



2013



Second Quarter Results

PETROBANK REPORTS Q2 2013 FINANCIAL RESULTS AND OPERATIONAL UPDATE

Calgary, Alberta – August 12, 2013 – Petrobank Energy and Resources Ltd. (TSX: PBG) announces our 2013 second quarter financial and operating results and updates our 2013 expenditure guidance.

The consolidated financial statements as at and for the three and six months ended June 30, 2013 and 2012 represent the operations of the assets and liabilities transferred to Petrobank pursuant to the corporate reorganization with PetroBakken Energy Ltd. (now renamed Lightstream Resources Ltd.) completed December 31, 2012. These assets and liabilities previously comprised the 'Petrobank Standalone' operating segment in our 2012 financial disclosure.

This report includes forward-looking statements and information within the meaning of applicable securities laws. Readers are advised to review "Forward-Looking Statements" included within this report.

In this report, quarterly comparisons are second quarter 2013 compared to second quarter 2012 unless otherwise noted. All financial figures are unaudited and in Canadian dollars (\$) unless otherwise noted.

OVERVIEW

Q2 2013 Financial and Operating Highlights

- Average production at our Kerrobert THAI® project was 135 barrels of oil per day ("bopd") in Q2 2013, a decrease from 205 bopd in Q1 2013 and 236 bopd in Q2 2012. Kerrobert THAI® production averaged 160 bopd in July 2013 based on field estimates.
- Petrobank reported expenditures on exploration and evaluation assets of \$3.1 million in Q2 2013 compared to \$4.4 million in Q2 2012. This decrease is primarily due to a reduction in capitalized costs related to our Kerrobert project.
- We repurchased 158,800 Petrobank shares under our outstanding Normal Course Issuer Bid at a total cost of \$70,311 (\$0.44 per share).

OPERATIONAL UPDATE

Kerrobert THAI® Project

Second quarter 2013 production averaged 135 bopd, a decrease from Q1 2013 production of 205 bopd and 236 bopd in the second quarter of 2012. July 2013 production was 160 bopd based on field estimates. The decrease in production from Q1 2013 was primarily due to certain producing wells being shut-in for the majority of the quarter and an increase in unsold oil at our production facility due to timing of rail transportation availability.

We are disappointed that we have not been able to increase production at our Kerrobert THAI® project over the last year. We constantly review technology, reservoir and operational concerns. After several months of analysis, we believe that our biggest challenge is to form a well structured THAI® combustion front at the top of the reservoir which results in gravity drainage of the heated, upgraded heavy oil into the horizontal production wells. We believe that permeability channels have been created in the reservoir that flow from the upper combustion zone to the bottom of the reservoir. Injected air preferentially follows

these channels rather than staying at the top of the reservoir, slowing the formation of a large THAI® combustion zone.

We are currently testing two strategies to help expand our combustion zone. As previously discussed, we have initiated water co-injection in several wells. The water is intended to alter the relative permeability in the channels to redirect air flow, keep air at the top of the reservoir and to help transfer heat horizontally across the reservoir. We have also drilled two multi-THAI® air injection wells associated with two separate horizontal production wells. Our multi-THAI® patent involves the drilling of one or more injection wells along a horizontal production well to expand the combustion zone and to have a larger portion of the reservoir draining into the production well. Steam pre-heating has started on these injection wells and we intend to initiate air injection in September. Additional production from the multi-THAI® wells is expected to start in the fall.

Over the next several months, we intend to re-evaluate options to increase production at Kerrobert and reduce costs. In the short term, we may reduce costs by shutting-in low-volume wells that require workovers. In the medium term, we may drill more multi-THAI® wells and consider other techniques to help injected air stay at the top of the reservoir and form a broader THAI® combustion zone. With these changes, it may take longer for us to reach break-even production levels.

Saskatchewan Conventional Cold Production

At June 30, 2013, Petrobank had four conventional cold production wells operating on our Kerrobert Trend Lands that were producing an aggregate of approximately 50 bopd. We drilled and completed two horizontal wells in our Luseland area in July and we expect the new wells to contribute additional production volumes in the coming months.

Dawson Demonstration Project

At Dawson, we commenced cold production operations from both horizontal THAI® production wells in late 2012 and the wells produced at a combined rate of approximately 10 bopd in the second quarter of 2013. We have currently shut-in these wells to reduce costs as they have not produced at economic rates. We have also submitted an application to the Alberta Energy Regulator (“AER”) to initiate two cyclic steam stimulation (“CSS”) cycles with our THAI® production wells. If approved by AER, we believe that CSS will be more effective in pre-conditioning the reservoir for THAI® as CSS should result in more voidage than conventional cold production.

Business Operations Update

As we evolve our operations at Kerrobert, Petrobank remains focused on generating long term value for our shareholders. Recognizing that it may take longer to reach break-even production levels at Kerrobert, we are taking several steps to steward our working capital while increasing production and lowering expenses. In the short term, we plan to reduce expenditures at Kerrobert and other projects. Over the next several months, we will evaluate alternatives to increase production at our Kerrobert THAI® project and consider other value enhancing activities that take advantage of our strong capital position, attractive asset base and significant experience with combustion techniques.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2013, Petrobank had cash and cash equivalents of \$30.6 million, investments in marketable securities of \$44.7 million and a net working capital surplus (including cash and marketable securities) of \$71.0 million. Our focus in 2013 is to steward our capital to maintain financial flexibility to pursue future projects and acquisition opportunities while positioning the company to benefit from our strong capital base. We expect to fund our 2013 expenditures with cash on hand and sales revenue from production.

OUTLOOK AND GUIDANCE

With the first half of the year completed, we are updating our 2013 guidance to reflect slight changes to our planned activities. We are currently forecasting 2013 capital expenditures of \$16 million, a decrease of \$7 million from our previous guidance. Other expenditures, including operating costs, maintenance capital and general and administrative costs, are forecasted to be \$26 million in 2013, a decrease of an additional \$7 million from our original budget. In total, we are expecting expenditures to be approximately \$42 million in 2013, a reduction of \$14 million from our original expectations. Petrobank has taken these steps to conserve capital in recognition of lower than expected Kerrobert THAI® production rates and to focus capital on maximizing the value of our assets. We will continue to look for opportunities to reduce expenditures further until we have reached self-sustaining production levels. We expect to end 2013 with more than \$50 million of positive net working capital and no debt, assuming June 30, 2013 valuations for our marketable securities.

Forward-Looking Statements: *Certain information provided in this press release constitutes forward-looking statements. Specifically, this press release contains forward-looking statements relating to financial results, results from operations, the timing of certain projects, and anticipated sources of available financing. Forward-looking statements are necessarily based on a number of assumptions and judgments, including but not limited to, assumptions relating to the outlook for commodity and capital markets, the success of future resource evaluation and development activities, the successful application of our technology, the performance of producing wells and reservoirs, well development and operating performance, general economic conditions, weather and the regulatory and legal environment. 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. You can find a discussion of those risks and uncertainties in our Canadian securities filings. Such factors include, but are not limited to: general economic, market and business conditions; weather conditions and access to our properties; fluctuations in oil prices; the results of exploration and development drilling, recompletions and related activities; timing and rig availability; outcome of exploration contract negotiations; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; uncertainties associated with the regulatory review and approval process in respect to our projects; risks associated with the application of early stage technology; risks associated with oil and gas operations; and other factors, many of which are beyond the control of the Company. 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 forecasted. Except as may be required by applicable securities laws, Petrobank assumes no obligation to publicly update or revise any forward-looking statements made herein or otherwise, whether as a result of new information, future events or otherwise.*



2013



Management's Discussion and Analysis

RESULTS OF THE SECOND QUARTER AND THE FIRST SIX MONTHS OF 2013

	Three months ended June 30,			Six months ended June 30,		
	2013	2012	% Change	2013	2012	% Change
Financial (\$000s, except where noted)						
Net loss (income)	4,151	4,282	(3)	7,159	(42,009)	-
Per share – basic and diluted (\$)	0.04	0.04	-	0.07	(0.43)	-
Expenditures on exploration assets	3,050	4,448	(31)	11,472	21,954	(48)
Total assets	147,249	337,185	(56)	147,249	337,185	(56)
Common shares outstanding, end of period (000s)						
Basic and diluted ⁽¹⁾	97,438	97,597	-	97,438	97,597	-

⁽¹⁾ Due to the corporate reorganization which occurred on December 31, 2012, the 2012 per share amounts are based on the number of shares outstanding on December 31, 2012.

The following Management's Discussion and Analysis ("MD&A") is dated August 12, 2013 and should be read in conjunction with the unaudited 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 and six months ended June 30, 2013 ("interim Consolidated Financial Statements") as well as the audited consolidated financial statements and accompanying notes of Petrobank Energy and Resources Ltd. as at December 31, 2012 and for the years then ended ("Consolidated Financial Statements") and MD&A for the year ended December 31, 2012.

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

This MD&A and the interim Consolidated Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") which are also generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada.

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.

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

Forward-Looking Statements

In addition to historical information, the MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance. Specifically, this MD&A contains forward-looking statements relating to future capital plans and projects, future production levels and sources of funding. 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.

Overview

The Company operates our Kerrobert heavy oil project using Petrobank's patented THAI® heavy oil recovery process in the field. THAI® (Toe-to-Heel-Air-Injection), is an evolutionary in-situ combustion technology for the recovery of heavy oil and bitumen. The Kerrobert project and our conventional oil operations 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, operational results such as average daily production, revenue, royalties, production expenses, or depletion and depreciation expense are excluded.

The Company was incorporated in 2012, for the purpose of participating in a Plan of Arrangement involving the former PetroBakken Energy Ltd., now renamed Lightstream Resources Ltd. ("PetroBakken" or "Lightstream") and the previous Petrobank Energy and Resources Ltd. ("Old Petrobank") which at the time of the arrangement, held approximately 56% of PetroBakken's outstanding common shares. Old Petrobank transferred all assets and liabilities (with the exception of the majority interest in PetroBakken and the majority of its tax pools) to the Company and then amalgamated with PetroBakken. The Company's assets and liabilities represent Old Petrobank's 'Petrobank Standalone' operating segment, with the exception of deferred taxes which were recalculated based on the tax position particular to the Company.

Comparatives

Comparisons presented in this MD&A are the three and six months ended June 30, 2013 compared to the three and six months ended June 30, 2012, unless otherwise noted. With the exception of deferred taxes, the results of operations of the first quarter of 2012 represent Old Petrobank's 'Petrobank Standalone' operating segment, which is essentially the assets and liabilities transferred to the Company on December 31, 2012. The 2012 deferred tax liability and deferred income tax recovery have been recalculated based on the assets, liabilities and tax pools transferred to Petrobank.

FINANCIAL AND OPERATIONAL REVIEW

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

The following table includes Petrobank's operating results (in \$000s).

	Three months ended June 30,			Six months ended June 30,		
	2013	2012	% Change	2013	2012	% Change
General & administrative	2,297	2,870	(20)	5,194	6,847	(24)
Loss on marketable securities	2,581	-	-	3,094	-	-
Share-based compensation	219	327	(33)	624	(467)	-
Finance and other	(83)	(273)	(70)	(215)	823	-
Foreign exchange (gain) loss	(33)	(72)	(54)	51	(102)	-
Depletion and depreciation	116	225	(48)	234	449	(48)
Deferred income tax (recovery) expense	(946)	1,205	-	(1,823)	(49,559)	(96)
Net loss (income)	4,151	4,282	(3)	7,159	(42,009)	-

Significant Transactions

The Company was incorporated on October 24, 2012 for the purpose of participating in a Plan of Arrangement with PetroBakken and Old Petrobank. As a result, the Company owns and operates the assets and liabilities previously reported under Old Petrobank's "PBG Standalone" operating segment (except for deferred taxes).

The Company sold its May River property on February 28, 2012, including the Conklin demonstration project, for cash proceeds of approximately \$225 million, net of closing adjustments, and concurrently cancelled its credit facility.

General and Administrative

General and administrative costs decreased in the second quarter and first six months of 2013 primarily due to less office rent and lower personnel costs following the sale of our May River oil sands property, partially offset by fewer management fee recoveries charged to Lightstream.

Loss on Marketable Securities

The Company's investments in marketable securities consist of Lightstream common shares and U.S. dollar denominated 8.625 percent senior notes. The fair value of the investments in marketable securities is recorded on the consolidated statement of financial position at the end of each period, with the change in fair value included in the determination of net (loss) income on the consolidated statement of operations. Also included in the loss on marketable securities are the foreign exchange impact on the U.S. dollar denominated notes, the value of dividends received on the shares and interest income earned on the notes.

The majority of the loss on marketable securities in the second quarter is due to a decline in Lightstream's share price from \$8.83 at March 31, 2013 to \$7.85 at June 30, 2013 and a decline in the value of the senior notes from \$102 at March 31, 2013 to \$95 at June 30, 2013, offset somewhat by dividends and interest received as well as a foreign exchange gain on the U.S. dollar denominated senior notes.

Share-Based Compensation

Share-based compensation expense in 2013 relates to stock options and incentive shares (collectively, "Share-Based Awards") granted. The calculation of this non-cash expense is based on the fair value of the Share-Based Awards granted, amortized over the vesting period of the option or incentive share using the graded vesting method.

Finance and Other

In 2013 the Company earned interest income on its cash and cash equivalents in excess of minimal bank charges. With the repayment of the credit facility at the end of February 2012, the Company recorded accelerated amortization of deferred financing costs during that period.

Foreign Exchange (Gain) Loss

There is an immaterial foreign exchange impact in 2013 and 2012 as most of the Company's transactions are in Canadian dollars. The foreign exchange impact of the Lightstream U.S. dollar denominated notes held by the Company is included within the loss on marketable securities.

Depletion and Depreciation

Depletion and depreciation expense includes only depreciation on other fixed assets and patents and other intangible assets.

Deferred Income Tax (Recovery) Expense

We have calculated our deferred income tax liability for December 31, 2012 based on the tax pools that were allocated to Petrobank as part of the Arrangement. The balance of the tax pools in Old Petrobank remained with Old Petrobank. The deferred income tax recovery in the second quarter and first six months of 2013 is consistent with the loss recorded adjusted for non-deductible tax items. The significant deferred income tax recovery in the first six months of 2012 is primarily due to the completion of the Arrangement and the sale of our May River property. Excluding the impact of the Arrangement and the sale, the deferred income tax expense in the second quarter of 2012 and the recovery in the first six months of 2012 were consistent with income earned adjusted for non-deductible tax items.

Expenditures on Exploration Assets By Type

	Three months ended June 30,			Six months ended June 30,		
	2013	2012	% Change	2013	2012	% Change
Drilling, completions and workovers	184	739	(75)	342	1,326	(74)
Facilities	991	496	100	1,983	3,737	(47)
Land, seismic and exploration	196	260	(25)	2,483	3,457	(28)
Other ⁽¹⁾	1,679	2,953	(43)	6,664	13,434	(50)
Total expenditures on exploration assets	3,050	4,448	(31)	11,472	21,954	(48)

⁽¹⁾ Includes health, safety and environmental, capitalized salaries and benefits for qualifying employees, capitalized interest expense and operating costs, net of revenue.

Expenditures on Exploration Assets by CGU – Three months ended June 30, 2013

	Drilling and Completions	Facilities	Land, Seismic and Exploration	Other ⁽¹⁾	Total
Kerrobert	(32)	960	31	761	1,720
Dawson	27	6	39	351	423
Luseland and Other	189	25	126	567	907
Total expenditures on exploration assets	184	991	196	1,679	3,050

⁽¹⁾ Includes health, safety and environmental, capitalized salaries and benefits for qualifying employees, capitalized interest expense and operating costs, net of revenue.

Expenditures on Exploration Assets by CGU – Six months ended June 30, 2013

	Drilling and Completions	Facilities	Land, Seismic and Exploration	Other ⁽¹⁾	Total
Kerrobert	55	1,641	81	4,856	6,633
Dawson	84	23	39	647	793
Luseland and Other	203	319	2,363	1,161	4,046
Total expenditures on exploration assets	342	1,983	2,483	6,664	11,472

⁽¹⁾ Includes health, safety and environmental, capitalized salaries and benefits for qualifying employees, capitalized interest expense and operating costs, net of revenue.

The Company operates the following projects which have not commenced generating significant revenue:

Kerrobert:

Since the full Kerrobert field was placed on production in September 2011, we have maintained a consistent and patient operating philosophy to rateably increase sustained production of upgraded THAI® oil. This philosophy includes managing air injection rates in order to gradually build out the combustion front and optimizing the type, configuration and placement of the production pumps to extend their useful life and reduce downtime and maintenance costs. In July of 2013 we have drilled two additional air injectors offset from the associated horizontal production wells which should allow us to expand the combustion area within the reservoir, providing for a larger portion of the reservoir to drain into the production well. Steam pre-heating has started on these injection wells and we intend to initiate air injection in September.

Over the next several months, we intend to re-evaluate options to increase production at Kerrobert and reduce costs, which in the near term may require shutting in low-volume wells that require workovers. In the medium term, we may drill more multi-THAI® wells and consider other techniques to help injected air stay at the top of the reservoir and form a better THAI® combustion zone. This re-evaluation will affect how long it may take to reach break-even production levels.

Dawson:

Our Dawson demonstration project was initially planned to consist of two THAI® well-pairs. The project is located in the Peace River, Alberta area, situated on a large Bluesky formation of heavy oil/oil sands fairway. In late 2011 we drilled two THAI® well-pairs before deferring completion until after winter. Since that time, we have continued to review the Dawson reservoir and project plans. Based on this analysis, we determined that the Dawson reservoir would benefit from being pre-conditioned for THAI® operations by producing conventional cold heavy oil from our current horizontal production wells. In late 2012, we completed the wells and commenced conventional cold heavy oil production to pre-condition for THAI® operations. These wells have not yet produced at commercial volumes and are currently shut-in to reduce costs. We have submitted an application to the Alberta Energy Regulator (“AER”) to initiate two cyclic steam stimulation cycles (“CSS”) on these wells based on the principle that it will be more effective in pre-conditioning the reservoir for THAI® as it will result in more production than conventional cold operations.

Luseland and Other:

As of the end of the second quarter we had four conventional heavy oil wells operating and continue to evaluate and work on improving the operating efficiency of these wells.

Commitments

Subsequent to June 30, 2013 the Company entered into a new office sub-lease agreement and terminated an existing arrangement. Following these adjustments the revised commitments are as follows:

Type of Commitment	< 1 Year	1-3 Years	4-5 Years	Thereafter	Total
Office operating leases ⁽¹⁾	\$ 1,091	\$ 1,966	\$ 1,253	\$ 238	\$ 4,548
Finance leases ⁽²⁾	570	289	-	-	859
Total commitments	\$ 1,661	\$ 2,255	\$ 1,253	\$ 238	\$ 5,407

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

(2) Excludes bargain purchase option at end of lease term.

Liquidity and Capital Resources

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. The table below outlines the composition of Petrobank's consolidated capital structure:

As at	June 30, 2013
Working capital surplus ⁽¹⁾	\$ 71,020
Share capital	\$ 134,704

(1) Working capital surplus is calculated as current assets less current liabilities.

At June 30, 2013, Petrobank had a working capital surplus of \$71.0 million, including \$30.6 million in cash and cash equivalents and \$44.7 million of investments in marketable securities.

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

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

Petrobank currently expects to fund our future working capital requirements and asset expenditure programs with available cash and cash equivalents, and cash from future oil sales.

Our current capital resources are expected to be more than adequate for our planned 2013 expenditures while providing financial flexibility to pursue future THAI® projects and acquisition opportunities.

At June 30, 2013, the Company held 3.3 million common shares in Lightstream at a closing price of \$7.85 for value of \$25.8 million. In addition, the Company holds Lightstream U.S. dollar denominated 8.625 percent senior notes with a principal value of US\$19.0 million. The primary reason for these investments is to earn a reasonable return on capital in a company with an asset base, business plan and management team that was well known to Petrobank at the time of the investment. Lightstream is currently paying a monthly dividend of \$0.08 per share, representing a yield of over 10 percent based on our investment cost basis. We have elected all of our shares to participate in Lightstream's dividend reinvestment program, where we automatically reinvest our monthly dividends to purchase additional shares at a five percent discount to the prevailing market price without having to pay commissions. These securities are held for investment purposes and may be sold at any time. A committee of Petrobank executives and directors who are independent of Lightstream has been formed, which approved the initial investment in Lightstream and is authorized to direct the timing of any future acquisitions or dispositions of Lightstream securities.

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

- Issuance of common shares of Petrobank; and
- Sale of producing or non-producing assets.

Capital Plan

Petrobank activity for the remainder of 2013 will focus on increasing Kerrobert production levels while minimizing costs. In July of 2013 we drilled two additional air injectors offset from the associated horizontal production wells, which should allow us to expand the combustion area within the Kerrobert reservoir. Also in the third quarter, we have drilled two horizontal wells on our Luseland property which are currently being completed as heavy oil producers. At Dawson, we are awaiting regulatory approval which would allow us to use CSS on our existing two horizontal production wells to pre-condition the reservoir for our THAI® demonstration project. In addition, we are continually undertaking research and development activities at Archon Technologies Ltd., our wholly owned technology subsidiary, to improve, expand and protect our intellectual property.

Dividends

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

SUMMARY OF QUARTERLY RESULTS

	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial (\$000s except where noted)								
Net loss (income)	4,151	3,008	155,830	6,025	4,282	(46,291)	59,482	17,669
Per share – basic and diluted (\$)	0.04	0.03	1.60	0.06	0.04	(0.47)	0.61	0.18
Expenditures on exploration assets	3,050	8,422	9,746	9,581	4,448	17,506	27,710	30,171

Significant factors influencing quarterly results were:

- The net loss in the fourth quarter of 2011 is due primarily to \$50.4 million impairment related to the sale of our May River oil sands property.
- The net loss in the fourth quarter of 2012 is due primarily to \$185.9 million impairment related to our Kerrobert project.
- Expenditures on exploration assets have trended significantly lower since the Conklin demonstration project was suspended in the fourth quarter of 2011 and sold as part of our May River divestiture in the first quarter of 2012.

Outstanding Share Data

As of the date of this MD&A, 97,437,773 common shares, 2,891,920 stock options and 790,250 incentive shares are outstanding, all of which are unchanged from the balances outstanding at June 30, 2013.

Related Party Transactions

Through contracts existing prior to the Arrangement, Petrobank is party to several transactions with Lightstream and Petrominerales Ltd. ("Petrominerales"), both related parties of the Company as there are multiple common directors. These transactions include net management and technical service fees charged, natural gas purchased for Petrobank's operations from Lightstream, Petrobank oil production sold to Lightstream through a marketing agreement and office sub-lease and miscellaneous expenses charged between the companies. A summary of these transactions is as follows:

Six months ended June 30,	2013	2012
Transactions with Lightstream:		
Net management fees charged by (to) Lightstream	\$ 188	\$ (290)
Gas purchased from Lightstream net of oil sold	294	(118)
Office rent and related costs charged by (to) Lightstream	449	(155)
Transactions with Petrominerales:		
Management and technical service fees charged by (to) Petrominerales	\$ -	\$ (109)
Office rent and related costs charged by (to) Petrominerales	-	(525)

The management and technical service fees charged were based on a cost recovery basis with all other transactions at fair value. The net amounts owed to Petrobank among these related parties at the end of the periods as indicated are:

As at	June 30, 2013	Dec. 31, 2012
Lightstream	\$ 347	\$ 407
Petrominerales	-	107

These amounts are unsecured with terms similar to amounts receivable and payable with arm's length parties.

Sensitivities

The Company's cash flow is not currently sensitive to changes in crude oil prices, exchange rates or interest rates.

Accounting Policies and Estimates

On January 1, 2013 the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7) as well as amendments related to investments in associates and joint ventures (IAS 28). The adoption of these amendments and standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2013 or on the comparative periods.

The Company has not made any significant changes to estimates to critical accounting estimates in the six months ended June 30, 2013.

Pending Accounting Pronouncements

There has been no change to pending accounting pronouncements from those described in the Company's December 31, 2012 MD&A.

Regulatory Policies*Certification of Disclosures in Interim Filings*

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

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

During the three and six months ended June 30, 2013 there has been no change to the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR. The Company has procedures in place relating to DC&P and ICFR and will continue to monitor such procedures as the Company's business evolves.

Outlook

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



2013



Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, thousands of Canadian dollars)

As at	Note	June 30, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		\$ 30,608	\$ 93,996
Investments in marketable securities	2	44,718	8,915
Accounts receivable		1,437	3,912
Prepaid expenses		537	683
		77,300	107,506
Exploration assets		68,366	56,754
Property, plant and equipment		1,439	1,543
Patents and other intangible assets		144	-
Total assets		\$ 147,249	\$ 165,803
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 5,711	\$ 15,712
Current portion of finance lease obligations		569	570
		6,280	16,282
Finance lease obligations and other		1,435	1,754
Decommissioning liabilities		4,769	4,653
Deferred tax liabilities		6,366	8,190
Total liabilities		18,850	30,879
Shareholders' equity			
Share capital	4	134,704	134,924
Contributed surplus		854	-
Deficit		(7,159)	-
Total shareholders' equity		128,399	134,924
Total liabilities and equity		\$ 147,249	\$ 165,803

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

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

		Three months ended June 30,		Six months ended June 30,	
		2013	2012	2013	2012
	Note				
Expenses (income)					
General and administrative		\$ 2,297	\$ 2,870	\$ 5,194	\$ 6,847
Loss on marketable securities	2	2,581	-	3,094	-
Share-based compensation	4	219	327	624	(467)
Finance and other	3	(83)	(273)	(215)	823
Foreign exchange (gain) loss		(33)	(72)	51	(102)
Depletion and depreciation expense		116	225	234	449
		5,097	3,077	8,982	7,550
Loss before taxes		(5,097)	(3,077)	(8,982)	(7,550)
Deferred income tax recovery (expense)		946	(1,205)	1,823	49,559
Net (loss) income and total comprehensive (loss) income		\$ (4,151)	\$ (4,282)	\$ (7,159)	\$ 42,009
Net (loss) income per share					
Basic and diluted (Note 5)		\$ (0.04)	\$ (0.04)	\$ (0.07)	\$ 0.43

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited, thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Owner's Net Investment	Deficit	Total
January 1, 2012		\$ -	\$ -	\$ 232,450	\$ -	\$ 232,450
Total net and comprehensive income		-	-	42,009	-	42,009
Net change in owner's investment		-	-	(3,353)	-	(3,353)
June 30, 2012		\$ -	\$ -	\$ 271,106	\$ -	\$ 271,106
January 1, 2013		\$ 134,924	\$ -	\$ -	\$ -	\$ 134,924
Total net and comprehensive loss		-	-	-	(7,159)	(7,159)
Share-based compensation expense	4	-	624	-	-	624
Share-based compensation capitalized	4	-	80	-	-	80
Normal course issuer bid	4	(220)	150	-	-	(70)
June 30, 2013		\$ 134,704	\$ 854	\$ -	\$ (7,159)	\$ 128,399

See accompanying notes to these interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited, thousands of Canadian dollars)

		Three months ended June 30,		Six months ended June 30,	
		2013	2012	2013	2012
Operating Activities	Note				
Net (loss) income		\$ (4,151)	\$ (4,282)	\$ (7,159)	\$ 42,009
Non-cash loss on marketable securities	2	2,999	-	3,684	-
Share-based compensation expense		219	327	624	(467)
Depletion and depreciation expense		116	225	234	449
Non-cash finance and other	3	29	24	57	1,031
Non-cash loss on sublease		(43)	-	(86)	-
Deferred income tax (recovery) expense		(946)	1,205	(1,823)	(49,559)
		(1,777)	(2,501)	(4,469)	(6,537)
Changes in non-cash working capital	7	46	(688)	(2,934)	(769)
		(1,731)	(3,189)	(7,403)	(7,306)
Investing Activities					
Purchase of marketable securities	2	-	-	(39,487)	-
Expenditures on exploration assets		(3,050)	(4,448)	(11,472)	(21,954)
Expenditures on property, plant and equipment		(73)	(146)	(124)	(70)
Expenditures on patents and other intangible assets		(77)	69	(152)	(379)
Proceeds from dispositions		-	-	-	219,983
Changes in non-cash working capital	7	(2,817)	(3,617)	(4,446)	(8,513)
		(6,017)	(8,142)	(55,681)	189,067
Financing Activities					
Repayment of bank debt		-	-	-	(74,360)
Finance lease obligations		(121)	(137)	(234)	(250)
Contributions from owner		-	(1,710)	-	(3,523)
Repurchase of common shares		(70)	-	(70)	-
Net cash used in financing activities		(191)	(1,847)	(304)	(78,133)
Net change in cash and cash equivalents		(7,939)	(13,178)	(63,388)	103,628
Cash and cash equivalents, beginning of period		38,547	116,806	93,996	-
Cash and cash equivalents, end of period		\$ 30,608	\$ 103,628	\$ 30,608	\$ 103,628
Cash and cash equivalents consist of:					
Cash		\$ 1,095	\$ 9,558	\$ 1,095	\$ 9,558
Cash equivalents		\$ 29,513	\$ 94,070	\$ 29,513	\$ 94,070
Other cash flow information:					
Cash interest paid		\$ -	\$ -	\$ -	\$ 1,060
Cash interest received		\$ 95	\$ 280	\$ 273	\$ 368

See accompanying notes to these consolidated financial statements.

Note 1 – Corporate Information and Basis of Presentation

Corporate Information

Petrobank Energy and Resources Ltd. (“Petrobank”, “we”, “our” or the “Company”) is a Canadian corporation with shares listed on the Toronto Stock Exchange (“TSX”). The records office and principal address is located at 1100, 332-6th Avenue S.W., Calgary, Alberta, T2P 0B2.

Petrobank is a development stage company involved in the exploration and development of heavy oil in western Canada. The Company operates our Kerrobert heavy oil project using Petrobank’s patented THAI® heavy oil recovery process in the field. THAI® (Toe-to-Heel-Air-Injection) is an in-situ combustion technology for the recovery of heavy oil and bitumen. The Kerrobert project along with our conventional oil operations are in the exploration and evaluation phase and accordingly all directly attributable expenses, net of revenues, are capitalized.

The Company was originally incorporated as 1708589 Alberta Ltd. on October 24, 2012 for the purpose of a corporate reorganization by way of Plan of Arrangement (“the Arrangement”) with the former PetroBakken Energy Ltd., now renamed Lightstream Resources Ltd. (“PetroBakken” or “Lightstream”) and the previous Petrobank Energy and Resources Ltd. (“Old Petrobank”) which existed until it was amalgamated with PetroBakken on December 31, 2012.

Basis of Presentation and Statement of Compliance

The interim consolidated financial statements for Petrobank as at June 30, 2013 and for the three and six months ended June 30, 2013 and 2012 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2012. The interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements.

The interim consolidated financial statements are presented in Canadian dollars and all amounts are rounded to the nearest thousand dollars (\$000s), except where otherwise indicated. The 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 interim consolidated financial statements were approved by the Company’s Board of Directors on August 12, 2013.

Presentation of the Statements of Financial Position

For purposes of the statement of financial position as at December 31, 2012 all assets and liabilities, except for deferred tax liabilities, have been derived directly from the accounting records of Old Petrobank. As part of the Arrangement, the majority of corporate tax pools historically associated with the assets transferred remained with Old Petrobank and PetroBakken, resulting in a difference from the previous carrying value.

Presentation of the Statements of Operations and Comprehensive Loss

With the exception of the deferred income tax recovery, all expenses on the statements of operations and comprehensive loss for the three and six months ended June 30, 2012 are directly attributable to the asset and liabilities formerly presented as the ‘Petrobank Standalone’ operating segment in Old Petrobank’s accounting records.

Deferred income tax recovery (expense) are prepared on a legal entity basis and through the Arrangement, certain legal entities were wound up resulting in tax pools remaining with Old Petrobank and PetroBakken (now Lightstream). As such, deferred income tax recovery (expenses) for the comparative period differ from amounts previously presented as the ‘Petrobank Standalone’ operating segment results within Old Petrobank’s accounting records.

Presentation of the Statements of Changes in Equity

Old Petrobank's direct investment in the Company for December 31, 2012 and prior is shown as 'Owner's Net Investment' in place of shareholders' equity because a direct ownership by shareholders in the Company did not exist at that time. Old Petrobank's investment includes the accumulated net earnings and net cash investments from Old Petrobank.

Adoption and Amendments of Accounting Standards

On January 1, 2013 the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7) as well as amendments related to investments in associates and joint ventures (IAS 28). The adoption of these amendments and standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2013 or on the comparative periods.

Note 2 – Investments in Marketable Securities

The Company's investments in marketable securities consist of Lightstream common shares (TSX) and U.S. dollar denominated 8.625 percent senior notes. These investments are recorded at fair value as follows:

Investment	Fair Value at December 31, 2012	Additions ⁽¹⁾	Fair Value Adjustment	Foreign Exchange Adjustment	Fair Value at June 30, 2013
Lightstream shares	\$ 8,915	\$ 21,378	\$ (4,510)	\$ -	\$ 25,783
Lightstream notes	-	19,487	(1,547)	995	18,935
Total	\$ 8,915	\$ 40,865	\$ (6,057)	\$ 995	\$ 44,718

⁽¹⁾ For the Lightstream shares, consists of share purchases and monthly dividends received in shares.

At June 30, 2013 the Company owned 3.3 million Lightstream shares (December 31, 2012 - 0.9 million).

The loss on marketable securities included in the statement of operations is comprised of the following:

Six months ended June 30,	2013	2012
Loss in fair value of Lightstream shares	\$ (4,510)	\$ -
Loss in fair value of Lightstream notes	(1,547)	-
Gain related to foreign exchange	995	-
Dividend income (received in shares)	1,378	-
Non-cash loss	(3,684)	-
Interest income on Lightstream notes	590	-
Total loss	\$ (3,094)	\$ -

Note 3 – Finance and Other

Finance and other includes the following:

Six months ended June 30,	2013	2012
Interest expense on credit facilities and other	\$ 5	\$ 795
Interest income and other	(277)	(397)
Borrowing costs capitalized ⁽¹⁾	-	(606)
Cash finance and other	(272)	(208)
Accretion of decommissioning liabilities	57	46
Amortization of deferred financing costs	-	985
Finance and other (income) expense	\$ (215)	\$ 823

⁽¹⁾ All borrowing costs related to the outstanding credit facility were capitalized in accordance with IAS 23, *Borrowing Costs*.

Note 4 – Shareholders' Equity***Authorized***

The authorized capital of the Company consists of an unlimited number of common shares without nominal or par value.

Normal Course Issuer Bid ("NCIB")

Petrobank's NCIB approved in 2012 permits the Company to purchase up to 4,317,604 of its common shares from January 1, 2013 to September 13, 2013, or until such earlier time as the NCIB is completed or terminated at the option of Petrobank. On any trading day, Petrobank may not purchase more than 113,821 common shares.

During the three months ended June 30, 2013 the Company repurchased 158,800 common shares at an average price of \$0.44 per share. Of the \$70,000 paid, \$220,000 was charged against share capital and \$150,000 was credited to contributed surplus. All shares acquired under the NCIB were cancelled.

Common Shares

	Number of Common Shares	Amount
Balance at December 31, 2012	97,596,573	\$ 134,924
Repurchase and cancellation of common shares under NCIB	(158,800)	(220)
Balance at June 30, 2013	97,437,773	\$ 134,704

Stock Options

The following is a continuity of stock options outstanding:

	Stock Options	Weighted- Average Exercise Price
Balance at December 31, 2012	-	\$ -
Granted	3,729,920	1.05
Forfeited	(838,000)	1.05
Balance at June 30, 2013	2,891,920	\$ 1.05

Options typically vest over three years and expire five years from the grant date.

Incentive Shares

The following is a continuity of incentive shares outstanding:

	Incentive Shares
Balance at December 31, 2012	-
Granted	969,750
Forfeited	(179,500)
Balance at June 30, 2013	790,250

Incentive shares allow the holder to acquire one common shares upon vesting at an exercise price of \$0.05 per share.

Share-based Compensation

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

Six months ended June 30, 2013	Stock Options	Incentive Shares
Expected life (years) ⁽¹⁾	3.1	1.4
Risk free interest rate (%)	1.2 – 1.4	1.2
Forfeiture rate (%)	5	5
Expected volatility (%) ⁽²⁾	75	75
Weighted-average fair value (\$)	0.52	1.00

⁽¹⁾ Expected life has been estimated based on time to vest plus one year.

⁽²⁾ Expected volatility has been based on expected future volatility of the Company's publicly traded shares, based on peer assessment. Limited reliance has been placed on historical volatility prior to 2013.

Note 5 – Net (Loss) Income Per Share

Net (loss) income per share is calculated by dividing net (loss) income by the weighted average number of common shares outstanding during the period.

The following table provides the number of shares used in the basic and diluted per share computations:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Weighted average common shares outstanding, basic	97,590,087	97,596,573	97,593,312	97,596,573
Effect of Share-Based Awards	-	-	-	-
Balance at June 30, 2013	97,590,087	97,596,573	97,593,312	97,596,573

In determination of the weighted average number of diluted common shares outstanding for the three and six months ended June 30, 2013 all stock options and incentive shares were excluded because the effect would be anti-dilutive. Since Petrobank's shares were issued pursuant to the Arrangement, the per share amounts disclosed above for 2012 are based on the number of shares outstanding on December 31, 2012.

Note 6 – Financial Instruments

The fair values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their carrying amount due to the short-term maturity of those instruments.

Investments in marketable securities are recorded at their estimated fair value based on quoted market prices at the period end date for each of the securities owned (level 1 fair values).

The Company is exposed to a number of risks associated with its financial assets and liabilities, primarily risks related to the market prices of the Company's investments in marketable securities but also including commodity price risk, credit risk, liquidity risk, foreign exchange risk and interest rate risk.

The Company has several policies and processes in place to help mitigate these risks which are substantially unchanged from December 31, 2012.

Note 7 – Changes in Non-Cash Working Capital

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Change in:				
Accounts receivable	\$ (187)	\$ 936	\$ 2,475	\$ 657
Prepaid expenses	443	(83)	146	(360)
Accounts payable and accrued liabilities	(3,027)	(5,158)	(10,001)	(9,579)
	\$ (2,771)	\$ (4,305)	\$ (7,380)	\$ (9,282)
Changes relating to:				
Attributable to operating activities	46	(688)	(2,934)	(769)
Attributable to investing activities	(2,817)	(3,617)	(4,446)	(8,513)

Note 8 – Related Party Transactions

Through contracts existing prior to the Arrangement, Petrobank is party to several transactions with Lightstream and Petrominerales Ltd. (“Petrominerales”), both related parties of the Company as there are multiple common directors. These transactions include net management and technical service fees charged, natural gas purchased for Petrobank’s operations from Lightstream, Petrobank oil production sold to Lightstream through a marketing agreement and office sub-lease and miscellaneous expenses charged between the companies. A summary of these transactions is as follows:

Six months ended June 30,	2013	2012
Transactions with Lightstream:		
Net management fees charged by (to) Lightstream	\$ 188	\$ (290)
Gas purchased from Lightstream net of oil sold	294	(118)
Office rent and related costs charged by (to) Lightstream	449	(155)
Transactions with Petrominerales:		
Management and technical service fees charged by (to) Petrominerales	\$ -	\$ (109)
Office rent and related costs charged by (to) Petrominerales	-	(525)

The management and technical service fees charged were based on a cost recovery basis with all other transactions at fair value. The net amounts owed to Petrobank among these related parties at the end of the periods as indicated are:

As at	June 30, 2013	Dec. 31, 2012
Lightstream	\$ 347	\$ 407
Petrominerales	-	107

These amounts are unsecured with terms similar to amounts receivable and payable with arm’s length parties.