PETROBANK

FINANCIAL & OPERATING HIGHLIGHTS

Summary of Results [1]

Three months ended March 31,	2011	2010	Change
Financial			
($000s, except where noted)			
Oil and natural gas sales from continuing operations	**281,297**	275,706	2%
Funds flow from continuing operations [2]	**168,384**	188,371	(11%)
Per share – basic ($)	**1.58**	1.88	(16%)
– diluted ($)	**1.57**	1.77	(11%)
Net income from continuing operations	**20,585**	321	6,313%
Per share – basic ($)	**0.19**	0.00	-
– diluted ($)	**0.19**	0.00	-
Net income attributable to Petrobank shareholders [3]	**20,585**	65,057	(68%)
Per share – basic ($)	**0.19**	0.65	(71%)
– diluted ($)	**0.19**	0.58	(67%)
Capital expenditures [4]			
PetroBakken	**307,481**	185,116	66%
Heavy Oil Business Unit ("HBU")	**54,255**	23,935	127%
Total capital expenditures from continuing operations	**361,736**	209,051	73%
Total assets	**6,538,606**	6,275,007	4%
Common shares outstanding, end of period (000s)			
Basic	**106,257**	101,839	4%
Diluted [5]	**109,953**	109,544	-
Operations			
PetroBakken operating netback ($/boe) [2] [6]			
Crude oil and NGL sales price ($/bbl) [7]	**81.92**	76.08	8%
Natural gas sales price ($/Mcf) [7]	**4.13**	5.20	(21%)
Oil equivalent sales price [7]	**74.46**	70.41	6%
Royalties	**11.84**	9.68	22%
Production expenses	**10.20**	7.80	31%
Operating netback [2] [6] [8]	**52.42**	52.93	(1%)
Average daily production [6]			
PetroBakken – oil and NGL (bbls)	**36,140**	37,654	(4%)
PetroBakken – natural gas (Mcf)	**32,534**	32,662	-
Total conventional (boe) [6] [9]	**41,562**	43,098	(4%)

(1) Petrominerales Ltd. ("Petrominerales") has been presented as discontinued operations in the comparative period as this business unit was spun off 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 attributable to Petrobank shareholders for the three months ended March 31, 2010 includes the operating results of Petrominerales.
(4) Includes expenditures on property, plant and equipment, exploration and evaluation and other intangible assets.
(5) Consists of common shares, stock options, directors deferred common shares, deferred common shares, and incentive shares as at the period end date.
(6) Six Mcf of natural gas is equivalent to one barrel of oil equivalent ("boe").
(7) Net of transportation expenses.
(8) Excludes hedging activities.
(9) 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 Interim Consolidated Financial Statements for the period ended March 31, 2011.

HIGHLIGHTS

Quarterly comparisons are first quarter 2011 compared to first 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.

Q1 2011 Financial Highlights

- Funds flow from continuing operations increased eight percent to $168.4 million, or $1.58 per basic share, compared to the fourth quarter of 2011 primarily as a result of PetroBakken's higher operating netbacks.
- PetroBakken's operating netback (excluding hedging activity) of $52.42 per barrel of oil equivalent ("boe") increased nine percent, compared to the fourth quarter of 2010, primarily as a result of higher pricing, and decreased slightly by one percent from the prior year period, primarily due to increased production expenses.
- Net income attributable to Petrobank shareholders from continuing operations increased $20.3 million to $20.6 million in the first quarter of 2011 compared to the first quarter of 2010. The increase is due mainly to a non-cash gain arising from the revaluation of PetroBakken's convertible debentures derivative financial liability.
- Capital expenditures were $361.7 million in the first quarter, up 73 percent from a year ago and 20 percent from the fourth quarter of 2010. The increases were primarily driven by PetroBakken's aggressive drilling program and extensive facility investments, and the Heavy Oil Business Unit's 10 well-pair expansion project at Kerrobert.
- On January 4, 2011, Petrobank entered into a new three year $200 million credit agreement with a syndicate of lenders.

Heavy Oil Business Unit 2011 Operations Highlights

- Start up of Kerrobert expansion project is on schedule with the first of the new production wells being tied into the central processing facility.
- A five year collaboration agreement has been signed with Pemex Exploración y Producción, a subsidiary entity of the Mexican state oil company Petroleos Mexicanos ("**Pemex**"), as the first step to licensing our THAI® technology in Mexico.
- We have acquired and agreed to acquire a further seven sections of land in Saskatchewan on the Kerrobert Waseca channel trend.
- Our Dawson demonstration project is moving forward and we anticipate starting to drill in the third quarter of 2011.
- The Kerrobert demonstration project production averaged 110 barrels of oil per day ("bopd") for the first quarter and the two wells are now being prepared to be tied into the new production facility.

Kerrobert Project

The Kerrobert expansion project has been commissioned and the central processing facility ("**CPF**") is ready to accept production. Drilling and completion of the 10 air injection wells is complete, nine of the new horizontal production wells are drilled, with five completed and the remaining five on schedule to be completed and tied in by June 30.

We had anticipated the Pre-Injection Heating Cycle ("**PIHC**") in the new wells to take up to 60 days; however temperature response was achieved in less than twenty days, which allowed us to accelerate air injection operations. Air injection began on three injector wells on the first pad in April. The two remaining wells on this pad are near the end of their PIHC and will be on air before the end of May. We expect to begin the PIHC in the injector wells on the second pad by mid-June. All production will be brought into the CPF as the wells come on-stream, including the two original wells from the demonstration project. The production wells are all on schedule to be producing into the CPF by mid-July.

We are pleased with the final placement of the injection and production wells as they were drilled within our new design parameters. The new production wells are larger in diameter, have a higher open flow area to the reservoir, a tighter mesh in the FacsRite™ screen for improved solids control and an improved wellhead configuration, all of which are expected to result in improved production and operating capability.

Capital costs for the 10 well-pairs and facilities expansion are estimated at approximately $95 million versus an original budget of approximately $75 million. Pipeline and facilities costs are on budget and on schedule. Drilling and completion costs exceeded budget primarily related of the horizontal production wells. The start-up of the drilling program was behind schedule due to mechanical and operating problems with the drilling rig, and one well had to be re-drilled due to intermediate casing failure while cementing. The completion costs of the injection and production wells are on budget.

During the first quarter of 2011, the initial two wells' production was approximately 110 bopd. Operations on the initial two wells were impacted by the drilling and construction activities related to the expansion. During April, road bans and limited access due to expansion drilling activities resulted in lower on-stream times with production averaging 105 bopd.

Dawson Project

We received final Energy Resources Conservation Board ("**ERCB**") and Alberta Environment ("**AENV**") approval for our initial Dawson project during the fourth quarter of 2010. The Dawson project will initially consist of two THAI® well-pairs plus associated surface facilities.

Field activities conducted during the first quarter of 2011 included drilling two stratigraphic wells that were cored to confirm seismic contours and the drilling of two ground water monitoring wells. Our plan is to start construction of access roads and leases late in the second quarter while drilling and completion activities will begin in the third quarter of 2011.

We will move the surface facilities from our first two wells at the Kerrobert project to our Dawson project in the third quarter of 2011. PIHC is planned to commence in the fourth quarter of 2011. Production is also expected to commence in the fourth quarter.

In order to capitalize on the full potential at Dawson, the environmental assessment and regulatory application associated with the Dawson expansion is underway. The Dawson expansion project is being designed as a 10,000 bopd capacity project and the required regulatory applications for both the ERCB and AENV are scheduled to be submitted during the third quarter of 2011. We expect that the regulatory review cycle could take up to 18 months.

Conklin Demonstration Project

As part of our on-going evaluation of our Conklin operations, we have abandoned the original three wells that were previously shut-in as well as P2B and P3B. During the first quarter of 2011, we observed that the P1B well, where the toe was drilled well short of the combustion zone, is beginning to heat up. We are in the process of evaluating the new multi-THAI® configuration, adding another air injector on P1B further along this well bore and drilling a new production well in a better part of the reservoir.

With our Kerrobert and Dawson projects moving forward, we are now primarily evaluating options for the Conklin demonstration project as a field scale testing site for future technology enhancements to the THAI® process.

May River Project

The May River application is proceeding through the regulatory process. We have responded to all of the information requests and have recently filed our final response to the three Statements of Concerns ("**SOC**") with the ERCB. We do not believe that the SOCs have merit to warrant the granting of standing; however this decision rests with the ERCB.

During the first quarter of 2011, 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. Based on internal estimates these wells added approximately 40 million barrels of best estimate contingent resource and we have asked our external reserve evaluator, McDaniel & Associates Consultants Ltd., to update our 2010 reserve report to reflect these drilling results.

Archon Technologies Ltd. ("Archon")

Archon, our wholly-owned technology subsidiary, continues to advance our suite of technologies, including a novel process to remove H_2S in the produced gas stream that will further enhance our CrystaSulf™ process. We plan to field test this technology during 2011. Our ongoing research and development efforts have identified new technologies and enhancements to existing intellectual property that could result in as many as eight new patents in the coming year which will serve to further strengthen and improve our core THAI® and CAPRI® patents.

During the first quarter, we signed a five year non-commercial general collaboration agreement concerning research, scientific, technological and human resources development with Pemex Exploración y Producción ("**PEP**"), a subsidiary entity of the Mexican state oil company, Pemex. This agreement provides for the sharing of scientific and technological information, pursuant to the regulations in force, and the evaluation of enhanced oil recovery technologies for heavy oil deposits in Mexico. This agreement is an important first step in a possible negotiation, under Mexican law, of a licensing deal that will permit PEP to utilize Petrobank's THAI® technology.

Land Acquisitions

As previously reported Petrobank acquired 3.5 sections (2,240 acres) of petroleum and natural gas rights at a Saskatchewan Crown Sale in late 2010. The lands are located in the Plover area on the same trend as our Kerrobert project. During the first quarter we purchased 3-D seismic and we plan to drill a stratigraphic well later in 2011 to define the resource potential.

Petrobank closed an acquisition on March 31, 2011 to acquire 6.5 sections (4,160 acres) of petroleum and natural gas rights. These lands are situated two miles southeast of the acquired Plover lands, and are also located on the same trend as Kerrobert.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following MD&A is dated May 16, 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 and for the three months ended March 31, 2011 ("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.

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 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 our 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, EBITDA, net debt 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. Management considers funds flow from continuing operations and funds flow 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. EBITDA is defined as earnings before interest, taxes, depreciation, amortization, non-controlling interest ("NCI") and non-cash items. Net debt includes bank debt outstanding plus accounts payable less accounts receivable and prepaid expense and is used to evaluate financial leverage. 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, EBITDA 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 quarter 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 March 31, 2011, contains 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 first quarter of 2011 compared to the first 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 March 31,		
	2011	2010	Change
PetroBakken			
Oil and NGL (bbls)	**36,140**	37,654	(4%)
Natural gas (Mcf)	**32,534**	32,662	-
Total PetroBakken (boe)	**41,562**	43,098	(4%)

In the first quarter, the 4% decrease in production was the result of natural production declines, Bakken wells with higher water cuts and Cardium operational delays which more than offset production additions. Base production declines for the Company are estimated to be 40 percent for 2011 due to our relatively young resource play production, which primarily consists of horizontal multi-stage fraced wells. While very economic, these wells typically have high decline rates in their early years of production and then start to moderate over time. As the production base matures, we would expect the base decline rate to slowly be reduced.

In the Bakken, PetroBakken has been delaying fracing wells and using a new completion fluid in certain northern areas of the field in order to overcome higher water cuts caused by fracing out of zone. Initial results from these new techniques have been encouraging but longer term production monitoring is still required to confirm this progress. At March 31, 2011, PetroBakken had 13.7 net wells waiting to be fraced in the Bakken play, the majority of which, weather permitting, will be fraced by the end of the second quarter of 2011, which will add new production.

Cardium operations suffered through the last half of 2010 primarily due to weather related delays which restricted PetroBakken's ability to access leases and resulted in a backlog of wells waiting to be brought on production. PetroBakken made significant progress in reducing this backlog in March 2011. At the end of the quarter, PetroBakken had 11.0 net Cardium wells waiting to be brought on production, all of which are expected to be brought on production in the second quarter of 2011, and an additional 10.9 net wells drilled but not completed. Given PetroBakken's pace of drilling, this represents a normal level of wells waiting to be completed.

The 2011 production additions primarily came from drilling PetroBakken's light oil properties in the Cardium play in central Alberta and in the Bakken play in southeast Saskatchewan. PetroBakken drilled 77.4 net wells in the first quarter of 2011 (2010 - 59.5), of which over 90 percent were focused on these two resource plays. Given the early stage nature of the Cardium play, the majority of the production growth in 2011 is expected to come from this area.

Average Benchmark and Realized Prices

	Three months ended March 31,		
	2011	2010	Change
WTI (US$/bbl)	**94.10**	78.71	20%
WTI ($/bbl)	**92.76**	81.95	13%
Edmonton Par ($/bbl)	**87.97**	80.07	10%
AECO natural gas ($/Mcf)	**3.74**	4.95	(24%)
US$ per C$1	**1.02**	0.96	6%
PetroBakken – oil and NGL			
Realized price per bbl ($/bbl)	**82.77**	76.84	8%
Oil price discount as a % of Edmonton Par	**6%**	4%	50%
PetroBakken – natural gas			
Realized price per Mcf ($/Mcf)	**4.13**	5.20	(21%)

In the first quarter of 2011, realized oil and NGL prices increased due to higher oil prices, partially offset by a stronger Canadian dollar compared to the U.S. dollar. The first quarter of 2011 also experienced wider price differentials to Edmonton Par due to decreased demand for Canadian sourced crude.

Realized natural gas prices decreased in the first quarter due to lower AECO prices partially offset by a slightly higher premium.

Revenue

	Three months ended March 31,		
	2011	2010	Change
PetroBakken			
Oil and natural gas sales	**281,297**	275,706	2%
Royalties	**(44,298)**	(37,541)	18%
Total PetroBakken revenue	**236,999**	238,165	-

The change in first quarter 2011 sales is primarily due to higher liquids 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,
PetroBakken	
March 31, 2010	275,706
Sales volume	(10,398)
Realized prices	15,989
March 31, 2011	**281,297**
$ change in oil and natural gas sales	5,591
% change in oil and natural gas sales	2%

Net Realized Prices

	Three months ended March 31,		
	2011	2010	Change
PetroBakken			
Oil and natural gas sales	**281,297**	275,706	2%
Transportation expense	**2,755**	2,600	6%
Total sales, net of transportation expense	**278,542**	273,106	2%
Gross sales ($/boe)	**75.20**	71.08	6%
Transportation costs ($/boe)	**0.74**	0.67	10%
Realized price, net of transportation expense ($/boe)	**74.46**	70.41	6%

Net realized price for the first quarter of 2011 improved mainly due to higher oil prices. On a unit of production basis, transportation expense increased slightly due to increased costs for trucking in the Bakken. As PetroBakken's production infrastructure expands with operations in southeast Saskatchewan and more wells are tied into facilities, we expect a reduction in transportation expenses on a per boe basis.

Royalties

	Three months ended March 31,		
	2011	2010	Change
PetroBakken [(1)]	**44,298**	37,541	18%
PetroBakken – $ per boe	**11.84**	9.68	22%
PetroBakken – royalties as a % of realized price, net of transportation costs	**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 first quarter on a total, unit of production basis, and as a percentage of revenue, 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 five percent royalty rate for 18 to 48 months or 50,000 to 100,000 boe of production, whichever comes first, depending on well length.

Gain (Loss) on Risk Management Contracts

	Three months ended March 31,		
	2011	2010	Change
Realized gain (loss):			
Crude oil derivative contracts	**(1,096)**	(398)	(175%)
Natural gas derivative contracts	**741**	241	207%
Interest rate swap contracts	**(234)**	(862)	73%
	(589)	(1,019)	42%
Unrealized gain (loss):			
Crude oil derivative contracts	**(36,943)**	(1,951)	(1,794%)
Natural gas derivative contracts	**(769)**	3,063	-
Interest rate swap contracts	**(50)**	1,339	-
	(37,762)	2,451	-
Gain (loss) on risk management contracts	**(38,351)**	1,432	-

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 the Board of Directors.

The majority of PetroBakken's financial commodity derivative contracts are option-based contracts and as such their fair value at a particular point in time is affected by underlying commodity prices, expected commodity price volatility and the duration of the contract. The fair value of fixed price derivative contracts at a particular point in time is determined by the expected future settlements of the underlying commodity or interest rate. At March 31, 2011, the fair value of financial derivative contracts was a liability of $50.8 million. The fair value of this liability represents the estimated amount required to settle PetroBakken's outstanding contracts at March 31, 2011 and will be different than what will eventually be realized. Refer to Note 23 in the interim Consolidated Financial Statements for more detail on the loss on risk management contracts in the first quarter of 2011.

Production Expenses

	Three months ended March 31,		
	2011	2010	Change
PetroBakken	**38,137**	30,242	26%
PetroBakken – $ per boe	**10.20**	7.80	31%

Production expenses increased in the first quarter both on a total and per boe basis due to lower production and rising costs for production in Saskatchewan. As production declined, the fixed component percentage of production expenses increased, which resulted in an increased cost per boe. In the first quarter of 2011, 56 percent of production came from the Bakken, as compared to 66 percent in the first quarter of 2010. PetroBakken's Bakken and Conventional business units both saw costs increase due to increased costs for emulsion trucking and services due to increased market demand in southeast Saskatchewan. Operating costs in PetroBakken's core area of southeast Saskatchewan averaged $8.98 per boe in the first quarter of 2011, as compared to $6.37 in 2010. PetroBakken's Cardium business unit production expenses averaged $8.14 per boe in the first quarter of 2011; there is limited comparative information for the same period in the prior year.

General and Administrative Expenses

	Three months ended March 31,		
	2011	2010	Change
HBU and Corporate	**3,121**	1,643	90%
PetroBakken	**8,810**	7,518	17%
Total general and administrative expense	**11,931**	9,161	30%
PetroBakken – $ per boe	**2.36**	1.94	22%

HBU and Corporate

General and administrative costs increased in the first quarter 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 first quarter of 2011 on an absolute and per boe basis due primarily to additional personnel and consulting costs as a result of expanding operations, partially offset by higher capital overhead recoveries from joint interest partners.

Share-Based Compensation Expenses

	Three months ended March 31,		
	2011	2010	Change
HBU and Corporate	**2,042**	2,589	(21%)
PetroBakken	**5,444**	7,297	(25%)
Total share-based compensation expense	**7,486**	9,886	(24%)

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.

Loss (Gain) on Dispositions

	Three months ended March 31,		
	2011	2010	Change
PetroBakken	**248**	(6,928)	-

The loss on disposition relates to PetroBakken's disposal of minor properties in the first quarter of 2011 for gross proceeds of $1.3 million. The gain in the first quarter of 2010 primarily relates to the disposal of three divestiture packages in Alberta, representing approximately 3,000 boepd (55% natural gas) for gross proceeds of $112.0 million.

Loss (Gain) on Derivative Financial Liability

	Three months ended March 31,		
	2011	2010	Change
HBU and Corporate	**-**	32,474	100%
PetroBakken	**(28,270)**	(48,096)	(41%)
Total Loss (Gain) on Derivative Financial Liability	**(28,270)**	(15,622)	81%

The gain on the derivative liability represents the change in the fair value of derivative financial liability on the convertible debentures between the beginning and the end of the period. The fair value is determined using the Black-Scholes valuation model.

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 first quarter of 2011.

PetroBakken
The gain is primarily due to a lower share price at March 31, 2011 compared to December 31, 2010.

Demonstration Project Expenditures

	Three months ended March 31,		
	2011	2010	Change
HBU and Corporate	**7,664**	10,689	(28%)

Demonstration project expenditures relate to impairment of capital additions at the 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 first quarter of 2011 compared to 2010 due to decreased spending as the Company focused resources on other projects.

Finance and Other Expenses

	Three months ended March 31,		
	2011	2010	Change
HBU and Corporate	**594**	1,797	(67%)
PetroBakken	**21,994**	15,434	43%
Total finance and other expenses	**22,588**	17,231	31%

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.

PetroBakken
Cash interest expense increased in the first quarter of 2011 primarily due to higher bank debt outstanding in the first quarter. Bank debt was repaid at the end of January 2010 when the convertible debentures were issued, and increased throughout 2010 and into 2011 to fund the 2010 corporate acquisitions and capital expenditures. On average, PetroBakken's bank debt outstanding was $892.1 million in the first quarter of 2011, as compared to $256.5 million in the first quarter of 2010. Accretion on convertible debenture also increased due to the debenture being outstanding for the full quarter in 2011, as compared to 2010 when the debenture was issued on January 25.

Foreign Exchange Loss (Gain)

	Three months ended March 31,		
	2011	2010	Change
HBU and Corporate	**26**	(9,287)	-
PetroBakken	**(14,175)**	(8,862)	60%
Total foreign exchange loss (gain)	**(14,149)**	(18,149)	(22%)

HBU and Corporate
The Company recognized foreign exchange gains in the three months ended March 31, 2010 due to an appreciation of 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 of March 31, 2011, there are no Petrobank convertible debentures outstanding.

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 March 31, 2011 compared to the rate at December 31, 2010 resulted in a foreign exchange gain for the quarter.

Depletion and Depreciation (D&D)

	Three months ended March 31,		
	2011	2010	Change
HBU and Corporate	**188**	99	90%
PetroBakken	**100,020**	97,608	2%
Total depletion and depreciation expense	**100,208**	97,707	3%
PetroBakken – $ per boe	**26.74**	25.16	6%

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 an absolute and unit of production basis, D&D increased in the first quarter of 2011 due to capital expenditures incurred where the benefit of reserve additions have not yet been recognized. PetroBakken expects to add reserve additions once these wells have been tested and placed on production later in the year.

Deferred Income Taxes (Recovery)

	Three months ended March 31,		
	2011	2010	Change
HBU and Corporate	**(2,911)**	(7,686)	(62%)
PetroBakken	**10,310**	23,523	(56%)
Total deferred income taxes (recovery)	**7,399**	15,837	(53%)

HBU and Corporate
The deferred income tax recovery in the first quarter of 2011 is consistent with income earned after adjustments for non-deductible and non-taxable items.

PetroBakken
PetroBakken's deferred income taxes for the first quarter of 2011 are consistent with income earned adjusted for non-deductible tax items.

Net Income Attributable to Non-Controlling Interest

	Three months ended March 31,		
	2011	2010	Change
PetroBakken			
Net income attributable to NCI	**22,066**	44,169	(50%)

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 the first quarter of 2011 (2010 - 37 percent).

Capital Expenditures

	Three months ended March 31,		
	2011	2010	Change
HBU and Corporate			
Property, plant and equipment	**104**	269	(61%)
Exploration and evaluation	**53,918**	23,573	129%
Other intangible assets	**233**	93	151%
	54,255	23,935	127%
PetroBakken ("PBN")			
Property, plant and equipment	**304,869**	146,955	107%
Exploration and evaluation	**2,612**	38,161	(93%)
	307,481	185,116	66%
Total capital expenditures	**361,736**	209,051	73%

Q1 Capital Expenditures By Type	**HBU**	**PBN**	**Total**
Drilling, completions and recompletions	26,133	242,435	268,568
Facilities	21,203	50,365	71,568
Land	1,050	2,388	3,438
Seismic	1,133	846	1,979
Asset acquisition	-	841	841
Other [1]	4,736	10,606	15,342
Total capital expenditures	**54,255**	**307,481**	**361,736**

[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.

Q1 HBU and Corporate Exploration and Evaluation Expenditures by CGU

	Drilling, completions, and workovers	Facilities	Land and Seismic	Other [1]	Total
HBU and Corporate					
Kerrobert	17,661	15,971	29	1,272	34,933
Conklin	2,623	-	1,052	2,856	6,531
May River	4,997	5,011	22	171	10,201
Dawson	852	221	7	100	1,180
Other	-	-	1,073	-	1,073
Total	**26,133**	**21,203**	**2,183**	**4,399**	**53,918**

(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.

HBU and Corporate

The majority of HBU expenditures in the first 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 drilling 11 oil sands evaluation wells on our May River property, drilling two stratigraphic wells on our Dawson property, and workovers and operating expenses at Conklin.

PetroBakken

The majority of PetroBakken's capital expenditures in the first quarter were focused on drilling, completions, recompletions, and facilities. The increase in capital from 2010 is due to the increased activity in the Cardium, where drilling and completion costs per well are higher than southeast Saskatchewan. This was partially offset by fewer wells drilled in Saskatchewan. Compared to the first quarter of 2010, there were 17.9 additional wells drilled. The increase in facilities expenditures in the first quarter of 2011 was due to costs to equip and tie-in wells drilled, near completion of two Bakken oil batteries in southeast Saskatchewan, expansion of gathering systems to our five major facilities in southeast Saskatchewan, and expansion of gathering systems to our facility in the Cardium. Activity in the Cardium and other Alberta areas resulted in the majority of land, property, and seismic acquisitions in 2010.

Goodwill

There were no changes to goodwill in the first quarter. Goodwill as at March 31, 2011 was $1.5 billion.

SUMMARY OF QUARTERLY RESULTS

	2011	2010				2009 – Previous GAAP [1]		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial ($000s except where noted)								
Oil and natural gas sales from continuing operations	**281,297**	258,359	228,537	245,954	275,706	276,334	101,316	102,452
Funds flow from continuing operations [2]	**168,384**	155,344	139,325	153,714	188,371	166,833	62,243	75,959
Per share – basic ($)	**1.58**	1.46	1.31	1.46	1.88	1.80	0.71	0.90
– diluted ($)	**1.57**	1.45	1.31	1.43	1.77	1.59	0.67	0.85
Net income (loss) from continuing operations	**20,585**	16,655	(2,626)	14,989	321	20,740	35,315	21,928
Per share – basic ($)	**0.19**	0.16	(0.02)	0.14	0.00	0.22	0.38	0.26
– diluted ($)	**0.19**	0.15	(0.02)	0.14	0.00	0.22	0.37	0.26
Net income attributable to Petrobank shareholders [3]	**20,585**	1,866,582	16,152	80,380	65,057	57,108	54,846	34,667
Per share – basic ($)	**0.19**	17.59	0.15	0.76	0.65	0.61	0.59	0.41
– diluted ($)	**0.19**	17.39	0.15	0.75	0.58	0.56	0.56	0.40
Capital expenditures [4]								
PetroBakken	**307,481**	262,758	241,309	122,688	185,116	177,278	107,820	38,901
HBU	**54,255**	37,521	49,385	10,652	23,935	15,554	26,737	12,318
Total from continuing operations	**361,736**	300,279	290,694	133,340	209,051	192,832	134,557	51,219
PetroBakken Operations								
Operating netbacks by product								
Crude oil and NGL sales price ($/bbl) [5]	**81.92**	75.19	68.43	70.98	76.08	71.63	67.65	62.22
Royalties	**13.03**	10.94	9.67	10.36	10.56	11.26	10.75	7.97
Production expenses	**10.79**	9.56	8.88	7.89	7.95	8.45	7.05	6.66
Operating netback [2] [7]	**58.10**	54.69	49.88	52.73	57.57	51.92	49.85	47.59
Natural gas sales price ($/Mcf) [5] [6]	**4.13**	3.96	3.82	4.11	5.20	4.61	3.55	3.91
Royalties	**0.65**	0.66	0.62	0.60	0.60	0.63	0.54	0.67
Production expenses	**1.04**	0.98	1.00	1.03	1.12	1.16	0.93	0.95
Operating netback [2] [6] [7]	**2.44**	2.32	2.20	2.48	3.48	2.82	2.08	2.29
Oil equivalent sales price ($/boe) [5] [6]	**74.46**	67.00	60.63	62.86	70.41	65.05	60.66	56.64
Royalties	**11.84**	9.84	8.64	9.17	9.68	10.14	9.62	7.40
Production expenses	**10.20**	8.97	8.38	7.59	7.80	8.23	6.83	6.52
Operating netback [2] [6] [7]	**52.42**	48.19	43.61	46.10	52.93	46.68	44.21	42.72
Average daily production [6]								
Crude oil and NGL (bbls) [8]	**36,140**	34,754	33,230	34,852	37,654	38,796	15,185	16,761
Natural gas (Mcf)	**32,534**	39,474	41,193	44,469	32,662	40,951	16,177	16,906
Total (boe) [6] [9]	**41,562**	41,333	40,095	42,263	43,098	45,621	17,881	19,579

(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) The comparative balances 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 spun-off to Petrobank shareholders on December 31, 2010.
(4) Includes expenditures on property, plant and equipment, exploration and evaluation and other intangible assets.
(5) Net of transportation expenses.
(6) Six Mcf of natural gas is equivalent to one barrel of oil equivalent ("boe").
(7) Excludes hedging activities.
(8) Heavy oil has been included in crude oil as it is not considered material.
(9) HBU bitumen and heavy oil volumes are excluded from average daily production as Conklin and Kerrobert operations are considered to be in the pre-operating stage 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.
- Production increased one percent in the first quarter of 2011 compared to the fourth quarter of 2010, primarily as a result of new Cardium wells brought on production.
- 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 results due to PetroBakken's relatively low gas production weighting. Compared to the fourth quarter of 2010, first quarter 2011 netbacks increased 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 have increased primarily due to PetroBakken's lower production in southeast Saskatchewan, but consistent fixed costs.
- First quarter 2011 capital expenditures increased approximately 20 percent compared to the fourth quarter of 2010 as PetroBakken increased drilling and completions activity in the Cardium area and expanded facilities in the Bakken area, and the drilling and facility upgrade associated with our HBU's 10 well-pair expansion project at Kerrobert progressed.

Commitments

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments as at March 31, 2011:

Type of Commitment	2011	2012	2013	2014	2015	Thereafter	Total
HBU and Corporate							
Office operating leases ($) [1]	$ 2,611	$ 4,424	$ 4,594	$ 4,681	$ 4,710	$ 15,237	$ 36,257
Finance leases ($)	599	578	581	486	97	-	2,341
PetroBakken							
Office operating leases ($) [1]	3,242	4,054	5,745	5,771	5,605	25,852	50,269
Drilling and completion rigs ($)	6,830	9,003	8,698	6,902	-	-	31,433
Total Commitments	**$ 13,282**	**$ 18,059**	**$ 19,618**	**$ 17,840**	**$ 10,412**	**$ 41,089**	**$120,300**

[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:

	HBU and Corporate	PetroBakken	**Petrobank Consolidated**
Working capital deficit [1]	$ 28,702	$ 224,404	**$ 253,106**
Bank debt – principal	$ 3,824	$ 965,864	**$ 969,688**
Convertible debentures – principal amount (US$)	$ -	$ 750,000	**$ 750,000**
Common share capital [2]	$ 1,575,895	$ 3,148,194	**$ 1,575,895**
Credit facility	$ 200,000	$ 1,200,000	
Available credit capacity	$ 196,176	$ 234,136	

(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.

HBU and Corporate

At March 31, 2011, Petrobank on a standalone basis had bank debt of $3.8 million and a working capital deficit of $28.7 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 or by issuing additional debt secured by this interest.

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 cash, available credit, and dividends received from PetroBakken.

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 at March 31, 2011, PetroBakken had $965.9 million of bank debt drawn on a $1.2 billion credit facility. PetroBakken's credit facility is with a syndicate of banks and has an initial maturity date of June 3, 2011, extendable by the lenders for an additional year. If the lenders were to not extend the term, the drawn amount would become due on June 3, 2012. 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 advances may be made by way of direct advances, bankers' 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 March 31, 2011, PetroBakken had convertible debentures outstanding of US$750 million with an annual coupon of 3.125%. The convertible debentures have 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;
- Issuance of subordinated or convertible debt;
- 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, cash and available credit.

Capital Plan

HBU activity in the remainder of 2011 will focus on: drilling, completions and facilities construction and start-up of the 10 well-pair expansion at Kerrobert and 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 106,264,632, an increase of 7,973 shares from March 31, 2011, which relates to the exercise of stock options and incentive shares.

Risks and Uncertainties

There have been no significant changes in the three months ended March 31, 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 36,000 bopd)	**$9.8**
	1,000 bopd of production @ US$95/bbl WTI	**$23.6**
Natural gas	$1.00/Mcf AECO reference price (assuming 33 MMcf /d)	**$10.2**
	10.0 MMcf per day of production @ $4.00/Mcf AECO	**$11.9**
Currency	US$0.01 in exchange rate	**$9.5**
Interest rate	1% change in interest rate	**$8.9**

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. A summary of the Company's significant accounting policies can be found in Note 2 to the Company's interim Consolidated 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 ("CGU") 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.

Changes in Accounting Policies

Adoption of International Financial Reporting Standards

As previously described, this is our first reporting period using IFRS. As our transition date to IFRS was January 1, 2010, the 2010 comparative information in our interim Consolidated Financial Statements and this MD&A has also been prepared in accordance with our IFRS accounting policies. In the discussion that follows, we have summarized the significant accounting policies that we have adopted in the transition from previous GAAP to IFRS (Note 2 in the interim Consolidated Financial Statements) including the significant elections and exemptions that we elected upon first time adoption of IFRS, as well as the significant impacts on our net income for the three months ended March 31, 2010 and the year ended December 31, 2010 (Note 26 in the interim Consolidated Financial Statements).

Deemed Cost of Property, Plant and Equipment
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 intangible exploration assets at the amount that was recorded under previous GAAP. Exploration and evaluation assets on transition are those unproved properties excluded from the full cost pool under previous GAAP.

(ii) Capital assets included in the previous 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 intangible 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. At transition, as a result of this impairment test, a charge of $229.7 million was recorded against the HBU's exploration and evaluation assets with the offset to opening retained earnings.

Convertible Debentures

For convertible debentures with a cash settlement option, 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 under previous 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.

At transition, the above differences resulted in the recording of a derivative financial liability of $257.3 million, a decrease to the liability component of $7.0 million, the elimination of the convertible debentures equity component of $76.8 million and an increase to share capital of $19.0 million, which related to conversions prior to the transition date.

An additional difference between IFRS and previous 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, is recognized as a loss in the consolidated statement of operations. Under previous GAAP, it was recorded directly to retained earnings.

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.

Share-Based Payments

Under Canadian GAAP, the Company recognized an expense related to their 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 stock 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 stock options on transition. An entry of $3.9 million was recorded to non-controlling interest and retained earnings for PetroBakken's and Petrominerales' unvested stock options on transition.

Depletion Expense

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas interests on a unit of production basis over proved plus probable reserves. The depletion policy under previous GAAP was based on units of production over proved reserves. In addition, depletion was done on the Canadian cost centre under previous GAAP, while under IFRS it is calculated and recorded by CGU.

Income Taxes

Many of the Company's IFRS transitional adjustments have related effects on deferred taxes. The change in deferred taxes is due primarily to transitional adjustments affecting the carrying value of property, plant, and equipment, exploration and evaluation assets, decommissioning liabilities, and convertible debentures.

Non-Controlling Interest

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.

Spin-Off of Petrominerales

In accordance with previous GAAP, the carrying value of Petrominerales' assets, liabilities and non-controlling interest was derecognized 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.

Reconciliations

The following is a reconciliation of net income from previous GAAP to IFRS for the three months ended March 31, 2010 and the year ended December 31, 2010.

Three months ended March 31, 2010	HBU and Corporate	PetroBakken	Petrominerales	Total
Net income attributable to Petrobank shareholders – previous GAAP	6,948	24,566	50,985	82,499
Depletion and depreciation	-	35,152	-	35,152
Demonstration project expenditures	(10,689)	-	-	(10,689)
Gain (loss) on disposition	-	6,928	-	6,928
Share-based compensation	662	(2,061)	-	(1,399)
Gain (loss) on derivative financial liabilities	(32,474)	48,096	-	15,622
Expense on amendment of terms of convertible debentures	(42,385)	-	-	(42,385)
Gain (loss) on unrealized foreign exchange on convertible debentures	(152)	1,590	-	1,438
Accretion on convertible debentures	(145)	726	-	581
Accretion on decommissioning liabilities	8	(92)	-	(84)
Deferred income taxes	3,524	(10,247)	-	(6,723)
Net income (loss) attributable to NCI	-	(29,634)	-	(29,634)
Net income (loss) from discontinued operations	-	-	13,751	13,751
Net income (loss) attributable to Petrobank shareholders – IFRS	**(74,703)**	**75,024**	**64,736**	**65,057**

Twelve months ended December 31, 2010	HBU and Corporate	PetroBakken	Petrominerales	Total
Net income (loss) attributable to Petrobank shareholders – previous GAAP	(8,490)	29,798	94,477	115,785
Depletion and depreciation	-	134,935	-	134,935
Demonstration project expenditures	(33,388)	-	-	(33,388)
Gain (loss) on disposition	-	9,259	-	9,259
Share-based compensation	65	(11,266)	-	(11,201)
Gain (loss) on derivative financial liabilities	(17,769)	76,409	-	58,640
Expense on amendment of terms of convertible debentures	(66,730)	-	-	(66,730)
Gain (loss) on unrealized foreign exchange on convertible debentures	(149)	2,267	-	(2,118)
Accretion on convertible debentures	(154)	3,977	-	
Accretion on decommissioning liabilities	49	(466)	-	(417)
Deferred income taxes	17,931	(36,068)	-	(18,137)
Net income (loss) attributable to NCI	-	(70,871)	-	(70,871)
Gain on spin-off of Petrominerales	-	-	1,919,505	1,919,505
Accumulated other comprehensive income	-	-	46,569	46,569
Net income (loss) from discontinued operations	-	-	(61,719)	(61,719)
Net income (loss) attributable to Petrobank shareholders – IFRS	**(108,635)**	**137,974**	**1,998,832**	**2,028,171**

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 standard which is applicable beginning after April 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 IAS 39, *Financial Instruments: Recognition and Measurement*. The Company expects to adopt IFRS 9 on January 1, 2013, when IFRS 9 becomes effective.

The application of this standard is not expected to have a material impact on the financial statements of the Company.

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 quarter ended March 31, 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. The adoption of IFRS did not have a significant impact on any of our internal control processes.

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 March 31,	Note	2011	2010 *(Note 26)*
Oil and natural gas revenues	6	**$ 236,999**	$ 238,165
Gain (loss) on risk management contracts	23	**(38,351)**	1,432
		198,648	239,597
Production		**38,137**	30,242
Transportation		**2,755**	2,600
General and administrative	7	**11,931**	9,229
Share-based compensation	19	**7,486**	9,886
Loss (gain) on dispositions	14	**248**	(6,928)
Gain on derivative financial liabilities	16	**(28,270)**	(15,622)
Expense on amendment of terms of convertible debentures	16	**-**	42,385
Demonstration project expenditures	10	**7,664**	10,689
Finance and other	8	**22,588**	17,231
Foreign exchange loss (gain)		**(14,149)**	(18,149)
Depletion and depreciation expense	11, 12	**100,208**	97,707
		148,598	179,270
Income from continuing operations before taxes and non-controlling interest ("NCI")		**50,050**	60,327
Deferred income taxes	18	**7,399**	15,837
Income from continuing operations before NCI		**42,651**	44,490
Net income attributable to NCI	21	**22,066**	44,169
Net income (loss) from continuing operations attributable to Petrobank shareholders		**20,585**	321
Net income from discontinued operations (net of tax of $22.1 million)	5	**-**	64,736
Net income attributable to Petrobank shareholders		**20,585**	65,057
Other comprehensive income:			
Foreign currency translation differences		**-**	(17,376)
Less: foreign currency translation differences related to NCI		**-**	5,908
Comprehensive income attributable to Petrobank shareholders		**$ 20,585**	$ 53,589
Earnings per share			
Basic earnings from continuing operations		$ 0.19	$ 0.00
Basic earnings from discontinued operations		$ -	$ 0.65
Basic earnings per share	20	**$ 0.19**	$ 0.65
Diluted earnings per share from continuing operations		$ 0.19	$ 0.00
Diluted earnings per share from discontinued operations		$ -	$ 0.58
Diluted earnings per share	20	**$ 0.19**	$ 0.58

See accompanying notes to these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, thousands of Canadian dollars)

As at	Note	March 31, 2011	Dec. 31, 2010 *(Note 26)*	Jan. 1, 2010 *(Note 26)*
Assets				
Current assets				
Cash and cash equivalents		**$ -**	$ 17,468	$ 136,954
Accounts receivable	9	**189,552**	163,311	204,148
Prepaid expenses and other assets		**15,754**	12,000	19,622
Risk management assets	23	**1,359**	2,231	-
		206,665	195,010	360,724
Other assets		**-**	27	27,859
Exploration assets	10	**1,330,053**	1,340,411	972,892
Property, plant and equipment	11	**3,432,485**	3,163,656	2,913,245
Other intangible assets	12	**5,516**	5,375	4,743
Goodwill	13	**1,524,124**	1,524,124	1,060,981
Deferred tax assets		**39,763**	36,852	12,339
Non-current assets held for sale		**-**	-	139,512
Total assets		**$ 6,538,606**	$ 6,265,455	$ 5,492,295
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities		**$ 457,667**	$ 376,012	$ 481,916
Current portion of finance lease obligations		**745**	838	-
Risk management liabilities	23	**37,566**	12,682	2,694
Convertible debentures		**-**	-	80,409
		495,978	389,532	565,019
Bank debt	15	**964,445**	824,845	748,185
Convertible debentures	16	**592,708**	600,844	341,992
Derivative financial liabilities	16	**47,871**	76,141	257,275
Finance lease obligations		**1,727**	1,831	-
Other long-term liabilities		**8,711**	5,170	3,961
Decommissioning liabilities	17	**148,903**	142,819	133,505
Risk management liabilities	23	**14,603**	2,597	3,442
Deferred tax liabilities		**507,535**	497,225	388,620
Non-current liabilities held for sale		**-**	-	15,387
Total liabilities		**2,782,481**	2,541,004	2,457,386
Shareholders' equity				
Common shares	19	**1,575,895**	1,575,448	904,498
Contributed surplus		**44,385**	42,741	38,726
Paid-in capital		**859,577**	840,772	875,924
Retained earnings		**(146,208)**	(166,793)	(31,318)
Total Petrobank shareholders' equity		**2,333,649**	2,292,168	1,787,830
Non-controlling interest	21	**1,422,476**	1,432,283	1,247,079
Total shareholders' equity		**3,756,125**	3,724,451	3,034,909
Total liabilities and equity		**$ 6,538,606**	$ 6,265,455	$ 5,492,295

Commitments and contingencies (Note 25)

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		-	-	-	-	65,057	65,057
Loss on translation of Petrominerales attributable to Petrobank shareholders		-	-	-	(11,468)	-	(11,468)
Shares issued for exercise of stock options		8,510	-	-	-	-	8,510
Shares issued upon conversion of convertible debt (net of costs)		428,511	-	-	-	-	428,511
Transfer from contributed surplus related to stock options exercised		2,917	(2,917)	-	-	-	-
Share-based compensation		-	2,589	-	-	-	2,589
Change in paid-in capital		-	-	40,860	-	-	40,860
March 31, 2010		$1,344,436	$ 38,398	$ 916,784	$ (11,468)	$ 33,739	$2,321,889
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		-	-	-	-	20,585	20,585
Shares issued for exercise of stock options	19	49	-	-	-	-	49
Transfer from contributed surplus related to stock options exercised	19	398	(398)	-	-	-	-
Share-based compensation	19	-	2,042	-	-	-	2,042
Change in paid-in capital		-	-	18,805	-	-	18,805
March 31, 2011		**$1,575,895**	**$ 44,385**	**$ 859,577**	**$ -**	**$ (146,208)**	**$2,333,649**

See accompanying notes to these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited, thousands of Canadian dollars)

Three months ended March 31,		2011	2010
Operating Activities	Note		
Net income attributable to Petrobank shareholders		**$ 20,585**	$ 65,057
Net income from discontinued operations	5	**-**	(64,736)
Net income attributable to NCI	21	**22,066**	44,169
Share-based compensation	19	**7,486**	9,886
Loss (gain) on disposal of non-current assets held for sale	14	**248**	(6,928)
Gain on derivative financial liabilities	16	**(28,270)**	(15,622)
Expense on amendment of terms of convertible debentures	16	**-**	42,385
Demonstration project expenditures	10	**7,664**	10,689
Unrealized foreign exchange loss (gain)		**(13,855)**	(32,969)
Depletion and depreciation expense	11, 12	**100,208**	97,707
Unrealized (gain) loss on risk management contracts	23	**37,762**	(2,451)
Accretion on convertible debentures	8	**5,720**	5,462
Accretion on decommissioning liabilities	17	**1,447**	1,343
Amortization of deferred financing costs	8	**1,566**	1,064
Deferred income taxes	18	**7,399**	15,837
Realized foreign exchange loss related to financing	16	**-**	18,184
Decommissioning liabilities settled	17	**(1,642)**	(706)
		168,384	188,371
Changes in non-cash working capital	24	**(37,723)**	(13,615)
Net cash provided by operating activities from continuing operations		**130,661**	174,756
Net cash provided by operating activities from discontinued operations		**-**	42,912
		130,661	217,668
Investing Activities			
Expenditures on property, plant and equipment		**(304,973)**	(147,224)
Exploration and evaluation expenditures		**(56,530)**	(61,734)
Other expenditures		**(233)**	(93)
Acquisitions	14	**-**	(341,519)
Proceeds from dispositions	14	**1,284**	106,032
Dividends received by Petrobank	21	**26,352**	26,352
Capital lease obligations		**(197)**	-
Changes in non-cash working capital	24	**93,637**	(4,993)
Net cash provided by investing activities from continuing operations		**(240,660)**	(423,179)
Net cash provided by investing activities from discontinued operations		**-**	(94,223)
		(240,660)	(517,402)
Financing Activities			
Issuance (repayment) of bank debt		**139,900**	(503,833)
Financing costs relating to bank debt		**(1,842)**	-
Dividends paid by PetroBakken Energy Ltd.	21	**(44,865)**	(41,687)
Issuance (repurchase) of common shares		**51**	8,351
Conversion of convertible debentures	16	**-**	769,651
Early conversion of convertible debentures	16	**-**	(1,364)
Realized loss on foreign exchange contract	16	**-**	(18,184)
Amortization of obligations under gas sale contract		**(204)**	(204)
Changes in non-cash working capital	24	**(509)**	(1,952)
Net cash provided by financing activities from continuing operations		**92,531**	210,778
Net cash provided by financing activities from discontinued operations		**-**	542
		92,531	211,320
Effect of exchange rate changes relating to discontinued operations		**-**	(1,063)
Net change in cash and cash equivalents		**(17,468)**	(89,477)
Cash and cash equivalents, beginning of period		**17,468**	136,954
Cash and cash equivalents, end of period		**$ -**	$ 47,477
Cash and cash equivalents consist of:			
Continuing operations			
Cash		**$ -**	$ 10,836
Cash equivalents		**$ -**	$ 22,545
Discontinued operations			
Cash		**$ -**	$ 2,617
Cash equivalents		**$ -**	$ 11,479

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 and for the three months ended March 31, 2011 and March 31, 2010 comprise the Company and our subsidiaries.

Basis of Presentation

The condensed interim consolidated financials are presented in Canadian dollars and all values are rounded to the nearest thousand dollars ($000s), except where otherwise indicated. The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The statements represent the first interim consolidated financial statements that have been prepared by the Company in accordance with IFRS. The first date IFRS was applied was January 1, 2010. Previously, the consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Note 26 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.

For information regarding the key judgments and estimates made by management in applying the Company's accounting policies, refer to significant accounting policies in Note 2.

The condensed interim consolidated financial statements were authorized for issue by the Company's Board of Directors on May 16, 2011.

Note 2 – Significant Accounting Policies

Consolidation

These condensed interim consolidated financial statements include the accounts of the Company and the entities it controls as at March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and March 31, 2010. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct and indirect ownership of voting rights, currently exercisable or convertible potential voting rights, or by way of contractual agreement. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intercompany transactions and balances are eliminated upon consolidation.

Petrobank results include 100% of the results of the entities it controls; the minority interest share, which Petrobank does not own, is recorded as net income attributable to NCI in the consolidated statement of operations and comprehensive income, and as NCI on the consolidated statement of financial position.

When there is a book to fair value difference on the recognition of NCI or changes in non-controlling ownership interest, the difference is recorded as paid-in capital, a separate component within shareholders' equity.

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.

Segmented Information

Petrobank's operating segments are established on the basis of those components of the Company that are evaluated regularly by the President and Chief Executive Officer in deciding how to allocate resources and in assessing performance, and for which discrete financial information is available. A combination of factors has been considered in determining the basis for organization, including corporate structure, nature of operations, type of product, geographical area, and strategy/focus. Operating segments exhibiting similar long-term financial performance due to similar economic characteristics are aggregated and reported as a single segment.

Non-Current Assets Held for Sale and Discontinued Operations

Assets held for sale and discontinued operations are presented separately in the financial statements when certain criteria have been met. Non-current assets and liabilities of disposal groups are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continued use. The sale of these assets must be considered highly probable. A sale is considered highly probable if the disposal groups are available for immediate sale and management has stated their intention to sell the properties within one year. Non-current assets and liabilities of disposal groups classified as held for sale are measured at the lower of the carrying amount and the fair value less costs to sell, and are no longer depreciated. Non-current assets and liabilities of disposal groups are not reclassified or re-presented as held for sale in the consolidated statement of financial position for prior periods to reflect the classification in the consolidated statement of financial position for the latest period presented.

Discontinued operations are a component of the entity that either has been disposed of, or is classified as held for sale and represents a separate major line of business or geographic area of operations, or are a subsidiary acquired exclusively with a view to resell. Prior period consolidated statement of operations and comprehensive income and related disclosures are re-presented for all prior periods presented in the financial statements to separately disclose discontinued operations.

Reserves

For the basis of these condensed interim consolidated 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. Probable reserves are attributed to known accumulations, and claim a 50% confidence level of recovery.

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.

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

Exploration 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 exploration assets. These costs include land and lease acquisition costs, geological and geophysical costs, exploration drilling, consequential operating costs net of revenues, borrowing costs relating to qualifying assets, and directly attributable employee benefits.

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. 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.

Exploration assets are also assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the estimated recoverable amount. The exploration assets will be allocated to a cash generating unit ("CGU") 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 and comprehensive income in the period incurred.

Property, Plant, and Equipment

All costs related to the acquisition, exploration and development of oil and natural gas properties are capitalized and are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. These costs include those transferred from the E&E stage upon determination of commercial viability and technical feasibility, land and lease costs, geological and geophysical costs, costs of drilling and equipping wells, costs relating to the construction of production facilities, decommissioning and dismantling costs, borrowing costs relating to qualifying assets, and directly attributable employee salaries and benefits. Repairs and maintenance costs are expensed as incurred. The Company does not capitalize indirect general and administrative overhead costs.

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.

Proceeds from the disposition of oil and natural gas properties are credited against the accumulated costs of the properties sold and any gains or losses will be recorded in net income in the period when the disposition occurred.

Depreciation of corporate and other fixed assets is calculated using the declining balance method at a rate of 30 percent.

Impairment

An impairment test will be performed whenever events and circumstances indicate that the carrying value of the asset or CGU may exceed the estimated 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. 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 consolidated statement of financial position in excess of the recoverable amount are charged to net income. When there is impairment of a CGU assigned goodwill, the impairment loss first reduces the goodwill and is then allocated on a pro-rata basis to the remaining assets within the CGU.

Impairment losses from prior periods are assessed at each reporting date for indications that the impairment loss no longer exists or has decreased. Impairment losses must be reversed if there is a change in the estimates used to determine the recoverable amount. Reversal of impairment losses cannot exceed the carrying value of the asset prior to impairment less any depletion and depreciation expense that would have resulted had impairment not been recorded.

Other Intangible Assets

Other intangible assets are carried at cost less accumulated depreciation and accumulated impairment. The Company's other intangible assets consist of certain patents, licenses, trademarks, agreements and other capital costs incurred to develop our THAI® and companion technologies. These assets are depreciated using the straight line method over their expected useful life of 15 years. The amortization period and method for the other intangible assets is reviewed at least annually. The Company assesses impairment of the carrying value of intangible assets whenever there is any indication the assets may be impaired. The recoverable amount of the underlying assets is compared to the carrying value and impairment, if any, is 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 has been recorded at cost and is not amortized. Goodwill is tested for impairment at least annually or whenever events or circumstances indicate that goodwill is impaired. 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 recoverable amount and an impairment loss is recorded in net income. Impairment on goodwill cannot be reversed. No impairment to goodwill has been recorded to date.

Capitalization of Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a capital project that requires a substantial period of time to get ready for its intended use or sale (defined by the Company as being greater than one year) are capitalized and added to the project cost until such time that the project is substantially ready for its intended use.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred less interest income earned on the borrowed funds. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using the weighted average of rates applicable to these general borrowings during the period. All other borrowing costs are recognized as an expense in the consolidated statement of operations and comprehensive income in the period they are incurred.

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. These estimates are evaluated each reporting period, and any adjustments are made to the carrying amount. The change in net present value of the future decommissioning liabilities due to the passage of time, determined using the risk free rate, is expensed as accretion. The decommissioning cost, which is the fair value of the decommissioning liabilities at the date in which they are incurred, is capitalized as part of the cost of the related long-lived asset and amortized as part of a CGU using the unit-of-production method. Actual decommissioning liabilities settled during the period reduce the decommissioning liability.

Financial Instruments

All financial assets and liabilities are initially recognized at fair value on the consolidated statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Subsequent measurement of the financial instruments is based on their classification. Each financial instrument is classified into one of the following categories: financial assets and financial liabilities at fair value through profit and loss; loans or receivables; financial assets held to maturity; financial assets available for sale; and other financial liabilities. The classification depends on the characteristics and the purpose for which the financial instruments were acquired. Except in very limited circumstances, the classification of financial instruments is not subsequently changed. Financial instruments carried at fair value through profit and loss on our consolidated statements of financial position include cash and cash equivalents, risk management contracts, and the derivative financial liabilities. Realized and unrealized gains and losses on financial assets and liabilities carried at fair value through profit and loss are recognized in net income in the periods such gains and losses arise. Transaction costs related to these financial assets and liabilities are included in net income when incurred. Financial instruments carried at cost or amortized cost include accounts receivable, accounts payable and accrued liabilities, bank debt, convertible debentures, and other long-term liabilities. Transaction costs incurred for these types of financial instruments, such as transaction costs related to bank debt and convertible debentures, are included with the initial fair value and the instrument is carried at amortized cost. These costs are amortized into net income over the life of the asset or liability using the effective interest method and are included in finance and other expenses in the consolidated statement of operations and comprehensive income. When bank debt is nil these costs are recorded as other assets. Gains and losses on financial assets and liabilities carried at cost or amortized cost, are recognized in net income when these assets or liabilities settle.

Derivatives

The Company may use derivative financial instruments to manage fluctuations in commodity prices, foreign currency exchange rates and interest rates. These derivative instruments are recorded at fair value at period end, and any changes in fair value are recorded in net income during the period of change, unless the requirements for hedge accounting are met. Fair values of financial instruments are determined from third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in net income in the period they occur.

Management may elect to use hedge accounting when there is a high degree of correlation between the price movements in the financial instruments and the items designated as being hedged and has documented the relationship between the instruments and the hedged item as well as the risk management objective and strategy for undertaking hedge transactions. At March 31, 2011, management had not designated any of our outstanding financial instruments as hedges.

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 discount on the debt component is unwound using the effective interest method to the face value at maturity and is expensed as accretion. The accretion on the convertible debentures is included in finance and other 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 and comprehensive income.

Upon conversion of Petrobank debentures into common shares by the holders, the debt and derivative financial liability components are transferred to common share capital, while debentures issued by Petrobank's subsidiaries are transferred to NCI. Upon repayment of Petrobank debentures in cash, the debt and derivative financial liability components are derecognized. Upon repayment of any of Petrobank's subsidiaries debentures in cash, the debt and derivative financial liability components are derecognized with no adjustment to NCI.

Convertible debentures with no cash settlement option are presented in their debt and equity components on the consolidated statement of financial position. The debt component is accreted up using the effective interest method to the face value at maturity. The accretion on the convertible bonds is recorded as a finance expense.

The equity component of the convertible debentures, which remains a fixed amount over the term of the related debentures, represents the residual between the principal amounts of the debentures, net of transaction costs, less the fair value of the debt component. Expenses are prorated to each component. Upon settlement, the redemption values of the debt and equity components are credited to share capital. Where the Company's subsidiary has issued convertible debentures of this nature, the fair value of the conversion right is presented within NCI in the consolidated statement of financial position.

When the Company amends the terms of the convertible debentures to induce early conversion, 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, is recognised as an expense in the consolidated statement of operations and comprehensive income.

Joint Operations

A substantial portion of the Company's oil and natural gas operations are conducted jointly with others and accordingly these consolidated financial statements reflect only the Company's proportionate interest in such activities.

Revenue Recognition

Revenues from the sale of crude oil, natural gas and natural gas liquids are recognized when title passes from the Company to the customer. Revenues on the consolidated statement of operations and comprehensive income are presented net of royalties.

Foreign Currency Translation

The functional and presentation currency of the Company is the Canadian dollar, which is the principal currency of the primary economic environment in which we operate.

In individual entities, transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated into the functional currency at the financial position date. Any resulting exchange differences are included in the consolidated statement of operations and comprehensive income. Non-monetary assets and liabilities, other than those measured at fair value, are not re-translated subsequent to initial recognition. Exchange components on gains or losses on non-monetary items are recognized in the same manner as the underlying gain or loss.

In the consolidated financial statements, the assets and liabilities of non-Canadian dollar functional currency subsidiaries are translated into Canadian dollars at the exchange rate in effect at the financial position date, while revenues, expenses and cash flows are translated using average monthly rates. Translation gains and losses relating to the non-Canadian dollar functional currency subsidiaries are taken to a separate component of equity and reported in the consolidated statement of comprehensive income. On disposal of a non-Canadian dollar functional currency subsidiary, the deferred cumulative amount of exchange gains and losses recognized in equity relating to that particular non-Canadian dollar operation is reclassified to the consolidated statement of operations and comprehensive income.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income ("OCI"). OCI includes gains and losses resulting from the translation of the Company's net investments in foreign operations. Accumulated other comprehensive income ("AOCI") is a separate component of equity comprised of the cumulative amounts of OCI. Amounts included in AOCI are reclassified to income when the transaction effecting net income is realized.

Share-Based Compensation

The Company accounts for share-based compensation using the fair value method of accounting for stock options, deferred common shares, directors deferred common shares and incentive shares (collectively referred to as "Share-Based Rights") granted to directors, officers, employees and consultants using the Black-Scholes option pricing model. Share-based compensation expense is recorded and reflected as share-based compensation expense over the vesting period with a corresponding amount reflected in the share-based compensation reserve, which is included in the consolidated statement of financial position as contributed surplus. Share-based compensation expense is calculated as the estimated fair value of the related Share-Based Rights at the time of grant, amortized over their vesting period using accelerated graded vesting. When Share-Based Rights are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common share capital. The amount recognized as expense is adjusted for an estimated forfeiture rate for the Rights that will not vest, which is adjusted as actual forfeitures occur, until the shares are fully vested.

When the terms of the Share-Based Rights are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award continues to be recognized over the original vesting period. In addition, an expense is recognized over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognized if this difference is negative.

When Share-Based Rights are cancelled, they are treated as if they had vested on the date of cancellation and any cost not yet recognized in the consolidated statement of operations and comprehensive income for the Share-Based Rights is expensed immediately.

Earnings Per Share

The Company computes basic earnings per share using net income attributable to Petrobank shareholders divided by the weighted-average number of common shares outstanding. The Company computes diluted earnings per share using net income attributable to Petrobank shareholders adjusted for interest expense on convertible debentures issued by Petrobank and the impact of subsidiaries' dilution on net income, divided by the weighted-average number of diluted common shares outstanding. In computing the weighted-average number of diluted common shares outstanding, the Company assumes that proceeds on the exercise of in-the-money Share-Based Rights are used to repurchase the Company's common shares at the average market price during the relevant period. The number of diluted common shares outstanding also reflects the potential dilution that would occur if the convertible debentures were converted into common shares at the beginning of the period.

Deferred Income Taxes

Income tax is recognized in net income except to the extent it relates to items recognized directly in shareholders' equity.

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, including loss carry forwards. 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.

Deferred income tax assets and liabilities are not recognized for temporary differences relating to: the initial recognition of goodwill; the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss or taxable profit or loss; and certain differences associated with subsidiaries, branches and associates, and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for deductible temporary differences to the extent it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow the asset to be recovered.

The Company offsets deferred tax assets and deferred tax liabilities relating to the same taxable entity. The Company may also offset deferred tax assets and deferred tax liabilities relating to different taxable entities, where the amounts relate to income taxes levied by the same taxation authority and the entities intend to realize the assets and settle the liabilities simultaneously.

Cash and Cash Equivalents

Cash and cash equivalents include investments and deposits with a maturity of three months or less when purchased.

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognized as an expense in the consolidated statement of operations and comprehensive income on a straight-line basis over the lease term.

Government Assistance

The Company records the benefit of government assistance as a reduction in the related capital expenditures as they are incurred and when there is reasonable assurance of collection.

Investment Tax Credits

Investment tax credits arise as a result of incurring qualified scientific research and development expenditures, and are recorded as a reduction of the related expenses or capital expenditures when there is reasonable assurance of collection.

Flow-Through Common Shares

The Company has historically financed a portion of its exploration activities in Canada through the issuance of flow-through shares. Under the terms of these shares, the tax attributes of the related expenditures are renounced to subscribers. The proceeds on issuance of the flow-through shares are allocated between the offering of the shares and the sale of the tax benefit when the shares are issued. The premium paid by the investor in excess of the quoted price of existing common shares fair value of non flow-through shares is recognized as a liability at the time the shares are issued and the fair value of non flow-through shares is recorded as share capital. Upon renouncing the income tax deductions, the premium liability is reversed and a deferred tax liability is recognized.

Note 3 – Changes in Accounting Policies

March 31, 2011 is the first period Petrobank is reporting under IFRS. Accounting standards for periods beginning on or after January 1, 2011 have been adopted as part of transition to IFRS.

Pending Accounting Pronouncements

The International Accounting Standards Board ("IASB") has issued the following new accounting standard which is applicable beginning after April 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 IAS 39, *Financial Instruments: Recognition and Measurement*. The Company expects to adopt IFRS 9 on January 1, 2013, when IFRS 9 becomes effective.

The application of this standard is not expected to have a material impact on the financial statements of the Company.

Note 4 – Segmented Information

For the period ended March 31, 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.

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

PetroBakken (TSX: PBN), 59% owned by Petrobank as at March 31, 2011 (December 31, 2010: 59%, March 31, 2010: 62%), 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 spin-off, 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 spin-off. 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 spin-off. 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 months ended March 31, 2011 and 2010 were as follows:

Three months ended March 31,	2011			2010			
	PetroBakken	HBU and Corporate	Total	PetroBakken	Petrominerales	HBU and Corporate	Total
Oil and natural gas revenues	**$ 236,999**	**$ -**	**$ 236,999**	$ 238,165	$ -	$ -	$ 238,165
Gain (loss) on risk management contracts	**(38,351)**	**-**	**(38,351)**	1,432	-	-	1,432
	198,648	**-**	**198,648**	239,597	-	-	239,597
		-			-	-	
Production	**38,137**	**-**	**38,137**	30,242	-	-	30,242
Transportation	**2,755**	**-**	**2,755**	2,600	-	-	2,600
General and administrative	**8,810**	**3,121**	**11,931**	7,586	-	1,643	9,229
Share-based compensation	**5,444**	**2,042**	**7,486**	7,297	-	2,589	9,886
Loss (gain) disposition	**248**	**-**	**248**	(6,928)	-	-	(6,928)
Loss (gain) on derivative financial liabilities	**(28,270)**	**-**	**(28,270)**	(48,096)	-	32,474	(15,622)
Expense on amendment of terms of convertible debentures	**-**	**-**	**-**	-	-	42,385	42,385
Demonstration project expenditures	**-**	**7,664**	**7,664**	-	-	10,689	10,689
Finance and other	**21,994**	**594**	**22,588**	15,434	-	1,797	17,231
Foreign exchange loss (gain)	**(14,175)**	**26**	**(14,149)**	(8,862)	-	(9,287)	(18,149)
Depletion and depreciation expense	**100,020**	**188**	**100,208**	97,608	-	99	97,707
	134,963	**13,635**	**148,598**	96,881	-	82,389	179,270
Net income (loss) from continuing operations before taxes and NCI	**63,685**	**(13,635)**	**50,050**	142,716	-	(82,389)	60,327
Deferred income taxes (recovery)	**10,310**	**(2,911)**	**7,399**	23,523	-	(7,686)	15,837
Net income (loss) from continuing operations before NCI	**53,375**	**(10,724)**	**42,651**	119,193	-	(74,703)	44,490
Net income applicable to NCI	**22,066**	**-**	**22,066**	44,169	-	-	44,169
Net income (loss) from continuing operations attributable to Petrobank shareholders	**$ 31,309**	**$ (10,724)**	**$ 20,585**	$ 75,024	$ -	$ (74,703)	$ 321
Net income from discontinued operations (net of tax)	**-**	**-**	**-**	-	64,736	-	64,736
Net income (loss) attributable to Petrobank shareholders	**$ 31,309**	**$ (10,724)**	**$ 20,585**	$ 75,024	$ 64,736	$ (74,703)	$ 65,057
Identifiable assets	**$ 6,112,769**	**$ 425,837**	**$ 6,538,606**	$ 5,077,282	$ 874,386	$ 323,339	$ 6,275,007
Total liabilities	**$ 2,730,282**	**$ 52,199**	**$ 2,782,481**	$ 1,974,794	$ 281,144	$ 272,367	$ 2,528,305
Capital expenditures	**$ 307,481**	**$ 54,255**	**$ 361,736**	$ 185,116	$ 116,208	$ 23,935	$ 325,259
Dividends paid (received)	**$ 44,865**	**$ (26,352)**	**$ 18,513**	$ 41,687	$ -	$ (26,352)	$ 15,335

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 5 – Discontinued Operations

As described in Note 4, Petrominerales was spun-off 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 price of the Petrominerales common shares on the date of spin-off. 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. AOCI related to the historical translations of Petrominerales U.S. dollar amounts in the consolidated financial statements was also recorded in net income upon spin-off.

The operating results of Petrominerales for the three months ended March 31, 2010 were as follows:

Three months ended		Mar. 31, 2010
Oil revenues	$	231,855
Production		23,234
Transportation		24,925
General and administrative		5,240
Share-based compensation		2,719
Finance and other		3,554
Foreign exchange loss		2,657
Depletion and depreciation		49,246
		111,575
Income before taxes		120,280
Current income taxes		29,722
Deferred income taxes (recovery)		(7,575)
Net income before NCI		98,133
Income applicable to NCI		33,397
Net income from discontinued operations	$	64,736

The carrying amounts of the major classes of assets, liabilities and shareholders' equity for this discontinued operation, as included in the condensed interim consolidated statement of financial position for the comparative period, were as follows:

As at		Jan. 1, 2010
Assets		
Current assets		
Cash and cash equivalents	$	65,928
Accounts receivable		58,327
Prepaid expenses and other assets		1,441
		125,696
Other assets		27,832
Exploration assets		88,071
Property, plant and equipment		504,606
Total assets	$	746,205
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$	111,537
Convertible debentures		80,409
		191,946
Decommissioning liabilities		17,112
Deferred tax liabilities		29,369
Total liabilities	$	238,427
Shareholders' equity		
Paid-in capital	$	128,895
Accumulated other comprehensive loss		-
Retained earnings		191,053
		319,948
Non-controlling interest		187,830
Total equity	$	507,778
Total liabilities and equity	$	746,205

Note 6 – Oil and Natural Gas Revenue

Included within oil and gas revenue are revenues of $281.3 million (2010 - $275.7 million) and royalty expenses of $44.3 million (2010 - $37.5 million) million for the three months ended March 31, 2011.

Note 7 – General and Administrative Expenses

Included within general and administrative expense are employee salaries and benefits of $7.3 million for the three months ended March 31, 2011 (2010 - $8.1 million).

Note 8 – Finance and Other

The finance and other balance includes the following:

Three months ended March 31, 2011	HBU and Corporate	PetroBakken	Total
Interest expense on credit facilities and other	$ 362	$ 7,860	$ 8,222
Interest income	(96)	-	(96)
Amortization of deferred financing costs	225	1,341	1,566
Accretion on convertible debentures	-	5,720	5,720
Interest expense on convertible debentures	-	5,729	5,729
Accretion on decommissioning liabilities	103	1,344	1,447
Finance and other expenses	**$ 594**	**$ 21,994**	**$ 22,588**

Three months ended March 31, 2010	HBU and Corporate	PetroBakken	Total
Interest expense on credit facilities and other	$ 4	$ 4,718	$ 4,722
Interest income	(19)	-	(19)
Amortization of deferred financing costs	-	1,064	1,064
Accretion on convertible debentures	1,414	4,048	5,462
Interest expense on convertible debentures	2,511	4,347	6,858
Borrowing costs capitalized [(1)]	(2,199)	-	(2,199)
Accretion on decommissioning liabilities	86	1,257	1,343
Finance and other expenses	**$ 1,797**	**$ 15,434**	**$ 17,231**

(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.

Note 9 – Accounts Receivable

As at	Mar. 31, 2011	Dec. 31, 2010
Trade receivables	**$ 166,806**	$ 144,952
Other receivables	**22,746**	18,359
Total	**$ 189,552**	$ 163,311

Refer to Note 23 for more information on the risk management policy and the credit quality of accounts receivable.

Note 10 – Exploration Assets

Exploration assets comprise the Company's projects in the E&E stage which are pending determination of technical and commercial feasibility. The table outlines the amounts of assets and liabilities as at March 31, 2011 and December 31, 2010, and income, expense, operating and investing cash flows arising from the exploration for and evaluation of oil and gas resources for the three months ended March 31, 2011 and 2010.

As at March 31, 2011	**HBU**	**PetroBakken**	**Petrobank Consolidated**
Exploration assets	$ 343,313	$ 986,740	**$ 1,330,053**
Decommissioning liabilities	11,651	-	**11,651**
Three months ended March 31, 2011			
Oil and natural gas revenues	581	-	**581**
Production expenses	4,720	-	**4,720**
	(4,139)	-	**(4,139)**
Exploration and evaluation expenditures	$ 53,918	$ 2,612	**$ 56,530**

As at December 31, 2010	**HBU**	**PetroBakken**	**Petrobank Consolidated**
Exploration assets	$ 294,606	$ 1,045,805	$ 1,340,411
Decommissioning liabilities	10,324	-	10,324
Three months ended March 31, 2010		-	
Oil and natural gas revenues	565	-	565
Production expenses	6,920	-	6,920
	(6,355)	-	(6,355)
Exploration and evaluation expenditures	$ 23,573	$ 38,161	$ 61,734

Impairment of $7.7 million related to the HBU's Conklin CGU was recorded to the 'demonstration project expenditures' line item in the condensed interim consolidated statement of operations and comprehensive income during the three months ended March 31, 2011 (2010 - $10.7 million). Conklin is the Company's oil sands pilot 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 months ended March 31, 2011, PetroBakken transferred $61.3 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.

The following is a continuity schedule of the Company's exploration assets for the periods ended March 31, 2011 and December 31, 2010:

For the period ended	**Mar. 31, 2011**	Dec. 31, 2010
Exploration assets, beginning of period	**$ 1,340,411**	$ 972,892
Less Petrominerales exploration assets	**-**	(88,071)
Additions	**58,983**	229,786
Acquisitions	**-**	370,059
Dispositions	**(398)**	(5,089)
Impairment	**(7,664)**	(33,388)
Transfers to property, plant, and equipment	**(61,279)**	(105,778)
Total	**$ 1,330,053**	$ 1,340,411

Note 11 – 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	302,290	6,510	308,800
Dispositions	(1,134)	-	(1,134)
Acquisitions	-	-	-
Transfers from exploration assets	61,279	-	61,279
As at March 31, 2011	$ 4,480,238	$ 30,745	$ 4,510,983
Depletion, Depreciation and Impairment			
As at January 1, 2011	$ 966,403	$ 11,979	$ 978,382
Charge for the period	99,051	1,065	100,116
As at March 31, 2011	$ 1,065,454	$ 13,044	$ 1,078,498
Carrying amount as at March 31, 2011	**$ 3,414,784**	**$ 17,701**	**$ 3,432,485**

	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 March 31, 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.

Included in accounts payable and accrued liabilities at March 31, 2011 is $279.2 million related to PetroBakken accrued capital expenditures (December 31, 2010 - $203.8 million) and $32.3 million related to HBU accrued capital expenditures (December 31, 2010 - $25.6 million).

Note 12 – Other Intangible Assets

	Mar. 31, 2011	Dec. 31, 2010
Other intangible assets, beginning of period	**$ 5,375**	$ 4,743
Additions from internal development	**233**	632
Depreciation charge	**(92)**	-
Other intangible assets, end of period	**$ 5,516**	$ 5,375

Other intangible assets comprise of certain patents, licenses, trademarks, agreements and other capital costs incurred to develop the Company's THAI® and companion 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 allocated to the Company by our independent reserve engineers.

Note 13 – Goodwill

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

[1] Goodwill resulting from PetroBakken acquisitions. Refer to Note 14.

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	**Mar. 31, 2011**	Dec. 31, 2010
HBU		
May River	**$ 28,119**	$ 28,119
PetroBakken		
Bakken and Conventional (Saskatchewan)	**1,024,551**	1,024,552
BC	**8,311**	8,311
Cardium (Alberta)	**463,143**	463,142
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 reserve evaluator, 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. Impairment tests for all CGUs are performed at December 31; therefore, the assumptions and data from 2010 were used for the first quarter of 2011.

At March 31, 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 14 – 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**

The above amounts are estimates, which were made by management at the time of the preparation of these condensed interim consolidated financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

Rondo Petroleum Inc.

On March 12, 2010, PetroBakken acquired all of the issued and outstanding shares of Rondo Petroleum Inc. ("Rondo") for $277.2 million, including Rondo bank debt net of cash acquired and working capital deficiency assumed. The common shares issued were valued using the share price of PetroBakken on March 12, 2010. Rondo was a private company with the majority of its production and prospect inventory in the Cardium formation. As such, goodwill consists largely of the strategic benefit that 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 March 12, 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	$	205,677
Working capital deficiency		(22,214)
Bank debt (net of cash acquired)		(16,033)
Decommissioning liabilities		(4,387)
Goodwill		108,985
Deferred tax liability		(33,060)
Total net assets acquired	**$**	**238,968**

Consideration paid		**Amount**
Cash	$	88,702
PetroBakken common shares issued (5,524,471)		150,266
Total purchase price	**$**	**238,968**

Berens Energy Ltd.

On February 25, 2010, PetroBakken acquired all of the issued and outstanding shares of Berens Energy Ltd. ("Berens") for $344.4 million, including Berens bank debt net of cash acquired and working capital deficiency assumed. Berens was a publicly traded company with production primarily from properties in Alberta and the majority of its prospect inventory in the Cardium formation in west central Alberta. As such, goodwill consists largely of the strategic benefit that the initial presence in the Cardium formation of Alberta 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 February 25, 2010. These amounts have not been disclosed separately 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	$	216,946
Working capital deficiency		(16,660)
Bank debt (net of cash acquired)		(74,873)
Decommissioning liabilities		(6,549)
Fair value of financial instruments		852
Goodwill		148,064
Deferred tax liability		(14,963)
Total net assets acquired	**$**	**252,817**

Consideration paid		**Amount**
Cash	$	252,817
Total purchase price	**$**	**252,817**

Asset Divestitures

During the three month period ended March 31, 2011, PetroBakken closed minor divestitures for net proceeds of $1.3 million (2010 - $106.0 million) and recorded a loss on asset disposal of $0.3 million (2010 - $6.9 million gain).

Note 15 – 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.

PetroBakken

PetroBakken maintains a covenant based revolving credit facility with a syndicate of banks. The facility's lending amount has a borrowing capacity of $1.2 billion. The current term for the facility ends June 3, 2011 and can be extended by the lenders for an additional year. If the lenders were not to extend the term, the drawn amount would become due on June 3, 2012. 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 the Company's assets.

	HBU and Corporate[1]	**PetroBakken**	**Petrobank Consolidated**
Bank debt outstanding	$ 3,824	$ 965,864	$ 969,688
Deferred financing costs [1]	(1,641)	(3,602)	(5,243)
Bank debt	**$ 2,183**	**$ 962,262**	**$ 964,445**

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

Note 16 – 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 and $310.2 million (net of costs) was credited to share capital. Petrobank recorded an expense of $34.3 million as a result of a cash incentive provided on early conversion. The revaluation of the financial derivative liability immediately prior to conversion and at January 1, 2010 resulted in a charge to retained earnings on conversion to IFRS of $18.9 million.

A charge of $0.9 million was recorded to the condensed interim consolidated statement of operations for the three months ended March 31, 2010 due to the revaluation of the financial derivative liability. The following assumptions were used in the Black-Scholes valuation model to fair value the financial derivative liability as at March 31, 2010:

As at	Mar. 31, 2010
Risk free interest rate	1.75%
Annual dividend per share	-
Expected life (years)	2.1
Expected volatility	33%
CDN/US $ FX rate	1.02
Market price	CDN $55.62
Conversion price [(1)]	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 an 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 $387.5 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. The revaluation of the financial derivative liability immediately prior to conversion resulted in a charge to the condensed interim consolidated statement of operations and comprehensive income of $31.4 million. An additional

charge of $0.2 million was recorded to the condensed interim consolidated statement of operations and comprehensive income for the three months ended March 31, 2010 due to the revaluation of the financial derivative liability at March 31, 2010.

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

As at	Mar. 31, 2010	Jan. 14, 2010
Risk free interest rate	3.00%	2.87%
Annual dividend per share	-	-
Expected life (years)	5.3	5.5
Expected volatility	33%	33%
CDN/US $ FX rate	1.02	1.03
Market price	CDN $55.62	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 dividends paid by PetroBakken. Due to dividends paid to PetroBakken shareholders to March 31, 2011, the conversion price has been adjusted to US$37.74 per debenture. Upon conversion based on the current conversion price, a total of 19,872,814 common shares may be issued; however, PetroBakken has the option to repay the debentures in cash. If the repayment was in cash, the cash amount 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 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 March 31, 2011, March 31, 2010 and issuance:

As at	**Mar. 31, 2011**	Mar. 31, 2010	Jan. 25, 2010
Risk free interest rate	**2.84%**	3.00%	2.65%
Annual dividend per share [(1)]	**-**	-	-
Expected life (years)	**4.75**	5.75	6.00
Expected volatility [(2)]	**35%**	31%	31%
CDN/US $ FX rate	**0.98**	1.02	1.06
Market price	**CDN $18.36**	CDN $26.52	CDN $31.70
Conversion price	**US $37.74**	US $39.61	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 quarter of 2010.

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

	HBU	PetroBakken	Total
Balance of liability component, January 1, 2011	$ -	$ 600,844	$ 600,844
Accumulated accretion	-	5,720	5,720
Accumulated changes in exchange rate	-	(13,856)	(13,856)
Balance of liability component, March 31, 2011	**$ -**	**$ 592,708**	**$ 592,708**

	HBU	PetroBakken	Total
Balance of liability component, January 1, 2010	$ 341,992	$ -	$ 341,992
Liability component of debenture issuance	-	617,101	617,101
Accumulated accretion	1,656	21,556	23,212
Conversion into common shares [1]	(336,284)	-	(336,284)
Accumulated changes in exchange rate	(7,364)	(37,813)	(45,177)
Balance of liability component, 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 March 31, 2011 and December 31, 2010:

	HBU	PetroBakken	Total
Derivative financial liability, January 1, 2011	$ -	$ 76,141	$ 76,141
Accumulated gain	-	(28,270)	(28,270)
Derivative financial liability, March 31, 2011	**$ -**	**$ 47,871**	**$ 47,871**

	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 17 – 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:

	Mar. 31, 2011	Dec. 31, 2010
Decommissioning liabilities, beginning of year	**$ 142,819**	$ 133,505
Less Petrominerales decommissioning liabilities	**-**	(17,112)
Obligations incurred	**4,724**	9,969
Obligations acquired	**311**	16,799
Obligations disposed	**(9)**	(1,930)
Obligations settled	**(1,642)**	(4,528)
Accretion expense	**1,447**	5,437
Changes in estimated future cash flows	**1,253**	679
Decommissioning liabilities, end of period	**$ 148,903**	$ 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 March 31, 2011 is $14.9 million (December 31, 2010 - $13.7 million) for the obligations in our HBU, and $230.5 million (December 31, 2010 - $204.8 million) for the obligations in PetroBakken.

Note 18 – Income Taxes

Deferred income taxes is comprised of the following amounts:

Three months ended	**Mar. 31, 2011**	Mar. 31, 2010
Deferred tax expense	**$ 7,399**	$ 15,837
Provision for deferred income taxes	**$ 7,399**	$ 15,837

Deferred income taxes differs 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	**Mar. 31, 2011**	Mar. 31, 2010
Income from continuing operations before taxes and NCI	**$ 50,050**	$ 60,327
Canadian statutory income tax rate	**27.01%**	28.00%
Expected tax expense	**$ 13,519**	$ 16,892
Increase (decrease) in tax expense resulting from:		
Non-taxable gain on derivative financial liability	**(7,786)**	(4,874)
Expense on amendment of terms of convertible debentures	**-**	11,445
Share-based compensation	**2,051**	2,844
Accretion on convertible debentures	**1,575**	1,521
Non-taxable foreign exchange gain [(1)]	**(1,908)**	(2,107)
Valuation of temporary differences at deferred tax rates	**(597)**	(12,614)
Other	**545**	2,730
Deferred income taxes	**$ 7,399**	$ 15,837

(1) Consists of non-taxable portion (50%) of foreign exchange gains on convertible debentures.

Note 19 – Share Capital

The equity account balances at March 31, 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	20,326	49
Transfer from contributed surplus related to stock options exercised	-	398
Balance at March 31, 2011 [1]	**106,256,659**	**$ 1,575,895**

[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	40,910	22.24
Exercised	(20,326)	2.35
Forfeited	(139,335)	21.37
Balance at March 31, 2011	**3,080,766**	**$ 17.43**

The weighted average share price of the options exercised in the period ended March 31, 2011 was $22.54.

The following summarizes information about stock options outstanding as at March 31, 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	306,450	4.69	$ 0.05	227,950	$ 0.05
0.06 – 4.00	556,175	4.68	2.55	107,329	2.56
4.01 – 10.00	182,000	3.73	6.47	92,500	7.08
10.01 – 16.00	222,000	6.76	14.89	153,000	15.90
16.01 – 24.00	803,436	5.18	20.89	30,525	17.72
24.01 – 31.00	756,080	6.22	29.05	272,000	28.75
31.01 – 38.47	254,625	4.58	35.63	19,750	34.61
	3,080,766		**$ 17.43**	**903,054**	**$ 13.75**

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
Issued upon spin-off of Petrominerales	177,512
Exercised	(14,800)
Balance at December 31, 2010	388,841
Granted	9,030
Balance at March 31, 2011	**397,871**

At March 31, 2011, 242,350 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.

11,266 directors DCS were outstanding at March 31, 2011 and December 31, 2010. At March 31, 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
Issued upon spin-off of Petrominerales	113,673
Forfeited	(4,893)
Balance at December 31, 2010	209,624
Granted	11,080
Forfeited	(14,333)
Balance at March 31, 2011	**206,371**

At March 31, 2011, 31,922 incentive shares are exercisable (December 31, 2010 - nil).

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:

Three months ended March 31,	**2011**	2010
All Share-Based Rights		
Risk free interest rate	**1.7% - 2.6%**	2.25%
Expected volatility [1]	**33%**	33%
Stock options		
Expected life (years) [2]	**3.5**	3.5
Forfeiture rate	**5%**	5%
Weighted-average fair value	**$ 5.88**	$ 15.48
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**	-
Forfeiture rate	**0%**	-
Weighted-average fair value	**$ -**	$ -
Incentive shares		
Expected life (years) [2]	**3.5**	-
Forfeiture rate	**5%**	-
Weighted-average fair value	**$ 21.58**	$ -

(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 three month period ended March 31, 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 option grant as a whole, this results in an average expected life of 3.5 years.

Share-based compensation expense for the three months ended March 31, 2011, relating entirely to equity-settled awards, totalled $7.5 million (2010 - $9.9 million) and includes expenses related to PetroBakken's stock options, incentive shares and deferred common shares.

Note 20 – 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 reflects the potential dilution of Share-Based Rights 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 March 31,	**2011**	2010
Net income from continuing operations attributable to Petrobank shareholders adjustments		
Basic earnings	**$ 20,585**	$ 321
Impact of PetroBakken dilution on net income	**(207)**	(189)
Diluted earnings from continuing operations	**$ 20,378**	$ 132
Interest expense on Petrobank convertible debentures, net of tax [1]	**-**	1,243
Net income from discontinued operations attributable to Petrobank shareholders	**-**	64,736
Impact of Petrominerales dilution on net income	**-**	(4,029)
Diluted earnings	**$ 20,378**	$ 62,082
Weighted average common share adjustments		
Weighted average common shares outstanding, basic	**106,248,411**	100,241,380
Effect of convertible debentures	**-**	5,123,804
Effect of Share-Based Rights	**1,203,326**	1,128,660
Weighted average common shares outstanding, diluted	**107,451,737**	106,493,844

[1] Petrobank's convertible debentures are anti-dilutive when calculating diluted earnings per share from continuing operations for the three months ended March 31, 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 months ended March 31, 2011, 1,146,221 stock options are excluded because the effect would be anti-dilutive (2010 - 162,500).

Note 21 – 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		22,066
Share-based compensation		5,444
Common shares repurchased		-
Changes in ownership interest [1]		(18,804)
Dividends paid or declared by PetroBakken		(44,865)
Dividends received or receivable by Petrobank		26,352
Balance at March 31, 2011	**$**	**1,422,476**

[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 22 – 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]	$ 28,702	$ 224,404	**$ 253,106**
Bank debt – principal	$ 3,824	$ 965,864	**$ 969,688**
Convertible debentures – principal amount (US$)	$ -	$ 750,000	**$ 750,000**
Common share capital [2]	$ 1,575,895	$ 3,148,194	**$ 1,575,895**
Credit facility	$ 200,000	$ 1,200,000	
Available credit capacity	$ 196,176	$ 234,136	

[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.

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 or by issuing additional debt secured by this interest.

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 March 31, 2011, the ratio of debt to annualized first quarter 2011 earnings before interest, taxes and non-cash items was 1.3 to 1, which is within a range acceptable to management. PetroBakken uses the ratio of 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 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 and financial derivative liability for capital management purposes. PetroBakken has the option to repay the principal and interest amount in common shares or cash. 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%.

The Company had positive cash flow from operations for the three months ended March 31, 2011 and a credit facility with $234.1 million of available capacity as at March 31, 2011.

Note 23 – 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 faced by the Company 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 March 31, 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	**Mar. 31, 2011**	Dec. 31, 2010
Oil and natural gas customers	**$ 166,806**	$ 144,952
Other	**22,746**	18,359
Total	**$ 189,552**	$ 163,311

Receivables from oil and natural gas marketers are normally collected 25 to 45 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 March 31, 2011 (December 31, 2010 - $1.9 million).

The Company's accounts receivables are aged as follows:

	Mar. 31, 2011	Dec. 31, 2010
Not past due [(1)]	**$ 184,994**	$ 155,452
Past due	**4,558**	7,859
Total	**$ 189,552**	$ 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 asset based credit facilities, as outlined in Note 15, that are reviewed semi-annually by the lenders.

The following are the contractual maturities of financial liabilities at March 31, 2011:

Financial Liability	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	$ 457,667	$ -	$ -	$ 457,667
Finance lease obligations [1]	745	1,848	376	2,969
Risk management liabilities	37,566	14,603	-	52,169
Bank debt – principal	-	969,688	-	969,688
PetroBakken convertible debentures – principal (US$)	-	-	750,000	750,000
Total [2]	**$ 495,978**	**$ 986,139**	**$ 729,226**	**$ 2,211,343**

(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) US$ amounts have been converted using a period end exchange rate of $0.9718.

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

The Company 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 March 31, 2011.

At March 31, 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 $16.7 million lower for the three months ended March 31, 2011 (2010 - $14.7 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 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 March 31, 2011:

Crude Oil Price Risk Management Contracts – WTI (1)

Term	Volume (bopd)	Average Price ($/bbl)	Benchmark
Apr. 1, 2011 – Dec. 31, 2011	2,500	$78.00 floor / $95.40 ceiling	C$ WTI
Apr. 1, 2011 – Dec. 31, 2011	4,500	$76.11 floor / $101.43 ceiling	US$ WTI
Apr. 1, 2011 – Jun. 30, 2011	1,000	$75.00 floor / $104.53 ceiling	US$ WTI
Apr. 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	3,750	$75.00 floor / $123.10 ceiling	US$ WTI
Jan. 1, 2012 – Dec. 31, 2013	250	$75.00 floor / $131.75 ceiling	US$ WTI
Jul. 1, 2012 – Jun. 30, 2013	1,000	$75.00 floor / $117.45 ceiling	US$ WTI

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

The following crude oil derivative contracts were entered into subsequent to March 31, 2011:

Term	Volume (bopd)	Average Price ($/bbl)	Benchmark
Jan. 1, 2012 – Dec. 31, 2013	1,000	$83.75 floor / $132.60 ceiling	US$ WTI
Jul. 1, 2013 – Dec. 31, 2013	250	$75.00 floor / $133.10 ceiling	US$ WTI

The average of the above volumes is as follows:

Term	Volume (bopd)	Average Price ($/bbl)	Benchmark
2011	10,000	$76.14 floor / $99.42 ceiling	US$ WTI
2012	7,500	$76.17 floor / $117.83 ceiling	US$ WTI
2013	4,000	$77.19 floor / $126.57 ceiling	US$ WTI

The following natural gas price risk management contracts were outstanding as at March 31, 2011:

Natural Gas Price Risk Management Contracts – AECO

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

The fair value of the commodity risk management contract liability as at March 31, 2011 is $50.5 million (December 31, 2010 - $12.8 million liability). If crude oil prices had been 10% lower on March 31, 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 $20.2 million higher for the three months then ended (2010 - $15.4 million higher). If natural gas prices had been 10% lower on March 31, 2011, with all other variables held constant, there would have been no change in net income attributable to Petrobank shareholders resulting from the change in the fair value of the risk management contracts (2010 - $0.6 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 three months ended March 31, 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 March 31, 2011:

Term	Notional Principal / Month	Fixed Annual Rate (%)
Expires April 2011	C$50 million	1.050%
Apr. 2011 – Jan. 2012	C$50 million	1.620%
Apr. 2011 – Jan. 2012	C$50 million	1.653%
Apr. 2011 – Feb. 2012	C$25 million	1.540%
Apr. 2011 – Feb. 2012	C$25 million	1.510%
Apr. 2011 – Apr. 2012	C$50 million	1.300%
Apr. 2011 – Jun. 2012	C$25 million	2.094%

The fair value of the interest rate swap contracts as at March 31, 2011 was a liability of $0.3 million (December 31, 2010 - $0.2 million). If interest rates had been one percent higher or lower at March 31, 2011, net income attributable to Petrobank shareholders would have increased by $1.2 million (2010 - $3.0 million higher), 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 loss	(36,943)	(769)	(50)	(37,762)
Risk management asset (liability), as at March 31, 2011	**$ (51,778)**	**$ 1,253**	**$ (285)**	**$ (50,810)**

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 March 31, 2011 and December 31, 2010:

	Crude Oil	Natural Gas	Interest	March 31, 2011
Current				
Risk management asset	$ -	$ 1,253	$ 106	$ 1,359
Risk management liability	(37,210)	-	(356)	(37,566)
Non-current				
Risk management asset	-	-	-	-
Risk management liability	(14,568)	-	(35)	(14,603)
Net risk management asset (liability)	**$ (51,778)**	**$ 1,253**	**$ (285)**	**$ (50,810)**

	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 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 March 31, 2011 and 2010:

Three months ended March 31,	**2011**	2010
Realized gain (loss) on risk management contracts:		
Crude oil derivative contracts	**$ (1,096)**	$ (398)
Natural gas derivative contracts	**741**	241
Interest rate swap contracts	**(234)**	(862)
	(589)	(1,019)
Unrealized gain (loss) on risk management contracts:		
Crude oil derivative contracts	**(36,943)**	(1,951)
Natural gas derivative contracts	**(769)**	3,063
Interest rate swap contracts	**(50)**	1,339
	(37,762)	2,451
Gain (loss) on risk management contracts	**$ (38,351)**	$ 1,432

Fair Value of Financial Instruments

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 March 31, 2011 is disclosed below by financial instrument category, as well as any related gain, loss, expense or revenue for the three months ended March 31, 2011:

Financial Instrument	Carrying Value	Fair Value	Gain / (Loss)	Finance Expense	Revenue
Held at Fair Value Through Profit and Loss					
Risk management liabilities (net)	50,810	50,810	(38,351)[1]	-	-
Derivative financial liabilities	47,871	47,871	28,270[2]	-	-
Loans and Receivables					
Accounts receivable	189,552	189,552	-	-	-
Other Liabilities					
Accounts payable and accrued liabilities	457,667	457,667	-	-	-
Bank debt	964,445	969,388	-	9,788[3]	-
Convertible debentures	592,708	712,451[4]	13,856[5]	11,449[6]	
Obligations under gas sale contract	1,312	(2,328)[8]	-	-	204[7]

(1) Included in gain (loss) on risk management contracts on the condensed interim consolidated statement of operations and comprehensive income. The unrealized loss of $37.8 million is included on the condensed interim consolidated statement of cash flow.

(2) Included in loss (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 March 31, 2011 was 3.3% (December 31, 2010 - 3.5%).

(4) The Company estimated the fair value of the convertible debenture based on the market transactions closed on March 31, 2011.

(5) Included in foreign exchange gain 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) 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.

(8) 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 March 31, 2011.

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 March 31, 2011 bears interest at a floating rate of interest and accordingly, fair value approximates the carrying value.

Note 24 – Changes in Non-Cash Working Capital

Three months ended March 31,	Note		**2011**		2010
Change in:					
Accounts receivable		**$**	**(26,241)**	$	(5,345)
Prepaid expenses and other assets			**(3,754)**		6,093
Accounts payable and accrued liabilities			**81,655**		17,610
Other			**3,745**		(44)
			55,405		18,314
Working capital deficiencies acquired	14		**-**		(38,874)
		$	**55,405**	$	(20,560)
Changes relating to:					
Attributable to operating activities		**$**	**(37,723)**	$	(13,615)
Attributable to financing activities		**$**	**(509)**	$	(1,952)
Attributable to investing activities		**$**	**93,637**	$	(4,993)
		$	**55,405**	$	(20,560)
Other cash flow information:					
Cash taxes paid		**$**	**-**	$	-
Cash interest paid		**$**	**13,652**	$	19,996
Cash interest received		**$**	**96**	$	4

Note 25 – Commitments and Contingencies

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments at March 31, 2011:

Type of Commitment	2011	2012	2013	2014	2015	Thereafter	Total
HBU and Corporate							
Office operating leases ($) [1]	$ 2,611	$ 4,424	$ 4,594	$ 4,681	$ 4,710	$ 15,237	$ 36,257
Finance leases ($)	599	578	581	486	97	-	2,341
PetroBakken							
Office operating leases ($) [1]	3,242	4,054	5,745	5,771	5,605	25,852	50,269
Drilling and completion rigs ($)	6,830	9,003	8,698	6,902	-	-	31,433
Total Commitments	**$ 13,282**	**$ 18,059**	**$ 19,618**	**$ 17,840**	**$ 10,412**	**$ 41,089**	**$120,300**

[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 existing cash balances, 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 26 – 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* (h).
Cumulative translation differences	As described in *Notes to the Reconciliation* (n).
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 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 month period ended March 31, 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**	**Dec. 31, 2010**
Shareholders' equity Canadian GAAP		$ 2,291,804	$ 2,454,687
Demonstration project expenditures	a	(229,737)	(263,125)
Assets held for sale	c	(48,656)	(39,397)
Depletion and depreciation	j	-	191,500
Convertible debentures			
Impact to convertible debentures – equity portion	d	(76,811)	-
Impact to share capital	d	18,991	210,742
Impact to retained earnings	d	(193,647)	(269,871)
Decommissioning liabilities	e	(79,678)	(79,429)
Deferred income taxes	k	99,135	64,198
Income attributable to NCI	m	-	(37,230)
Share-based compensation recorded by PetroBakken and Petrominerales	h	(3,933)	(17,904)
Adjustment to NCI on transition	m	10,362	10,362
Accumulated other comprehensive income	d, e, j, k, n	-	4,173
Accumulated other comprehensive income allocated to NCI under IFRS	n	-	12,500
Adjustment to retained earnings on spin-off of Petrominerales	l	-	50,962
Shareholders' equity IFRS		**$ 1,787,830**	**$ 2,292,168**

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)	k	-		-		-		**-**
	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	k	-		-		-		**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	k	(59,153)	k	(29,963)	k	(10,019)	k	**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	h	-		-		**38,726**
Paid-in capital	875,924	-		-		-		-		**875,924**
Accumulated other comprehensive loss	(29,894)	-		-		-		29,894	n	**-**
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)	m	2,887	m	**1,247,079**
		-		-		934	h	2,999	h	
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**

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)	k	-		-		-		**-**
	198,465	(3,455)		-		-		-		**195,010**
Other assets	27	-		-		-		-		**27**
Exploration assets	-	1,867,030	a, c, e	(263,125)	a	-		(263,494)	l	**1,340,411**
Property, plant and equipment	4,685,461	(1,907,139)	a, b, c, e	-		134,935	j	54,465	j	**3,163,656**
		-		-		-		195,934	l	
Other intangible assets	-	5,375	b	-		-		-		**5,375**
Goodwill	1,518,633	5,491	e	-		-		-		**1,524,124**
Deferred tax assets	-	36,852	k	-		-		-		**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)	k	-		-		-		**-**
	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	l	
Derivative financial liabilities	-	-		-		76,141	d	238,907	d	**76,141**
	-	-		-		-		(238,907)	l	
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)	l	
Risk management liabilities	2,597	-		-		-		-		**2,597**
Deferred tax liabilities	533,350	24,543	k	(69,364)	k	6,105	k	(294)	k	**497,225**
		-		976	d	1,615	d	-		
		-				-		294	l	
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	h	-		-		**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)	m	2,887	m	**1,432,283**
		-	-		12,200	h	5,704	h	
		-	-		(194,113)	d	(101,201)	d	
		-	-		70,871	m	(33,641)	m	
		-	-		-		138,751	l	
		-	-		-		(12,500)	n	
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**

Reconciliation of consolidated statement of operations and comprehensive income for the three months ended March 31, 2010:

Three months ended March 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 revenues	$ 275,706	$ (37,541)	g	$ -		$ -		$ -		**$ 238,165**
Royalties	(37,541)	37,541	g	-		-		-		**-**
Gain on risk management contracts	1,432	-		-		-		-		**1,432**
Interest income	19	(19)	i	-		-		-		**-**
	239,616	(19)		-		-		-		**239,597**
Production	30,242	-		-		-		-		**30,242**
Transportation	2,600	-		-		-		-		**2,600**
General and administrative	9,229	-		-		-		-		**9,229**
Share-based compensation	8,487	-		(662)	h	2,061	h	-		**9,886**
Interest	16,488	(16,488)	i	-		-		-		**-**
Gain on disposition	-	-		-		(6,928)	c	-		**(6,928)**
Gain on derivative financial liabilities	-	-		32,474	d	(48,096)	d	-		**(15,622)**
Expense on amendment of terms of convertible debenture	-	-		42,385	d	-		-		**42,385**
Demonstration project expenditures	-	-		10,689	a	-		-		**10,689**
Finance and other	-	17,728	i	145	d	(726)	d	-		**17,231**
	-			(8)	e	92	e	-		
Foreign exchange loss (gain)	(16,711)	-		152	d	(1,590)	d	-		**(18,149)**
Depletion and depreciation	134,118	(1,259)	i	-		(35,152)	j	-		**97,707**
	184,453	(19)		85,175		(90,339)		-		**179,270**
Income from continuing operations before taxes and NCI	55,163	-		(85,175)		90,339		-		**60,327**
Deferred income taxes	9,114	-		(3,165)	k	10,247	k	-		**15,837**
	-	-		(359)	k	-		-		
Income from continuing operations before NCI	46,049	-		(81,651)		80,092		-		**44,490**
Net income attributable to NCI	14,535	-		-		29,634	m	-		**44,169**
Net income from continuing operations attributable to Petrobank shareholders	31,514	-		(81,651)		50,458		-		**321**
Net income from discontinued operations	50,985	-		-		-		13,751	e, h, j k, m	**64,736**
Net income attributable to Petrobank shareholders	82,499	-		(81,651)		50,458		13,751		**65,057**
Other comprehensive income:										
Foreign currency translation differences	(16,877)	-		-		-		(499)	n	**(17,376)**
Foreign currency translation differences related to NCI	-	-		-		-		5,908	n	**5,908**
Comprehensive income attributable to Petrobank shareholders	$ 65,622	$ -		$ (81,651)		$ 50,458		$ 19,160		**$ 53,589**

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 revenues	$ 1,008,556	$ (142,064)	g	$ -		$ -		$ -		**$ 866,492**
Royalties	(142,064)	142,064	g	-		-		-		**-**
Loss on risk management contracts	(8,426)	-		-		-		-		**(8,426)**
Interest income	101	(101)	i	-		-		-		**-**
	858,167	(101)		-		-		-		**858,066**
Production	124,481	-		-		-		-		**124,481**
Transportation	15,270	-		-		-		-		**15,270**
General and administrative	41,865	-		-		-		-		**41,865**
Acquisition	1,286	-		-		-		-		**1,286**
Share-based compensation	32,393	-		(65)	h	11,266	h	-		**43,594**
Interest	77,511	(77,511)	i	-		-		-		**-**
Gain on disposition	-	-		-		(9,259)	c	-		**(9,259)**
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**
Demonstration project expenditures	-	-		33,388	a	-		-		**33,388**
Finance and other	-	82,428	i	154	d	(3,977)	d	-		**79,022**
	-	-		(49)	e	466	e	-		
Foreign exchange loss (gain)	(28,310)	-		149	d	(2,267)	d	-		**(30,428)**
Depletion and depreciation	526,059	(5,018)	i	-		(134,935)	j	-		**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	28,117	-		(10,211)	k	36,068	k	-		**46,254**
	-	-		(7,720)	k	-		-		
Income from continuing operations before NCI	39,495	-		(100,145)		179,047		-		**118,397**
Net income attributable to NCI	18,187	-		-		70,871	m	-		**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, h j, k, m	**102,834**
Gain on spin-off of Petrominerales	-	-		-		-		1,919,505	l	**1,919,505**
AOCI recognized on spin-off of Petrominerales	70,076	-		-		-		(46,569)	n	**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:

(iii) 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.

(iv) 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	Q1 2010	Full Year 2010
HBU		
Demonstration project expenditures	10,689	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 March 31, 2010, the disposition of three of the non-core properties was completed. This resulted in a gain of $6.9 million, as the proceeds received were higher than the carrying value of the associated assets.

In the year ended December 31, 2010, the remaining non-core property disposition was completed, which resulted in the balance in assets being held for sale being reduced to $nil. The non-core property dispositions along with other minor dispositions that took place in the year resulted in a gain of $9.3 million for the year.

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	Q1 2010	Full Year 2010
PetroBakken		
Gain on disposition	(6,928)	(9,259)

d. Convertible debentures

Petrobank's, PetroBakken's and Petrominerales' debentures have 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 were recorded in non-controlling interest upon consolidation.

Consolidated Statement of Operations and Comprehensive Income	Q1 2010	Full Year 2010
HBU and Corporate		
Loss on derivative financial liability	32,474	17,769
Expense on amendment of terms of convertible debentures [1]	42,385	66,730
Deferred tax recovery [1]	(359)	(7,720)
Foreign exchange loss	152	154
Accretion on convertible debentures [2]	145	149
PetroBakken		
Gain on derivative financial liability	(48,096)	(76,409)
Foreign exchange gain	(1,590)	(2,267)
Accretion on convertible debentures [2]	(726)	(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	Q1 2010	Full Year 2010
HBU and Corporate		
Accretion on decommissioning liabilities	(8)	(49)
PetroBakken		
Accretion on decommissioning liabilities	92	466
Petrominerales		
Accretion on decommissioning liabilities	12	(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. Revenue

Under Canadian GAAP, revenue was required to be recorded gross of royalties. Under IFRS, revenue is recorded net of royalties. This is a change in presentation only and therefore there was no impact of this difference on adoption of IFRS or for the three months ended March 31, 2010 and year ended December 31, 2010.

h. 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	Q1 2010	Full Year 2010
HBU and Corporate		
Share-based compensation	(662)	(65)
PetroBakken		
Share-based compensation	2,061	11,266
Petrominerales		
Share-based compensation	97	2,705

i. 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 months ended March 31, 2010, or for the year ended December 31, 2010.

j. 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	Q1 2010	Full Year 2010
PetroBakken and Total from Continuing Operations		
Depletion and depreciation expense	(35,152)	(134,935)
Petrominerales		
Depletion and depreciation expense	(11,816)	(56,565)

k. 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	Q1 2010	Full Year 2010
HBU and Corporate		
Deferred tax recovery	(3,165)	(10,211)
PetroBakken		
Deferred tax expense	10,247	36,068
Petrominerales		
Deferred tax expense (recovery)	(9,128)	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.

l. 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)

m. 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	Q1 2010	Full Year 2010
PetroBakken and Total from Continuing Operations		
Net income attributable to non-controlling interest	29,634	70,871
Petrominerales		
Net income attributable to non-controlling interest	7,084	(33,641)

n. 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 $0.5 million for the three months ended March 31, 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	Q1 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	5,908	12,500
Foreign currency translation differences attributable to Petrobank shareholders	(5,908)	(12,500)
Adjust loss recorded to net income on spin-off of PMG		
AOCI recognized on spin-off of Petrominerales	-	(46,569)