlying oil and gas resources by performing geological studies, exploratory drilling, and sampling, and it is likely that the development of the projects will proceed, the carrying amount of these CGUs is not estimated to be recovered in full from development based on current results.

Consolidated Statement of Financial Position	Jan. 1, 2010	Dec. 31, 2010
HBU		
Exploration assets	(229,737)	(263,125)
Retained earnings	229,737	263,125

Consolidated Statement of Operations and Comprehensive Income	Three months ended June 30, 2010	Six months ended June 30, 2010	Full Year 2010
HBU			
Exploration and evaluation impairment	6,415	17,104	33,388

b. Other intangible assets

As a result of the increasing significance of other intangible assets, the Company has commenced recording other intangible assets as a separate line item on the consolidated statement of financial position. These assets, which consist of costs related to certain patents, licenses, trademarks, agreements and other capital costs incurred to develop the Company's THAI® and CAPRI® technologies, were previously included in property, plant and equipment.

c. Assets held for sale

In the fall of 2009, PetroBakken made the decision to dispose of certain non-core oil and gas properties. Under Canadian GAAP, these properties were not considered assets held for sale due to AcG 16. These assets, and their related decommissioning liabilities, met the criteria for classification as held for sale in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*.

The non-current assets classified as held for sale were recorded at the lower of carrying amount and fair value less costs to sell. This resulted in an impairment charge of $48.7 million at transition. Fair value less costs to sell was determined based on preliminary bids received from the market for the assets.

During the three months ended June 30, 2010 the final non-core property disposition was completed, which resulted in the assets being held for sale balance being reduced to $nil. The non-core property disposition along with other minor dispositions that took place resulted in a loss of $5.6 million for the period as the proceeds received were lower than the carrying value.

During the six months ended June 30, 2010 the disposition of the four non-core property dispositions was completed. This resulted in a gain of $1.4 million as the proceeds received were higher than the carrying value. This resulted in an increase of the same amount to property, plant and equipment. The balance in assets held for sale and liabilities held for sale was reduced to $nil as a result of this.

Consolidated Statement of Financial Position	Jan. 1, 2010	Dec. 31, 2010
PetroBakken		
Non-current assets held for sale	(48,656)	(39,397)
Retained earnings	48,656	39,397

Consolidated Statement of Operations and Comprehensive Income	Three months ended June 30, 2010	Six months ended June 30, 2010	Full Year 2010
PetroBakken			
Loss (gain) on disposition	5,565	(1,363)	(9,259)

d. Convertible debentures

Petrobank's, PetroBakken's and Petrominerales' debentures have, or had, a cash settlement option; as a result, under IFRS, the fair value of the conversion option is accounted for as a derivative financial liability, with the remaining net proceeds being recorded to a liability. The derivative financial liability must be fair valued at each reporting period, with the gain or loss resulting from the change in fair value being recorded in the consolidated statement of operations.

This accounting treatment differs from the Company's accounting treatment of the convertible debentures with a cash settlement option under Canadian GAAP, where the convertible debentures were bifurcated on issuance by fair valuing the debt portion and allocating the remainder of the net proceeds to a separate component of shareholders' equity. The equity portion represents the conversion option and was not subsequently adjusted until de-recognition upon conversion.

An additional difference between IFRS and Canadian GAAP in the accounting for the convertible debentures is the treatment of early conversion incentives. Under IFRS, when the Company amends the terms of the convertible debentures, the difference between the fair value of the consideration the holder receives on conversion of the instrument under the revised terms and the fair value of the consideration the holder would have received under the original terms, net of tax impact, is recognized as an expense in the consolidated statement of operations. Under Canadian GAAP, it is recorded directly to retained earnings.

Consolidated Statement of Financial Position	Jan. 1, 2010	Dec. 31, 2010
HBU and Corporate		
Convertible debentures – liability component	(6,965)	-
Deferred tax liability	1,157	976
Derivative financial liability	257,275	-
Common shares [1]	18,991	210,742
Convertible debentures – equity component	(76,811)	-
Retained earnings	(193,647)	(211,718)
PetroBakken		
Convertible debentures – liability component	-	33,704
Derivative financial liability	-	76,141
Deferred tax liability	-	1,615
Non-controlling interest [2]	-	(194,113)
Retained earnings	-	82,653
Petrominerales		
Convertible debentures – liability component	-	(3,336)
Derivative financial liability	-	238,907
Non-controlling interest [2]	-	(101,201)
Accumulated other comprehensive income	-	6,436
Retained earnings	-	(140,806)

[1] Increase to common shares reflects the difference in the carrying value of the convertible debentures under IFRS and Canadian GAAP upon conversion. A portion of Petrobank's convertible debentures were converted in each of July 2009, January 2010, April 2010 and May 2010.

[2] The equity portion of PetroBakken's and Petrominerales' convertible debentures under Canadian GAAP was recorded in non-controlling interest upon consolidation.

Consolidated Statement of Operations and Comprehensive Income	Three months ended June 30, 2010	Six months ended June 30, 2010	Full Year 2010
HBU and Corporate			
Loss on derivative financial liability	(14,705)	17,769	17,769
Expense on amendment of terms of convertible debentures [1]	24,345	66,730	66,730
Deferred tax recovery [1]	(7,361)	(7,720)	(7,720)
Foreign exchange loss	(6)	146	154
Accretion on convertible debentures [2]	12	157	149
PetroBakken			
Gain on derivative financial liability	(46,099)	(94,195)	(76,409)
Foreign exchange gain	1,635	45	(2,267)
Accretion on convertible debentures [2]	(1,035)	(1,761)	(3,977)
Petrominerales			
Loss on derivative financial liability	-	-	140,475
Accretion on convertible debentures	-	-	331

[1] No net impact to statement of financial position for these entries as the same amount was recorded directly to retained earnings under previous GAAP.

[2] Accretion on convertible debentures is recorded in finance and other.

e. Decommissioning liabilities

Under Canadian GAAP, asset retirement obligations were discounted at a credit adjusted risk free rate of eight percent, while under IFRS the future estimated decommissioning liability is discounted at a risk free rate of four percent.

In addition to a transitional adjustment, the change in the discount rate impacted obligations acquired, incurred, disposed and settled in 2010. In instances where the change relates to acquisitions, the offset is to goodwill and deferred tax liability. Where the change relates to obligations incurred or disposed, the offset is to exploration assets or property, plant and equipment.

The change in discount rate also resulted in an adjustment to accretion expense during 2010.

Consolidated Statement of Financial Position	Jan. 1, 2010	Dec. 31, 2010
HBU and Corporate		
Decommissioning liabilities	3,918	3,869
Retained earnings	(3,918)	(3,869)
PetroBakken		
Decommissioning liabilities	65,711	66,177
Retained earnings	(65,711)	(66,177)
Petrominerales		
Decommissioning liabilities	10,049	8,901
Accumulated other comprehensive income	-	482
Retained earnings	(10,049)	(9,383)

Consolidated Statement of Operations and Comprehensive Income	Three months ended June 30, 2010	Six months ended June 30, 2010	Full Year 2010
HBU and Corporate			
Accretion on decommissioning liabilities	(8)	(16)	(49)
PetroBakken			
Accretion on decommissioning liabilities	125	217	466
Petrominerales			
Accretion on decommissioning liabilities	(150)	(138)	(666)

In prior periods, accretion expense was included in depletion and depreciation. Under IFRS, it is included in finance and other expenses.

f. Flow-through shares

The Company has historically financed a portion of its activities with flow-through share issues, whereby the tax deductions are renounced to the share subscribers. Under Canadian GAAP, the tax cost of the deductions renounced to shareholders was reflected as an increase in the future income tax liability and a reduction from the stated value of the shares. Under IFRS, share capital for flow-through shares is stated at the quoted value of the shares at the date of issuance; the tax cost resulting from deduction renouncements, less any proceeds received in excess of the quoted value of the shares, must be included in the determination of the tax expense. At transition, the Company recorded an increase in share capital, with the corresponding amount being recorded to retained earnings.

Consolidated Statement of Financial Position	Jan. 1, 2010
HBU and Corporate	
Common shares	5,324
Retained earnings	(5,324)

g. Share-based payments

Under Canadian GAAP, the Company recognized an expense related to our share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple. Under IFRS, the Company is required to recognize the expense using graded vesting and estimate a forfeiture rate.

The Company elected an IFRS 1 exemption from IFRS 2, *Share-based Payments* for all share settled instruments that were fully vested prior to the transition date whereby the share-based compensation expense and contributed surplus were not required to be restated. As a result of applying graded vesting and a forfeiture rate to options, an adjustment of $5.3 million related to the HBU was recorded as an increase to contributed surplus and decrease to retained earnings for the unvested options on transition. An entry of $3.9 million was recorded to non-controlling interest and retained earnings for PetroBakken's and Petrominerales' unvested options on transition.

The impact of using graded vesting and an estimated forfeiture rate also resulted in adjustments to share-based compensation during 2010.

Consolidated Statement of Financial Position	Jan. 1, 2010	Dec. 31, 2010
HBU and Corporate		
Contributed surplus	5,290	5,225
Retained earnings	(5,290)	(5,225)
PetroBakken		
Non-controlling interest [1]	934	12,200
Retained earnings	(934)	(12,200)
Petrominerales		
Non-controlling interest [1]	2,999	5,704
Retained earnings	(2,999)	(5,704)

[1] PetroBakken's and Petrominerales' contributed surplus balances are recorded in non-controlling interest upon consolidation.

Consolidated Statement of Operations and Comprehensive Income	Three months ended June 30, 2010	Six months ended June 30, 2010	Full Year 2010
HBU and Corporate			
Share-based compensation	329	(333)	(65)
PetroBakken			
Share-based compensation	3,249	5,310	11,266
Petrominerales			
Share-based compensation	62	159	2,705

h. Finance and other expenses

In prior periods, the Company presented interest income and interest expense as separate line items on the consolidated statement of operations. Under IFRS, these items are included in finance and other expenses. Additionally, accretion on decommissioning liabilities, previously included in the line item 'depletion, depreciation and accretion' has been included in finance and other expenses. This is a change in presentation and therefore there was no impact on adoption of IFRS, for the three and six months ended June 30, 2010, or for the year ended December 31, 2010.

i. Depletion expense

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas interests on a unit-of production basis using proved plus probable reserves as the denominator. The depletion policy under Canadian GAAP was calculated on a unit-of-production basis using proved reserves as the denominator. In addition, depletion was done on the Canadian cost centre under Canadian GAAP. IFRS requires depletion and depreciation to be calculated based on individual components (i.e. fields or combinations thereof).

There was no impact of this difference on adoption of IFRS at January 1, 2010 as a result of the IFRS 1 exemption related to deemed cost of property, plant and equipment, as discussed in (a) above.

During 2010, component accounting resulted in a decrease to depletion and depreciation expense with a corresponding change to property, plant and equipment.

Consolidated Statement of Financial Position	Dec. 31, 2010
PetroBakken	
Property, plant and equipment	134,935
Retained earnings	134,935
Petrominerales	
Property, plant and equipment	54,465
Accumulated other comprehensive income	(2,100)
Retained earnings	56,565

Consolidated Statement of Operations and Comprehensive Income	Three months ended June 30, 2010	Six months ended June 30, 2010	Full Year 2010
PetroBakken			
Depletion and depreciation expense	(36,474)	(71,626)	(134,935)
Petrominerales			
Depletion and depreciation expense	(25,279)	(37,095)	(56,565)

j. Income taxes

Many of the Company's IFRS transitional adjustments have related effects on deferred taxes. Changes to deferred taxes relate primarily to transitional adjustments affecting the carrying value of exploration assets, property, plant and equipment, non-current assets and liabilities held for sale, decommissioning liabilities and convertible debentures.

Petrominerales also recorded an adjustment to foreign exchange gains and losses as a result of changes to taxes denominated in foreign currencies.

Consolidated Statement of Financial Position	Jan. 1, 2010	Dec. 31, 2010
HBU and Corporate		
Deferred tax liability	(59,153)	(69,364)
Retained earnings	59,153	69,364
PetroBakken		
Deferred tax liability	(29,963)	6,105
Retained earnings	29,963	(6,105)
Petrominerales		
Deferred tax liability	(10,019)	(294)
Accumulated other comprehensive income	-	(645)
Retained earnings	10,019	939

Consolidated Statement of Operations and Comprehensive Income	Three months ended June 30, 2010	Six months ended June 30, 2010	Full Year 2010
HBU and Corporate			
Deferred tax recovery	(1,095)	(4,260)	(10,211)
PetroBakken			
Deferred tax expense	8,485	18,732	36,068
Petrominerales			
Deferred tax expense (recovery)	10,493	1,365	9,080

(1) Includes foreign exchange impact.

In accordance with Canadian GAAP, the Company presented certain future income tax assets and future income tax liabilities as current assets or liabilities. Under IFRS, all deferred tax assets and liabilities have been disclosed as long-term.

Additionally, the HBU and Corporate deferred taxes were reclassified from a liability to asset due to the changes noted above.

k. Spin-off of Petrominerales

In accordance with Canadian GAAP, the carrying value of Petrominerales' assets, liabilities and non-controlling interest was de-recognized at December 31, 2010, the date the spin-off occurred. There was no gain or loss resulting from the transaction.

IFRS requires that transactions of this nature be recognized at fair value, with the difference being recorded through net income. In accordance with IFRS, a dividend of $2.1 billion, the fair value of Petrobank's ownership of Petrominerales, determined using the closing trading price of the Petrominerales common shares on the date of spin-off, was recorded to retained earnings at December 31, 2010. The difference between the fair value and carrying value of Petrominerales net assets resulted in a $1.9 billion gain recorded to the consolidated statement of operations for the year ended December 31, 2010.

Additional entries were also required to reverse the changes in carrying value of Petrominerales assets, liabilities, and non-controlling interest as a result of applying IFRS.

Consolidated Statement of Financial Position	Dec. 31, 2010
Property, plant and equipment	195,934
Exploration assets	(263,494)
Convertible debentures – liability component	3,336
Derivative financial liability	(238,907)
Decommissioning liabilities	(21,996)
Deferred tax liabilities	294
Non-controlling interest	138,751
Retained earnings	50,962

Consolidated Statement of Operations and Comprehensive Income	Full Year 2010
Gain on spin-off of Petrominerales	(1,919,505)

l. Non-controlling interest

On transition, an adjustment was made to NCI for the minority interest portion of PetroBakken and Petrominerales opening retained earnings adjustments.

Consolidated Statement of Financial Position	Jan. 1, 2010
PetroBakken	
Non-controlling interest	(13,249)
Retained earnings	13,249
Petrominerales	
Non-controlling interest	2,887
Retained earnings	(2,887)

As a result of the adjustments to PetroBakken and Petrominerales impacting the consolidated statement of operations and comprehensive income, the net income attributable to non-controlling interests also changed.

Consolidated Statement of Operations and Comprehensive Income	Three months ended June 30, 2010	Six months ended June 30, 2010	Full Year 2010
PetroBakken			
Net income attributable to non-controlling interest	27,110	56,744	70,871
Petrominerales			
Net income attributable to non-controlling interest	5,057	12,141	(33,641)

m. Cumulative translation differences

The Company elected an IFRS 1 exemption whereby the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS. As a result of applying the exemption, the $29.9 million cumulative translation loss related to historic translations of Petrominerales U.S. dollar amounts was eliminated, with the corresponding decrease to retained earnings.

In accordance with IFRS, a portion of the foreign currency translation gain or loss recorded as other comprehensive income is attributable to non-controlling interests. Under Canadian GAAP, the full gain or loss was recorded to AOCI through comprehensive income.

Consistent with Canadian GAAP, on spin-off of Petrominerales, the AOCI balance was de-recognized and recorded in net income. As a result of eliminating the AOCI balance on transition, and recording a portion of the previous AOCI to NCI under IFRS, the expense resulting is $46.6 million less under IFRS compared to Canadian GAAP.

As a result of the Petrominerales' IFRS adjustments, the foreign currency translation loss increased by $1.4 million for the three months ended June 30, 2010, increased by $0.9 million for the six months ended June 30, 2010 and decreased by $4.2 million for the year ended December 31, 2010.

Consolidated Statement of Financial Position	Jan. 1, 2010	Dec. 31, 2010
Consolidation Entry		
Adjustment at transition		
Retained earnings	(29,894)	-
Accumulated other comprehensive income	29,894	-

Consolidated Statement of Operations and Comprehensive Income	Three months ended June 30, 2010	Six months ended June 30, 2010	Full Year 2010
Consolidation Entry			
Record loss related to NCI and additional AOCI due to PMG adjustments			
Foreign currency translation differences attributable to NCI	(10,141)	(4,233)	12,500
Foreign currency translation differences attributable to Petrobank shareholders	10,141	4,233	(12,500)
Adjust loss recorded to net income on spin-off of PMG			
AOCI recognized on spin-off of Petrominerales	-	-	(46,569)