

FINANCIAL & OPERATING HIGHLIGHTS

	Three months ended September 30, 2008			Nine months ended September 30, 2008		
	2007	% change	2007	% change		
Financial						
(\$000s, except where noted)						
Oil and natural gas revenue	306,913	61,567	399	722,308	127,897	465
Funds flow from operations ⁽¹⁾	216,709	42,316	412	518,120	82,131	531
Per share – basic (\$)	2.62	0.55	376	6.32	1.09	480
– diluted (\$)	2.36	0.48	392	5.65	1.01	459
Net income	123,226	20,978	487	216,399	41,281	424
Per share – basic (\$)	1.49	0.27	452	2.64	0.55	380
– diluted (\$)	1.35	0.25	440	2.39	0.53	351
EBITDA ⁽¹⁾	235,377	44,168	433	544,724	85,830	535
Capital expenditures	257,305	135,417	90	629,931	373,736	69
Total assets	2,044,996	930,855	120	2,044,996	930,855	120
Net debt ⁽¹⁾	230,585	37,762	511	230,585	37,762	511
Common shares outstanding, end of period (000s)						
Basic	82,474	76,897	7	82,474	76,897	7
Diluted ⁽²⁾	98,173	90,083	9	98,173	90,083	9
Operations						
Canadian Business Unit (“CBU”) operating netback (\$/boe except where noted) ⁽¹⁾⁽³⁾						
Oil and NGL revenue (\$/bbl)	115.11	76.56	50	109.65	71.00	54
Natural gas revenue (\$/mcf)	7.94	5.35	48	8.47	6.51	30
Oil and natural gas revenue	106.51	62.86	69	100.98	56.87	78
Royalties	12.72	4.18	204	10.68	4.71	127
Production expenses	8.84	8.44	5	8.99	8.55	5
Operating netback ⁽⁴⁾	84.95	50.24	69	81.31	43.61	86
Latin American Business Unit (“LABU”) operating netback (\$/bbl) ⁽¹⁾						
Oil revenue	110.53	72.74	52	104.63	66.84	57
Royalties	11.71	6.32	85	10.52	5.60	88
Production expenses	8.38	7.42	13	9.76	7.40	32
Operating netback ⁽⁴⁾	90.44	59.00	53	84.35	53.84	57
Average daily production ⁽³⁾						
CBU – oil and NGL (bbls)	16,024	3,745	328	13,868	2,531	448
CBU – natural gas (mcf)	14,047	10,006	40	14,381	12,053	19
Total CBU (boe)	18,365	5,413	239	16,265	4,540	258
LABU – oil (bbls)	12,485	4,522	176	9,497	3,146	202
Total Company conventional (boe)	30,850	9,935	211	25,762	7,686	235

(1) Non-GAAP measure. See “Non-GAAP Measures” section within Management’s Discussion and Analysis (“MD&A”).

(2) Assumes 8.8 million common shares will be issued upon conversion of the Company’s convertible debentures.

(3) Six mcf of natural gas is equivalent to one barrel of oil equivalent (“boe”). Heavy Oil Business Unit (“HBU”) bitumen volumes are excluded as Whitesands operations are considered to be in the pre-operating stage and all expenses, net of revenues, are capitalized.

(4) Excludes hedging activities.

THIRD QUARTER 2008 HIGHLIGHTS

(all comparisons are third quarter 2008 compared to the third quarter of 2007)

- Production more than tripled to 30,850 barrels of oil equivalent per day (“boepd”).
- Production has now increased further to over 40,000 boepd.
- CBU production increased by 239% to 18,365 boepd and averaged 21,660 boepd in October.
- LABU production increased by 176% to 12,485 barrels of oil per day (“bopd”) and has subsequently increased to 19,590 bopd.
- Funds flow from operations increased by 412% to \$216.7 million (\$2.36 per diluted share).
- Net income increased by 487% to \$123.2 million (\$1.35 per diluted share).
- Strong operating netbacks of \$84.95 per boe in the CBU and \$90.44 per barrel in the LABU.
- Drilled 61.6 net Bakken wells during the quarter, on pace to exceed our 2008 goal to drill 154 net Bakken wells.
- Repurchased 298,400 common shares.

OPERATIONAL UPDATE

CANADIAN BUSINESS UNIT

- Record third quarter production of 18,365 boepd, a 239% increase from the third quarter of 2007.
- Production has increased further to average 21,660 boepd in October.
- Drilled 61.6 net Bakken wells in the third quarter.
- Completed construction of the Creelman oil battery and gathering system.

The CBU achieved record production levels during the third quarter. We drilled 73 (61.6 net) Bakken wells during the quarter and put 66 (54.0 net) new wells on production. The production during the quarter averaged 18,365 boepd which represents an 11% increase over the second quarter and a 239% increase over the third quarter of 2007. We continue to add incremental volumes and during October production averaged 21,660 boepd. Approximately 85% of our CBU production is now Bakken light oil which delivers a high operating netback due to premium pricing, relatively low royalties, and low operating costs. The average netback over the quarter for the CBU was \$84.95 per boe, despite declining commodity prices.

Our level of activity in southeast Saskatchewan on the Bakken play will meet or exceed our 2008 expectations for both drilling and new facilities. Petrobank utilized 10 drilling rigs at times during the third quarter and successfully drilled 61.6 net wells, resulting in a combined total of 136.4 net wells drilled in the first nine months of 2008. We are on-track to exceed our goal of drilling 154 net wells this year. Currently we have seven rigs working in southeast Saskatchewan and the Company plans to move to six rigs starting in December.

New facilities allow for the conservation of natural gas and natural gas liquids from the Bakken oil production and provide the additional benefit of lowering operating costs with the efficiencies created through this new infrastructure. The Creelman battery and gathering system, completed in September 2008, resulted in the immediate conservation of 800 mcf per day of gas and associated liquids. The new Freestone battery, gas conservation facility and 70 kilometre gas pipeline will commence operations in early December, and we anticipate this will result in the further addition of approximately four mmcf per day of natural gas and associated natural gas liquids.

Due to a combination of low gas prices, the implementation of the new Alberta royalty regime, and a recent unsuccessful drill result, Petrobank is re-evaluating our plans to build a 25 mmcf per day gas plant in the Cornwall area. A variety of less expensive pipeline and facility alternatives are being examined to bring the gas and liquids from our first well to market. We still expect initial production from this area to commence by April 2009.

As part of our efforts to build our inventory of future drilling locations, Petrobank has acquired additional land in areas that are prospective for Bakken light oil and we will be drilling our first wells in both the Montney and Horn River Shale Basin play areas of northeast British Columbia in the next two months. These geological plays cater to Petrobank's technical strengths in horizontal drilling and multi-stage hydraulic fracture stimulations that have been successfully employed in the Bakken play. We have a 100% working interest in 14 sections of prospective Montney acreage and we will spud our first well here in November. An independent resource assessment of this acreage indicates potential best estimate contingent recoverable resource of 148 Bcf. We plan to vertically drill and evaluate the Montney formation prior to continuing with the horizontal portion of the well. Some of Petrobank's 65 sections (43,428 acres) of 100% working interest lands in the Horn River Shale Basin north of Fort Nelson, British Columbia are close to all-season access and we will also spud our first evaluation well on this play during the fourth quarter. Other operators in these areas continue to have strong initial results and we are eager to add new drilling locations to our inventory with successful tests in these promising resource plays.

Solid production growth and strong cash flow from operations allows us to maintain an active program and strengthen our balance sheet while also being cognizant of the recent sharp decline in commodity prices. Our primary focus and key efforts through the balance of 2008 and into 2009 will be to maintain an active program that continues to increase oil reserves and production from the Bakken. We will also be positioning for future growth by strategically investing in opportunities that add quality drilling locations to our significant prospect inventory that is focused on large oil and natural gas resource plays. This high quality inventory positions the CBU to deliver significant future production and reserves growth when commodity prices improve.

HEAVY OIL BUSINESS UNIT

- Successfully began production from the world's first THAI™/CAPRI™ well which incorporates our revised downhole completion design, effectively eliminating sand production.
- After a further extended review period we now expect regulatory approval for our Whitesands three well expansion by the end of November.
- Acquired 35 kilometres of 2D seismic at Sutton Creek, Saskatchewan and we expect to have an initial evaluation of the data by year end.

Whitesands Project

During the third quarter we began production of our P-3B THAI™ /CAPRI™ well with encouraging early results. Inter-well communication was rapidly established and combustion temperatures reached 500 degrees Celsius. As previously disclosed, Petrobank drilled P-3B late in the second quarter of 2008 and completion operations commenced on the well in late July. This well has been designed to demonstrate the additional upgrading potential of our patented CAPRI™ process which places an active catalyst bed between two concentric slotted liners. In laboratory tests, CAPRI™ has achieved an upgrading effect of seven degrees API in addition to the upgrading effect resulting from the THAI™ process. The P-3B well also incorporates our narrower slot design, intended to significantly reduce sand production from the McMurray sandstone reservoir typically encountered at Whitesands.

In September, P-1 and P-2 on-stream factors improved. Although it is not our intention to drill any further wells incorporating the completion initially used in P-1 and P-2, with the modification of de-sand vessel internals we have also been able to continuously improve sand management from the P-1 and P-2 wells.

In September and October, a number of planned shutdowns were scheduled. During the same period unplanned shutdowns occurred which led to additional downtime. The planned shutdowns included the replacement of the thermocouple string in P-3B to add additional thermocouple sensors, as well as the shutdown of the A-3 air injection well to replace the well's packer assembly pursuant to regulatory requirements. Shutdowns were also planned to tie-in the new wellhead gas separation and tank separation system on P-3B. Unplanned shutdowns included an Alberta grid electric power failure and the shutdown of the compressors used for air injection due to a failure in the compressor's cooling system. These resulted in wells being shut in and restarted, causing non-rateable production. The P-1 and P-2 wells were brought back on-line early in November and the P-3B well will be brought back on-line following the packer replacement on A-3 which is expected to be completed by the middle of November. We do not plan any major plant shut downs until we tie-in our three well expansion.

Since the commencement of air injection and oil production in August on P-3B, the well has exhibited negligible sand production, in contrast to what was encountered in the initial three wells. First produced fluids consisted of oil and water emulsions from the steam preheat as well as residual drilling mud, which diminished as the well cleaned up. During the initial period we achieved oil production rates up to 300 barrels per day on low air injection rates, with oil cuts of 40 to 50%. P-3B has been operating at a well bore temperature below the optimum range for the catalyst and therefore it is still too early to assess the effectiveness of the catalyst. However, the produced oil has been upgraded to 11.5 degrees API due to the thermal cracking effects of the THAI™ process. The operating plan is to increase well bore temperatures for optimum catalyst efficiency and continue to analyze produced oil quality to assess the catalyst effectiveness. Produced gas analysis from P-3B is consistent with the P-1 and P-2 wells and indicates high temperature combustion with the associated production of free hydrogen. During the early start-up phase of P-3B, the P-1 and P-2 wells were operated at lower air injection rates. These wells have achieved higher on-stream factors with oil production rates of up to 400 barrels per day for each well. Produced oil quality is averaging approximately 12 degrees API, compared to the native eight degree API bitumen in-situ. With P-3B production anticipated to stabilize during the third quarter, we had planned to gradually increase air injection on all three wells; however recent plant shutdowns have delayed these operating plans.

We continue to recover a light oil condensate in the secondary separators that is being carried in the vapour phase by the overhead gas stream. This lighter oil is over 30 degrees API and is not included in the production rates noted above. We continue to analyze the quality and quantity of this light fraction. Estimates indicate that this could be up to 10% of the total produced hydrocarbons. This lighter oil component further demonstrates significant in-situ thermal cracking and the potential for co-production of other high-value by-products.

Our improved surface facilities design utilizing primary gas separation followed by tank separation of oil, water and sand (rather than using a single pressure vessel) is being installed on P-3B and, when combined with the success of our narrower liner slot size, is expected to eliminate most operational challenges caused by sand production in this well and future wells. These improved surface facilities will be operational during the third week of November.

We have now been expecting Alberta government regulatory approval for our three well expansion for several months. We are disappointed with the lack of regulatory progress and have tried to work closely with regulatory agencies to expedite timely approval. Unfortunately, the process for oil sands development in Alberta is being delayed by a number of factors beyond our control. We have positioned ourselves to be able to execute this expansion as soon as possible following approval. The same drilling rig that efficiently drilled P-3B is currently racked on the plant site. All of the equipment necessary to modify the plant to handle the increased production is either on-site, in production, or waiting in yards for shipment. Our current understanding is that Alberta's Energy Resources Conservation Board ("ERCB") will make its decision on the expansion on November 24, 2008. All plans are in place for accelerated site preparation, drilling, and facility modifications once regulatory approval of the three well expansion project is received.

May River Project

The May River Project is our commercial expansion plan for the THAI™ technology on the Whitesands leases. Plant production experience and engineering analysis to date provided the basis for simplifying our May River central processing facility design. The central facilities for the project will be located approximately two kilometres from the current Whitesands site. May River is planned to be built in phases, beginning with initial production capacity of 10,000 bopd of partially upgraded oil, ultimately building capacity to 100,000 bopd.

At May River we will be incorporating on-site electric power generation from our low BTU produced gas. We expect to be able to generate enough power from this gas to be more than energy self-sufficient, which will further reduce the carbon footprint of the project. This will effectively offset coal-fired power generation from the Alberta electrical grid and reduce the greenhouse gas emissions of the project. Elemental sulphur will also be recovered using the CrystaSulf® technology. This technology is designed to recover sulphur from the produced H₂S more efficiently and with a much lower energy use than competing technologies. We have recently acquired the worldwide use and license rights to the CrystaSulf® technology for all global heavy oil applications, and will be incorporating this technology into our planned commercial developments, as well as any new joint venture opportunities that we choose to pursue. Produced sulphur is expected to provide additional revenue from the project. Regulatory applications for May River's first phase will now be filed later in November due to delayed receipt of the environmental and engineering reports from third party consultants necessary for the application.

Dawson Project

The Dawson project is a joint venture involving our first Alberta-based, third party THAI™ license. This project is located near Peace River Alberta and will be developed in the Bluesky Formation. The upper portions of this formation contain 11 degree API heavy oil, comparable to other conventional heavy oil reservoirs throughout western Canada. We are planning to implement a two-well project that will also incorporate our simplified facility design. In August 2008, a stratigraphic well was drilled on the project site that will be used as a thermal observation well during the operations phase. The ERCB application for the project is expected to be filed in November and with timely regulatory approval we could commence construction at Dawson in the first quarter of 2009.

Sutton Creek, Saskatchewan

We have acquired 35 kilometres of 2D seismic on our 23,040 acre oil sands lease in Saskatchewan. We had originally planned to shoot a 45 kilometre program but due to poor weather conditions the program was reduced, however we were able to acquire data over the key target areas. Interpretation is expected to be completed by year end at which time we will determine the next steps in an exploration drilling program early in 2009.

Business Development

Our wholly-owned subsidiary, Archon Technologies Ltd., continues to evaluate a number of innovative engineering, environmental, and other value-added technology options to improve operational efficiency and reliability, and to reduce the overall environmental impact of hydrocarbon recovery. Other technologies being assessed include enriched oxygen injection, produced gas-fired cogeneration, enhanced produced water quality, and partial surface upgrading.

We are also in late-stage negotiations on several joint ventures to demonstrate and commercialize THAI™ in a wide range of large global resource opportunities. This portfolio-based approach should also allow us to more rapidly advance the technology and mitigate regulatory delays with the goal of obtaining efficient and timely project approvals.

LATIN AMERICAN BUSINESS UNIT - Petrominerales Ltd. (TSX: PMG – owned 76.4%)

A full operational update of our 76.4% owned Latin American Business Unit, Petrominerales Ltd., was published on November 6, 2008 and can be found at www.petrominerales.com and www.sedar.com. Highlights of this release included:

- Average crude oil production increased 176% to 12,485 bopd compared to the third quarter of 2007.
- Production is now 19,590 bopd including production from our recently completed Corcel-C3 well.
- Petrominerales will be casing the Corcel-D1 well as a new pool discovery and will immediately move to drill the D2 and D3 wells.
- Operating costs have decreased from US\$10.75 per barrel in the second quarter of 2008 to US\$8.02 per barrel in the third quarter.
- Superior operating netbacks of US\$86.66 per barrel reflecting a 53% increase over the third quarter of 2007.
- Funds flow from operations increased by 288% to US\$78.3 million (US\$0.75 per diluted share).
- Net income increased by 466% to US\$58.0 million (US\$0.57 per diluted share).
- Strong financial position with net working capital of US\$55.0 million at September 30, 2008, an undrawn credit facility with an US\$80 million borrowing base and strong cash flows.
- Repurchased 701,800 common shares.
- Repurchased convertible debentures with a face value of US\$15.5 million for US\$9.4 million.

OFFICER APPOINTMENTS

Petrobank is pleased to announce the appointment of Mr. Allen Knight, P.Eng., MBA as Vice President, New Ventures. Mr. Knight brings over 30 years experience in the oil and gas industry in various senior roles with a demonstrated ability to execute strategic acquisitions.

Petrobank has promoted Mr. Peter Hawkes, P.Geol. to Vice President, Exploration of the Canadian Business Unit. Mr. Hawkes has 26 years of oil and gas experience and has played a significant role in Petrobank's exploration success since joining the Company in 2005.

To more clearly reflect certain roles and responsibilities within our executive team, we have also promoted Mr. Chris Bloomer to Senior Vice President and Chief Operating Officer, Heavy Oil, Mr. Corey Ruttan to Senior Vice President and Chief Financial Officer and Mr. Gregg Smith to Senior Vice President and Chief Operating Officer, Canada.

One of the key elements of our success has been the strength of our people and we believe that these promotions reflect the strength and depth of our entire team, who are all instrumental in delivering Petrobank's operational goals and guiding our strategic direction.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated November 12, 2008 and should be read in conjunction with the unaudited consolidated financial statements and accompanying notes of Petrobank Energy and Resources Ltd. ("Petrobank" or the "Company") as at and for the three and nine months ended September 30, 2008, MD&A for the year ended December 31, 2007, and the audited consolidated financial statements as at and for the year ended December 31, 2007. 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. All amounts are in Canadian dollars, unless otherwise stated and all tabular amounts are in thousands of Canadian dollars, except share amounts or as otherwise noted. 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 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.

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 (often, but not always, through the use of words or phrases such as "will likely result," "expected," "is anticipated," "believes," "estimated," "intends," "plans," "projection" and "outlook"). 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 forecast. 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. All subsequent forward-looking statements, whether written or oral, attributable to Petrobank or persons acting on the Company's behalf, are qualified in their entirety by these cautionary statements.

Non-GAAP Measures

This report contains financial terms that are not considered measures under Canadian generally accepted accounting principles ("GAAP"), such as funds flow from operations, funds flow per share, EBITDA, net debt and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. Specifically, funds flow from operations and funds flow per share reflect cash generated from operating activities before changes in non-cash working capital. Management considers funds flow from 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 and non-controlling interest, adjusted for non-cash items such as unrealized gains or losses on risk management contracts, unrealized foreign exchange gains or losses and stock-based compensation. Net debt includes bank debt plus income taxes payable plus accounts

payable and accrued liabilities less cash and cash equivalents and restricted cash less accounts receivable and other current assets, and is used to evaluate the Company's financial leverage. Profitability relative to commodity prices per unit of production is demonstrated by an operating netback. Funds flow from operations, funds flow per share, EBITDA, net debt 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 operations, net income or other measures of financial performance calculated in accordance with GAAP.

Q3 2008 Highlights

- Average production increased by 211% to 30,850 barrels of oil equivalent per day ("boepd") compared to the third quarter of 2007.
- CBU production increased by 239% to 18,365 boepd.
- LABU increased by 176% to 12,485 barrels of oil per day ("bopd").
- Funds flow from operations increased by 412% to \$216.7 million (\$2.36 per diluted share).
- Net income increased by 487% to \$123.2 million (\$1.35 per diluted share).
- Drilled 61.6 net Bakken wells during the quarter, on pace to exceed our 2008 goal to drill 154 net Bakken wells.
- Repurchased 298,400 common shares.

Significant Transactions

On January 28, 2008, Petrobank acquired Peerless Energy Inc. ("Peerless") for \$338.8 million, including net debt assumed. At the time of acquisition, Peerless was producing approximately 5,600 boepd, of which approximately 3,400 bopd was Bakken light oil strategically located within Petrobank's core properties in southeast Saskatchewan. At December 31, 2007, Peerless' proved plus probable plus possible reserves totalled 18.7 million boe and the net present value discounted at 10% (before tax) totalled \$445.6 million. Production and financial results for Peerless have been included in Petrobank's results starting January 28, 2008.

On October 2, 2008, Petrobank acquired Rocor Resources Inc. ("Rocor") for total consideration of \$53.0 million, comprised of 699,183 Petrobank common shares and \$26.5 million in cash. Rocor's assets are focused on the Montney formation in northeast British Columbia and include 14 sections of land with two producing vertical wells, and a five mmcf per day gas plant. The purchase method will be used to account for the transaction.

Average Daily Crude Oil Production	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU						
Oil and NGL (bbls)	16,024	3,745	328%	13,868	2,531	448%
Natural gas (mcf)	14,047	10,006	40%	14,381	12,053	19%
Total CBU (boe)	18,365	5,413	239%	16,265	4,540	258%
LABU – light / medium oil (bbls)	12,485	4,522	176%	9,497	3,146	202%
Total Company conventional (boe)	30,850	9,935	211%	25,762	7,686	235%

Both the Canadian and Latin American business unit's achieved record production levels in the third quarter of 2008 helping the Company increase production by 211% compared to the third quarter of 2007. Combined production has now increased to over 40,000 boepd mainly due to significant production additions from our Corcel-C3 well in Colombia and our ongoing Bakken development drilling program.

The increases in oil and NGL production in the CBU are due to significant production additions from the Company's Bakken light oil properties in southeast Saskatchewan. The increases were achieved through continued drilling activity and the acquisition of Peerless. The Company is on-track to exceed our goal of drilling 154 net Bakken wells in 2008. Currently we have seven dedicated rigs working in the area and the Company plans to move to six rigs starting in December. Natural gas production increased by 40% in the third quarter of 2008 over the third quarter of 2007 primarily due to the acquisition of Peerless and due to the completion of the Company's second Bakken facility allowing the Company to capture associated Bakken natural gas production. Based on field estimates CBU production averaged 21,660 boepd in October which is expected to continue to increase through the fourth quarter of 2008 as production from new Bakken wells is added, more than offsetting anticipated declines.

The LABU is comprised of the Company's 76.4% owned and publicly listed subsidiary, Petrominerales Ltd. ("Petrominerales"). LABU oil production increased by 176% to 12,485 bopd in the third quarter of 2008 compared to the third quarter of 2007 due to continued drilling successes at Corcel, which commenced production in August 2007, and the success of the ongoing development drilling program at Orito. Production capacity has increased to over 20,000 bopd including production from our recently completed Corcel-C3 well. Petrominerales continues to truck all Corcel production to various offloading stations. Access to this infrastructure is critical to maintaining and growing Corcel production. The Corcel-D1 well is also expected to come on production later in November providing further production capacity increases. Petrominerales continues to evaluate and secure additional alternatives to increase offloading capacity which includes the construction of additional offloading facilities close to Corcel. As a major step in this strategy, Petrominerales has signed an agreement to construct a key Llanos Basin facility at Monterrey that will initially give Petrominerales 20,000 barrels per day of incremental offloading capacity. This will be the closest offloading station to Corcel resulting in significant savings on trucking costs. Start-up of this facility is targeted for the second quarter of 2009. Until construction of these facilities is complete Petrominerales may experience delivery restrictions which may not allow Petrominerales to produce at capacity every day.

Heavy Oil Business Unit ("HBU") bitumen volumes are excluded from average daily production as Whitesands operations are considered to be in the pre-operating stage and accordingly revenues are offset against capitalized costs as opposed to being recognized in net income.

Average Benchmark and Realized Prices

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
WTI (US\$/bbl)	118.22	75.15	57%	113.52	66.22	71%
WTI (\$/bbl)	122.78	78.53	56%	115.59	72.74	59%
AECO natural gas (\$/mcf)	7.75	5.14	51%	8.64	6.52	33%
US\$/\$ exchange rate	0.96	0.96	-	0.98	0.91	8%
CBU – oil and NGL						
Realized price per bbl (\$/bbl)	115.11	76.56	50%	109.65	71.00	54%
US\$ discount as a % of WTI	7%	3%	133%	5%	3%	(64%)
CBU – natural gas realized price per mcf	7.94	5.35	48%	8.47	6.51	30%
LABU – light / medium oil						
Realized price per bbl (\$/bbl)	110.53	72.74	52%	104.63	66.84	57%
US\$ discount as a % of WTI	10%	7%	43%	10%	6%	67%

The average discount to WTI on CBU oil and NGL remained relatively low at seven percent in the third quarter of 2008 and five percent in the first nine months of 2008, as the majority of oil and NGL production continues to be high quality Bakken light oil. The discount was higher in the third quarter of 2008 due mainly to higher trucking expenses. The Company expects to see reduced trucking expenses with the addition of pipeline capacity that should become available in the fourth quarter.

In the third quarter and first nine months of 2008 approximately 15% of natural gas production was sold under the Company's long-term physical natural gas sales contract at a price of \$5.22 per mcf (2007 – \$5.02 per mcf).

In Colombia, the discounts compared to WTI increased to 10% in 2008 due mainly to trucking expenses associated with Corcel production additions.

Revenue	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU	179,959	31,305	475%	450,039	70,490	538%
LABU	126,954	30,262	320%	272,269	57,407	374%
Total revenue	306,913	61,567	399%	722,308	127,897	465%
CBU – \$ per boe	106.51	62.86	69%	100.98	56.87	78%
LABU – \$ per bbl	110.53	72.74	52%	104.63	66.84	57%

The significant increases in revenue in the third quarter and first nine months of 2008 were due to higher production and realized prices in both the CBU and LABU.

Royalties	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU	21,484	2,082	932%	47,588	5,836	715%
LABU	13,456	2,629	412%	27,362	4,809	469%
Total royalties	34,940	4,711	642%	74,950	10,645	604%
CBU – \$ per boe	12.72	4.18	204%	10.68	4.71	127%
LABU – \$ per bbl	11.71	6.32	85%	10.52	5.60	88%
CBU – royalties as a % of revenue	12%	7%	71%	11%	8%	38%
LABU – royalties as a % of revenue	11%	9%	22%	10%	8%	25%

Total royalty expense increased as a result of increased revenue in both the third quarter and first nine months of 2008. CBU royalties as a percentage of revenue increased to 12% in the third quarter and 11% in the first nine months of 2008 as a portion of the Company's Bakken wells no longer receive their royalty holidays. The first 37,740 barrels of production from horizontal Bakken wells drilled on Saskatchewan Crown land incur a royalty rate of 2.5%. Colombian government royalties are fixed at a rate of eight percent until Petrominerales' net production per field exceeds 5,000 bopd and then increases by one percent for each incremental 10,000 bopd of production per field. In addition, Petrominerales pays a three percent overriding royalty on Corcel production that converts to an eight percent net profits interest after payout. The increases in 2008 LABU royalties are mainly due to Corcel production that commenced in the third quarter of 2007 and the three percent overriding royalty converted to the eight percent net profits interest during the third quarter of 2008.

Interest Income	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU and HBU	114	830	(86%)	367	2,514	(85%)
LABU	289	30	863%	1,990	104	1,813%
Total interest income	403	860	(53%)	2,357	2,618	(10%)

Interest income was lower in the 2008 periods as cash and cash equivalents held in Canada were lower in 2008, partially offset by higher levels of cash and cash equivalents held by Petrominerales in the first half of the year.

Gain (Loss) on Risk Management

Contracts	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU realized loss	(3,211)	-	-	(9,269)	-	-
LABU realized loss	(3,860)	-	-	(9,980)	-	-
CBU unrealized gain (loss)	33,617	(474)	-	3,337	(474)	-
LABU unrealized gain (loss)	9,771	(553)	-	3,960	(553)	-
Gain (loss) on risk management contracts	36,317	(1,027)	-	(11,952)	(1,027)	1,064%

For the three months ended September 30, 2008, the realized loss on risk management contracts for actual monthly settlements incurred during the period was \$1.90 per boe in the CBU and \$3.36 per barrel in the LABU. For the nine month period the realized loss was \$2.08 per boe in the CBU and \$3.84 per barrel in the LABU. Unrealized gains and losses on risk management contracts represent the change in fair value of the contracts related to expected future settlements.

At September 30, 2008 the Company had recorded a \$3.9 million liability related to the following risk management contracts:

Business Unit	Term	Volume (Bopd)	Price (US\$/bbl)	Benchmark
CBU	Jan. 1, 2008 – Dec. 31, 2008	500	65.00 floor / 80.00 ceiling	WTI
CBU	Jan. 1, 2008 – Dec. 31, 2008	500	67.50 floor / 81.50 ceiling	WTI
CBU	May 1, 2008 – Dec. 31, 2008	1,000	95.00 floor / 122.00 ceiling	WTI
CBU	Jan. 1, 2009 – Dec. 31, 2009	2,000	90.00 floor / 121.00 ceiling	WTI
LABU	Jan. 1, 2008 – Dec. 31, 2008	500	65.00 floor / 80.00 ceiling	WTI
LABU	Jan. 1, 2008 – Dec. 31, 2008	500	75.25 fixed	WTI

Production Expenses	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU	14,940	4,204	255%	40,101	10,606	278%
LABU	9,620	3,088	212%	25,407	6,353	300%
Total production expenses	24,560	7,292	237%	65,508	16,959	286%
CBU – \$ per boe	8.84	8.44	5%	8.99	8.55	5%
LABU – \$ per bbl	8.38	7.42	13%	9.76	7.40	32%

Consolidated production expenses increased in the third quarter and first nine months of 2008 mainly due to higher production levels. Production expenses per unit of production in the CBU increased by five percent in the 2008 periods compared to the same periods of 2007. The Company recently completed a second Bakken production facility and plans to complete a third facility in the fourth quarter, both of which are expected to decrease operating costs in the area. In addition, these facilities allow Petrobank to add additional liquids rich natural gas production and reserves associated with Bakken light oil production.

Production expenses in the LABU increased in the third quarter and first nine months of 2008 mainly due to higher costs associated with production processed through temporary facilities and water handling costs at Corcel. The first-phase expansion of these production facilities was completed in July 2008 and Petrominerales has added water disposal capacity which together has caused production costs to decrease. In addition, as a portion of the production expenses are fixed, that when combined with higher production has resulted in lower per barrel production expenses when compared to the first half of 2008. The Colombian national oil company, Ecopetrol, is responsible for primary production operations at Orito and Neiva at a cost (subject to annual inflation, currency, and other adjustments) of \$4.89 per barrel and \$2.67 per barrel, respectively, in 2008.

General and Administrative Expenses

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU and HBU	3,434	1,584	117%	9,902	4,019	146%
LABU	2,652	1,611	65%	7,804	4,717	65%
Total general and administrative expenses	6,086	3,195	90%	17,706	8,736	103%
CBU and HBU – \$ per CBU boe	2.03	3.18	(36%)	2.22	3.24	(31%)
LABU – \$ per bbl	2.31	3.87	(40%)	3.00	5.49	(45%)

Total general and administrative costs increased in the third quarter and first nine months of 2008 primarily due to additional personnel as a result of expanding operations. On a unit of production basis, these costs have decreased in both Canada and the LABU.

Stock-Based Compensation Expenses

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU and HBU (Petrobank)	5,089	1,661	206%	10,671	3,568	199%
LABU (Petrominerales)	795	510	56%	1,882	1,043	80%
Total stock-based compensation expenses	5,884	2,171	171%	12,553	4,611	172%

Stock-based compensation expenses relate to stock options and deferred common shares granted by Petrobank and Petrominerales. The calculation of this non-cash expense is determined based on the fair value of stock options and deferred common shares granted, amortized over their vesting period of the option, or immediately upon grant of the deferred common shares. The increase in stock-based compensation expense for the third quarter and the first nine months of 2008 is consistent with higher employee levels and share prices which increased the expense associated with new stock option grants.

Interest Expense

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU and HBU	3,603	1,167	209%	10,767	3,134	244%
LABU	2,893	1,169	147%	8,338	1,686	395%
Total interest expense	6,496	2,336	178%	19,105	4,820	296%

Interest expense includes interest on bank debt and convertible debentures, fees on letters of credit and amortization of deferred financing costs. Petrobank issued US\$250 million of 3.0% annual coupon convertible debentures in May 2007 and Petrominerales issued US\$100 million of 3.375% annual coupon convertible debentures in December 2007, which resulted in higher interest expense in 2008. In October 2008 Petrominerales repurchased US\$15.5 million of convertible debentures for \$9.4 million, or 61% of face value, which will result in an interest savings in future periods. Interest expense also includes non-cash accretion related to the convertible debentures of \$3.3 million in the third quarter of 2008 (2007 – \$0.6 million), and \$8.9 million in the first nine months of 2008 (2007 – \$1.5 million). The Company capitalized \$3.4 million of interest expense in relation to the Whitesands project in the third quarter of 2008 (2007 – \$3.8 million), and \$9.8 million in the first nine months of 2008 (2007 – \$6.9 million).

Foreign Exchange (Gain) Loss	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU and HBU (Canada)	8,421	(10,387)	-	14,240	(15,568)	-
LABU (Colombia)	(1,331)	(84)	1,485%	67	534	(87%)
Total foreign exchange (gain) loss	7,090	(10,471)	-	14,307	(15,034)	-

In the third quarter of 2008 the Company recognized a foreign exchange loss primarily due to the depreciation of the Canadian dollar relative to the U.S. dollar. Unrealized foreign exchange losses of \$8.2 million and \$14.1 million were recorded on Petrobank's U.S. dollar denominated convertible debentures in the third quarter and first nine months of 2008, respectively. The LABU incurred a foreign exchange gain in the third quarter mainly due to the depreciation of the Colombian peso relative to the U.S. dollar on Colombian peso working capital balances.

Depletion, Depreciation and Accretion ("DD&A") Expenses

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU	47,704	11,862	302%	128,310	28,560	349%
LABU	23,866	6,606	261%	53,735	14,889	261%
Total DD&A expenses	71,570	18,468	288%	182,045	43,449	319%
CBU – \$ per boe	28.23	23.82	19%	28.79	23.04	25%
LABU – \$ per bbl	20.78	15.88	31%	20.65	17.34	20%

Higher production caused DD&A expenses to increase in the third quarter and first nine months of 2008. The DD&A rates per unit of production in both business units have increased in the 2008 periods due to significant capital expenditure programs and increased future development costs associated with proved undeveloped reserves. The DD&A rate for the CBU also increased due to the acquisition of Peerless.

Taxes	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
Taxes	15,659	892	1,655%	18,381	2,913	531%

Current taxes consist of income and equity taxes in Colombia. Petrominerales' pre-tax income is subject to Colombian income tax at a statutory rate of 33%. The increase in the third quarter and first nine months of 2008 are due to record profitability levels in Colombia.

Future Income Taxes (Recovery)	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU and HBU (Canada)	29,179	7,268	301%	54,424	12,372	340%
LABU (Colombia)	4,468	2,384	87%	10,097	(6,434)	(257%)
Total future income taxes (recovery)	33,647	9,652	249%	64,521	5,938	987%

The Company's future income tax expense in Canada in the third quarter and first nine months of 2008 are mainly consistent with the Company's change in Canadian taxable income. The LABU recorded a \$10.1 million future income tax expense in the first nine months of 2008 compared to a \$6.4 million recovery in the first nine months of 2007 when previously unrecognized future income tax assets were recognized. Petrominerales had an effective tax rate of 25% in the third quarter of 2008 and 20% for the nine months ended September 30, 2008. The effective tax rates are lower than the Colombian statutory income tax rate of 33% largely as a result of the 40% special deduction for the acquisition of fixed assets.

Income Applicable to Non-Controlling Interests (“NCI”)

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
Income applicable to NCI	14,475	2,176	565%	27,238	5,170	427 %

The income applicable to NCI represents the non-controlling interest share of Petrominerales’ net income. The NCI share was 19.3% in the first quarter of 2007 and has since increased to 23.6%. The income applicable to NCI increased significantly in the 2008 periods due primarily to the increases in Petrominerales’ income and partially due to the larger NCI share.

Petrominerales announced a normal course issuer bid on August 14, 2008 authorizing Petrominerales to purchase up to 5,032,718 common shares by August 17, 2009. During the third quarter, Petrominerales repurchased a total of 701,800 common shares. For every share purchased on the open market one share is also purchased from Petrobank, accordingly, Petrobank’s ownership interest is increasing as a result of the bid as it is participating for less than its prorated ownership interest.

Net Income

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
Net income	123,226	20,978	487%	216,399	41,281	424%
\$ per share, diluted	1.35	0.25	440%	2.39	0.53	351%

The significant increases in net income and net income per share in 2008 were due mainly to substantially higher production and realized prices in both the CBU and LABU. Excluding unrealized gains and losses on risk management contracts and unrealized foreign exchange gains and losses, net income would have been \$97.0 million or \$1.05 per diluted share in the third quarter of 2008, and \$222.5 million or \$2.41 per diluted share for the nine months ended September 30, 2008.

Funds Flow From Operations

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
Funds flow from operations	216,709	42,316	412%	518,120	82,131	531%
\$ per share, diluted	2.36	0.48	392%	5.65	1.01	459%

The increases in funds flow from operations and funds flow per share in 2008 were driven by strong results with significant increases in production and realized prices in both the CBU and LABU.

The following table shows the reconciliation of funds flow from operations to cash flow from operating activities for the periods noted:

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
Funds flow from operations: Non-GAAP	216,709	42,316	412%	518,120	82,131	531%
Changes in non-cash working capital	(11,770)	(25,897)	(55%)	(88,176)	(12,668)	596%
Cash flow from operating activities: GAAP	204,939	16,419	1,148%	429,944	69,463	519%

Capital Expenditures	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2008	2007	Change	2008	2007	Change
CBU	165,447	79,005	109%	345,647	224,642	54%
LABU	76,040	41,149	85%	225,423	115,553	95%
HBU	15,818	15,263	4%	58,861	33,541	75%
Total capital expenditures	257,305	135,417	90%	629,931	373,736	69%

CBU expenditures in the third quarter of 2008 were spread amongst drilling, completions, facilities and land acquisitions, primarily at the Company's southeast Saskatchewan light oil properties. Petrobank utilized up to 10 rigs during the third quarter and drilled 61.6 net oil wells in southeast Saskatchewan, resulting in a combined total of 136.4 net wells drilled in the first nine months of 2008. Currently there are seven rigs operating in southeast Saskatchewan and the Company plans to move to six rigs in December.

The Company's LABU expenditures in the third quarter and first nine months of 2008 were focused on the ongoing Orito development drilling program, Corcel activities and work commitments on exploration blocks. Third quarter expenditures at Corcel included the completion of the Corcel-C1 well, drilling of the Corcel-C3 well, drilling and completing two water disposal wells and additional civil works. Exploration block activity included shooting 103 square kilometres of 3D seismic over the Corcel and Guatiquia blocks.

The HBU expenditures in the third quarter of 2008 included drilling a production well to test an improved completion design and the Company's patented CAPRITM production catalyst, in addition to workovers and ongoing facility modifications, operating expenses and capitalized interest. Currently, Whitesands operations are considered to be in the pre-operating stage and as a result, operating expenses net of revenues are capitalized.

Liquidity and Capital Resources

The Company expects to satisfy ongoing work capital requirements with funds flow from operations, cash and available credit facilities. At September 30, 2008, the Company had \$160.0 million of bank debt, accounts payable and accrued liabilities plus income taxes payable in excess of accounts receivable and other current assets of \$124.1 million, offset by cash and cash equivalents and restricted cash of \$53.5 million, resulting in net debt of \$230.6 million.

The Company's secured Canadian credit facilities combined borrowing base totalled \$350 million at September 30, 2008, of which \$160 million was drawn. The borrowing base under these facilities is reviewed semi-annually.

At September 30, 2008, Petrominerales had positive working capital of US\$55 million and was not drawn on its revolving credit facility. The borrowing base under this facility is currently US\$80 million and is reviewed semi-annually. Petrominerales also maintains local Colombian operating lines of credit that are primarily used to issue letters of credit to support exploration work commitments.

Commitments

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments as at September 30, 2008:

Type of Obligation	Total	< 1 Year	1-3 Years	4-5 Years	Thereafter
<i>CBU</i>					
Petrobank convertible debentures (US\$) ⁽¹⁾	250,000	-	-	250,000	-
Canadian bank debt (\$)	160,000	-	160,000	-	-
Office operating leases (\$)	47,400	2,600	7,300	9,600	27,900
<i>LABU</i>					
Petrominerales convertible debentures (US\$) ⁽²⁾	100,000	-	100,000	-	-
Drilling rigs in Colombia (US\$) ⁽³⁾	14,700	14,700	-	-	-
Colombian exploration contracts (US\$)	26,200	17,800	8,400	-	-
<i>HBU</i>					
Whitesands equipment lease (US\$)	1,200	400	800	-	-
Total Company ⁽⁴⁾	622,987	37,471	283,041	274,575	27,900

⁽¹⁾ The debentures are convertible into common shares of Petrobank at a conversion price of US\$28.4902 per share.

⁽²⁾ The debentures are convertible into common shares of Petrominerales at a conversion price of US\$27.3485 per Petrominerales share. Petrominerales repurchased US\$15.5 million of debentures for US\$9.4 million in October 2008, reducing the principal amount outstanding to US\$84.5 million.

⁽³⁾ The contracted drilling rigs will be used to satisfy a significant portion of the commitments on the Colombian exploration contracts.

⁽⁴⁾ US\$ amounts have been converted using the September 30, 2008 US\$/\$ exchange rate of 1.0599.

Outstanding Share Data

The number of Petrobank shares outstanding at the date of this MD&A is 82,667,984, an increase of 699,183 from September 30, 2008 due to shares issued upon the acquisition of Rocor.

Risks and Uncertainties

In addition to the Company's risks and uncertainties identified in the MD&A for the year ended December 31, 2007, Petrominerales is also exposed to risks and uncertainties concerning the proximity and capacity of oil offloading infrastructure in Colombia. Restrictions on the ability to deliver Petrominerales' production to market could have a material adverse effect on the Company's revenues and financial position. Petrominerales plans to mitigate these risks by constructing additional offloading facilities.

The Company's ability to raise incremental debt could be restricted given current uncertainties surrounding the global credit markets. The Company is well positioned to manage these uncertainties as it has strong cash flows fuelled by recent production additions combined with cash on hand held by Petrominerales, Petrominerales' undrawn US\$80 million credit facility, and a Canadian credit facility with \$190 million of available capacity.

SUMMARY OF QUARTERLY RESULTS

	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial (\$000s except where noted)								
Oil and natural gas revenue	306,913	241,791	173,604	122,469	61,567	36,859	29,471	25,729
Funds flow from operations	216,709	177,923	123,488	92,733	42,316	21,580	18,235	15,786
Per share – basic (\$)	2.62	2.16	1.53	1.20	0.55	0.28	0.25	0.23
– diluted (\$)	2.36	1.92	1.36	1.05	0.48	0.26	0.25	0.22
Net income	123,226	57,636	35,537	40,146	20,978	16,564	3,739	2,620
Per share – basic (\$)	1.49	0.70	0.44	0.52	0.27	0.22	0.05	0.04
– diluted (\$)	1.35	0.64	0.40	0.45	0.25	0.22	0.05	0.04
EBITDA	235,377	182,349	126,998	94,200	44,168	22,475	19,187	15,653
Capital expenditures	257,305	172,356	200,270	136,528	135,417	165,707	72,612	71,337
Operations								
<i>CBU operating netbacks by product</i>								
Light/medium oil and NGL sales price (\$/bbl)	115.11	117.64	91.87	80.83	76.56	67.53	63.43	55.89
Royalties	13.36	11.83	6.44	5.70	5.09	5.35	7.31	5.55
Production expenses	9.56	9.55	10.25	8.94	10.13	10.64	9.07	10.16
Operating netback	92.19	96.26	75.18	66.19	61.34	51.54	47.05	40.18
Conventional heavy oil sales price (\$/bbl)	-	-	-	-	-	-	40.22	36.79
Royalties	-	-	-	-	-	-	1.08	0.89
Production expenses	-	-	-	-	-	-	56.36	28.74
Operating netback	-	-	-	-	-	-	(17.22)	7.16
Natural gas sales price (\$/mcf)	7.94	9.83	7.73	6.14	5.35	6.86	7.05	6.15
Royalties	1.38	1.81	1.35	0.43	0.36	0.54	0.80	0.66
Production expenses	0.66	0.83	0.89	0.73	0.78	1.15	1.20	1.08
Operating netback	5.90	7.19	5.49	4.98	4.21	5.17	5.05	4.41
Oil equivalent sales price (\$/boe)	106.51	109.43	83.55	72.52	62.86	54.91	50.80	43.86
Royalties	12.72	11.70	6.74	5.11	4.18	4.35	5.78	4.47
Production expenses	8.84	8.88	9.35	8.09	8.44	8.86	8.42	8.33
Operating netback	84.95	88.85	67.46	59.32	50.24	41.70	36.60	31.06
<i>LABU operating netback (\$/bbl)</i>								
Oil sales price	110.53	115.77	86.53	76.53	72.74	63.29	58.44	57.68
Royalties	11.71	11.11	8.25	7.74	6.32	5.09	4.67	4.61
Production expenses	8.38	10.86	10.86	7.34	7.42	6.74	8.26	8.39
Operating netback	90.44	93.80	67.42	61.45	59.00	51.46	45.51	44.68
<i>Average daily production</i>								
CBU – light/medium oil and NGL (bbls)	16,024	14,205	11,351	6,691	3,745	2,132	1,651	1,195
CBU – conventional heavy oil (bbls)	-	-	-	-	-	-	41	70
CBU – natural gas (mcf)	14,047	13,871	15,229	9,379	10,006	11,771	14,429	11,968
Total CBU (boe)	18,365	16,517	13,889	8,254	5,413	4,094	4,097	3,260
LABU – oil (bbls)	12,485	7,339	8,635	9,575	4,522	2,848	2,042	2,372
Total Company conventional (boe)	30,850	23,856	22,524	17,829	9,935	6,942	6,139	5,632

Significant factors influencing quarterly results were:

- Record production in both the CBU and LABU and high benchmark oil prices in the last four quarters have resulted in dramatic increases in revenue and funds flow from operations.
- Light oil production in the CBU in the third quarter of 2008 increased by 13% over the second quarter of 2008 and has more than doubled since the fourth quarter of 2007, reflecting the acquisition of Peerless in January 2008 and the Company's continued drilling activity on its Bakken light oil resource play in southeast Saskatchewan. Higher netbacks reflect higher oil prices and the profitability of the Bakken light oil production.
- The Corcel-A1 discovery well commenced production in the third quarter of 2007 and the follow up Corcel-A2 well commenced production in the fourth quarter of 2007 resulting in substantial increases in production in the LABU.
- Second quarter of 2008 production in the LABU was negatively impacted by the Corcel-A1 and A2 wells being offline for workover operations for 24 and 15 days, respectively.
- Third quarter of 2008 production in the LABU increased mainly due to new production added from the Corcel-A4 and C1 wells.

Critical Accounting Policies and Estimates

There have been no changes to the Company's critical accounting policies and estimates in the nine months ended September 30, 2008.

Changes in Accounting Policies

Capital Disclosures

Effective January 1, 2008, the Company prospectively adopted Section 1535, "Capital Disclosures" which establishes standards for disclosing information about the Company's capital and how it is managed. It requires disclosures of the Company's objectives, policies and processes for managing capital, the quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. The only effect of adopting this standard is disclosures on the Company's capital and how it is managed.

Financial Instruments Disclosures and Presentation

Effective January 1, 2008, the Company prospectively adopted Section 3862, "Financial Instruments Disclosures" and Section 3863, "Financial Instruments Presentations." These new accounting standards replaced Section 3861, "Financial Instruments – Disclosure and Presentation." Section 3862 requires additional information regarding the significance of financial instruments for the Company's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the Company is exposed.

Recent Accounting Pronouncements

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets,” replacing Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs.” Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

International Financial Reporting Standards

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) will be effective January 1, 2011. The Company has performed an initial scoping process and will complete a transition plan in order to ensure successful implementation within the required timeframe. Key information will be disclosed as it becomes available during the transition period.

Regulatory Policies

Certification of Disclosures in Annual and Interim Filings

In accordance with Multilateral Instrument 52-109 of the Canadian Securities Administrators, the Company annually issues a “Certification of Annual Filings” (“Certification”). The Certification requires certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures, have designed such procedures and evaluated their effectiveness as of the end of the period covered by these annual filings. In addition, the Certification requires certifying officers to state that they have designed such internal control over financial reporting, 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. The Company has continually had in place systems relating to internal control over financial reporting and will continue to monitor internal controls as the Company’s business evolves.

The certifying officers have evaluated the effectiveness of the Company’s disclosure controls and procedures and, based on such evaluation, believe that the disclosure controls and procedures provide a reasonable assurance that information required to be disclosed by the Company in these annual filings is recorded, processed, summarized and reported within the time periods specified and the controls and procedures ensure that the information required to be disclosed by the Company is accumulated and communicated to Petrobank’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Outlook

In addition to the plans discussed in this MD&A, please see the Company’s third quarter 2008 Operational Update.

CONSOLIDATED BALANCE SHEETS

(Unaudited, thousands of Canadian dollars)

As at	September 30, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 52,347	\$ 171,439
Restricted cash	1,152	-
Accounts receivable and other current assets	180,628	41,745
Future income tax assets	480	1,473
	234,607	214,657
Other assets	1,072	248
Capital assets (Note 3)	1,754,457	902,884
Goodwill (Note 3)	54,860	28,119
Total assets	\$ 2,044,996	\$ 1,145,908
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 290,926	\$ 167,917
Income taxes payable	13,786	-
Risk management liabilities (Note 9)	3,869	10,677
	308,581	178,594
Bank debt (Note 4)	160,000	29,199
Convertible debentures (Note 5)	304,947	272,597
Obligations under gas sale contract	3,376	3,997
Asset retirement obligations	17,289	12,254
Future income tax liabilities	169,511	48,664
	963,704	545,305
Non-controlling interest (Note 7)	176,092	149,297
Shareholders' equity		
Convertible debentures (Note 5)	64,089	64,089
Common shares (Note 6)	537,763	322,038
Contributed surplus (Note 6)	15,900	6,496
Accumulated other comprehensive loss (Note 6)	(18,879)	(41,774)
Retained earnings	306,327	100,457
	905,200	451,306
Total liabilities and shareholders' equity	\$ 2,044,996	\$ 1,145,908

Subsequent events (Notes 5, 9 and 12)

Commitments and contingencies (Note 11)

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenues				
Oil and natural gas	\$ 306,913	\$ 61,567	\$ 722,308	\$ 127,897
Royalties	(34,940)	(4,711)	(74,950)	(10,645)
Interest income	403	860	2,357	2,618
Gain (loss) on risk management contracts	36,317	(1,027)	(11,952)	(1,027)
	308,693	56,689	637,763	118,843
Expenses				
Production	24,560	7,292	65,508	16,959
General and administrative	6,086	3,195	17,706	8,736
Stock-based compensation	5,884	2,171	12,553	4,611
Interest	6,496	2,336	19,105	4,820
Foreign exchange (gain) loss	7,090	(10,471)	14,307	(15,034)
Depletion, depreciation and accretion	71,570	18,468	182,045	43,449
	121,686	22,991	311,224	63,541
Income before taxes and non-controlling interests	187,007	33,698	326,539	55,302
Taxes	15,659	892	18,381	2,913
Future income taxes	33,647	9,652	64,521	5,938
Income before non-controlling interests	137,701	23,154	243,637	46,451
Income applicable to non-controlling interests (Note 7)	14,475	2,176	27,238	5,170
Net income	123,226	20,978	216,399	41,281
Retained earnings, beginning of period	193,630	39,333	100,457	19,030
Repurchase of common shares (Note 6)	(10,529)	-	(10,529)	-
Retained earnings, end of period	\$ 306,327	\$ 60,311	\$ 306,327	\$ 60,311
Basic earnings per share (Note 6)	\$ 1.49	\$ 0.27	\$ 2.64	\$ 0.55
Diluted earnings per share (Note 6)	\$ 1.35	\$ 0.25	\$ 2.39	\$ 0.53

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income	\$ 123,226	\$ 20,978	\$ 216,399	\$ 41,281
Other comprehensive income:				
Unrealized gain (loss) on translation of financial statements of self-sustaining foreign operations (Note 6)	14,196	(14,245)	22,895	(29,480)
Comprehensive income	\$ 137,422	\$ 6,733	\$ 239,294	\$ 11,801

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited, thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Operating Activities				
Net income	\$ 123,226	\$ 20,978	\$ 216,399	\$ 41,281
Depletion, depreciation and accretion	71,570	18,468	182,045	43,449
Stock-based compensation	5,884	2,171	12,553	4,611
Future income taxes	33,647	9,652	64,521	5,938
Unrealized (gain) loss on risk management contracts	(43,388)	1,027	(7,297)	1,027
Amortization of deferred financing costs	182	185	689	536
Accretion on convertible debentures	3,334	594	8,853	1,531
Unrealized foreign exchange (gain) loss	8,211	(12,672)	14,136	(20,761)
Income applicable to non-controlling interests	14,475	2,176	27,238	5,170
Asset retirement obligations settled	(432)	(263)	(1,017)	(651)
	216,709	42,316	518,120	82,131
Changes in non-cash working capital (Note 10)	(11,770)	(25,897)	(88,176)	(12,668)
	204,939	16,419	429,944	69,463
Financing Activities				
Issuance (repayment) of bank debt	-	(16,645)	85,826	(21,288)
Issuance (repurchase) of common shares – net of costs	(11,777)	1,231	(9,313)	82,531
Issuance of convertible debentures – net of costs	-	-	-	268,783
Equity issued (repurchased) by Petrominerales (Note 7)	(7,727)	58,525	(6,240)	60,983
Financing costs relating to bank debt	-	-	(781)	(757)
Amortization of obligations under gas sale contract	(208)	(209)	(620)	(618)
Changes in non-cash working capital (Note 10)	-	-	-	1,178
	(19,712)	42,902	68,872	390,812
Investing Activities				
Expenditures on capital assets	(257,305)	(135,417)	(629,931)	(373,736)
Corporate acquisition (Note 3)	-	-	(67,248)	-
Sale of interest in subsidiary (Note 6)	3,915	-	3,915	-
Acquisition	-	-	-	(120,250)
Changes in restricted cash	(1,152)	-	(1,152)	-
Changes in non-cash working capital (Note 10)	47,992	59,052	71,367	64,354
	(206,550)	(76,365)	(623,049)	(429,632)
Effect of exchange rate changes on cash and cash equivalents	2,110	339	5,141	2,657
Net change in cash and cash equivalents	(19,213)	(16,705)	(119,092)	33,300
Cash and cash equivalents, beginning of period	71,560	86,417	171,439	36,412
Cash and cash equivalents, end of period	\$ 52,347	\$ 69,712	\$ 52,347	\$ 69,712
Cash and cash equivalents consist of:				
Cash	\$ 8,933	\$ 22,927	\$ 8,933	\$ 22,927
Cash equivalents	\$ 43,414	\$ 46,785	\$ 43,414	\$ 46,785
Other cash flow information:				
Cash taxes paid	\$ 966	\$ 73	\$ 3,138	\$ 1,410
Cash interest paid	\$ 2,427	\$ 882	\$ 12,465	\$ 2,704
Cash interest received	\$ 308	\$ 855	\$ 2,115	\$ 2,531

See accompanying notes to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2008 and 2007

(Unaudited, all tabular amounts are expressed in thousands of Canadian dollars, except share amounts or as otherwise noted)

Note 1 – Significant Accounting Policies

The interim consolidated financial statements for Petrobank Energy and Resources Ltd. (“Petrobank” or the “Company”) as at and for the three and nine months ended September 30, 2008 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2007. The notes to these interim consolidated financial statements do not conform in all respects to the note disclosure requirements of generally accepted accounting policies (“GAAP”) for annual financial statements. These interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the consolidated financial statements as at and for the year ended December 31, 2007, except for those disclosed in Note 2. The disclosures provided within are incremental to those included with the annual financial statements. Certain prior year amounts have been reclassified to conform to current presentation.

Note 2 – Changes in Accounting Policies

Capital Disclosures

Effective January 1, 2008, the Company prospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) Section 1535, “Capital Disclosures” which establishes standards for disclosing information about the Company’s capital and how it is managed. It requires disclosures of the Company’s objectives, policies and processes for managing capital, the quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. The only effect of adopting this standard is disclosures on the Company’s capital and how it is managed and are included Note 8.

Financial Instruments Disclosures and Presentation

Effective January 1, 2008, the Company prospectively adopted Section 3862, “Financial Instruments Disclosures” and Section 3863, “Financial Instruments Presentations.” These new accounting standards replaced Section 3861, “Financial Instruments – Disclosure and Presentation.” Section 3862 requires additional information regarding the significance of financial instruments for the Company’s financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the Company is exposed. The additional disclosures required under these standards are included in Note 9.

Recent Accounting Pronouncements

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets,” replacing Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs.” Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) will be effective January 1, 2011. The Company has performed an initial scoping process and will complete a transition plan in order to ensure successful implementation within the required timeframe. Key information will be disclosed as it becomes available during the transition period.

Note 3 – Corporate Acquisition

On January 28, 2008, Petrobank acquired all of the issued and outstanding shares of Peerless Energy Inc. (“Peerless”) for a total cost of \$338.8 million, including Peerless net debt assumed.

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

Net assets acquired	Amount
Capital assets	\$ 371,730
Working capital deficiency	(14,358)
Bank debt	(44,007)
Asset retirement obligations	(2,631)
Goodwill	26,741
Future income tax liability	(57,031)
Total net assets acquired	\$ 280,444

Consideration paid	Amount
Cash	\$ 60,462
Petrobank shares issued (4,931,672 common shares)	213,196
Acquisition costs	6,786
Total purchase price	\$ 280,444

The above amounts are estimates based on information available to the Company at the time of the preparation of these financial statements. Accordingly, these amounts are subject to changes as values are finalized.

Note 4 – Bank Debt

At September 30, 2008, the Company had drawn \$160 million on its secured Canadian credit facilities. The combined borrowing limit of these facilities totals \$350 million, comprised of a \$270 million reserve-based revolver and a \$60 million oil sands resource-based revolver with terms ending in July 2009, extendable by the lenders for an additional year, and a \$20 million revolving demand loan. If the lenders decide not to extend the term of the revolving credit facilities, the drawn amounts become due in July 2010. The facilities bear interest at margins that vary depending on debt-to-EBITDA levels (a non-GAAP measure defined as earnings before interest, taxes, depreciation, and amortization adjusted for non-cash items such as unrealized gains or losses on risk management contracts, unrealized foreign exchange gains or losses and stock-based compensation). The facilities are secured by a \$500 million demand debenture and a securities pledge on the Company’s subsidiaries with ownership of Whitesands Insitu Partnership’s oil sands assets and the THAI™ technology, and does not include the Company’s share ownership in Petrominerales Ltd. (“Petrominerales”). The borrowing bases under these facilities are reviewed semi-annually.

At September 30, 2008, Petrominerales was not drawn on its secured credit facility. The borrowing base under this facility as at September 30, 2008 was US\$80 million. The facility is secured by a pledge over all property of Petrominerales. The borrowing base is reviewed semi-annually.

Petrominerales also has a US\$15.1 million operating line of credit under which Petrominerales can borrow at the fixed term deposit rate set by the Central Bank of Colombia plus six percent. Advances under the facility are collateralized by a promissory note provided by Petrominerales. Petrominerales has used US\$7.2 million of its operating lines of credit for letters of credit to guarantee work commitments on exploration blocks.

Note 5 – Convertible Debentures

Petrobank

Petrobank has US\$250 million of issued and outstanding convertible debentures due on May 7, 2012. The debentures are convertible into common shares of Petrobank at a conversion price of US\$28.4902 per share, and have an annual coupon of 3.0 percent. Interest on the debentures is payable semi-annually. Upon conversion, a total of approximately 8,774,947 common shares may be issued, subject to normal provisions for adjustments of the conversion price such as a special distribution to shareholders or upon a change of control of the Company. Petrobank has an option to force conversion of the debentures at the prevailing conversion price after May 4, 2010, should the price of the Company's common shares exceed 120 percent of the prevailing conversion price for at least 20 trading days within a 30-day trading period.

Petrominerales

Petrominerales has US\$100 million of issued and outstanding convertible debentures due December 6, 2010. The debentures are convertible into common shares of Petrominerales at a conversion price of US\$27.3485 per Petrominerales share, and have an annual coupon of 3.375 percent. Interest on the debentures is payable semi-annually. Upon conversion, a total of 3,656,508 Petrominerales common shares may be issued, subject to normal provisions for adjustments of the conversion price such as a special distribution to shareholders or upon a change of control of Petrominerales. Petrominerales has an option to force conversion of the debentures at the prevailing conversion price after December 6, 2009, should the price of Petrominerales' common shares exceed 130 percent of the prevailing conversion price of the debentures over a specified period.

The following table summarizes the debentures' liability components at September 30, 2008:

	Petrobank	Petrominerales	Total
Liability component, December 31, 2007	\$ 189,893	\$ 82,704	\$ 272,597
Accretion for nine months ended September 30, 2008	8,348	3,717	12,065
Change in exchange rate	14,136	6,149	20,285
Liability component, September 30, 2008	\$ 212,377	\$ 92,570	\$ 304,947

In October 2008, Petrominerales repurchased debentures with a face value of US\$15.5 million for US\$9.4 million.

Note 6 – Share Capital

As at September 30, 2008, the Company had 82,474,134 common shares, 6,776,737 stock options and 146,810 deferred common shares outstanding. Upon conversion of the Petrobank convertible debentures, a total of 8,774,947 additional shares could be issued.

Normal Course Issuer Bid

Pursuant to the Company's Normal Course Issuer Bid ("NCIB"), as approved by the Toronto Stock Exchange ("TSX") on August 14, 2008, the Company is authorized to purchase up to 6,444,777 common shares, subject to daily trading restrictions, and representing approximately 10 percent of the issued and outstanding common shares. The Company is authorized to make purchases during the period of August 18, 2008 to August 17, 2009, or until such earlier time as the NCIB is completed or terminated at

the option of the Company. Any common shares Petrobank purchases under the NCIB will be purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Common shares acquired under the NCIB are cancelled.

During the three and nine month periods ended September 30, 2008, the Company repurchased and cancelled a total of 298,400 Petrobank common shares under the NCIB, at an average cost of \$41.11 per share. Of the amount paid, \$1.9 million reduced the book value of the common shares and the remaining \$10.5 million has been recorded as a reduction to retained earnings.

Petrominerales, the Company's 76.4 percent owned subsidiary also announced a NCIB on August 14, 2008 and repurchased a total of 701,800 Petrominerales common shares during the three and nine month periods ended September 30, 2008 at an average price of \$11.17 per share. For every share purchased on the open market one share is also purchased from Petrobank, accordingly, Petrobank's ownership interest is increasing as a result of the bid as it is participating for less than its prorated ownership interest. Petrobank has recorded the repurchase of Petrominerales common shares as an adjustment to non-controlling interest (Note 7).

Common Shares

Common Share Continuity	Number	Amount
Balance at December 31, 2007	77,270,737	\$ 322,038
Issued in connection with corporate acquisition (Note 3)	4,931,672	213,196
Repurchase of common shares	(298,400)	(1,945)
Exercise of stock options	541,625	3,326
Exercise of deferred common shares	28,500	1
Share issue costs	-	(166)
Tax effect of share issue costs	-	46
Transfer from contributed surplus related to stock options and deferred common shares exercised	-	1,267
Balance at September 30, 2008	82,474,134	\$ 537,763

Contributed Surplus

Changes in Contributed Surplus	Amount
Balance at December 31, 2007	\$ 6,496
Stock-based compensation	10,671
Transfer from contributed surplus related to stock options exercised	(1,267)
Balance at September 30, 2008	\$ 15,900

Accumulated Other Comprehensive Loss

Changes in Accumulated Other Comprehensive Loss	Amount
Balance at December 31, 2007	\$ (41,774)
Unrealized gain on translation of financial statements of self-sustaining foreign operations	22,895
Balance at September 30, 2008	\$ (18,879)

Stock Option Continuity

	Stock Options	Weighted-Avg Exercise Price
Balance at December 31, 2007	3,837,049	\$ 12.91
Granted	3,654,675	47.95
Exercised	(541,625)	6.14
Cancelled	(173,362)	38.05
Balance at September 30, 2008	6,776,737	\$ 31.71

Deferred Common Share Continuity

	Number
Balance at December 31, 2007	155,250
Granted	20,060
Exercised	(28,500)
Balance at September 30, 2008	146,810

Stock-Based Compensation

The fair value of Petrobank stock options and deferred common shares granted have been estimated on their respective grant dates using the Black-Scholes option-pricing model using the following assumptions:

Nine months ended September 30,	2008
Risk free interest rate	3.0% – 3.25%
Dividend rate	0%
Expected life – options (years)	3.75
Expected life – deferred common shares (years)	8
Expected volatility	42.5% – 47.5%

The average fair value per stock option granted during the three and nine months ended September 30, 2008 were \$17.05 (2007 – \$12.55) and \$16.90 (2007 – \$10.27) respectively, as at the date of grant. The average fair value per deferred common share granted during the three months ended September 30, 2008 was \$nil (2007 – \$nil) as no deferred common shares were granted during the period. The average fair value per deferred common share for the nine months ended September 30, 2008 was \$48.00 (2007 – \$23.02) as at the date of grant.

Stock-based compensation expense for the three and nine months ended September 30, 2008 totalled \$5.9 million (2007 – \$2.2 million) and \$12.6 million (2007 – \$4.6 million), of which \$0.8 million (2007 – \$0.5 million) and \$1.9 million (2007 – \$1.0 million) related to Petrominerales.

Earnings Per Share

The following tables summarize the net income and weighted average number of common shares used in calculating basic and diluted earnings per share.

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income adjustments				
Net income, basic	\$ 123,226	\$ 20,978	\$ 216,399	\$ 41,281
Interest expense on Petrobank's convertible debentures	3,396	1,026	8,654	2,665
Tax effect	(1,002)	-	(2,554)	-
Impact of Petrominerales dilution on net income	(720)	-	(1,833)	-
Net income, diluted	\$ 124,900	\$ 22,004	\$ 220,666	\$ 43,946
Weighted average common share adjustments				
Weighted average common shares outstanding, basic	82,579,064	76,675,702	81,956,120	75,073,929
Effect of convertible debentures	8,774,947	8,774,947	8,774,947	4,821,399
Effect of stock options and deferred common shares	895,869	2,400,948	1,631,787	2,323,038
Weighted average common shares outstanding, diluted	92,249,880	87,851,597	92,362,854	82,218,366

Note 7 – Non-Controlling Interest

The components of the Company's non-controlling interest in Petrominerales, the Company's 76.4 percent owned subsidiary are as follows:

	Amount
Balance at December 31, 2007	\$ 149,297
Attributable income	27,238
Common shares issued by Petrominerales	1,602
Common shares repurchased by Petrominerales	(7,842)
Common shares repurchased from Petrobank	3,915
Stock-based compensation	1,882
Balance at September 30, 2008	\$ 176,092

Note 8 – 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.

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, convertible debentures, bank debt and net working capital (a non-GAAP measure defined as cash and cash equivalents plus restricted cash, accounts receivable and other current assets less accounts payable and accrued liabilities less income taxes payable). 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 on its heavy oil projects, sell assets or adjust its capital spending to manage current and projected debt levels. Petrobank is also able to raise funds by selling a portion of its 76.4 percent ownership interest in Petrominerales or by issuing debt secured by this interest.

Petrominerales manages its capital structure independently and generates its own cash flows, and has the ability to fund its operations through the issuance of secured and unsecured debt as well as equity financing.

As at	Sept. 30, 2008	Dec. 31, 2007
Bank debt – Petrobank	\$ 160,000	\$ 20,000
Bank debt – Petrominerales	-	9,199
Total bank debt	160,000	29,199
Working capital deficiency (surplus)	70,585	(45,267)
Convertible debentures – Petrobank principal amount (US\$)	250,000	250,000
Convertible debentures – Petrominerales principal amount (US\$)	100,000	100,000
Total convertible debentures (US\$)	350,000	350,000
Common share capital	\$ 537,763	\$ 322,038

For the three months ended,	Sept. 30, 2008
Canadian information (Note 13)	
Oil and natural gas revenues	\$ 179,959
Less: Royalties	21,484
Realized loss on risk management contracts	3,211
Production expenses	14,940
General and administrative expenses	3,434
Realized foreign exchange loss	210
Canadian EBITDA	\$ 136,680

The Company monitors leverage and adjusts its capital structure based on the ratio of Canadian bank debt to annualized Canadian EBITDA (a non-GAAP measure defined as earnings before interest, taxes, depreciation, and amortization, adjusted for non-cash items such as unrealized gains or losses on risk management contracts, unrealized foreign exchange gains or losses and stock-based compensation). This ratio is based solely on Canadian bank debt and Canadian EBITDA as Petrominerales manages its leverage and capital structure independently. As at September 30, 2008, the ratio was 0.3 to 1, at the low end of the range acceptable to the Company. Petrobank uses the ratio of debt to EBITDA as a key indicator of the Company's leverage and to monitor the strength of the balance sheet. In order to facilitate the management of this ratio, the Company prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, changes in capital structure, execution of the Company's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

Petrobank does not include an amount for the outstanding convertible debentures in the calculation of net debt. The Company has an option to force conversion of the debentures at the prevailing conversion price after May 4, 2010, should the price of the Company's common shares exceed 120 percent of the prevailing conversion price of the debentures over a specified period. If conversion of the debentures is forced, or if the Company's share price is in excess of the prevailing conversion price upon maturity on May 7, 2012, the debentures will be converted into equity. Alternatively, if the share price is below the prevailing conversion price at maturity, the Company will be required to re-finance any remaining principal with new debt, equity and / or accumulated cash flows.

The Company is subject to certain financial covenants in its credit facility and convertible debenture agreements. Petrobank's convertible debenture agreement stipulates the Company maintain an equity ratio of at least 30 percent and secured debt is not to exceed 27.5 percent of total assets. The Company is in compliance with all financial covenants.

The Company has not paid or declared any dividends since the date of incorporation.

The repurchase of common shares pursuant to the Petrobank and Petrominerales NCIB's, and the subsequent repurchase of Petrominerales' convertible debentures have been the only changes to the Company's approach during 2008.

Credit markets throughout the world have recently tightened which could limit the Company's ability to access incremental debt; however, the Company believes it is in a strong financial position with strong cash flows from operations, cash and cash equivalents and restricted cash totalling \$53.5 million, a Canadian credit facility with \$190 million of available capacity and a US\$80 million credit facility available to Petrominerales.

Note 9 – 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 the above risks, and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these 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. The majority of the Company's Canadian oil production is sold to a large

international marketing company, while the majority of natural gas production is sold to an international oil and gas company. Colombian oil production is sold, as determined by market based prices adjusted for quality differentials, to two counterparties, the Colombian national oil company, Ecopetrol, and a large international oil company. Colombian oil revenue is received in Bermuda and is denominated in United States dollars. Typically, Petrominerales' maximum credit exposure to customers is revenue from two months' sales. While counterparties to risk management contracts expose Petrominerales to losses in the event of non-performance, Petrominerales currently only deals with one large credit-worthy institution and does not anticipate non-performance by any of the counterparties. As at September 30, 2008, the Company's receivables consisted of \$165.1 million (December 31, 2007 – \$25.1 million) of receivables from oil and natural gas customers and \$11.0 million (December 31, 2007 – \$15.8 million) of other trade receivables.

Receivables from oil and natural gas customers are normally collected 25 to 45 days after the month following production. The Company's policy to mitigate credit 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 Company historically has not experienced any collection issues with its oil and natural gas customers.

Cash and cash equivalents and restricted cash 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 such as asset backed commercial paper.

The carrying amount of accounts receivable, cash and cash equivalents and restricted cash represent the maximum credit exposure. The Company had a \$0.7 million allowance for doubtful accounts as at September 30, 2008, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the three and nine months ended September 30, 2008.

The Company's accounts receivables are aged as follows:

As at	Sept. 30, 2008	Dec. 31, 2007
Not past due (less than 90 days)	\$ 175,152	\$ 38,177
Past due (greater than 90 days)	965	2,768
Total	\$ 176,117	\$ 40,945

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. 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 4, that are reviewed semi-annually by the lenders.

The following are the contractual maturities of financial liabilities as at September 30, 2008:

Financial Liability	< 1 Year	1-2 Years	2-5 Years	Thereafter
Accounts payable and accrued liabilities	\$ 290,926	\$ -	\$ -	\$ -
Income taxes payable	13,786	-	-	-
Risk management liabilities	3,728	141	-	-
Canadian bank debt – principal	-	160,000	-	-
Petrobank convertible debentures – principal (US\$)	-	-	250,000 ⁽²⁾	-
Petrominerales convertible debentures – principal (US\$)	-	-	100,000 ⁽³⁾	-
Obligations under gas sale contract	825	1,650	901	-
Asset retirement obligations	389	-	-	16,900
Total ⁽¹⁾	\$ 309,654	\$ 161,791	\$ 371,866	\$ 16,900

(1) US\$ amounts have been converted using a period end exchange rate of 1.0599.

(2) The debentures are convertible to common shares of Petrobank at a conversion price of US\$28.4902 per share. Upon conversion, a total of 8,774,947 common shares may be issued.

(3) The debentures are convertible to common shares of Petrominerales at a conversion price of US\$27.3485 per Petrominerales share. Upon conversion, a total of 3,656,508 Petrominerales common shares may be issued. Petrominerales repurchased US\$15.5 million of debentures for US\$9.4 million in October 2008, reducing the principal amount outstanding to US\$84.5 million.

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

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency fluctuations as Colombian revenues are denominated in United States dollars and Colombian expenses are denominated primarily in United States dollars and Colombian pesos. The Company is also exposed as Canadian revenues are strongly linked to United States dollar denominated benchmark prices. As at September 30, 2008, if the Canadian dollar had depreciated five percent against the United States dollar with all other variables held constant, net income would have been \$9.1 million lower (2007 – \$8.1 million lower) for the three and nine months ended September 30, 2008, due to the Petrobank United States dollar denominated convertible debentures and risk management contracts related to Canadian production. Other comprehensive income would have been \$10.7 million higher (2007 – \$3.3 million higher) due to the foreign currency balances of Petrominerales that are translated into Petrobank's consolidated financial statements, offset by the Petrobank convertible debentures and risk management contracts related to Canadian production.

The Company had no forward exchange rate contracts in place as at or during the three and nine months ended September 30, 2008.

Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Changes in commodity prices 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 percent of forecasted production volumes.

The Company had the following risk management contracts outstanding at September 30, 2008:

Country	Term	Volume (Bopd)	Price (US\$/bbl)	Benchmark
Canada	Jan. 1, 2008 – Dec. 31, 2008	500	65.00 floor / 80.00 ceiling	WTI
Canada	Jan. 1, 2008 – Dec. 31, 2008	500	67.50 floor / 81.50 ceiling	WTI
Canada	May 1, 2008 – Dec. 31, 2008	1,000	95.00 floor / 122.00 ceiling	WTI
Canada	Jan. 1, 2009 – Dec. 31, 2009	2,000	90.00 floor / 121.00 ceiling	WTI
Colombia	Jan. 1, 2008 – Dec. 31, 2008	500	65.00 floor / 80.00 ceiling	WTI
Colombia	Jan. 1, 2008 – Dec. 31, 2008	500	75.25 fixed	WTI

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Realized gain (loss) on risk management contracts	\$ (7,071)	\$ -	\$ (19,249)	\$ -
Unrealized gain (loss) on risk management contracts	43,388	(1,027)	7,297	(1,027)
Gain (loss) on risk management contracts	\$ 36,317	\$ (1,027)	\$ (11,952)	\$ (1,027)

The unrealized gains (losses) represent the change in fair value of the risk management contracts related to expected future settlements. The fair value of these risk management liabilities at September 30, 2008 was \$3.9 million (2007 – \$1.0 million). If crude oil prices had been 10 percent lower on September 30, 2008, with all other variables held constant, the change in the fair value of the risk management contracts would have resulted in net income and other comprehensive income that was \$6.4 million higher (2007 – \$1.7 million) for the three and nine months ended September 30, 2008.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. 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. The Company's sensitivity to period end interest rates is currently immaterial.

The Company had no interest rate swap or financial contracts in place as at or during the three and nine months ended September 30, 2008.

Long-Term Physical Gas Sale Contract

The Company is committed to deliver 2,209 GJ per day of natural gas under an escalating price contract which expires October 31, 2012. The wellhead price under this contract is currently \$4.95 per GJ. The Company applies the expected purchase and sale exemption to this contract and accordingly does not apply hedge accounting principles to this contract.

Fair Value of Financial Instruments

The Company's financial instruments are classified as cash and cash equivalents, restricted cash, accounts receivable and other current assets, accounts payable and accrued liabilities, income taxes payable, risk management liabilities, bank debt and convertible debentures on the balance sheet. The carrying value and fair value of these financial instruments at September 30, 2008 is disclosed below by financial instrument category, as well as any related loss, gain, expense or revenue for the nine months ended September 30, 2008:

Financial Instrument	Carrying Value	Fair Value	Loss / (Gain)	Interest Expense	Revenue
<i>Assets Held For Trading</i>					
Cash and cash equivalents ⁽¹⁾	52,347	52,347	-	-	-
Restricted cash	1,152	1,152	-	-	-
<i>Loans and Receivables</i>					
Accounts receivable and other current assets	180,628	180,628	-	-	-
<i>Liabilities Held For Trading</i>					
Risk management contracts	3,869	3,869	11,952 ⁽²⁾	-	-
<i>Other Liabilities</i>					
Accounts payable and accrued liabilities	290,926	290,926	-	-	-
Income taxes payable	13,786	13,786	-	-	-
Bank debt	160,000	160,000	-	4,170 ⁽³⁾	-
Convertible debentures	304,947	n/a ⁽⁴⁾	14,136 ⁽⁵⁾	14,935 ⁽⁶⁾	-
Obligations under gas sale contract	3,376	6,765	-	-	621 ⁽⁷⁾

⁽¹⁾ The effective yield on cash equivalents at September 30, 2008 was 2.1% (December 31, 2007 – 4.0%).

⁽²⁾ Included in (gain) loss on risk management contracts on the statement of operations and retained earnings, statement of comprehensive income. The unrealized gain of \$7.3 million representing the change in fair value of the contracts is included on the statement of cash flow.

⁽³⁾ Included in interest expense net of capitalized interest on the statement of operations and retained earnings and statement of comprehensive income. The amortization of deferred financing costs is included on the statement of cash flow. The effective yield on bank debt before capitalized interest at September 30, 2008 was 4.3% (December 31, 2007 – 6.4%).

⁽⁴⁾ The fair value of the convertible debentures debt and equity components are difficult to measure reliably due to lack of active trading information. Petrominerales repurchased US\$15.5 million of debentures in October 2008 at 61% of the principal amount. The value of these repurchased debentures may not be indicative of the debentures that remain outstanding and therefore the Company does not expect this to be a reliable measure of fair value. The principal amounts of the Petrobank and Petrominerales convertible debentures at September 30, 2008 are US\$250 million and US\$100 million, respectively. In October 2008 the principal amount of Petrominerales convertible debentures outstanding was reduced to US\$84.5 million.

⁽⁵⁾ Included in foreign exchange (gain) loss on the statement of operations and retained earnings, statement of comprehensive income and statement of cash flow.

⁽⁶⁾ Included in interest expense net of capitalized interest on the statement of operations and retained earnings and statement of comprehensive income. The non-cash interest expense relating to the accretion of the initial discounts and transaction costs that are netted against the liabilities are included in accretion on convertible debentures on the statement of cash flow. The effective yields of the convertible debentures issued by Petrobank and Petrominerales are 9.4% and 9.7%, respectively.

⁽⁷⁾ Included in oil and natural gas revenues on the statement of operations and retained earnings and statement of comprehensive income. The amortization of obligations under gas sale contract is included on the statement of cash flow.

The risk management contracts are recorded at their fair value based on quoted market prices in the futures market on the balance sheet date; accordingly, there is no difference between fair value and carrying value. Fair value of the obligations under gas sale contract is determined based on the estimated cash payment necessary to settle the contract at the balance sheet date. Cash payments are calculated based on discounted cash flow analysis using prevailing market prices at the time. Bank debt bears interest at a floating rate and accordingly the fair market value approximates the carrying value. Due to the short term nature of cash and cash equivalents, restricted cash, accounts receivable and other current assets, accounts payable and accrued liabilities and income taxes payable their carrying values approximate their fair values.

Note 10 – Changes in Non-Cash Working Capital

Nine months ended September 30,	2008	2007
Change in:		
Accounts receivable and other current assets	\$ (138,883)	\$ (23,747)
Accounts payable and accrued liabilities	123,009	76,611
Income taxes payable	13,786	-
Depletion related to other current assets	(363)	-
	(2,451)	52,864
Working capital deficiency acquired (Note 3)	(14,358)	-
	\$ (16,809)	\$ 52,864
Changes relating to:		
Attributable to operating activities	\$ (88,176)	\$ (12,668)
Attributable to financing activities	\$ -	\$ 1,178
Attributable to investing activities	\$ 71,367	\$ 64,354

Note 11 – Commitments and Contingencies

Pursuant to exploration contracts in Colombia, Petrominerales has work commitments, to be completed by October 31, 2009, totalling US\$26.2 million. The work commitments are normal course exploration activities that include acquisition and processing of seismic data and drilling exploration wells. Petrominerales has secured drilling and completion rigs in support of its exploration and development programs. A minimum commitment totalling US\$14.7 million is required to be spent utilizing these rigs by May 2009. This rig commitment will be used to satisfy a portion of the US\$26.2 million of exploration work commitments. Petrominerales plans to fund these costs with existing cash balances, cash flow from operations, and available credit facilities. Petrominerales has US\$1.1 million in restricted cash and has issued letters of credit totalling US\$7.2 million to guarantee the obligations on these exploration contracts.

The Company has committed to office operating leases of approximately \$47.4 million over a ten year period ending March 31, 2019.

Note 12 – Subsequent Event

On October 2, 2008, Petrobank acquired Rocor Resources Inc. for total consideration of \$53.0 million, comprised of 699,183 Petrobank common shares and \$26.5 million in cash. The purchase method will be used to account for the transaction.

Note 13 – Segmented Information

Three months ended September 30,	2008			2007		
	Canada and Other ⁽¹⁾	Colombia	Total	Canada and Other ⁽¹⁾	Colombia	Total
Revenues						
Oil and natural gas	\$ 179,959	\$ 126,954	\$ 306,913	\$ 31,305	\$ 30,262	\$ 61,567
Royalties	(21,484)	(13,456)	(34,940)	(2,082)	(2,629)	(4,711)
Interest income	114	289	403	830	30	860
Gain (loss) on risk management contracts	30,406	5,911	36,317	(474)	(553)	(1,027)
	188,995	119,698	308,693	29,579	27,110	56,689
Expenses						
Production	14,940	9,620	24,560	4,204	3,088	7,292
General and administrative	3,434	2,652	6,086	1,584	1,611	3,195
Stock-based compensation	5,089	795	5,884	1,661	510	2,171
Interest	3,603	2,893	6,496	1,167	1,169	2,336
Foreign exchange (gain) loss	8,421	(1,331)	7,090	(10,387)	(84)	(10,471)
Depletion, depreciation and accretion	47,704	23,866	71,570	11,862	6,606	18,468
	83,191	38,495	121,686	10,091	12,900	22,991
Income before taxes and non- controlling interests						
	105,804	81,203	187,007	19,488	14,210	33,698
Taxes	-	15,659	15,659	-	892	892
Future income taxes	29,179	4,468	33,647	7,268	2,384	9,652
Income before non-controlling interests						
	76,625	61,076	137,701	12,220	10,934	23,154
Income applicable to non-controlling interests	-	14,475	14,475	-	2,176	2,176
Net income	\$ 76,625	\$ 46,601	\$ 123,226	\$ 12,220	\$ 8,758	\$ 20,978
Identifiable assets	\$1,451,688	\$ 593,308	\$2,044,996	\$ 661,280	\$ 269,575	\$ 930,855
Goodwill	\$ 54,860	\$ -	\$ 54,860	\$ 28,119	\$ -	\$ 28,119
Capital expenditures	\$ 181,265	\$ 76,040	\$ 257,305	\$ 94,268	\$ 41,149	\$ 135,417

⁽¹⁾ Canada includes Heavy Oil Business Unit capital expenditures of \$15.8 million in 2008 (2007 – \$9.0 million), identifiable assets at September 30, 2008 of \$337.5 million (December 31, 2007 – \$281.6 million) including goodwill of \$28.1 million (December 31, 2007 – \$28.1 million), and negligible revenues and expenses as operations are considered to be in the pre-operating stage and accordingly are capitalized.

Nine months ended September 30,	2008			2007		
	Canada and Other ⁽¹⁾	Colombia	Total	Canada and Other ⁽¹⁾	Colombia	Total
Revenues						
Oil and natural gas	\$ 450,039	\$ 272,269	\$ 722,308	\$ 70,490	\$ 57,407	\$ 127,897
Royalties	(47,588)	(27,362)	(74,950)	(5,836)	(4,809)	(10,645)
Interest income	367	1,990	2,357	2,514	104	2,618
Loss on risk management contracts	(5,932)	(6,020)	(11,952)	(474)	(553)	(1,027)
	396,886	240,877	637,763	66,694	52,149	118,843
Expenses						
Production	40,101	25,407	65,508	10,606	6,353	16,959
General and administrative	9,902	7,804	17,706	4,019	4,717	8,736
Stock-based compensation	10,671	1,882	12,553	3,568	1,043	4,611
Interest	10,767	8,338	19,105	3,134	1,686	4,820
Foreign exchange (gain) loss	14,240	67	14,307	(15,568)	534	(15,034)
Depletion, depreciation and accretion	128,310	53,735	182,045	28,560	14,889	43,449
	213,991	97,233	311,224	34,319	29,222	63,541
Income before taxes and non-controlling interests						
Taxes	-	18,381	18,381	-	2,913	2,913
Future income taxes	54,424	10,097	64,521	12,372	(6,434)	5,938
Income before non-controlling interests						
Income applicable to non-controlling interests	-	27,238	27,238	-	5,170	5,170
Net income	\$ 128,471	\$ 87,928	\$ 216,399	\$ 20,003	\$ 21,278	\$ 41,281
Identifiable assets	\$1,451,688	\$ 593,308	\$2,044,996	\$ 661,280	\$ 269,575	\$ 930,855
Goodwill	\$ 54,860	\$ -	\$ 54,860	\$ 28,119	\$ -	\$ 28,119
Capital expenditures	\$ 404,508	\$ 225,423	\$ 629,931	\$ 258,183	\$ 115,553	\$ 373,736

⁽¹⁾ Canada includes Heavy Oil Business Unit capital expenditures of \$58.9 million in 2008 (2007 – \$18.3 million), identifiable assets at September 30, 2008 of \$337.5 million (December 31, 2007 – \$281.6 million) including goodwill of \$28.1 million (December 31, 2007 – \$28.1 million), and negligible revenues and expenses as operations are considered to be in the pre-operating stage and accordingly are capitalized.



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