

PETROBANK ENERGY AND RESOURCES LTD.

Management's Discussion and Analysis

Summary of Results

	Q4 2009	2009	2008	2007
Financial				
(\$000s, except where noted)				
Oil and natural gas revenue	446,021	1,093,674	950,068	257,736
Funds flow from operations ⁽¹⁾	279,004	697,437	665,933	174,864
Per share – basic (\$)	2.99	7.88	8.09	2.31
– diluted (\$)	2.65	7.17	7.28	2.10
Net income	57,108	145,079	244,482	81,427
Per share – basic (\$)	0.61	1.64	2.97	1.08
– diluted (\$)	0.56	1.52	2.76	0.99
Capital expenditures				
PetroBakken ⁽²⁾	177,278	394,023	545,833	303,687
Petrominerales ⁽³⁾	86,566	320,815	281,748	152,151
Heavy Oil Business Unit (“HBU”)	15,554	76,019	82,332	54,426
Total Company	279,398	790,857	909,913	510,264
Total assets	5,766,568	5,766,568	2,361,707	1,145,908
Common shares outstanding, end of year (000s)				
Basic	93,617	93,617	83,525	77,271
Diluted ⁽⁴⁾	108,596	108,596	99,043	90,038
Operations				
PetroBakken operating netback (\$/boe except where noted) ^{(1) (5)}				
Oil and NGL revenue (\$/bbl) ⁽⁶⁾	71.63	64.27	92.80	75.64
Natural gas revenue (\$/mcf) ⁽⁶⁾	4.61	4.40	8.06	6.35
Oil and natural gas revenue ⁽⁶⁾	65.05	58.97	86.78	62.62
Royalties	10.14	8.55	10.03	4.86
Production expenses	8.23	7.38	8.76	8.19
Operating netback ⁽⁷⁾	46.68	43.04	67.99	49.57
Petrominerales operating netback (\$/bbl) ⁽¹⁾				
Oil revenue ⁽⁶⁾	65.23	56.59	87.15	71.74
Royalties	7.14	5.76	8.46	6.68
Production expenses	8.05	8.01	9.08	7.37
Operating netback ⁽⁷⁾	50.04	42.82	69.61	57.69
Average daily production				
PetroBakken – oil and NGL (bbls)	38,796	22,648	15,369	3,579
PetroBakken – natural gas (mcf)	40,951	22,110	14,436	11,379
Total PetroBakken (boe) ⁽⁵⁾	45,621	26,333	17,775	5,476
Petrominerales – oil (bbls) ⁽⁸⁾	24,555	22,360	10,967	4,767
Total Company conventional (boe) ⁽⁹⁾	70,176	48,693	28,742	10,243

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

(2) PetroBakken was referred to in prior quarters as the Canadian Business Unit (“CBU”) and only includes operational results of TriStar after October 1, 2009.

(3) Petrominerales was referred to in prior quarters as the Latin American Business Unit (“LABU”).

(4) Assumes 10.7 million common shares will be issued upon conversion of Petrobank’s convertible debentures.

(5) Six mcf of natural gas is equivalent to one barrel of oil equivalent (“boe”).

(6) Net of transportation expenses.

(7) Excludes hedging activities.

(8) Actual production sold for the fourth quarter of 2009 was 25,607 bopd (Q4 2008 – 15,344 bopd), and for the year ended December 31, 2009 was 22,490 bopd (2008 – 10,967 bopd).

(9) HBU bitumen volumes are excluded from average daily production as Conklin operations are considered to be in the pre-operating stage and accordingly are capitalized.

The following MD&A is dated March 16, 2010 and should be read in conjunction with the consolidated financial statements and accompanying notes of Petrobank Energy and Resources Ltd. (“Petrobank”, “we”, “our” or the “Company”) as at and for the years ended December 31, 2009 and 2008. The consolidated financial statements and comparative information have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). 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. The energy content of natural gas has been measured in gigajoules (“GJ”). Natural gas volumes have been converted to barrels of oil equivalent (“boe”). Six thousand cubic feet (“mcf”) of natural gas is equal to one barrel 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 forecasts. Except to the extent required by law, Petrobank assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise. 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 GAAP, such as funds flow from operations, funds flow per share, EBITDA 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, non-controlling interests and non-cash items. Operating netback is determined by dividing sales revenue less transportation, royalties and production expenses by sales volumes. Profitability relative to commodity prices per unit of production is demonstrated by an operating netback. Funds flow from operations, funds flow per share, EBITDA and operating netbacks may not be comparable to those reported by other companies nor should they be viewed as an alternative to cash flow from operations, net income or other measures of financial performance calculated in accordance with GAAP.

Petrobank’s Business Units

The Company is comprised of three business units: the Heavy Oil Business Unit (“HBU”), PetroBakken, formerly referred to in previous years and quarters as the Canadian Business Unit (“CBU”), and Petrominerales, formerly referred to in previous years and quarters as the Latin American Business Unit (“LABU”).

The HBU is operating the Conklin oil sands project and Kerrobert heavy oil project using Petrobank’s patented THAI™ technology. The Conklin and Kerrobert projects are in the pre-operating stage and accordingly all expenses, net of revenues, are capitalized. Therefore, it’s important to note that throughout this MD&A, results relating to the HBU are not included in operational results such as average daily production, revenue, royalties, production expenses, or depletion and depreciation expense.

PetroBakken, 64% owned by Petrobank as at December 31, 2009, contains conventional oil and gas operations throughout western Canada with a primary focus on light oil developments from the Bakken formation in southeast Saskatchewan and in the Cardium play in Alberta. Petrobank results include 100% of PetroBakken’s results; the 36% minority interest share, which Petrobank does not own, is recorded as income applicable to non-controlling interests on the consolidated statements of operations and retained earnings and as paid-in capital and non-controlling interests on the consolidated balance sheets. Results for PetroBakken are reported on a continuity of interest basis and as such incorporate Petrobank’s CBU operations for the periods prior to the formation of PetroBakken.

Petrominerales, 66% owned by Petrobank as at December 31, 2009, is focused on oil exploration and production in the countries of Colombia and Peru. Petrobank results include 100% of Petrominerales' results; the 34% minority interest share, which Petrobank does not own, is recorded as income applicable to non-controlling interests on the consolidated statements of operations and retained earnings and as paid-in capital and non-controlling interests on the consolidated balance sheets.

Comparatives

Comparisons presented in this MD&A are fourth quarter of 2009 compared to the fourth quarter of 2008 and annual comparisons are 2009 to 2008 unless otherwise noted.

Net Income

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

Q4 2009 Highlights and Significant Transactions

- ▶ Petrobank's consolidated production increased 87% to 70,176 barrels of oil equivalent per day ("boepd") in the fourth quarter of 2009 compared to 37,618 boepd in the fourth quarter of 2008 due to production increases in PetroBakken and Petrominerales.
- ▶ Funds flow from operations increased by 89% to \$279.0 million in the fourth quarter of 2009. On a per diluted share basis, funds flow from operations increased 63% to \$2.65.
- ▶ Net income more than doubled to \$57.1 million in the fourth quarter of 2009. On a per diluted share basis, net income increased 65% to \$0.56.

PetroBakken

- ▶ On October 1, 2009 Petrobank's subsidiary PetroBakken acquired TriStar Oil and Gas Ltd. ("TriStar"). PetroBakken reflects TriStar's assets, liabilities, and operating results for the period following the closing of the transaction on October 1, 2009.
- ▶ Fourth quarter production more than doubled to 45,621 boepd compared to 22,274 boepd in the fourth quarter of 2008, primarily due to the acquisition of TriStar and continued production additions from our Bakken light oil properties in southeast Saskatchewan.
- ▶ Operating netbacks (excluding hedging gains) averaged \$46.68 per boe in the fourth quarter of 2009, an increase of 20% compared to the fourth quarter of 2008, primarily due to higher benchmark oil prices.
- ▶ PetroBakken drilled 64.8 net wells in the quarter, the vast majority of which were drilled in southeast Saskatchewan.

Petrominerales

- ▶ Fourth quarter production increased to 24,555 barrels of oil per day ("bopd") compared to 15,344 bopd in the fourth quarter of 2008, due to production increases at Corcel, Mapache and Neiva.
- ▶ Operating netbacks averaged \$50.04 per barrel, an increase of 18% compared to the fourth quarter of 2008, primarily due to higher benchmark oil prices.

2009 Highlights and Significant Transactions

- ▶ Petrobank's consolidated production increased 69% to 48,693 boepd in 2009 from 28,742 boepd in 2008 due to production increases in PetroBakken and Petrominerales.
- ▶ Funds flow from operations increased 5% to \$697.4 million in 2009 despite significantly lower oil and natural gas benchmark prices. On a per diluted share basis, funds flow from operations decreased 2% to \$7.17 in 2009.
- ▶ Net income decreased to \$145.1 million in 2009. On a per diluted share basis, net income decreased by 45% to \$1.52 in 2009, mainly due to lower oil and natural gas benchmark prices, and higher depletion, depreciation and accretion expense.

PetroBakken

- ▶ 2009 production increased 48% to 26,333 boepd compared to 17,775 boepd in 2008, due to production additions from our Bakken light oil properties and the acquisition of TriStar in the fourth quarter of 2009.
- ▶ Operating netbacks averaged \$43.04 per boe, a decrease of 37% compared to 2008, primarily due to lower benchmark oil and natural gas prices.
- ▶ Drilled 117.3 net wells in 2009, the vast majority of which were in southeast Saskatchewan.

Petrominerales

- ▶ 2009 production more than doubled to 22,360 bopd compared to 10,967 bopd in 2008, primarily due to exploration success at Corcel and Mapache along with additions from our development program at Neiva.

- ▶ Operating netbacks averaged \$42.82 per barrel, a decrease of 38% compared to 2008, primarily due to lower benchmark oil prices.
- ▶ Discovered the Candelilla structure on our Guatiquia block that has significantly increased production in 2010 (February 2010 averaged 41,102 bopd).
- ▶ Most active exploration company in Colombia in 2009 drilling 10 exploration and 36 development wells.
- ▶ Constructed the Monterrey crude oil offloading facility providing strategic offloading capacity.
- ▶ Strong financial position with an undrawn US\$150 million credit facility, top-decile operating netbacks combined with significant production and cash flow growth.
- ▶ Repurchased 1,991,000 common shares.
- ▶ Entered an agreement to acquire all of the outstanding shares of PanAndean Resources plc (“PanAndean”) (AIM:PRE) for £18.7 million (US\$28.5 million). PanAndean assets include four blocks in Peru and one in Colombia totalling 6.3 million gross (2.7 million net) acres.

Subsequent Events

- ▶ On January 8, 2010, Petrobank completed an early conversion offering which resulted in US\$250.7 million principal amount of 5.125% convertible debentures due July 10, 2015 being exercised early. Upon the conversion, a total of 7,452,099 Petrobank common shares were issued.

PetroBakken

- ▶ January 2010 production averaged 43,600 boepd, after the disposition in December 2009 of approximately 2,000 boepd.
- ▶ On January 25, 2010, PetroBakken completed a US\$750 million of convertible debenture offering. The debentures are convertible into common shares of PetroBakken at a conversion price of US\$39.61 per share, have an annual coupon rate of 3.125% and mature in February 2016.
- ▶ On January 28, 2010, PetroBakken entered into an arrangement agreement to acquire all of the issued and outstanding shares of Result Energy Inc. (“Result”) for cash consideration of \$200 million and the issuance of 11.2 million PetroBakken common shares. Result had positive working capital of approximately \$60 million as at the announcement date. The arrangement is expected to close on or about April 1, 2010.
- ▶ On February 25, 2010, PetroBakken acquired all of the issued and outstanding shares of Berens Energy Ltd. (“Berens”) for a cash consideration of \$271 million and the assumption of bank indebtedness of approximately \$72 million for total consideration of approximately \$343 million. The acquisition will be accounted for using the purchase method.
- ▶ On March 12, 2010, PetroBakken acquired all of the issued and outstanding shares of Rondo Petroleum Inc. (“Rondo”) for consideration of \$88.7 million cash, the issuance of approximately 5.5 million PetroBakken shares and the assumption of Rondo’s debt. As a result, Petrobank’s ownership interest in PetroBakken was reduced to 62%. This acquisition will be accounted for using the purchase method.
- ▶ In February and early March 2010 PetroBakken closed three divestitures representing approximately 3,100 boepd (55% natural gas) of production for gross proceeds of \$112 million.

Petrominerales

- ▶ Production has increased significantly since the Candelilla-1 and 2 wells were placed on production, averaging 41,102 bopd in February 2010.

FINANCIAL AND OPERATIONAL REVIEW

PetroBakken's acquisition of TriStar on October 1, 2009 has significantly impacted financial and operating results for 2009, particularly in the fourth quarter of 2009.

Average Daily Production

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
PetroBakken						
Oil and NGL (bbls)	38,796	19,841	96%	22,648	15,369	47%
Natural gas (mcf)	40,951	14,598	181%	22,110	14,436	53%
Total PetroBakken (boe)	45,621	22,274	105%	26,333	17,775	48%
Petrominerales – light/medium oil (bbls) ⁽¹⁾	24,555	15,344	60%	22,360	10,967	104%
Total Company conventional (boe)	70,176	37,618	87%	48,693	28,742	69%

(1) Represents crude oil produced in the period. Actual sales volumes may be different due to crude oil in transit at the period end date. Sales volumes in the fourth quarter were 25,607 bopd (2008 – 15,344 bopd) and for the year ended December 31, 2009 were 22,490 bopd (2008 – 10,967 bopd).

Record production from PetroBakken and Petrominerales in the fourth quarter of 2009 helped the Company achieve record average daily production in 2009. HBU bitumen volumes are excluded from average daily production as 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.

PetroBakken

The significant increase in oil, NGL and natural gas production in both the fourth quarter and the year ended 2009 are primarily due to the acquisition of TriStar on October 1, 2009. Production from acquisitions is only included from the date of closing. The remaining 2009 production additions came primarily from our light oil properties in southeast Saskatchewan. PetroBakken drilled 117.3 net wells in 2009, of which 64.8 net were drilled in the fourth quarter. Drilling activity increased significantly throughout 2009 commensurate with the increase in oil prices. We started our 2009 Bakken program with two drilling rigs, which after an extended period of virtually no activity during spring break-up, increased to four rigs in June 2009, then to seven rigs in September 2009 and finally to 11 rigs by November 2009. The increased drilling activity resulted in a 10% increase in fourth quarter 2009 production to 45,621 boepd compared to 41,526 boepd in the third quarter of 2009 (pro forma including TriStar production).

On December 21, 2009, PetroBakken disposed of approximately 2,000 boepd (70% natural gas) in Alberta.

Petrominerales

In 2009, Petrominerales production increased 104% to 22,360 bopd, primarily due to exploration drilling success at Corcel and Mapache along with additions from our development drilling program at Neiva. In Corcel, production increased 105% to 15,537 bopd, from five new wells. In Mapache, two successful exploration wells, Mapache-1 and Mirasol-1, were brought on production in March of 2009 creating a new production area for the Company. In Neiva, production increased 436% to 2,346 bopd, from 28 new wells drilled and completed using our multi-stage fracture completion technique.

Production for the fourth quarter increased 60% over the comparable 2008 period. Production increases are primarily due to drilling successes in Corcel, Mapache and Neiva. In Orito, production was higher in the fourth quarter of 2009 due to production additions from three new wells and in 2008 there was a general strike in the Putumayo region of southern Colombia that resulted in production being shut-in from November 20, 2008 through to January 5, 2009.

Production has continued to increase subsequent to year-end, averaging 41,102 bopd in February 2010. The increase relates to production additions from the Candellilla-1 and 2 wells on our Guatiquia block.

Average Benchmark and Realized Prices

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
WTI (US\$/bbl)	76.19	59.08	29%	61.80	99.75	(38%)
WTI (\$/bbl)	80.47	70.95	13%	70.57	104.30	(32%)
AECO natural gas (\$/mcf)	4.50	6.69	(33%)	3.95	8.15	(52%)
US\$ per C\$1	0.95	0.83	14%	0.88	0.94	(6%)
PetroBakken – oil and NGL						
Realized price per bbl (\$/bbl)	71.63	57.71	24%	64.27	92.80	(31%)
US\$ discount as a % of WTI	11%	18%	(39%)	9%	13%	(31%)
PetroBakken – natural gas						
Realized price per mcf (\$/mcf)	4.61	6.86	(33%)	4.40	8.06	(45%)
Petrominerales – light / medium oil						
Realized price per bbl (\$/bbl)	65.23	54.93	19%	56.59	87.15	(35%)
US\$ discount as a % of WTI	19%	23%	(17%)	19%	18%	6%

PetroBakken

Fourth quarter 2009 realized oil and NGL prices increased due to higher WTI prices and lower Canadian crude oil differentials and transportation costs.

Realized oil and NGL prices decreased in 2009 mainly due to of lower average WTI prices partially offset by lower Canadian crude oil differentials and transportation costs.

Natural gas prices decreased in the fourth quarter and 2009 due to increased supply in the United States and decreased North American demand.

Petrominerales

The majority of Petrominerales' production is priced in relation to the Colombian Vasconia crude oil stream. During 2009, the discount between Vasconia and WTI narrowed, consistent with the general narrowing of heavy crude oil differentials. The 2009 average realized oil prices changed mainly due to changes in the benchmark WTI price and the narrowing of the Vasconia crude discount compared to WTI.

Revenue

The change in revenue in the fourth quarter of 2009 compared to the fourth quarter of 2008 is primarily due to increased sales with PetroBakken's acquisition of TriStar and increased drilling activity, combined with higher sales recorded by Petrominerales and higher oil prices, as summarized below:

Reconciliation of Changes in Revenue	PetroBakken	Petrominerales	Total
Three months ended December 31, 2008	121,012	85,149	206,161
Sales volume variance	141,417	68,010	209,427
Price variance	13,905	16,528	30,433
Three months ended December 31, 2009	276,334	169,687	446,021
\$ change in revenue	155,322	84,538	239,860
% change in revenue	128%	99%	116%

The change in 2009 revenue compared to 2008 is primarily due to an increase in sales volumes in both PetroBakken and Petrominerales, partially offset by lower oil prices, as summarized below:

Reconciliation of Changes in Revenue	PetroBakken	Petrominerales	Total
Year ended December 31, 2008	585,800	364,268	950,068
Sales volumes variance	189,467	258,607	448,074
Price variance	(199,679)	(104,789)	(304,468)
Year ended December 31, 2009	575,588	518,086	1,093,674
\$ change in revenue	(10,212)	153,818	143,606
% change in revenue	(2%)	42%	15%

Net Realized Prices

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
PetroBakken						
Gross revenue	276,334	121,012	128%	575,588	585,800	(2%)
Transportation expense	3,297	6,463	(49%)	8,820	21,212	(58%)
PetroBakken revenue	273,037	114,549	138%	566,768	564,588	-
Gross revenue (\$/boe)	65.84	59.05	11%	59.89	90.04	(33%)
Transportation expense (\$/boe)	0.79	3.15	(75%)	0.92	3.26	(72%)
PetroBakken realized price (\$/boe)	65.05	55.90	16%	58.97	86.78	(32%)
Petrominerales						
Gross revenue	169,687	85,149	99%	518,086	364,268	42%
Transportation expense	16,027	7,610	111%	53,537	14,460	270%
Net revenue	153,660	77,539	98%	464,549	349,808	33%
Gross revenue (\$/bbl)	72.03	60.32	19%	63.11	90.75	(30%)
Transportation expense (\$/bbl)	6.80	5.39	26%	6.52	3.60	81%
Petrominerales realized price (\$/bbl)	65.23	54.93	19%	56.59	87.15	(35%)

PetroBakken

Fourth quarter 2009 net realized prices improved due to higher WTI prices and lower transportation costs. Conversely 2009 net realized prices fell due to lower WTI prices partially offset by lower transportation costs. Transportation costs decreased on an absolute and unit of production basis for both the fourth quarter and the year-ended 2009 as an increased number of wells have been tied into our southeast Saskatchewan production facilities resulting in a significant reduction in trucking costs.

Petrominerales

All Corcel and Mapache production is trucked to various offloading stations. Transportation expenses increased in 2009 due to a higher proportion of production being trucked and an increasing proportion of oil was delivered to more distant stations. Fourth quarter 2009 transportation expenses were consistent with 2008 as we realized savings in trucking expenses from delivering to Monterrey which offset higher transportation expenses incurred from delivering higher production levels to more distant stations.

Access to pipeline and offloading infrastructure is critical to growing production in the region. Petrominerales has secured additional offloading capacity with the construction of the Monterrey facility that will give Petrominerales up to an additional 20,000 bopd of incremental offloading capacity in 2010. Monterrey is the closest offloading station to Corcel, and since oil deliveries commenced on July 9, 2009, our trucking costs for volumes delivered to Monterrey have been reduced to under US\$3.00 per barrel.

In addition, Petrominerales has entered into a contract to deliver a minimum of 10,000 bopd to an offloading station at Cusiana. Initial deliveries to this station are expected to commence in the second quarter of 2010.

Royalties

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
PetroBakken ⁽¹⁾	42,565	17,664	141%	82,151	65,252	26%
Petrominerales	16,820	6,612	154%	47,297	33,974	39%
Total royalties	59,385	24,276	145%	129,448	99,226	30%
PetroBakken – \$ per boe	10.14	8.62	18%	8.55	10.03	(15%)
Petrominerales – \$ per bbl	7.14	4.68	53%	5.76	8.46	(32%)
PetroBakken – royalties as a % of realized price	16%	15%	7%	14%	12%	17%
Petrominerales – royalties as a % of realized price	11%	9%	22%	10%	10%	-

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

PetroBakken

Fourth quarter 2009 royalties increased due to production additions from the TriStar acquisition and higher oil prices. Royalties increased in 2009 despite lower commodity prices and as a result of the TriStar acquisition. Royalties as a percentage of revenue increased as a higher proportion of our Bakken wells no longer receive their royalty holidays and following the TriStar acquisition a higher proportion of our production is subject to higher rate freehold royalties that do not receive a royalty holiday. The first 37,740 barrels of production from horizontal wells drilled on Saskatchewan Crown land receive a royalty holiday but incurs Saskatchewan Resource Surcharge of 1.7%.

Petrominerales

Colombian government royalties are fixed at a rate of eight percent until the Company's net production per field exceeds 5,000 bopd and then increase by one percent for each incremental 10,000 bopd of production per field. In addition, there is an eight percent net profits interest ("NPI") applicable to the Corcel Block. The NPI account is a cumulative balance that includes the deduction of capital investments such that when negative, no amount is payable. Royalties as a percent of revenue increased to 11% in the fourth quarter of 2009 due to higher NPI charges and higher government royalties associated with the Corcel A structure as production exceeded 5,000 bopd during the quarter.

Gain (Loss) on Risk Management Contracts

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
PetroBakken realized gain (loss)	3,134	4,461	(30%)	23,972	(4,808)	-
Petrominerales realized gain (loss)	-	1,512	-	-	(8,469)	-
PetroBakken unrealized gain (loss)	(13,297)	34,517	-	(41,941)	37,854	-
Petrominerales unrealized gain	-	2,504	-	-	6,465	-
Gain (loss) on risk management contracts	(10,163)	42,994	-	(17,969)	31,042	-

PetroBakken

PetroBakken enters into commodity price derivative contracts to limit exposure to declining commodity prices protecting acquisition economics and providing increased stability of cash flows and capital expenditure programs. Commodity prices fluctuate due to political events, weather conditions, disruptions in supply, and changes in demand. Risk management activities are conducted pursuant to the risk management policies approved by the Board of Directors of PetroBakken.

The majority of our financial derivative contracts are option based contracts and as such their fair value at a particular point in time is affected by the underlying commodity price, expected commodity price volatility and the duration of the contract. The fair value of the fixed price derivative contracts at a particular point in time is determined by the expected future settlements of the underlying commodity or interest rate. At December 31, 2009, the fair value of the financial derivative contracts was a liability of \$6.1 million. The fair value of this liability represents the estimated amount required to settle PetroBakken's outstanding contracts at December 31, 2009 and will be different than what will eventually be realized.

The gain or loss on risk management contracts is made up of two items; the realized component reflects actual settlements that occurred during the period, and the unrealized component represents the change in the fair value of the contract during the period. WTI averaged US\$61.80 per bbl in 2009 and US\$76.19 per bbl in the fourth quarter. Although this increase had an overall positive impact on PetroBakken's revenue, it caused the fair value of the unrealized (yet to mature) contracts to decrease in value resulting in an unrealized loss. PetroBakken recorded realized gains of \$0.75 per boe and \$2.49 per boe for the fourth quarter and 2009 respectively.

At December 31, 2009, PetroBakken recorded a \$6.5 million liability related to the following crude oil price risk management contracts:

Term	Volume (bopd)	Price (\$/bbl)	Benchmark
Jan. 1, 2010 – Dec. 31, 2010	500	C\$65.00 floor / C\$87.25 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$65.00 floor / C\$90.00 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$65.00 floor / C\$99.50 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$70.00 floor / C\$87.85 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$82.45 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$93.65 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$94.15 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	1,000	C\$75.00 floor / C\$98.30 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$100.00 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 floor / US\$93.05 ceiling	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 floor / US\$93.25 ceiling	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 floor / US\$95.00 ceiling	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 floor / US\$95.00 ceiling	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$75.00 floor / US\$94.75 ceiling	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$75.00 floor / US\$95.00 ceiling	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 put	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$75.00 put	US\$WTI
Jan. 1, 2011 – Dec. 31, 2011	1,000	C\$75.00 floor / C\$90.00 ceiling	C\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$75.00 floor / US\$93.75 ceiling	US\$WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$75.00 floor / US\$95.00 ceiling	US\$WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$75.00 floor / US\$99.00 ceiling	US\$WTI
Jan. 1, 2011 – Dec. 31, 2011	500	C\$80.00 floor / C\$95.60 ceiling	C\$WTI
Jan. 1, 2011 – Dec. 31, 2011	1,000	C\$80.00 floor / C\$100.70 ceiling	C\$WTI

The following crude oil price risk management contracts were entered into subsequent to December 31, 2009:

Term	Volume (bopd)	Price (\$/bbl)	Benchmark
Feb. 1, 2010 – Dec. 31, 2010	500	US\$75.00 floor / US\$97.00 ceiling	US\$WTI
Feb. 1, 2010 – Dec. 31, 2010	500	US\$75.00 floor / US\$97.25 ceiling	US\$WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$80.00 floor / US\$98.55 ceiling	US\$WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$80.00 floor / US\$98.60 ceiling	US\$WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$75.00 floor / US\$104.00 ceiling	US\$WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$75.00 floor / US\$104.25 ceiling	US\$WTI

At December 31, 2009, PetroBakken recorded a \$0.5 million asset related to the following natural gas price risk management contracts:

Term	Volume (GJ/d)	Price (\$/GJ)	Benchmark
Nov. 1, 2009 – Oct. 31, 2010	1,500	C\$5.00 floor / C\$6.25 ceiling	AECO
Nov. 1, 2009 – Nov. 30, 2010	2,500	C\$5.00 floor / C\$7.20 ceiling	AECO

PetroBakken assumed the following natural gas price risk management contracts upon the acquisition of Berens on February 25, 2010:

Term	Volume (GJ/d)	Price (\$/GJ)	Benchmark
Aug. 1, 2009 – Mar. 31, 2010	2,000	C\$4.00 fixed price swap	AECO
Aug. 1, 2009 – Mar. 31, 2010	2,000	C\$4.16 fixed price swap	AECO
Aug. 1, 2009 – Mar. 31, 2010	2,000	C\$4.18 fixed price swap	AECO
Apr. 1, 2010 – Mar. 31, 2011	2,000	C\$6.00 fixed price swap	AECO
Apr. 1, 2010 – Dec. 31, 2011	2,000	C\$6.02 fixed price swap	AECO

At December 31, 2009, PetroBakken recorded a \$0.1 million liability related to the following interest rate swap contracts:

Term	Notional Principal / Month	Fixed Annual Rate (%)
Apr. 2009 – Apr. 2011	C\$50 million	1.050%
Apr. 2009 – Apr. 2012	C\$50 million	1.300%
Jan. 2009 – Jan. 2012	C\$50 million	1.620%
Jan. 2009 – Jan. 2012	C\$50 million	1.653%
Feb. 2009 – Feb. 2012	C\$25 million	1.540%
Feb. 2009 – Feb. 2012	C\$25 million	1.510%
Jun. 2009 – Jun. 2012	C\$25 million	2.094%

PetroBakken assumed the following interest rate swap contracts upon the acquisition of Berens on February 25, 2010:

Term	Notional Principal / Month	Fixed Annual Rate (%)
Feb. 2009 – Feb. 2011	\$40 million	2.390%

Production Expenses

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
PetroBakken	34,535	16,882	105%	70,913	56,983	24%
Petrominerales	18,952	11,002	72%	65,738	36,409	81%
Total production expenses	53,487	27,884	92%	136,651	93,392	46%
PetroBakken – \$ per boe	8.23	8.24	-	7.38	8.76	(16%)
Petrominerales – \$ per bbl	8.05	7.80	3%	8.01	9.08	(12%)

PetroBakken

Production expenses increased in the fourth quarter and in 2009 primarily as a result of increased production from the TriStar acquisition. Production expenses per unit remained consistent in the fourth quarter as higher cost production acquired from TriStar offset cost efficiencies gained during the year. Production expenses per unit declined in 2009 due mainly to the completion of two additional production facilities in southeast Saskatchewan. These facilities have also allowed us to add liquids rich natural gas production and reserves associated with Bakken light oil production. Fourth quarter 2009 production expenses decreased by 7% to \$8.23 per boe from \$8.81 per boe in third quarter 2009 (Q3 pro forma includes TriStar), due to synergies realized through increased production. We expect production expenses to continue to decline as a result of the completion of non-core property dispositions in late 2009 and the first quarter of 2010. Operating costs in our core area of southeast Saskatchewan averaged \$6.71 per boe in the fourth quarter and \$6.36 per boe in 2009.

Petrominerales

In 2009, production expenses in Canadian dollars increased 81% primarily due to 104% higher production levels and due to depreciation of the Canadian dollar relative to the U.S. dollar. On a per barrel basis production expenses decreased 12% to \$8.01 per barrel. The reduction is primarily related to expansions of the Corcel central processing facilities in the third quarter of 2008 to increase fluid handling capacity. These permanent facilities replaced higher cost, less efficient temporary facilities resulting in improved U.S. dollar denominated production expenses through the last two quarters of 2008 and into 2009. In addition, as a portion of the Company's production expenses are fixed, when combined with higher production, has resulted in lower per barrel production expenses.

The fourth quarter production expenses on a per barrel basis increased to \$8.05 mainly due to higher fluid volumes that resulted in higher water handling and water treatment costs, partly offset by an appreciation of the Canadian dollar relative to the U.S. dollar.

General and Administrative Expenses

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
HBU and Corporate	1,272	977	30%	4,100	3,314	24%
PetroBakken	5,557	2,947	89%	15,253	10,512	45%
Petrominerales	4,076	2,940	39%	13,686	10,744	27%
Total general and administrative expenses	10,905	6,864	59%	33,039	24,570	34%
PetroBakken – \$ per boe	1.32	1.44	(8%)	1.59	1.62	(2%)
Petrominerales – \$ per bbl	1.73	2.08	(17%)	1.67	2.68	(38%)

Total general and administrative costs increased in the fourth quarter and 2009 primarily due to additional personnel as a result of expanding operations in all business units, and specifically staff added through PetroBakken's acquisition of TriStar. On a unit of production basis, these costs have decreased due to higher production levels in both PetroBakken and Petrominerales.

Stock-Based Compensation Expenses

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
HBU and Corporate	2,152	1,191	81%	6,274	3,960	58%
PetroBakken	6,191	2,929	111%	18,650	10,831	72%
Petrominerales	1,156	961	20%	5,167	2,843	82%
Total stock-based compensation expenses	9,499	5,081	87%	30,091	17,634	71%

Stock-based compensation expenses relate to stock options and deferred common shares granted by Petrobank, PetroBakken and Petrominerales and incentive shares granted by PetroBakken and Petrominerales. The calculation of this non-cash expense is based on the fair value of stock options, deferred common shares and incentive shares granted, amortized over the vesting period of the option or incentive shares, or immediately upon grant of the deferred common shares.

Starting in the fourth quarter of 2009 the PetroBakken expense relates to PetroBakken securities granted to employees, officers and directors following the incorporation of PetroBakken and the acquisition of TriStar. For all of 2008 and the first nine months of 2009, this expense relates to historical Petrobank securities that were granted to employees involved with CBU operations, and as such has been excluded from HBU and Corporate expense.

Interest Expense

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
HBU and Corporate	4,238	2,740	55%	13,314	7,012	90%
PetroBakken	11,547	3,047	279%	18,699	9,542	96%
Petrominerales	2,614	3,060	(15%)	11,534	11,398	1%
Total interest expense	18,399	8,847	108%	43,547	27,952	56%

Interest expense includes interest on bank debt and convertible debentures, fees on letters of credit, and amortization of deferred financing costs. Interest expense includes non-cash accretion related to the convertible debentures of \$10.9 million in 2009 (2008 – \$13.4 million).

HBU and Corporate

Interest expense increased in the 2009 periods due to the US\$400 million issuance of 5.125% convertible debentures in July 2009. In January 2010, 63% of these convertible debentures were converted into common shares which will result in reduced interest expense in 2010.

PetroBakken

Interest expense increased in the fourth quarter and in 2009 as a result of the increase in bank debt used to fund a portion of the TriStar acquisition.

Petrominerales

Interest expense remained consistent for the year ended December 31, 2009, despite repurchasing US\$18.3 million of convertible debentures in the fourth quarter of 2008, due to the depreciation of the Canadian dollar relative to the U.S. dollar. Interest expense for the fourth quarter of 2009 decreased due to lower interest expense incurred on convertible debentures and an appreciation of the Canadian dollar, partially offset by higher interest incurred on bank debt and local credit lines.

Foreign Exchange Loss (Gain)

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
HBU and Corporate	(8,504)	32,542	-	(57,753)	46,782	-
PetroBakken	1,105	-	-	1,105	-	-
Petrominerales	(2,143)	1,000	-	9,346	1,067	776%
Total foreign exchange loss (gain)	(9,542)	33,542	-	(47,302)	47,849	-

HBU and Corporate

The Company recognized foreign exchange gains in the 2009 periods primarily due to the appreciation of the Canadian dollar relative to the U.S. dollar in the second half of the year. An unrealized foreign exchange gain of \$9.0 million (2008 – loss of \$33.0 million) in the fourth quarter and \$58.3 million (2008 – loss of \$47.2 million) in 2009 was mainly attributable to Petrobank's U.S. dollar denominated convertible debentures.

Petrominerales

The Colombian peso depreciated 6% relative to the U.S. dollar, the reporting currency of Petrominerales, for the three months ended December 31, 2009, from 1,922:1 at September 30, 2009 to 2,044:1 at December 31, 2009. In Canadian dollars this resulted in a \$2.1 million foreign exchange gain primarily on Colombian peso denominated accounts payable and future income tax liabilities. During the year ended December 31, 2009, the Colombian peso appreciated 9% relative to the U.S. dollar which resulted in a \$9.3 million foreign exchange loss in Canadian dollars. Changes in the Colombian peso exchange rate also impact Petrominerales' U.S. dollar denominated expenses and expenditures as approximately 60% of Petrominerales' expenditures are incurred in Colombian pesos.

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

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
HBU and Corporate	155	84	85%	411	323	27%
PetroBakken	142,523	59,301	140%	303,714	187,372	62%
Petrominerales	44,205	33,946	30%	177,780	87,681	103%
Total DD&A expense	186,883	93,331	100%	481,905	275,376	75%
PetroBakken – \$ per boe	33.96	28.94	17%	31.60	28.80	10%
Petrominerales – \$ per bbl	18.76	24.05	(22%)	21.66	21.84	(1%)

PetroBakken

DD&A increased on both an absolute and unit of production basis in the fourth quarter and 2009 due primarily to the TriStar acquisition.

Petrominerales

DD&A expenses increased in 2009 mainly due to production increases. The annual rate per barrel remained relatively consistent as a decrease on a U.S. dollar denominated basis was offset by a depreciation of the Canadian dollar relative to the U.S. dollar. The fourth quarter rate per barrel decreased by 22%, mainly due to a 43% increase in gross total proved reserves to 36.0 million barrels combined with an appreciation of the Canadian dollar relative to the U.S. dollar.

Current Taxes

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
Petrominerales current taxes	2,752	(13,443)	-	10,234	4,938	107%

Current taxes consist of income, presumptive income and equity taxes in Colombia. Equity tax is based on equity capitalization levels in Colombia, while presumptive income tax is charged in periods where taxable income is below certain thresholds, and when paid, can be carried forward for five years and be recovered against income taxes in future periods. Petrominerales' pre-tax income is subject to the Colombian statutory income tax rate of 33%.

Future Income Taxes

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
HBU and Corporate	1,325	(1,224)	-	(3,514)	(12,314)	(71%)
PetroBakken	(33,653)	5,815	-	(24,027)	71,329	-
Petrominerales (Colombia)	10,488	16,992	(38%)	11,588	27,089	(57%)
Total future income taxes (recovery)	(21,840)	21,583	-	(15,953)	86,104	-

HBU and Corporate

The fourth quarter and 2009 future income taxes are relatively consistent with income earned after adjustments for non-deductible and non-realized items and the recognition of a previously unrecognized future income tax asset.

PetroBakken

PetroBakken's future income tax expense for the fourth quarter and 2009 is relatively consistent with income earned after adjustments for non-deductible items, offset by a large future income tax recovery arising on a disposition in December 2009.

Petrominerales

When combined with the current tax expense in Colombia, Petrominerales had a U.S. dollar denominated effective tax rate of 19% in the fourth quarter of 2009 and 16% for 2009. The effective tax rates are lower than the Colombian statutory income tax rate of 33% largely as a result of enhanced tax allowances received for the acquisition of fixed assets.

Net Income Attributable to Non-Controlling Interests (“NCI”)

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
PetroBakken	12,019	-	-	12,019	-	-
Petrominerales	18,387	5,968	208%	36,070	33,206	9%
Net income attributable to NCI	30,406	5,968	409%	48,089	33,206	45%

The net income attributable to NCI represents the non-controlling interest share of PetroBakken and Petrominerales’ net income. The NCI share in PetroBakken is 36% since PetroBakken acquired TriStar on October 1, 2009. The NCI share in Petrominerales averaged approximately 30% in 2009 (2008 – 24%) and 34% in the fourth quarter (2008 – 24%).

Net Income

The change in net income in the fourth quarter is primarily due to higher sales volumes, higher commodity prices, and positive future income tax and foreign exchange differences, partially offset by higher DD&A, losses on risk management contracts, higher royalties, production expenses and acquisition related expenses as summarized in the table below.

The change in net income in 2009 is primarily due to lower commodity prices, higher DD&A expense, losses on risk management contracts, higher production expenses, royalties, transportation and acquisition related expenses, partially offset by higher sales volumes, and positive future income tax and foreign exchange differences. Other factors also contributed to the change in net income to a lesser extent, as summarized in the table below.

Reconciliation of Changes in Net Income

	Three months ended December 31,		Year ended December 31,	
	(\$000s)	Per share ⁽¹⁾	(\$000s)	Per share ⁽¹⁾
Net income: December 31, 2008	28,083	0.27	244,482	2.54
Increase (decrease) due to:				
Sales volumes	209,427	1.99	448,074	4.65
Realized prices	30,433	0.29	(304,468)	(3.16)
Royalties	(35,109)	(0.33)	(30,222)	(0.31)
Risk management contracts	(53,157)	(0.50)	(49,011)	(0.51)
Production expenses	(25,603)	(0.24)	(43,259)	(0.45)
Transportation expenses	(5,251)	(0.05)	(26,685)	(0.28)
Acquisition related expenses	(19,155)	(0.18)	(19,155)	(0.20)
Stock-based compensation expenses	(4,418)	(0.04)	(12,457)	(0.13)
Interest expenses	(9,552)	(0.09)	(15,595)	(0.16)
Foreign exchange	43,084	0.41	95,151	0.99
DD&A expense	(93,552)	(0.89)	(206,529)	(2.14)
Current taxes	(16,195)	(0.15)	(5,296)	(0.05)
Future income taxes	43,423	0.41	102,057	1.06
Non-controlling interests	(24,438)	(0.23)	(14,883)	(0.15)
Other ⁽²⁾	(10,912)	(0.11)	(17,125)	(0.18)
Net income: December 31, 2009	57,108	0.56	145,079	1.52

(1) Per weighted average number of diluted common shares for the period ending December 31, 2009.

(2) Includes interest income, general and administrative expenses, and gain on repurchase of Petrominerales convertible debentures in 2008.

Funds Flow From Operations

The increase in funds flow from operations in the fourth quarter is primarily due to higher sales volumes and higher commodity prices, partially offset by higher royalties, production, current taxes, cash interest and acquisition related expenses

The increase in funds flow from operations in 2009 is primarily due to higher sales volumes and realized hedging gains, partially offset by lower commodity prices, higher royalties, production, transportation, cash interest and acquisition related expenses. Other factors also contributed to the change in funds flow from operations to a lesser extent, as summarized in the table below.

Reconciliation of Changes in Funds Flow From Operations

	Three months ended December 31,		Year ended December 31,	
	(\$000s)	Per share ⁽¹⁾	(\$000s)	Per share ⁽¹⁾
Funds flow from operations: December 31, 2008	147,813	1.40	665,933	6.78
Increase (decrease) due to:				
Sales volumes	209,427	1.99	448,074	4.56
Realized prices	30,433	0.29	(304,468)	(3.10)
Royalties	(35,109)	(0.33)	(30,222)	(0.31)
Realized portion of risk management contracts	(2,839)	(0.03)	37,249	0.38
Production expenses	(25,603)	(0.24)	(43,259)	(0.44)
Transportation expenses	(5,251)	(0.05)	(26,685)	(0.27)
Cash acquisition related expenses	(9,570)	(0.09)	(9,570)	(0.10)
Cash interest expense	(14,156)	(0.14)	(18,120)	(0.18)
Current taxes	(16,195)	(0.15)	(5,296)	(0.05)
Other ⁽²⁾	54	0.00	(16,199)	(0.10)
Funds flow from operations: December 31, 2009	279,004	2.65	697,437	7.17

(1) Per weighted average number of diluted common shares for the period ending December 31, 2009.

(2) Includes interest income, general and administrative expenses, cash interest expense, realized foreign exchange, current taxes and asset retirement obligations settled.

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

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
Funds flow from operations: Non-GAAP	279,004	147,813	89%	697,437	665,933	5%
Changes in non-cash working capital	70,385	75,853	(7%)	18,377	(12,323)	-
Cash flow from operating activities: GAAP	349,389	223,666	56%	715,814	653,610	10%

Capital Expenditures

	Three months ended December 31,			Years ended December 31,		
	2009	2008	Change	2009	2008	Change
HBU	15,554	23,471	(34%)	76,019	82,332	(8%)
PetroBakken ("PBN")	177,278	200,186	(11%)	394,023	545,833	(28%)
Petrominerales ("PMG")	86,566	56,325	54%	320,815	281,748	14%
Total capital expenditures	279,398	279,982	-	790,857	909,913	(13%)

Q4 2009 Capital Expenditures By Type

	HBU	PBN	PMG	Total
Drilling and completions	1,567	137,029	42,224	180,820
Facilities	2,980	24,237	30,868	58,085
Land	54	3,125	-	3,179
Seismic	-	11	9,281	9,292
Pilot capital	4,519	-	-	4,519
Asset acquisition	-	8,112	-	8,112
Other ⁽¹⁾	6,434	4,764	4,193	15,391
Total capital expenditures	15,554	177,278	86,566	279,398

(1) Includes health, safety and environmental, capitalized salaries and office furniture and fixtures. HBU also includes \$2.7 million of capitalized cash interest.

HBU

HBU expenditures in the fourth quarter and 2009 included facility and start-up costs at Kerrobert, workovers and operating expenses at Conklin, and capitalized interest. Currently, the business unit operations are considered to be in the pre-operating stage and as a result, operating expenses net of revenues and interest are capitalized. Pilot capital costs include well workovers and operating costs, which include costs to manage H2S and waste water related to our Conklin Project.

PetroBakken

Expenditures in the fourth quarter were focused on drilling, completions and recompletions, primarily at our southeast Saskatchewan light oil properties, where we drilled 64.8 net Bakken wells in the fourth quarter. The majority of facilities expenditures in the fourth quarter included costs to tie-in additional wells and the expansion of gathering systems to our five major facilities in southeast Saskatchewan.

Petrominerales

Fourth quarter capital expenditures at Corcel included facilities costs at the Corcel central processing facility to increase fluid handling, completion costs for the A2 side-track well, initial costs related to the 2010 3D seismic acquisition program and civil construction costs related to the 2010 drilling program. Neiva expenditures included drilling and completing eight oil wells and five well optimizations. Guatiquia expenditures related to drilling, completing and testing the Percheron-1 and Candelilla-1 wells and initial production facilities on the block. Activities in Peru related to the acquisition of 150 square kilometres of 3D seismic on Block 126. Heavy oil block expenditures related to drilling, completion and testing of the Rio Ariari-1 well. Mapache expenditures included costs for facilities expansion to increase fluid handling capacity and well optimizations performed on the Mirasol-1 and Mapache-1 wells.

2009 Capital Expenditures By Type	HBU	PBN	PMG	Total
Drilling and completions	21,589	271,055	178,799	471,443
Facilities	17,544	53,692	88,348	159,584
Land	307	40,670	-	40,977
Seismic	978	3,284	41,727	45,989
Pilot capital	22,590	-	-	22,590
Asset acquisition	-	8,112	-	8,112
Other ⁽¹⁾	13,011	17,210	11,941	42,162
Total capital expenditures	76,019	394,023	320,815	790,857

(1) Includes health, safety and environmental, capitalized salaries and office furniture and fixtures. HBU also includes \$7.3 million of capitalized cash interest.

HBU

HBU expenditures in 2009 included the construction of our Kerrobert Project, which includes drilling and completing two horizontal production wells and two vertical air injection wells, constructing facilities and initial start-up costs. 2009 expenditures related to our Conklin Project include drilling and completing the P2B and P1B wells, facility modifications, workovers, operating expenses and capitalized interest. Currently, the business unit operations are considered to be in the pre-operating stage and as a result, operating expenses net of revenues and interest are capitalized. Pilot capital costs include well workovers and operating costs, which include costs to manage H2S and waste water related to our Conklin Project.

PetroBakken

PetroBakken 2009 expenditures were focused on drilling, completions and recompletions, primarily at PetroBakken's southeast Saskatchewan light oil properties, where PetroBakken drilled a total of 114.8 net wells. In addition 2.5 net wells were drilled primarily in northeast BC in 2009. The majority of facilities expenditures in 2009 included costs to tie-in additional wells and the expansion of gathering systems to our five major facilities in southeast Saskatchewan. PetroBakken also acquired 10.5 sections of land in 2009 which added to the core of our Bakken operating fairway.

Petrominerales

Year to date capital expenditures at Corcel included costs associated with drilling and completing six wells, expansions at the Corcel central processing facility to increase fluid handling capacity to 140,000 barrels of fluid per day and initial costs related with the 2010 3D seismic acquisition program. Neiva expenditures included drilling 31 oil wells, completing 28 wells and performing well optimizations on 15 wells. Orito expenditures included drilling three oil wells and completing four wells and facilities costs related primarily to a water flood pilot project. Heavy oil block expenditures related to drilling three wells and the acquisition of 50 square kilometres of 3D seismic on the Rio Ariari block. Guatiquia expenditures related to drilling, completing and testing the Percheron-1 and Candelilla-1 wells and initial production facilities on the block. Mapache expenditures included completion of Mapache-1 and Mirasol-1 wells, facilities costs for increasing fluid handling capacity, and the acquisition of 91 square kilometres of 3D seismic to the south of our initial discoveries. Exploration activity included the acquisition of 297 square kilometres of 3D seismic on our Casimena, Castor and Casanare Este blocks. Activities in Peru related to the acquisition of 150 square kilometres of 3D seismic on Block 126.

HBU Development Projects

Conklin (Whitesands) THAI™ Project

Petrobank, through Whitesands Insitu Partnership, owns 72 sections (46,240 acres) of oil sands leases (the Whitesands leases) near Conklin, Alberta where we are operating the first field test of Petrobank's THAI™/CAPRI™ technologies. The project consists of three vertical air injection wells and three corresponding air injection wells.

Kerrobert THAI™ Project

The Kerrobert Project is a 50% joint venture. The first two production well pairs were completed and commenced air injection in the fourth quarter of 2009. Production rates in early March, based on field measurements, have averaged 123 bopd, with an on-stream factor of 81%. The next expansion of our air compression capacity will be installed at the beginning of April. We are planning for the development of nine additional production wells operating in the third quarter of 2010.

May River Project

The May River Project is the commercial development of Petrobank's Whitesands leases (including the Conklin project) west of Conklin, Alberta utilizing THAI™. The May River design builds on the experience gained from the Conklin plant and is intended to be built in phases, with initial production capacity of 10,000 barrels of THAI™ oil per day, and an ultimate capacity of 100,000 barrels per day. The regulatory application for May River's first phase was filed with the Energy Resources Conservation Board and Alberta Environment at the end of 2008. The application is still moving through the regulatory process.

Goodwill

As a result of PetroBakken's acquisition of TriStar goodwill increased by \$997.8 million in the fourth quarter and 2009. Goodwill as at December 31, 2009 was \$1,066.6 million.

SUMMARY OF QUARTERLY RESULTS

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial (\$'000s except where noted)								
Oil and natural gas revenue	446,021	232,471	224,396	190,786	206,161	317,137	247,479	179,291
Funds flow from operations	279,004	142,927	150,350	125,156	147,813	216,709	177,923	123,488
Per share – basic (\$)	2.99	1.55	1.78	1.50	1.78	2.62	2.16	1.53
– diluted (\$)	2.65	1.42	1.64	1.40	1.63	2.36	1.92	1.36
Net income (loss)	57,108	54,846	34,667	(1,542)	28,083	123,226	57,636	35,537
Per share – basic (\$)	0.61	0.59	0.41	(0.02)	0.34	1.49	0.70	0.44
– diluted (\$)	0.56	0.56	0.40	(0.02)	0.34	1.35	0.64	0.40
EBITDA	295,515	153,133	155,058	130,884	138,529	235,377	182,349	126,998
Capital expenditures	279,398	194,043	144,422	172,994	279,982	257,305	172,356	200,270
Operations								
<i>PetroBakken operating netbacks by product</i>								
Light/medium/heavy oil and NGL sales price, net of transportation (\$/bbl)	71.63	67.65	62.22	48.57	57.71	115.11	117.64	91.87
Royalties	11.26	10.75	7.97	5.39	8.90	13.36	11.83	6.44
Production expenses	8.45	7.05	6.66	6.98	8.68	9.56	9.55	10.25
Operating netback	51.92	49.85	47.59	36.20	40.13	92.19	96.26	75.18
Natural gas sales price, net of transportation (\$/mcf)	4.61	3.55	3.91	5.35	6.86	7.94	9.83	7.73
Royalties	0.63	0.54	0.67	0.78	1.06	1.38	1.81	1.35
Production expenses	1.16	0.93	0.95	0.90	0.77	0.66	0.83	0.89
Operating netback	2.82	2.08	2.29	3.67	5.03	5.90	7.19	5.49
Oil equivalent sales price, net of transportation (\$/boe)	65.05	60.66	56.64	46.81	55.90	106.51	109.43	83.55
Royalties	10.14	9.62	7.40	5.32	8.62	12.72	11.70	6.74
Production expenses	8.23	6.83	6.52	6.81	8.24	8.84	8.88	9.35
Operating netback	46.68	44.21	42.72	34.68	39.04	84.95	88.85	67.46
<i>Petrominerales operating netback (\$/bbl)</i>								
Oil sales price, net of transportation	65.23	61.96	55.76	42.18	54.93	110.53	115.77	86.53
Royalties	7.14	6.06	5.02	4.60	4.68	11.71	11.11	8.25
Production expenses	8.05	8.81	7.86	7.40	7.80	8.38	10.86	10.86
Operating netback	50.04	47.09	42.88	30.18	42.45	90.44	93.80	67.42
<i>Average daily production</i>								
PetroBakken – light/medium/heavy oil and NGL (bbls)	38,796	15,185	16,761	19,722	19,841	16,024	14,205	11,351
PetroBakken – natural gas (mcf)	40,951	16,177	16,906	14,179	14,598	14,047	13,871	15,229
Total PetroBakken conventional (boe)	45,621	17,881	19,579	22,085	22,274	18,365	16,517	13,889
Petrominerales – oil (bbls)	24,555	21,546	21,548	21,771	15,344	12,485	7,339	8,635
Total Company conventional (boe)	70,176	39,427	41,127	43,856	37,618	30,850	23,856	22,524

Significant factors influencing quarterly results were:

- ▶ Strong production in both PetroBakken and Petrominerales and high benchmark oil prices in the first three quarters of 2008 resulted in dramatic increases in operating netbacks, revenue and funds flow from operations. In the fourth quarter of 2008 and first quarter of 2009 benchmark crude oil prices declined significantly, which negatively affected profitability, despite higher production levels. Crude oil benchmark prices began to recover throughout 2009 (although not to the level experienced in the first three quarters of 2008) contributing to improved netbacks, revenue and funds flow from operations.
- ▶ PetroBakken's industry leading drilling activity on the Bakken light oil resource play in southeast Saskatchewan contributed to continued production increases throughout 2008.
- ▶ PetroBakken light oil production in the fourth quarter of 2009 increased by 155% over the third quarter of 2009 mainly due to the acquisition of TriStar on October 1, 2009.
- ▶ PetroBakken capital expenditures decreased significantly in the first and second quarter of 2009 in response to lower crude oil prices which resulted in production declines in the second and third quarter of 2009. Third and fourth quarter expenditures increased as our drilling program expanded.
- ▶ Petrominerales production increased in the third quarter of 2008 due to production additions from the Corcel-A4 and C1 wells.
- ▶ Petrominerales production increased again in the fourth quarter of 2008 due to production additions from the Corcel-C3 and D1 wells, offset by a temporary suspension of operations at the Orito field due to a general strike in the region.
- ▶ First quarter 2009 Petrominerales production increased further due to additions from Corcel-D2, two wells on the Mapache block and six wells at Neiva.
- ▶ Fourth quarter 2009 Petrominerales production increased mainly due to the Corcel-A2 side-track well.

Commitments

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments as at December 31, 2009:

Type of Obligation	< 1 Year	1-3 Years	3-5 Years	Thereafter	Total
<i>HBU and Corporate</i>					
Petrobank convertible debentures (US\$) ⁽¹⁾	-	5,100	-	400,000	405,100
Office operating leases (\$)	1,800	4,200	5,100	11,600	22,700
<i>PetroBakken</i>					
Bank debt – principal (\$)	-	755,727	-	-	755,727
Office operating leases (\$)	4,338	9,717	11,576	15,762	41,393
<i>Petrominerales</i>					
Petrominerales convertible debentures (US\$) ⁽²⁾	81,700	-	-	-	81,700
Exploration contracts (US\$) ⁽³⁾	42,300	27,200	-	-	69,500
Transportation contract (US\$) ⁽⁴⁾	5,915	23,725	23,725	-	53,365
Office lease (US\$)	1,800	3,800	3,800	-	9,400
Offloading facility (US\$)	2,400	-	-	-	2,400
Total Company ⁽⁵⁾	146,503	832,257	45,483	446,002	1,470,245

(1) The US\$5.1 million of debentures are convertible into common shares of Petrobank at a conversion price of US\$28.4902 per share. The US\$400 million of debentures (subsequently reduced to US\$149.3 million in January 2010) are convertible into common shares of Petrobank at a conversion price of US\$38.08 per share.

(2) The Petrominerales debentures mature on December 6, 2010 and are convertible into common shares of Petrominerales at a conversion price of US\$27.3485 per share.

(3) These work commitments are normal course of business exploration activities that include property costs, acquisition and processing of seismic data and drilling exploration wells. Petrominerales has issued letters of credit totalling US\$18.8 million and pledged US\$1.4 million in restricted cash to guarantee the obligations under these exploration contracts.

(4) Petrominerales entered into a take-or-pay transportation contract to deliver up to 10,000 barrels of oil per day in the Llanos Basin of Colombia.

(5) US\$ amounts have been converted using the December 31, 2009 exchange rate of \$1.0466.

Liquidity and Capital Resources

Petrobank, PetroBakken and Petrominerales manage their capital structure independently and generate their own cash flows, and have the ability to fund their operations through the issuance of secured and unsecured debt as well as equity financing. The table below outlines the composition of Petrobank's consolidated capital structure and liquidity:

	HBU and Corporate	PetroBakken	Petrominerales	Consolidated Petrobank
Net working capital deficit (surplus) – excluding convertible debentures	\$ (21,174)	\$ 156,976	\$ (12,698)	\$ 123,104
Bank debt – principal	\$ -	\$ 755,727	\$ -	\$ 755,727
Convertible debentures – principal amount (US\$)	\$ 405,100 ⁽¹⁾	\$ -	\$ 81,700	\$ 486,800
Common share capital ⁽²⁾	\$ 880,183	\$ 2,717,098	US\$ 197,709	\$ 880,183
Credit facility – borrowing base	\$ 30,000 ⁽³⁾	\$ 900,000	US\$ 150,000	
Available credit capacity	\$ 30,000 ⁽³⁾	\$ 144,273	US\$ 150,000	

(1) In January 2010 US\$250.7 million principal amount of Petrobank convertible debentures were early converted into a total of 7,452,099 common shares. As a result, the outstanding principal amount of Petrobank convertible debentures has been reduced to US\$154.4 million.

(2) The common share capital of PetroBakken and Petrominerales eliminates upon consolidation of the financial statements.

(3) Petrobank is scheduled to close a \$30 million credit facility on March 31, 2010.

HBU and Corporate

At December 31, 2009, HBU and corporate had no bank debt and current assets in excess of accounts payable and accrued liabilities of \$21.2 million.

Petrobank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Petrobank considers its capital structure to include common share capital, convertible debentures, bank debt and working capital. In order to maintain or adjust the capital structure, from time to time Petrobank may issue common shares or other securities, obtain project financing, sell assets or adjust its capital spending to manage current and projected debt levels. Based on Petrobank's current ownership and PetroBakken's intentions of paying an annual dividend of \$0.96 per PetroBakken share, Petrobank expects to receive \$105 million of dividends annually from PetroBakken paid monthly. Petrobank can also raise funds by selling a portion of its ownership in PetroBakken and Petrominerales or by issuing additional debt secured by these interests.

The Petrobank convertible debentures are considered to be equity as opposed to debt for capital management purposes. Under each tranche of debentures, if Petrobank's share price is below the prevailing conversion price at maturity, Petrobank can elect to redeem the principal amount in common shares or re-pay the remaining principal with new debt, equity and / or accumulated cash. Petrobank has the option to force conversion of the debentures at the prevailing conversion price after a period of time has elapsed should the price of Petrobank's common shares exceed 120% of the prevailing conversion price of the debentures over a specified period. If conversion of the debentures is forced, or if Petrobank's share price is in excess of the prevailing conversion price upon maturity, the debentures will be converted into equity.

Petrobank is in compliance with the covenants in its convertible debenture agreements. Petrobank's convertible debenture agreements stipulate that we maintain a ratio of equity to total assets of at least 30% and to limit the amount of security and encumbrances to 27.5% of total assets.

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

PetroBakken – 64% owned by Petrobank as of October 1, 2009 (previously 100% owned)

PetroBakken's strategy is to provide a reasonable dividend yield to shareholders while delivering a growth-oriented business plan. PetroBakken is focused on securing appropriate levels of capitalization to support this business strategy.

As at December 31, 2009, PetroBakken had \$755.7 million drawn on its \$900 million credit facility. The credit facility is with a syndicate of banks and is subject to a semi-annual review. The next review will be completed in the second quarter of 2010. The facility is a borrowing base facility that is determined based on, among other things, reserves, results of operations, current and forecasted commodity prices and the current economic environment. The credit facility provides that advances may be made by way of direct advances, banker's acceptances, or standby letters of credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances, and at the bank's U.S. base rate plus an applicable margin for U.S. dollar advances. The applicable margin charged by the bank is based on a sliding scale ratio of PetroBakken's debt to earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA"). The facility is secured by a \$2.0 billion demand debenture and a securities pledge on PetroBakken's assets. PetroBakken is not subject to restrictive financial covenants under this credit facility.

Subsequent to December 31, 2009, PetroBakken issued convertible debentures with an annual coupon of 3.125% for gross proceeds of US\$750 million. The convertible debenture has financial covenants that limit the amount of security and encumbrances PetroBakken has to 35% of total assets. Proceeds from the issuance of the convertible debenture were used to repay all outstanding bank debt. In February 2010, PetroBakken completed the \$343 million acquisition of Berens. In March 2010, PetroBakken completed the acquisition of Rondo for an \$89 million cash payment, the issuance of 5.5 million PetroBakken common shares and the assumption of debt. In April 2010, PetroBakken expects to make a net \$140 million cash payment for the acquisition of Result. PetroBakken closed \$112 million of additional Alberta non-core property dispositions in the first quarter of 2010.

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

- ▶ Funds flow from operations;
- ▶ Borrowing base increases under our existing credit facility;
- ▶ Issuance of common shares of PetroBakken;
- ▶ Issuance of subordinated or convertible debt;
- ▶ Sale of producing or non-producing assets. Cash generated from a sale may be reduced by any required debt payments; and,
- ▶ Monetization of risk management assets.

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

Petrominerales – 66% owned by Petrobank

Petrominerales' 2009 capital program was funded internally from operating cash flows. The 2010 capital program will be funded through a combination of existing cash balances, operating cash flows, and prudent use of its credit facilities. At December 31, 2009, Petrominerales had cash and cash equivalents of US\$61.6 million and an undrawn US\$150 million borrowing base. Petrominerales believes it is well positioned financially with significant available credit capacity, assets that are providing strong production growth and operating netbacks along with an extensive inventory of exploration prospects.

Petrominerales has a revolving credit facility with a US\$150 million borrowing base that is undrawn. The borrowing base is reviewed with the lender semi-annually. Petrominerales also has US\$81.7 million of convertible debentures outstanding that mature on December 6, 2010. The debentures are convertible into common shares of Petrominerales at the option of the holder at a conversion price of US\$27.3485 per share. If the convertible debentures are not converted to equity before maturity, Petrominerales has an option to force conversion of the debentures at the prevailing conversion price should the price of Petrominerales' common shares exceed 130 percent of the prevailing conversion price of the debentures for 20 trading days within a period of 30 consecutive trading days. Petrominerales has a number of alternatives to repay the debentures on maturity that include, but are not limited to, issuing additional debt, using the revolving credit facility, issuing equity or using potential cash on hand to be generated from operations. Petrominerales also maintains local Colombian operating lines of credit of US\$31.4 million that are primarily used to issue letters of credit to support exploration contracts. At December 31, 2009, letters of credit issued against the Colombian operating lines of credit totalled US\$18.9 million.

Petrominerales is in compliance with the covenants contained in our credit facility and convertible debenture agreements. The credit facility contains financial covenants to maintain a ratio of bank debt to trailing twelve month earnings before interest, tax, depletion, depreciation and amortization under 3.0 times and to maintain a current ratio greater than 1.0 time (current assets divided by current liabilities less unused bank debt and the liability portion of convertible debentures). The convertible debentures have financial covenants to maintain a ratio of book value of equity to total assets of at least 30% and to limit the amount of security and encumbrances to 27.5% of Petrominerales' total assets.

Petrominerales' assets provide significant funds flow from operations and are the largest resource of liquidity. Petrominerales has a history of generating positive funds flow from operations.

During the year ended December 31, 2009, Petrominerales repurchased 1,991,000 (2008 – 1,326,000) common shares under a Normal Course Issuer Bid ("NCIB") at an average cost of \$10.94 per share for a total cost of \$21.8 million (2008 – \$13.1 million). During the NCIB, from August 17, 2008 to August 17, 2009, Petrominerales repurchased a total of 3,317,000 common shares, of which 1,539,700 were repurchased from Petrobank. All common shares acquired under the NCIB were cancelled.

Capital Plan

PetroBakken's capital plan is focused on the development of the Bakken light oil properties in southeast Saskatchewan, development of the new Cardium light oil properties being acquired in recently announced acquisitions, exploration and development of the northeast British Columbia properties and leveraging the significant undeveloped land base into new resource opportunities. The capital plan is expected to be financed through operations and available financial resources.

Petrominerales activity will continue to focus on defining the potential of the Corcel and Guatiquia blocks a full year development drilling and recompletion program at Neiva, acquiring and evaluating seismic data and drilling exploratory wells on Petrominerales' exploration blocks in 2010.

HBU activity in 2010 will focus on drilling up to nine additional wells on the Kerrobert Project, the initial development of the Dawson Project in the Peace River region of Alberta, additional resource evaluation including OSE wells and 3D seismic work which will further identify the reservoir over the May River Project area and finalize well placement and areas for future expansion, and procurement of long lead items for the first phase of the May River Project.

Outstanding Share Data

The number of Petrobank shares outstanding at the date of this MD&A is 101,409,418, an increase of 7,792,460 shares from December 31, 2009, 7,452,099 of which were issued upon early conversion of Petrobank's 5.125% convertible debentures and 340,340 relating to the exercise of stock options.

Risks and Uncertainties

Petrobank is exposed to a variety of risks including, but not limited to: competitive, operational, political, environmental, and financial risks.

Commodity prices are the Company's most significant financial risk. Crude oil prices are influenced by global supply and demand, OPEC policy and worldwide political events. Natural gas prices in Canada are influenced primarily by North American supply and demand and to a lesser extent by local market conditions. Weather events and conditions also play a major role in the supply and demand of both commodities. Fluctuations in commodity prices not only affect the Company's cash flows, but may also result in changes to the borrowing capacity under our credit facilities as assessed by the lenders. Management believes it is neither appropriate nor possible to eliminate 100% of our exposure to fluctuations in commodity prices. The Company monitors market conditions and may selectively utilize derivative instruments to reduce exposure to commodity price movements.

The Company, in particular Petrominerales, is exposed to a high level of exploration risk. The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. The Company's proved reserves will decline as reserves are produced from its properties unless it is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance the Company's future exploration, development and acquisition activities will result in additional proved reserves. To manage this risk, we employ highly experienced geologists and geophysicists, use technology and 3D seismic as primary exploration tools and focus our exploration efforts in known hydrocarbon producing basins. In addition, Petrominerales takes a portfolio approach to exploration drilling by having drilling locations spread out among different exploration blocks, geological basins and targeting multiple play-types.

The oil and gas industry is intensely competitive. Competition is particularly intense in the acquisition of prospective oil and gas properties, oil and gas reserves, and land and resources. Competitors include companies larger than Petrobank, with greater access to financial resources. The Company's future success is driven, in large part, by our ability to find and exploit new oil and natural gas reserves at reasonable costs and reinvestment ratios. The process of evaluating prospects and estimating oil and natural gas reserves is complex and subject to significant uncertainty. Actual operating results, including production performance, will vary from those estimated, possibly materially. We mitigate these risks by maintaining a focused asset base with high working interests and by hiring qualified professionals, including independent reserve engineers, with appropriate industry experience. Petrobank also competes with other oil and gas companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time. Similarly, equipment and other materials necessary to construct production and transmission facilities may be in short supply from time to time. Petrominerales is also exposed to risks and uncertainties concerning the proximity and capacity of oil offloading infrastructure in Colombia, inability to deliver Petrominerales' production to market could have a material adverse effect on the Company's revenues and financial position. Petrominerales is mitigating these risks by constructing and contracting additional offloading capacity.

We are exposed to a number of operational risks inherent in the industry including accidents, well blowouts, uncontrolled flows, labour strikes and environmental risks. Operational risks are managed using prudent field operating procedures. We have detailed emergency response plans to deal with potential incidents and maintain a comprehensive insurance program to reduce the risk of significant economic loss; however, not all risks can be eliminated. Losses resulting from the occurrence of these risks could have a material adverse impact on our operations.

We currently have operations in Canada, Colombia and Peru and from time to time may evaluate projects internationally. To help mitigate the risks associated with operating in foreign jurisdictions, we seek to operate in regions where the petroleum industry is a key component of the economy. Petrobank believes that management's experience operating both domestically and internationally helps reduce these risks. Some countries in which we may operate may be considered politically and economically unstable. In Colombia and Peru, the governments have a long history of democracy and an established legal framework that, in Petrobank's opinion, minimizes political risks. Operating internationally, the Company and our personnel may be subject to security risks, but through effective security and social programs, Petrobank believes these risks can be effectively managed. It is difficult to obtain insurance coverage to protect against terrorist incidents and as a result, the Company's insurance program excludes this coverage. Consequently, incidents like this in the future could have a material adverse impact on our operations.

Petrobank's Conklin (Whitesands) and Kerrobert THAI™ projects entail risks incremental to those of conventional oil and gas operations. Although other operators have utilized the individual processes involved in the THAI™ technology in the past, the technology's configuration of wells, processes and operating procedures is a new combination, and thus Petrobank is subject to unknown operational risks. Other risks associated with the project include: the THAI™ technology will prove unsuccessful or commercially unviable; and, unknown future regulatory or commodity market factors will make the technology uneconomic. However, management believes that the technology can be a step change in heavy oil recovery technology and would address many of the existing risks and economic challenges currently facing the oil sands industry in Canada and heavy oil industry globally.

The Company is subject to extensive governmental and environmental approvals and regulations in its operating jurisdictions. Delays in obtaining regulatory approvals could result in project delays and the inability to meet contractual obligations. Changes to these regulations could increase the costs of conducting business in these jurisdictions. Environmental risks inherent in the oil and gas industry are subject to increasingly stringent legislation and regulation. The Company operates in accordance with all relevant environmental legislation and strives to minimize the environmental impact of its operations by providing for safety and environmental issues in all of its business plans.

The Company's operations are subject to political and economic uncertainties. Specifically, governments may change royalties and taxes which could have a material adverse impact on the economics of the Company's oil and gas activities.

Petrobank is exposed to normal financial risks inherent within the oil and gas industry, including commodity price risk, exchange rate risk, interest rate risk and credit risk. Management believes it is neither appropriate nor possible to eliminate 100% of the Company's exposure to these risks. As described in Note 14 to the consolidated financial statements, the Company monitors market conditions and may periodically utilize derivative instruments to mitigate these risks.

To the extent revenues and expenditures denominated in or strongly linked to the U.S. dollar are not equivalent; the Company is exposed to exchange rate risk. Revenues in Canada are largely determined by U.S. dollar reference prices. In Colombia, the functional currency is U.S. dollars; however portions of the Company's expenditures are denominated in Colombian pesos and Canadian dollars. The Company is not currently using exchange rate derivatives to manage exchange rate risks.

Petrobank is exposed to fluctuations in short-term interest rates on amounts drawn under its floating-rate bank facilities. The Company monitors market conditions and may selectively utilize derivative instruments to reduce exposure to interest rate movements.

In addition to the foregoing risks, readers are directed to the section entitled, "Risk Factors" in the Company's AIF.

Sensitivities

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

The following factors demonstrate the expected impact on annualized before tax cash flow for 2010:

Change of:			(millions)
<i>PetroBakken</i>			
Crude oil	US\$1.00/bbl WTI reference price (assuming 40,000 bopd)		\$ 7.7
	1,000 bopd of production @ US\$75/bbl WTI		\$ 19.5
Natural gas	\$1.00/mcf AEEO reference price (assuming 40 mmcf per day)		\$ 10.6
	10 mmcf per day of production @ \$5.00/mcf AEEO		\$ 8.8
Currency	US\$0.01 in exchange rate		\$ 8.8
Interest rate	1% change in interest rate		\$ 7.3
<i>Petrominerales</i>			
Crude oil	US\$1.00/bbl WTI reference price (assuming 45,000 bopd)		\$ 14.7
	1,000 bopd of production @ US\$75/bbl WTI		\$ 16.0

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with Canadian GAAP, which require management to make judgements, estimates and assumptions, which may have a significant impact on the financial statements. A summary of the Company's significant accounting policies can be found in Note 2 to the Company's 2009 consolidated financial statements. The following is a discussion of those accounting policies and estimates that are considered critical in the determination of the Company's financial results.

Capital Assets — Full Cost Accounting

The Company follows the full cost method of accounting as described in Note 2 to the consolidated financial statements. Alternatively, the Company could follow the successful efforts method of accounting whereby all costs related to non-productive wells are expensed in the period in which they are incurred.

Operating costs, net of revenues in relation to activities that are considered to be in the development stage, are capitalized. Judgement is required to determine whether operations are in the development stage. The factors considered include whether commercially viable production levels have been achieved on a consistent basis. Once the operations are no longer considered to be in the development stage, revenue is recognized and operating costs are recorded in net income during the year.

Under the full cost method of accounting, capitalized costs are subject to a country-by-country cost centre impairment test. Under the successful efforts method of accounting, the costs aggregated on a property-by-property basis and the carrying value of each property is subject to an impairment test. These policies may result in a different carrying value for capital assets and a different net income. The Company has elected to follow the full cost method and it is the method most commonly followed in Canada.

Under full cost accounting, a limit is placed on the carrying value of the net capitalized costs in each cost centre in order to test impairment. Impairment exists when the carrying value of developed properties of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. Costs relating to undeveloped properties are subject to individual impairment assessments until it can be determined whether or not proved reserves exist. If impairment is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to net income.

Goodwill

Goodwill is tested for impairment whenever an event or circumstance occurs that may reduce the fair value of a business unit below its carrying amount, and at least annually. If goodwill is impaired the carrying value is reduced to the estimated fair value and an impairment loss is recorded in net income.

Reserve Estimates

Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The process of estimating reserves requires significant judgement based on available geological, geophysical, engineering, and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to interpretation and uncertainty. Reserve estimates impact net income through depletion expense and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or a negative impact on net income and can impact the carrying amount of capital assets.

Petrobank's lenders also use reserve estimates to assess the borrowing bases under the secured bank credit facilities. Changes to the reserve estimates can result in increases or decreases to the borrowing bases, which may impact the Company's financial position.

Asset Retirement Obligations

The Company recognizes the estimated fair value of future retirement obligations associated with capital assets as a liability. The Company estimates the liability based on the estimated costs to abandon and reclaim its net ownership in tangible long-lived assets such as wells and facilities and the estimated timing of the costs to be incurred in future periods. Actual payments to settle the obligations may differ from estimated amounts.

Future Income Taxes

The Company recognizes a future income tax liability based on estimates of temporary differences between the book and tax value of its assets. An estimate is also used for both the timing and tax rate upon reversal of the temporary differences. Actual differences and timing of the reversals may differ from estimates, impacting the future income tax balance and net income.

Changes in Accounting Policies

New Accounting Policies

Crude oil inventory, which is included in accounts receivable and other assets, consists of production in transit or in storage tanks at the balance sheet date, is valued at the lower of cost, using the weighted average cost method, or net realizable value. Costs include direct and indirect expenditures incurred in bringing the crude to its existing condition and location.

Changes in Accounting Policies

On January 1, 2009, the Company retrospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064, *Goodwill and Intangible Assets* issued by the Canadian Accounting Standards Board (“AcSB”). The new section replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company’s consolidated financial statements.

On January 1, 2009, the Company adopted CICA EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this EIC had no impact on the Company’s consolidated financial statements.

On January 1, 2009, the Company adopted CICA Handbook Section 1582, Business Combinations, which replaces former guidance on business combinations. Under the new standard, the purchase price used in a business combination is based on the fair value of consideration at the date of exchange. Previously the purchase price was based on the fair value of the consideration for a reasonable period before and after the date of acquisition was agreed upon and announced. The new standard generally requires all acquisition costs incurred by the Company to be expensed, which were previously capitalized as part of the purchase price. In addition, the new standard modified the accounting for contingent consideration and negative goodwill. The prospective adoption of this standard has resulted in recognition of acquisition related expenses on the statement of operations.

On January 1, 2009, the Company adopted CICA Handbook Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary subsequent to a business combination. The prospective adoption of these standards resulted in paid-in capital being recorded within shareholders’ equity, which represents changes in ownership of a controlled subsidiary. Previously, these changes would have been recorded in non-controlling interests.

Effective December 31, 2009, Petrobank adopted CICA issued amendments to Handbook Section 3862, *Financial Instruments – Disclosures*. The amendments include enhanced disclosures relating to the fair value of financial instruments and the liquidity risk associated with financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. Refer to Note 14 Financial Instruments and Financial Risk Management for enhanced fair value disclosures. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards (“IFRS”).

International Financial Reporting Standards

In February 2008, the AcSB confirmed the convergence of Canadian GAAP with IFRS will be required for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

Petrobank has established a project plan and project team to complete the transition to IFRS on January 1, 2011 including the preparation of comparative information for 2010. Education and training sessions have commenced for employees throughout the organization. Discussions and coordination with Petrobank’s external auditors are underway and will continue throughout the balance of the year. Regular project status reporting is provided to senior management and to the Audit Committee of the Board of Directors.

The project plan consists of three phases: Phase 1 Initial Scoping; Phase 2 Detailed Assessment and Design and Phase 3 Implementation. Petrobank completed the first phase during 2008 and 2009, which involved: a high level review of the major differences between Canadian GAAP and IFRS; a detailed timeline for assessing resources; initial assessments of the impacts to accounting and reporting processes; information systems; business processes; external disclosures and training requirements.

The Company is currently engaged in the Detailed Assessment and Design phase and the Implementation phase of the project. Work teams are assessing and preparing comprehensive analyses of the impact of IFRS differences from Canadian GAAP identified in the initial scoping phase. In addition, an evaluation of the impact of IFRS on financial systems, internal controls over financial reporting and an analysis of IFRS 1 is underway.

The transition to IFRS requires the Company to apply IFRS 1, which prescribes requirements for preparing IFRS-compliant financial statements in the first reporting period after the changeover date (January 1, 2010). IFRS 1 includes a requirement for retrospective application of each IFRS as if they were always in effect. IFRS 1 also mandates certain exemptions for retrospective application and provides optional exemptions from retrospective application to ease the transition to IFRS in the transition year.

In July 2009, the International Accounting Standards Board (“IASB”) approved amendments and released additional exemptions to IFRS 1 “Additional Exemptions for First-time Adopters” which prescribes transitional exemptions for oil and gas companies following full cost accounting. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity’s previous GAAP and to measure oil and natural gas assets in the development or production phases by allocating the amount determined under the entity’s previous GAAP for those assets, to the underlying assets pro rata using reserve volumes or reserve values as of the date of transition, subject to an impairment test as prescribed under IFRS. This exemption will allow Petrobank to apply IFRS to its full cost pools on a prospective basis, from date of transition to IFRS.

Significant differences that have been identified between Canadian GAAP and IFRS are: accounting for property, plant & equipment (PP&E), including exploration costs, depletion and depreciation, impairment testing, capitalized interest, asset retirement obligations and share-based payments. At this time, the impact on the consolidated financial statements is not reasonably determinable.

As the Company identifies and adopts IFRS policies, implementation of the necessary changes to business processes, financial systems, accounting policies, disclosure controls and procedures and internal controls over financial reporting will be executed.

Petrobank continues to perform the necessary research to develop and document IFRS policies by monitoring the development of standards issued by the IASB and the AcSB, as well as regulatory pronouncements issued by the Canadian Securities Administrators (“CSA”), which may affect the timing, nature or disclosure of the Company’s adoption of IFRS. In addition, IFRS may change prior to adoption in 2011, and the impact of these potential changes is not known. At this time, the impact of the adoption of IFRS on the Company’s future financial position and results of operations is not reasonably determinable. Key information will be disclosed as it becomes available during the transition period.

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the CSA, which may affect the timing, nature or disclosure of its adoption of IFRS.

Regulatory Policies

Certification of Disclosures in Annual 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 (“DC&P”) and internal control over financial reporting (“ICFR”).

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

The certifying officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company’s DC&P and ICFR and, based on such evaluation, concluded that the Company maintained effective DC&P and ICFR as of December 31, 2009.

During the year ended December 31, 2009, there has been no change in the Company’s ICFR that has materially affected, or is reasonably likely to materially affect, the Company’s ICFR. The Company has continually had in place systems relating to DC&P and ICFR and will continue to monitor such procedures as the Company’s business evolves.

Outlook

In addition to the plans discussed in this MD&A, please see the Company’s recent news releases and 2009 Annual Report.

PETROBANK ENERGY AND RESOURCES LTD.

Management's Report

Management is responsible for the integrity and objectivity of the information contained in this report and for the consistency between the consolidated financial statements and other financial and operating data contained elsewhere in this report. The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying consolidated financial statements have been prepared using policies and procedures established by management and fairly reflect the Company's financial position, results of operations and changes in financial position, within Canadian generally accepted accounting principles. Management has established and maintains a system of internal controls that is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The Company's external auditors, Deloitte & Touche LLP, have examined the consolidated financial statements. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported financial results and the financial condition of the Company.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with management and the external auditors. The Audit Committee has reported its findings to the Board of Directors who have approved the consolidated financial statements.



John D. Wright
President & Chief Executive Officer

Calgary, Canada
March 16, 2010



Corey C. Ruttan
Vice President Finance & Chief Financial Officer

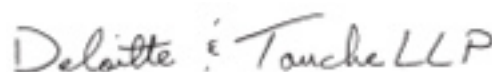
Auditors' Report

To the Shareholders of Petrobank Energy and Resources Ltd.:

We have audited the consolidated balance sheets of Petrobank Energy and Resources Ltd. (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of operations and retained earnings, comprehensive income and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Petrobank Energy and Resources Ltd. as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Calgary, Canada
March 16, 2010

Deloitte & Touche LLP
Chartered Accountants

Consolidated Balance Sheets

PETROBANK ENERGY AND RESOURCES LTD.

(Thousands of Canadian dollars)

As at December 31,

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 135,515	\$ 102,181
Restricted cash (Note 7)	1,439	5,487
Accounts receivable and other current assets	223,770	81,702
Risk management asset (Note 14)	-	32,904
Future income tax asset (Note 11)	782	-
	361,506	222,274
Other assets	27,859	3,256
Capital assets (Note 4)	4,316,222	2,073,006
Goodwill (Note 5)	1,060,981	63,171
Total assets	\$ 5,766,568	\$ 2,361,707
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 481,916	\$ 262,777
Convertible debentures (Note 8)	80,409	-
Risk management liabilities (Note 14)	2,694	-
Future income tax liability (Note 11)	-	9,860
	565,019	272,637
Bank debt (Note 7)	748,185	315,162
Convertible debentures (Note 8)	348,957	337,574
Other long-term liabilities	3,961	3,170
Asset retirement obligations (Note 10)	69,122	22,100
Risk management liabilities (Note 14)	3,442	-
Future income tax liabilities (Note 11)	482,570	194,685
Total liabilities	2,221,256	1,145,328
Commitments and contingencies (Note 17)		
Shareholders' equity		
Petrobank shareholders' equity		
Common shares (Note 6)	880,183	574,060
Convertible debentures (Note 8)	76,811	64,089
Contributed surplus (Note 6)	33,436	19,795
Paid-in capital (Note 6)	875,924	-
Accumulated other comprehensive income (loss) (Note 6)	(29,894)	42,848
Retained earnings	455,344	334,410
Total Petrobank shareholders' equity	2,291,804	1,035,202
Non-controlling interests (Note 12)	1,253,508	181,177
Total shareholders' equity	3,545,312	1,216,379
Total liabilities and shareholders' equity	\$ 5,766,568	\$ 2,361,707

Subsequent events (Note 18)

See accompanying notes to these consolidated financial statements.

Signed on behalf of the Board:



John D. Wright
Director



Ian S. Brown
Director

Consolidated Statements Of Operations And Retained Earnings

PETROBANK ENERGY AND RESOURCES LTD.

(Thousands of Canadian dollars, except per share amounts)

Years ended December 31,	2009	2008
Revenues		
Oil and natural gas	\$ 1,093,674	\$ 950,068
Royalties	(129,448)	(99,226)
Gain (loss) on risk management contracts (Note 14)	(17,969)	31,042
Interest income	635	3,022
	946,892	884,906
Expenses		
Production	136,651	93,392
Transportation	62,357	35,672
General and administrative	33,039	24,570
Acquisition related (Note 5)	19,155	-
Stock-based compensation	30,091	17,634
Interest (Note 9)	43,547	27,952
Foreign exchange loss (gain)	(47,302)	47,849
Gain on repurchase of Petrominerales convertible debentures	-	(6,269)
Depletion, depreciation and accretion	481,905	275,376
	759,443	516,176
Income before taxes	187,449	368,730
Current taxes (Note 11)	10,234	4,938
Future income tax expense (recovery) (Note 11)	(15,953)	86,104
Net income	193,168	277,688
Less: Net income attributable to non-controlling interests (Note 12)	48,089	33,206
Net income attributable to Petrobank shareholders	145,079	244,482
Retained earnings, beginning of year	334,410	100,457
Conversion of convertible debentures, net of tax (Note 8)	(24,145)	-
Repurchase of common shares (Note 6)	-	(10,529)
Retained earnings, end of year	\$ 455,344	\$ 334,410
Basic earnings per share (Note 6)	\$ 1.64	\$ 2.97
Diluted earnings per share (Note 6)	\$ 1.52	\$ 2.76

See accompanying notes to these consolidated financial statements.

Consolidated Statements Of Comprehensive Income

(Thousands of Canadian dollars)

Years ended December 31,	2009	2008
Net income attributable to Petrobank shareholders	\$ 145,079	\$ 244,482
Other comprehensive income:		
Unrealized gain (loss) on translation of Petrominerales' financial statements (Note 6)	(72,742)	84,622
Comprehensive income attributable to Petrobank shareholders	\$ 72,337	\$ 329,104

See accompanying notes to these consolidated financial statements.

Consolidated Statements Of Cash Flow

PETROBANK ENERGY AND RESOURCES LTD.

(Thousands of Canadian dollars)

Years ended December 31,	2009	2008
Operating Activities		
Net income attributable to Petrobank shareholders	\$ 145,079	\$ 244,482
Depletion, depreciation and accretion	481,905	275,376
Unrealized (gain) loss on risk management contracts	41,941	(44,319)
Unrealized foreign exchange (gain) loss	(58,293)	47,171
Stock-based compensation	30,091	17,634
Accretion on convertible debentures	10,913	13,438
Net income attributable to non-controlling interests	48,089	33,206
Gain on repurchase of Petrominerales convertible debentures	-	(6,269)
Future income tax expense (recovery)	(15,953)	86,104
Amortization of deferred financing costs and other assets	7,051	958
Acquisition related expenses (Note 5)	8,585	-
Asset retirement obligations settled	(1,971)	(1,848)
	697,437	665,933
Changes in non-cash working capital (Note 16)	18,377	(12,323)
	715,814	653,610
Financing Activities		
Issuance of bank debt	89,638	241,484
Conversion inducement of convertible debentures – including costs (Note 8)	(36,244)	-
Issuance (repurchase) of convertible debentures – net of costs	452,837	(14,152)
Equity repurchased by Petrominerales – net of costs	(15,924)	(11,350)
Financing costs relating to bank debt	(16,853)	(1,002)
Dividends paid or declared by PetroBakken	(41,246)	-
Issuance of common shares	14,324	128
Amortization of obligations under gas sale contract	(827)	(827)
Changes in non-cash working capital (Note 16)	16,143	-
	461,848	214,281
Investing Activities		
Expenditures on capital assets	(790,857)	(909,913)
Expenditures on other assets	(23,805)	(2,644)
Acquisitions (Note 5)	(584,455)	(94,540)
Proceeds from dispositions (Note 5)	178,849	-
Dividends received or receivable by Petrobank	26,352	-
Sale of interest in subsidiary (Note 12)	106,107	6,738
Changes in restricted cash	4,047	(5,487)
Changes in non-cash working capital (Note 16)	(61,259)	53,586
	(1,145,021)	(952,260)
Effect of exchange rate changes on cash and cash equivalents	693	15,111
Net change in cash and cash equivalents	33,334	(69,258)
Cash and cash equivalents, beginning of year	102,181	171,439
Cash and cash equivalents, end of year	\$ 135,515	\$ 102,181
Cash and cash equivalents consist of:		
Cash	\$ 38,609	\$ 7,518
Cash equivalents	\$ 96,906	\$ 94,663

See accompanying notes to these consolidated financial statements.

Notes To The Consolidated Financial Statements

As at and for the years ended December 31, 2009 and 2008

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

NOTE 1 – FORMATION OF THE COMPANY AND BASIS OF PRESENTATION

Petrobank Energy and Resources Ltd. (the “Company” or “Petrobank”), is a public company listed on the Toronto Stock Exchange and incorporated under the Business Corporations Act (Alberta). Petrobank is engaged in the exploration for and development and production of oil and natural gas in the Western Canadian Sedimentary Basin and the countries of Colombia and Peru.

The Company is comprised of three business units: the Heavy Oil Business Unit (“HBU”), PetroBakken which in previous years and quarters was described as the Canadian Business Unit (“CBU”), and Petrominerales, which in previous years and quarters was described as the Latin American Business Unit (“LABU”). Where segmented information is provided throughout these financial statements, the HBU is combined with activities performed at the Petrobank corporate level.

The HBU is operating the Conklin oil sands project and Kerrobert heavy oil project using Petrobank’s patented THAI™ technology. The Conklin and Kerrobert projects are in the pre-operating stage and accordingly all expenses, net of revenues, are capitalized.

PetroBakken, 64% owned by Petrobank as at December 31, 2009, is focused on conventional oil and gas operations throughout western Canada with a primary focus on light oil developments from the Bakken formation in southeast Saskatchewan and in the Cardium play in Alberta. Petrobank results include 100% of the results of PetroBakken; the minority interest share, which Petrobank does not own, is recorded as income applicable to non-controlling interests on the consolidated statements of operations and retained earnings and as paid-in capital and non-controlling interests on the consolidated balance sheets. Results for PetroBakken are reported on a continuity of interest basis and as such incorporate Petrobank’s CBU operations for the periods prior to the formation of PetroBakken.

Petrominerales, 66% owned by Petrobank as at December 31, 2009, is focused on oil exploration and production in Colombia and Peru. Petrobank results include 100% of the results of Petrominerales; the minority interest share, which Petrobank does not own, is recorded as income applicable to non-controlling interests on the consolidated statements of operations and retained earnings and as paid-in capital and non-controlling interests on the consolidated balance sheets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are presented in accordance with Canadian generally accepted accounting principles (“GAAP”) and include the accounts of the Company and its subsidiaries as at and for the years ended December 31, 2009 and 2008. Inter-company transactions and balances are eliminated upon consolidation.

Measurement Uncertainty

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

Amounts recorded for depletion, depreciation and accretion costs and amounts used for ceiling test impairment calculations are based on estimates of crude oil and natural gas reserves and future costs required to develop those reserves. Goodwill impairment is based on a number of factors including but not limited to the equity market value of the Company, the net present value of reserves and valuation of comparable peer companies. Stock-based compensation is based upon expected volatility and option life estimates. Asset retirement obligations are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates. The provision for income taxes is based on judgements in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

Capital Assets

All costs related to the acquisition, exploration and development of oil and natural gas properties are capitalized. Such costs include land and lease acquisition costs, annual charges on non-producing properties, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, and carrying costs.

Operating costs, net of revenues in relation to the Heavy Oil Business Unit are capitalized. Judgement is required to determine whether operations continue to be in the development stage. The factors considered include whether commercially viable production levels have been achieved on a consistent basis. Once the operations are no longer considered to be in the development stage, revenue is recognized and operating costs are recorded in net income during the year.

Prior to the commencement of commercial operations, the Company may capitalize interest costs in relation to its development projects.

Gains and losses are not recognized upon disposition of oil and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of more than 20%.

Capitalized costs are accumulated in cost centres on a country-by-country basis and are depreciated and depleted using the unit-of-production method based upon estimated proved reserves before royalties, as determined by independent engineers. Costs subject to depletion include estimated costs to develop proved reserves and exclude estimated salvage value. Reserve and production volumes of oil and natural gas are converted to common units on the equivalency basis of six mcf to one bbl, reflecting the approximate relative energy content. Costs relating to undeveloped properties are excluded from the depletion base until it is determined whether or not proved reserves exist or if impairment of such costs has occurred. These unproved properties are assessed at least annually to determine whether impairment has occurred.

Depreciation of corporate and other fixed assets is calculated using the straight-line method over the estimated life of the asset.

A limit is placed on the carrying value of the net capitalized costs in each cost centre in order to test impairment. The Company is required to perform this impairment test at least annually. An impairment loss may be indicated when the carrying value of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. If there is indication of an impairment loss, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to depletion, depreciation and accretion on the statement of operations. Reserves are determined pursuant to National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities*.

The Company does not capitalize indirect general and administrative overhead costs.

Goodwill

The Company's goodwill is attributable to PetroBakken and the Heavy Oil Business Unit. It has been recorded at cost and is not amortized. Goodwill is tested for impairment at least annually or whenever events or circumstances indicate that goodwill is impaired. If goodwill is impaired, the carrying value is reduced to the estimated fair value and an impairment loss is recorded in net income. No impairment to goodwill has been recorded to date.

Asset Retirement Obligations

The Company recognizes the estimated fair value of future retirement obligations associated with capital assets as a liability in the period in which they are incurred, normally when the asset is purchased or developed. The Company estimates the liability based on the estimated costs to abandon and reclaim its net ownership interest in all wells and facilities and the estimated timing of the costs to be incurred in future periods. This estimate is evaluated on a periodic basis and any adjustment to the estimate is applied prospectively. The change in net present value of the future retirement obligations due to the passage of time is expensed as accretion. The asset retirement cost, which is the fair value of the asset retirement obligations at the inception of the assets, is capitalized as part of the cost of the related long-lived asset and amortized using the unit-of production method. Actual retirement obligations settled during the period reduce the asset retirement liability.

Non-Controlling Interests

On June 29, 2006, Petrobank completed an initial public offering of the common shares of its indirectly owned subsidiary, Petrominerales, which comprises Petrobank's Latin American Business Unit. At December 31, 2009, Petrobank owns 66% of Petrominerales, the remaining 34% of which is reflected on the consolidated balance sheet within non-controlling interests. Petrominerales' earnings or losses are included in the Company's net income and adjusted to reflect the portion attributable to the non-controlling interests.

On October 1, 2009, Petrobank's subsidiary, PetroBakken, acquired TriStar Oil and Gas Ltd. ("TriStar") and created a new publicly listed company, PetroBakken, which is a Bakken-focused, light oil exploration and production company. From October 1, 2009 to December 31, 2009 Petrobank owned 64% of PetroBakken, the remaining 36% of which is reflected on the consolidated balance sheet within non-controlling interests. PetroBakken's earnings or losses are included in the Company's net income and adjusted to reflect the portion attributable to the non-controlling interests.

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

Financial Instruments

All financial assets and liabilities are recognized on the balance sheet when the Company becomes a party to the contractual provisions of the instrument and are initially recognized at fair value. Subsequent measurement of the financial instruments is based on their classification. Each financial instrument is classified into one of the following categories: financial assets and financial liabilities held for trading; loans or receivables; financial assets held to maturity; financial assets available for sale; and other financial liabilities. The classification depends on the characteristics and the purpose for which the financial instruments were acquired. Except in very limited circumstances, the classification of financial instruments is not subsequently changed. Financial instruments carried at fair value on the balance sheet include cash and cash equivalents, restricted cash and risk management contracts. Realized and unrealized gains and losses on financial assets and liabilities carried at fair value are recognized in net income in the periods such gains and losses arise. Transaction costs related to these financial assets and liabilities are

included in net income when incurred. Financial instruments carried at cost or amortized cost include accounts receivable, accounts payable and accrued liabilities, bank debt, convertible debentures and other long term liabilities. Transaction costs are included in net income when incurred for these types of financial instruments except for bank debt and convertible debentures. Transaction costs related to bank debt and convertible debentures are included with the initial fair value and the instrument is carried at amortized cost using the effective interest rate method. When bank debt is nil these costs are recorded as other assets. Gains and losses on financial assets and liabilities carried at cost or amortized cost are recognized in net income when these assets or liabilities settle.

Derivatives

The Company may use derivative financial instruments to manage fluctuations in commodity prices, foreign currency exchange rates and interest rates. These derivative instruments are recorded at fair value at the balance sheet date and any changes in fair value are recorded in net income during the period of change unless the requirements for hedge accounting are met.

Joint Operations

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

Revenue Recognition

Revenues from the sale of crude oil, natural gas and natural gas liquids are recognized when title passes to the customer.

Foreign Currency Translation

The Company translates foreign currency denominated assets and liabilities of its self-sustaining foreign operations into Canadian dollars at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated using average monthly rates. Translation gains and losses relating to the self-sustaining foreign operations are deferred and included in an accumulated other comprehensive income (loss) account in shareholders' equity.

Monetary assets and liabilities denominated in a currency other than the Canadian dollar are translated at the rates of exchange in effect at the balance sheet date while revenues and expenses are translated at transaction date exchange rates. Exchange gains or losses are included in the determination of net income as foreign exchange gain or loss.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income ("OCI"). OCI includes gains and losses resulting from the translation of the Company's net investments in self-sustaining foreign operations and the effective portion of derivatives used as a hedging item in a cash flow hedge or net investment hedge. Accumulated other comprehensive income ("AOCI") is a separate component of shareholders' equity comprised of the cumulative amounts of OCI. Other comprehensive income amounts included in AOCI are reclassified to income when realized.

Earnings Per Share

The Company computes basic earnings per share using net income divided by the weighted-average number of common shares outstanding. The Company computes diluted earnings per share using net income adjusted for interest expense on the convertible debentures and the impact of PetroBakken's and Petrominerales' dilution on net income divided by the weighted-average number of diluted common shares outstanding. The Company uses the treasury stock method in computing the weighted-average number of diluted common shares outstanding. This method assumes that proceeds on the exercise of in-the-money stock options and deferred common shares are used to repurchase the Company's common shares at the average market price during the relevant period. The number of diluted common shares outstanding also reflects the potential dilution that would occur if the convertible debentures were converted into common shares at the beginning of the period, or when they were issued.

Stock-Based Compensation

The Company accounts for stock-based compensation using the fair-value method of accounting for stock options and deferred common shares (collectively referred to as "Rights") granted to directors, officers, employees and consultants using the Black-Scholes option-pricing model. Stock-based compensation expense is recorded for Rights granted, with a corresponding amount reflected in contributed surplus. Stock-based compensation expense is calculated as the estimated fair value of the related Rights at the time of grant, amortized over their vesting period. When Rights are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur. Stock-based compensation expense recognized by PetroBakken and Petrominerales is recorded as an adjustment to non-controlling interests.

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, the Company records a future income tax asset or liability to reflect any difference between the accounting and tax bases of assets and liabilities, using substantively enacted income tax rates. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change occurs. Future income tax assets are only recognized to the extent it is more likely than not that sufficient future taxable income will be available to allow the future income tax asset to be realized.

Risk Management Contracts

The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign currency exchange rates and interest rates in the normal course of its business. The Company may use a variety of instruments to manage these exposures. For transactions where hedge accounting is not applied, the Company accounts for such instruments using the fair value method by initially recording an asset or liability, and recognizing changes in the fair value of the instruments in income as gains or losses on risk management contracts. Fair values of financial instruments are determined from third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in income in the period they occur.

The Company may elect to use hedge accounting when there is a high degree of correlation between the price movements in the financial instruments and the items designated as being hedged and has documented the relationship between the instruments and the hedged item as well as its risk management objective and strategy for undertaking hedge transactions. At December 31, 2009 the Company had not designated any of its outstanding financial instruments as hedges.

Convertible Debentures

The Company presents outstanding convertible debentures in their debt and equity component parts on the consolidated balance sheet. The debt component represents the total discounted present value of the semi-annual interest obligations to be satisfied by cash and the principal payment due at maturity, using the rate of interest that would have been applicable to a non-convertible debt instrument of comparable term and risk at the date of issue. This results in an accounting value assigned to the debt component of the convertible debentures which is less than the principal amount due at maturity. The debt component presented on the balance sheet increases over the term of the debenture to the full face value of the outstanding debentures at maturity. The difference, accretion on convertible debentures, is reflected as increased interest expense with the result that adjusted interest expense reflects the effective yield of the debt component of the convertible debentures.

The equity component of the convertible debentures is presented under shareholders' equity in the consolidated balance sheet. The equity component represents the fair value of the conversion right granted to the holder, which remains a fixed amount over the term of the related debentures. Where the Company's subsidiary has issued convertible debentures, the fair value of the conversion right is presented within non-controlling interests in the consolidated balance sheet.

Upon conversion of the Petrobank debentures into common shares by the holders, the debt and equity components would be transferred to common share capital, while debentures issued by Petrobank's subsidiaries would be transferred to non-controlling interests.

Upon repayment of the Petrobank debentures in cash, the debt component would be derecognized and the equity portion transferred to contributed surplus. If Petrobank settles the debt portion through the issuance of shares, the redemption value of the debt portion is credited to share capital. Upon repayment of any of Petrobank's subsidiaries debentures in cash, the debt component is derecognized with no adjustment to non-controlling interests.

Government Assistance

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

Investment Tax Credits

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

Flow-Through Common Shares

The Company has financed a portion of its exploration activities in Canada through the issuance of flow-through shares. Under the terms of these shares, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits, share capital is reduced and a future income tax liability is recorded in the period in which the related tax attributes are renounced.

Cash and Cash Equivalents

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

Inventory

Crude oil inventory, which is included in accounts receivable and other current assets, consists of production in transit or in storage tanks at the balance sheet date, and is valued at the lower of cost, using the weighted average cost method, or net realizable value. Costs include direct and indirect expenditures incurred in bringing the crude to its existing condition and location.

NOTE 3 – CHANGES IN ACCOUNTING POLICIES

On January 1, 2009, the Company retrospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064, *Goodwill and Intangible Assets* issued by the Canadian Accounting Standards Board (“AcSB”). The new section replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company’s consolidated financial statements.

On January 1, 2009, the Company adopted CICA EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this EIC had no impact on the Company’s consolidated financial statements.

On January 1, 2009, the Company adopted CICA Handbook Section 1582, *Business Combinations*, which replaces former guidance on business combinations. Under the new standard, the purchase price used in a business combination is based on the fair value of consideration at the date of exchange. Previously the purchase price was based on the fair value of the consideration for a reasonable period before and after the date of acquisition was agreed upon and announced. The new standard generally requires all acquisition costs incurred by the Company to be expensed, which were previously capitalized as part of the purchase price. In addition, the new standard modified the accounting for contingent consideration and negative goodwill. The prospective adoption of this standard has resulted in recognition of acquisition related expenses on the statement of operations.

On January 1, 2009, the Company adopted CICA Handbook Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-controlling Interests*, which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary subsequent to a business combination. The prospective adoption of these standards resulted in paid-in capital being recorded within shareholders’ equity, which represents changes in ownership of a controlled subsidiary. Previously, these changes would have been recorded in non-controlling interests.

Recent Pronouncements

Effective December 31, 2009, Petrobank adopted CICA issued amendments to CICA Handbook Section 3862, *Financial Instruments – Disclosures*. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. Refer to Note 14 Financial Instruments and Financial Risk Management for enhanced fair value disclosures. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards (“IFRS”).

AcSB has confirmed the convergence of Canadian GAAP with IFRS will be effective January 1, 2011. The Company has developed a project plan in order to ensure successful implementation within the required timeframe. The impact on the Company’s consolidated financial statements is not reasonably determinable at this time. Key information will be disclosed as it becomes available during the transition period.

NOTE 4 – CAPITAL ASSETS

December 31, 2009	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and natural gas assets			
PetroBakken	\$ 3,898,602	\$ 628,355	\$ 3,270,247
Petrominerales	914,273	336,084	578,189
Heavy Oil	444,649	-	444,649
Other assets	34,288	11,151	23,137
	\$ 5,291,812	\$ 975,590	\$ 4,316,222

December 31, 2008	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and natural gas assets			
PetroBakken	\$ 1,527,573	\$ 329,378	\$ 1,198,195
Petrominerales	733,879	197,800	536,079
Heavy Oil	332,631	-	332,631
Other assets	12,945	6,844	6,101
	\$ 2,607,028	\$ 534,022	\$ 2,073,006

The Company capitalized interest related to its Conklin project totalling \$13.1 million for the year ended December 31, 2009 (2008 – \$12.8 million).

At December 31, 2009, oil and natural gas assets included \$751.8 million (2008 – \$289.7 million) relating to PetroBakken’s unproved properties in Canada, \$444.6 million (2008 – \$332.6 million) relating to the Heavy Oil Business Unit unproved properties, and US\$84.7 million (2008 – US\$72.1 million) related to Petrominerales’ unproved properties in Colombia and Peru that have been excluded from the depletion calculation.

An impairment test calculation was performed for each of the Canadian and Colombian cost centres at December 31, 2009 in which the estimated undiscounted future net cash flows associated with the proved reserves exceeded the carrying amounts. In determining the undiscounted future net cash flows for each cost centre, the Company utilized benchmark pricing forecasts from two reserve evaluators, one for Canadian assets and one for Colombian assets. The benchmark prices used in their forecasts at December 31, 2009 are outlined in the following table:

Year	Canada		US\$ / \$	Colombia
	WTI Crude Oil ⁽¹⁾ (US\$/bbl)	AECO Natural Gas (1) (\$/mcf)		WTI Crude Oil ⁽¹⁾ (US\$/bbl)
2010	79.17	5.36	0.92	80.00
2011	84.46	6.21	0.92	82.88
2012	86.89	6.44	0.92	85.83
2013	90.20	7.23	0.92	88.88
2014	92.01	7.98	0.92	92.01
Thereafter inflation % change	2%	2%	nil	2%

(1) Actual prices used in the impairment tests were adjusted for crude oil quality differentials, natural gas heat content, transportation and marketing costs specific to the Company’s operations.

NOTE 5 – ACQUISITIONS AND DISPOSITIONS

TriStar Oil & Gas Ltd.

On October 1, 2009, PetroBakken acquired all of the issued and outstanding shares of TriStar for a total cost of \$2.8 billion, including TriStar bank debt and working capital deficiency assumed. TriStar was a publicly traded company with the majority of its production from the light oil properties in southeast Saskatchewan. The consolidated statement of operations includes the results of operations for the period following the closing of the transaction on October 1, 2009.

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	\$ 2,165,577
Working capital deficiency	(83,625)
Bank debt (net of cash acquired)	(351,551)
Asset retirement obligations	(47,277)
Fair value of financial instruments	2,901
Goodwill	997,810
Future income tax liability	(294,447)
Total net assets acquired	\$ 2,389,388

Consideration paid	Amount
Cash	\$ 584,455
Common shares issued (61,762,500)	1,804,933
Total purchase price	\$ 2,389,388

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

PetroBakken incurred transaction costs of \$19.2 million on the acquisition of TriStar, of which \$10.6 million was settled with cash and the remaining \$8.6 million settled with PetroBakken shares.

On December 21, 2009 PetroBakken disposed of 2,000 boepd (70% natural gas) in Alberta for net proceeds of \$178.8 million.

Rocor Resources Inc.

On October 2, 2008, Petrobank acquired all of the issued and outstanding shares of Rocor Resources Inc. ("Rocor") for a total cost of \$52.7 million, net of working capital acquired. Rocor was a private company with properties focused on the Montney formation in northeast British Columbia.

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	\$ 56,876
Working capital	1,080
Asset retirement obligations	(161)
Goodwill	8,311
Future income tax liability	(12,333)
Total net assets acquired	\$ 53,773

Consideration paid	Amount
Cash	\$ 26,481
Petrobank shares issued (699,183 common shares)	26,481
Acquisition costs	811
Total purchase price	\$ 53,773

Peerless Energy Inc.

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 bank debt and working capital deficiency assumed. Peerless was a publicly traded company with the majority of its properties producing from the Bakken formation in southeast Saskatchewan.

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 (4,931,204 common shares)	213,196
Acquisition costs	6,786
Total purchase price	\$ 280,444

NOTE 6 – SHARE CAPITAL

Authorized

Unlimited number of common shares.

Unlimited number of preferred shares, issuable in series.

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 was authorized to make purchases during the period of August 18, 2008 to August 17, 2009. In the third quarter of 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 was recorded as a reduction to retained earnings. All common shares acquired under the NCIB were cancelled.

Petrominerales repurchased a total of 1,991,000 (2008 – 1,326,000) Petrominerales common shares during the year ended December 31, 2009 at an average price of \$10.94 (2008 – \$9.89) per share, at a total cost of \$21.8 million (2008 – \$13.1 million). During the Petrominerales NCIB, from August 17, 2008 to August 17, 2009, Petrominerales repurchased a total of 3,317,000 common shares, of which 1,539,700 were repurchased from Petrobank. All Petrominerales common shares acquired under their NCIB were cancelled. Petrobank has recorded the repurchase of Petrominerales common shares as an adjustment to non-controlling interests (Note 12).

Common Shares

Common Share Continuity	Number	Amount
Balance at December 31, 2007	77,270,737	\$ 322,038
Issued in connection with acquisition of Peerless (Note 5)	4,931,204	213,196
Issued in connection with acquisition of Rocor (Note 5)	699,183	26,481
Repurchase of common shares	(298,400)	(1,945)
Flow-through shares issued in December 2008 ⁽¹⁾	285,795	9,431
Share issue costs	-	(674)
Tax effect of share issue costs	-	195
Exercise of stock options	608,375	3,845
Exercise of deferred common shares	28,500	1
Transfer from contributed surplus related to stock options and deferred common shares exercised	-	1,492
Balance at December 31, 2008	83,525,394	574,060
Issued upon conversion of debentures (Note 8)	8,595,925	291,246
Costs associated with conversion of debentures	-	(2,863)
Tax effect of share issue costs	-	792
Exercise of stock options	1,495,639	14,324
Transfer from contributed surplus related to stock options and deferred common shares exercised	-	5,092
Tax benefit renounced to shareholders	-	(2,468)
Balance at December 31, 2009	93,616,958	\$ 880,183

(1) In December 2008, the Company issued flow-through common shares at a price of \$33.00 and renounced \$9.4 million of resource expenditures to flow-through share investors effective December 31, 2008. The tax effect of those expenditures was recorded in 2009. The Company incurred these resource expenditures in 2009.

Contributed Surplus

Changes in Contributed Surplus	Amount
Balance at December 31, 2007	\$ 6,496
Stock-based compensation	14,791
Transfer from contributed surplus related to stock options and deferred common shares exercised	(1,492)
Balance at December 31, 2008	\$ 19,795
Stock-based compensation	18,733
Transfer from contributed surplus related to stock options and deferred common shares exercised	(5,092)
Balance at December 31, 2009	\$ 33,436

Paid-in Capital

Changes in Paid-in Capital		Amount
Balance at December 31, 2008		\$ -
Changes of ownership interest in PetroBakken		747,029
Changes of ownership interest in Petrominerales		128,895
Balance at December 31, 2009		\$ 875,924

Accumulated Other Comprehensive Income (Loss)

Changes in Accumulated Other Comprehensive Income (Loss)		Amount
Balance at December 31, 2007		\$ (41,774)
Unrealized gain on translation of Petrominerales' financial statements		84,622
Balance at December 31, 2008		\$ 42,848
Unrealized loss on translation of Petrominerales' financial statements		(72,742)
Balance at December 31, 2009		\$ (29,894)

Stock Options

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

The following is a continuity of stock options outstanding:

	2009		2008	
	Stock Options	Weighted-Average Exercise Price	Stock Options	Weighted-Average Exercise Price
Opening	6,596,076	\$ 22.37	3,837,049	\$ 12.91
Granted	1,010,499	42.05	4,302,089	43.94
Exercised	(1,495,639)	9.58	(608,375)	6.32
Forfeited	(1,989,857)	29.30	(934,687)	45.01
Cancelled	(30,000)	48.57	-	-
Closing	4,091,079	\$ 28.34	6,596,076	\$ 22.37

In October 2009, all employees and officers that were previously employed by Petrobank's Canadian Business Unit became employees and officers of PetroBakken. Employees and officers were authorized to exercise all in-the-money stock options that vested prior to December 31, 2009 up until January 22, 2010. All of the employees' and officers' unvested Petrobank stock options as at December 31, 2009 were forfeited. Those employees and officers were granted PetroBakken incentive shares.

In December 2008, the Company modified the terms of certain non-executive stock options that resulted in the exercise price on 1,833,675 options being reduced from a weighted average of \$47.18 to \$22.58 and the forfeiture of 611,200 options with a weighted average exercise price of \$47.18. The incremental fair value attributed to the modification is recorded as stock-based compensation over the vesting period of the modified options.

The following summarizes information about stock options outstanding as at December 31, 2009:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable	
	Number	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
4.15 - 6.20	420,000	0.2	\$ 4.15	420,000	\$ 4.15
6.85 - 10.25	16,814	0.7	9.15	16,814	9.15
10.40 - 15.50	303,775	4.3	14.25	179,400	14.30
16.42 - 24.50	1,643,240	5.8	20.84	613,642	20.26
24.98 - 37.45	483,000	6.4	31.76	186,875	33.49
42.99 - 58.52	1,224,250	7.3	49.13	80,000	48.56
	4,091,079	5.6	\$ 28.34	1,496,731	\$ 18.07

Deferred Common Share Compensation Plan

The Company has a deferred share compensation plan whereby the Company may grant deferred common shares to its directors, officers and employees. The plan allows holders to receive one common share upon payment of \$0.05 per share. The deferred common shares vest after three years or immediately upon resignation or retirement, and expire 10 years from the date of grant. Up to 0.5 million deferred common shares have been approved for issuance under this plan.

The following is a continuity of deferred common shares outstanding:

	2009	2008
Opening	146,810	155,250
Granted	57,500	20,060
Exercised	-	(28,500)
Closing	204,310	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:

Years ended December 31,	2009	2008
Risk free interest rate	1.75% – 2.25%	1.5% – 3.25%
Dividend rate	0%	0%
Expected life – options (years)	2 – 4	3.75 – 4
Expected life – deferred common shares (years)	8	8
Expected volatility	25% – 47.5%	42.5% – 47.5%

The average fair value per stock option granted during the year was \$10.60 (2008 – \$13.45) as at the date of grant. The average fair value per deferred common share granted during the year was \$24.15 (2008 – \$48.00) as at the date of grant.

Stock-based compensation expense for the year ended December 31, 2009 totalled \$30.1 million (2008 – \$17.6 million), of which \$6.3 million (2008 – \$4.0 million) related to Petrobank, \$18.7 million (2008 – \$10.8 million) related to PetroBakken and \$5.2 million (2008 – \$2.8 million) related to Petrominerales.

Earnings Per Share

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

Years ended December 31,	2009	2008
Net income attributable to Petrobank shareholders adjustments		
Basic	\$ 145,079	\$ 244,482
Interest expense on Petrobank's convertible debentures	3,244	8,654
Tax effect	(941)	(2,554)
Impact of Petrominerales dilution on net income	(386)	(1,852)
Impact of PetroBakken dilution on net income	(45)	-
Diluted	\$ 146,951	\$ 248,730
Weighted average common share adjustments		
Basic	88,494,213	82,267,822
Effect of convertible debentures	6,929,579	6,569,223
Effect of stock options and deferred common shares	940,137	1,258,514
Diluted	96,363,929	90,095,559

NOTE 7 – BANK DEBT AND RESTRICTED CASH

PetroBakken

Upon closing the TriStar acquisition, PetroBakken entered into a new \$1.05 billion credit facility with a syndicate of banks. This facility was comprised of a \$900 million oil and gas reserve-based revolver, and a \$150 million short-term non-revolving credit facility. The \$150 million short-term non-revolving credit facility was re-paid and cancelled in December 2009.

The reserve-based revolving credit facility has an initial term ending September 30, 2010, extendable by the lenders for an additional year. If the lenders were to not extend the term, the drawn amount would become due on September 30, 2011. The credit facility bears interest at the prime rate plus a margin based on a sliding scale ratio of PetroBakken's debt to earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA"). The facility is secured by a \$2.0 billion demand debenture and a securities pledge on PetroBakken's assets. The syndicate of lenders will assess the borrowing base semi-annually. PetroBakken is not subject to restrictive financial covenants under this credit facility.

Petrominerales

At December 31, 2009, Petrominerales had an undrawn US\$150 million secured credit facility. The facility is secured against all assets of Petrominerales, is reviewed semi-annually with the lenders and expires on December 30, 2013.

Petrominerales also has lines of credit available in Colombia totalling US\$30.3 million. Advances under the facility are collateralized by a promissory note provided by Petrominerales.

At December 31, 2009, Petrominerales had letters of credit totalling US\$20.2 million outstanding to guarantee work commitments under exploration blocks. Letters of credit issued against the Colombian operating line of credit (US\$18.8 million) reduce the amounts available under the facility. Petrominerales had restricted cash of US\$1.4 million (2008 – US\$4.5 million) relating to cash deposited as collateral for a letter of credit.

	HBU and Corporate	PetroBakken	Petrominerales	Petrobank Consolidated
Bank debt outstanding	\$ -	\$ 755,727	\$ -	\$ 755,727
Deferred financing costs	\$ -	\$ 7,542	\$ -	\$ 7,542
Bank debt	\$ -	\$ 748,185	\$ -	\$ 748,185

NOTE 8 – CONVERTIBLE DEBENTURES

Petrobank

3.0% Convertible Debentures

In May 2007, Petrobank issued US\$250 million of convertible debentures due in May 2012. The debentures are convertible into common shares of Petrobank at a conversion price of US\$28.4902 per share, which represented a 40% conversion premium to the Company's share price when initially priced, and have an annual coupon of 3.0%. Interest on the debentures is payable semi-annually in cash. The Company has the option to redeem the principal amount upon maturity in cash or common shares.

These 3.0% debentures have been classified into their debt and equity components based on fair values. On issuance, this resulted in \$205.3 million being classified as a liability and \$64.1 million being classified as equity. The liability portion will accrete up to the remaining principal balance at maturity. The accretion and cash interest payable are accrued and reflected as interest expense in the consolidated statement of operations, creating an effective yield of 9.4%. When debentures are converted to common shares, the relative portion of the value of the conversion feature under shareholders' equity is reclassified to common share capital along with the principal amounts converted.

In June 2009, Petrobank convertible debentures that were issued on May 4, 2007 with a face value of US\$244.9 million were converted into common shares and \$289.2 million (net of costs) was credited to share capital. Petrobank paid \$36.2 million (including costs) to debenture holders to convert their holdings into common shares. As a result, the Company recorded a \$24.1 million, net of tax, reduction in retained earnings relating to the early conversion.

As at December 31, 2009, the principal balance of the 3.0% debentures is US\$5.1 million. Upon conversion, 179,009 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 conversion price commencing in May 2010, should the price of the Company's common shares exceed 120% of the prevailing conversion price for at least 20 trading days within a 30-day trading period.

5.125% Convertible Debentures

In July 2009, Petrobank issued US\$400 million of convertible debentures maturing in July 2015. The debentures are convertible into common shares of Petrobank and have an annual coupon rate of 5.125% and a conversion price of US\$38.08 per debenture. Interest on the debentures is payable semi-annually in cash or common shares.

The debentures have been classified as a liability net of the fair value of the conversion feature which has been classified as shareholders' equity. The US\$400 million issuance resulted in \$377.9 million being classified as a liability and \$75.5 million being classified as equity. The liability portion will accrete up to the remaining principal balance at maturity. The accretion and the interest paid are expensed as interest expense in the consolidated statement of operations. When debentures are converted to common shares, the relative portion of the value of the conversion feature under shareholders' equity is reclassified to common share capital along with the principal amounts converted.

In January 2010, debentures with a face value of US\$250.7 million were converted into 7,452,099 common shares through an early conversion program. After the early conversion, debentures with a face value of US\$149.3 million remain outstanding, which upon conversion a total of 3,920,693 common shares may be issued.

Petrominerales

On December 6, 2007, Petrominerales issued US\$100 million of convertible debentures due December 6, 2010. The debentures are convertible into common shares of Petrominerales at a conversion price of US\$27.3485 per share, which represented a 38% premium to the share price when initially priced, and have an annual coupon of 3.375%. Interest on the debentures is payable semi-annually in cash or common shares.

The debentures have been classified into their debt and non-controlling interest components based on fair values. On issuance, this resulted in \$82.4 million being classified as a liability and \$12.6 million being classified as non-controlling interests. The liability portion will accrete up to the principal balance over the term of the debentures. The accretion, and the interest accrued are expensed as interest expense in the consolidated statement of operations, creating an effective yield of 9.7%.

In October and November 2008, Petrominerales repurchased debentures with a face value of US\$18.3 million for US\$11.1 million. A \$6.3 million gain was recorded as a result of settling the liability portion related to the repurchased debentures.

As at December 31, 2009, the principal balance of the debentures is US\$81.7 million. If converted, a total of 2,987,367 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.

Petrominerales has an option to force conversion of the debentures at the prevailing conversion price should the price of Petrominerales' common shares exceed 130% of the prevailing conversion price of the debentures for 20 trading days within a period of 30 consecutive trading days.

The following table summarizes the liability component of the debentures at December 31, 2009:

	Petrobank	Petrominerales	Total
Balance of liability component, December 31, 2007	\$ 189,893	\$ 82,704	\$ 272,597
Accretion	11,845	5,075	16,920
Repurchased ⁽²⁾	-	(20,381)	(20,381)
Change in exchange rate	47,171	21,267	68,438
Balance of liability component, December 31, 2008	\$ 248,909	\$ 88,665	\$ 337,574
Accretion	11,658	5,040	16,698
Conversion into common shares ⁽³⁾	(228,464)	-	(228,464)
Liability component of debenture issuance	377,918	-	377,918
Changes in exchange rate	(61,064)	(13,296)	(74,360)
Balance of liability component, December 31, 2009	\$ 348,957	\$ 80,409	\$ 429,366

(1) The fair value of the equity component related to the Petrominerales issuance is reflected as non-controlling interests on the consolidated balance sheet.

(2) The repurchased amount of \$20.4 million represents the carrying amounts of the liability portion on the repurchase dates.

(3) The conversion value of \$228.5 million represents the carrying amount of the liability portion on the conversion date.

NOTE 9 – INTEREST EXPENSE

Interest expense includes the following:

Years ended December 31,	2009	2008
Cash interest	\$ 34,805	\$ 22,910
Accretion on Petrobank convertible debentures	11,658	11,845
Accretion on Petrominerales convertible debentures	5,040	5,075
Amortization of deferred financing costs	5,155	958
Capitalized interest related to Conklin project ⁽¹⁾	(13,111)	(12,836)
Interest expense	\$ 43,547	\$ 27,952

(1) Capitalized interest includes \$7.3 million of cash and \$5.8 million of non-cash accretion (2008 – \$9.4 million and \$3.4 million, respectively).

NOTE 10 – ASSET RETIREMENT OBLIGATIONS

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

Changes to asset retirement obligations were as follows:

	2009	2008
Asset retirement obligations, beginning of year	\$ 22,100	\$ 12,254
Obligations incurred	3,695	4,253
Obligations acquired	47,277	2,792
Obligations disposed	(3,349)	-
Obligations settled	(1,971)	(1,848)
Accretion expense	2,807	1,197
Changes in foreign exchange rates	(963)	386
Changes in estimated future cash flows	(474)	3,066
Asset retirement obligations, end of year	\$ 69,122	\$ 22,100

The obligations have been calculated using an inflation rate of two percent for Petrobank and PetroBakken and four percent for Petrominerales, and discounted using a credit-adjusted risk free rate of eight percent per annum for Petrobank and PetroBakken and nine percent per annum in Petrominerales. Most of these obligations are not expected to be paid for several years extending up to 30 years in the future for Petrobank, 45 years in the future for PetroBakken and 14 years in the future for Petrominerales, and are expected to be funded from general resources of the Company, PetroBakken and Petrominerales at their respective settlement dates. The total undiscounted amount of estimated cash flows required to settle the obligations at December 31, 2009 is \$11.7 million (2008 – \$11.1 million) for the obligations in Petrobank, \$188.7 million (2008 – \$51.7 million) for the obligations in PetroBakken and US\$38.1 million (2008 – US\$26.2 million) for the obligations in Colombia.

NOTE 11 – INCOME TAXES

The provision for income taxes differs from the amount that would have been expected by applying expected statutory corporate income tax rates to income before taxes and non-controlling interests. The principal reasons for this difference are as follows:

Years ended December 31,	2009	2008
Income before taxes and non-controlling interests	\$ 187,449	\$ 368,730
Canadian statutory income tax rate	29.00%	29.50%
Expected tax expense	\$ 54,360	\$ 108,775
Increase (decrease) in income tax provision resulting from:		
Enhanced foreign tax allowances	(31,938)	(34,398)
Foreign income taxable at a higher statutory rate	5,578	6,035
Permanent difference associated with dispositions	(42,903)	-
Non-deductible expenses	14,057	5,014
Non-deductible foreign exchange loss (gain)	(8,854)	6,958
Stock-based compensation	9,128	5,302
Change in estimates and other	(5,147)	(6,644)
Provision for taxes	\$ (5,719)	\$ 91,042
Consisting of:		
Current taxes, including presumptive income and equity tax	\$ 10,234	\$ 4,938
Future income taxes	\$ (15,953)	\$ 86,104

The Company's pre-tax income from Colombian operations is subject to the Colombian statutory tax rate of 33%. Presumptive income and equity taxes are based on equity levels in Colombia. Presumptive income tax can be carried forward for five years and recovered against income taxes in future periods.

The components of the Company's future income tax assets and liabilities arising from temporary differences are as follows:

As at December 31,	2009		2008	
	Future Income Tax Assets	Future Income Tax Liabilities	Future Income Tax Assets	Future Income Tax Liabilities
Capital assets	\$ -	\$ 436,763	\$ -	\$ 183,206
Deferred income	-	135,059	-	42,329
Convertible debentures	-	4,524	3,229	-
Investment tax credits	8,849	-	8,850	-
Non-capital losses	41,613	-	6,235	-
Share issue costs	18,901	-	4,848	-
Asset retirement obligations	18,386	-	6,204	-
Risk management contracts ⁽¹⁾	1,782	-	-	9,860
Obligations under gas sale contract	1,069	-	891	-
Other	3,958	-	593	-
	\$ 94,558	\$ 576,346	\$ 30,850	\$ 235,395

(1) Recorded \$0.8 million as a current future income tax asset in 2009 (2008 - \$9.9 million current future income tax liability).

As at December 31, 2009, the Company had non-capital losses in Canada totalling \$157.6 million (2008 - \$18.8 million), which expire between 2010 and 2028. In Colombia, non-capital losses totalled US\$1.9 million (2008 - US\$2.7 million) and carryforward indefinitely.

NOTE 12 - NON-CONTROLLING INTERESTS

The components of the Company's non-controlling interests in PetroBakken, Petrobank's 64% owned subsidiary, and Petrominerales, Petrobank's 66% owned subsidiary are as follows:

	PetroBakken ⁽¹⁾	Petrominerales	Total
Balance at December 31, 2007	\$ -	\$ 149,297	\$ 149,297
Attributable income	-	33,206	33,206
Issuance of common shares	-	1,758	1,758
Repurchase of common shares ⁽²⁾	-	(13,108)	(13,108)
Common shares repurchased from Petrobank ⁽²⁾	-	6,738	6,738
Stock-based compensation and other	-	3,286	3,286
Balance at December 31, 2008	\$ -	\$ 181,177	\$ 181,177
Acquisition of TriStar	1,066,489	-	1,066,489
Attributable income	12,019	36,070	48,089
Stock-based compensation	6,191	5,167	11,358
Change in ownership interest ⁽³⁾	-	(38,711)	(38,711)
Dividends paid or declared by PetroBakken	(41,246)	-	(41,246)
Dividends received or receivable by Petrobank	26,352	-	26,352
Balance at December 31, 2009	\$ 1,069,805	\$ 183,703	\$ 1,253,508

(1) On September 30, 2009 Petrobank initially capitalized PetroBakken with its Canadian Business Unit assets and obligations. In return, Petrobank received 109.8 million shares of PetroBakken. After PetroBakken's acquisition of TriStar (Note 5) on October 1, 2009, Petrobank's 109.8 million shares represented 64% of PetroBakken's shares outstanding. The Company did not record a gain or loss on this transaction.

(2) Petrominerales repurchased a total of 1,326,000 Petrominerales common shares during the second half of 2008. For every share purchased on the open market one share was also purchased from Petrobank, accordingly, Petrobank's ownership interest increased as a result as it participated for less than its prorated ownership interest.

(3) Reflects the book values of the non-controlling interest share that Petrobank sold through a secondary offering on May 15, 2009, and through Petrominerales buying back shares from Petrobank under a Normal Course Issuer Bid, as well as any changes in non-controlling interest due to Petrominerales stock option exercises.

NOTE 13 – CAPITAL MANAGEMENT

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

	HBU and Corporate	PetroBakken	Petrominerales	Petrobank Consolidated
Working capital deficit (surplus) – excluding convertible debentures	\$ (21,174)	\$ 156,976	\$ (12,698)	\$ 123,104
Bank debt – principal	\$ -	\$ 755,727	\$ -	\$ 755,727
Convertible debentures – principal amount (US\$)	\$ 405,100 ⁽¹⁾	\$ -	\$ 81,700	\$ 486,800
Common share capital ⁽²⁾	\$ 880,183	\$ 2,717,098	US\$ 197,709	\$ 880,183
Credit facility – borrowing base	\$ 30,000 ⁽³⁾	\$ 900,000	US\$ 150,000	
Available credit capacity	\$ 30,000 ⁽³⁾	\$ 144,273	US\$ 150,000	

(1) In January 2010 US\$250.7 million principal amount of Petrobank convertible debentures were early converted into a total of 7,452,099 common shares. As a result, the outstanding principal amount of Petrobank convertible debentures has been reduced to US\$154.4 million.

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

(3) Petrobank is scheduled to close a \$30 million credit facility on March 31, 2010.

Petrobank's and each of our public subsidiary's policies are 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.

HBU and Corporate

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

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

Petrobank convertible debentures are considered to be equity as opposed to debt for capital management purposes. Under each tranche of debentures, if Petrobank's share price is below the prevailing conversion price at maturity, Petrobank can elect to redeem the principal amount in common shares or re-pay the remaining principal with new debt, equity and / or accumulated cash. Petrobank has the option to force conversion of the debentures at the prevailing conversion price after a period of time has elapsed should the price of Petrobank's common shares exceed 120% of the prevailing conversion price of the debentures over a specified period. If conversion of the debentures is forced, or if Petrobank's share price is in excess of the prevailing conversion price upon maturity, the debentures will be converted into equity.

Petrobank is in compliance with the covenants on its convertible debenture. Petrobank's convertible debenture agreements stipulate they each maintain a ratio of equity to total assets of at least 30% and to limit the amount of security and encumbrances it has on its total assets to 27.5%.

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

The sale of a portion of Petrobank's ownership in Petrominerales (Note 12), the early conversion of the majority of Petrobank's 3% convertible debentures (Note 8), the convertible debenture issuance in July 2009 by Petrobank (Note 8), and the formation of PetroBakken have resulted in significant changes to Petrobank's capital structure during 2009.

PetroBakken

PetroBakken considers its capital structure to include its common share capital, principal bank debt outstanding and working capital.

PetroBakken monitors leverage and adjusts its capital structure based on the ratio of bank debt to annualized earnings before interest, taxes and non-cash items. At December 31, 2009, the ratio of debt to annualized fourth quarter 2009 earnings before interest, taxes and non-cash items was 1 to 1, which is within a range acceptable to management. PetroBakken uses the ratio of debt to annualized earnings before interest, taxes and non-cash items as a key indicator of PetroBakken's leverage and to monitor the strength of the balance sheet. In order to facilitate the management of this ratio, PetroBakken prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, changes in capital structure, execution of PetroBakken's business plan and general industry conditions. The annual budget is approved by the PetroBakken Board of Directors and updates are prepared and reviewed as required.

PetroBakken is in compliance with the covenants on its credit facility agreements. PetroBakken is not subject to restrictive financial covenants under its credit facility.

PetroBakken had positive cash flow from operations and a credit facility with \$144.4 million of available capacity as at December 31, 2009. In January 2010, PetroBakken closed a US\$750 million convertible debenture offering and repaid all outstanding bank debt.

Since October 1, 2009, PetroBakken has paid monthly dividends of \$0.08 per share.

Petrominerales

Petrominerales monitors leverage and adjusts its capital structure based on the ratio of net debt to annualized cash flow. This ratio is calculated as net debt, a non-GAAP measure Petrominerales defines as outstanding bank debt plus the principal amount of convertible debentures and working capital, divided by cash flow from operations before changes in non-cash working capital for the most recent calendar quarter, annualized. At December 31, 2009, the ratio of net debt to annualized cash flow was 0.1 to 1, well within the range acceptable to Petrominerales. Petrominerales uses the ratio of net debt to cash flow as a key indicator of Petrominerales' leverage and to monitor the strength of the balance sheet. In order to facilitate the management of this ratio, Petrominerales prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of Petrominerales' business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

Petrominerales is in compliance with the covenants contained in its convertible debenture and credit facility agreements. The Credit facility has financial covenants to maintain a ratio of bank debt to trailing twelve month earnings before interest, tax, depletion, depreciation and amortization under 3.0 times and to maintain a current ratio greater than 1.0 times (current assets divided by current liabilities less unused bank debt and the liability portion of convertible debentures). The convertible debentures have financial covenants to maintain a ratio of equity to total assets of at least 30% and to limit the amount of security and encumbrances Petrominerales has on its total assets to 27.5% of total assets.

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

NOTE 14 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

Credit Risk

A substantial portion of the Company's accounts receivable are with customers and joint-venture participants in the oil and natural gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers and participants. At December 31, 2009, oil, natural gas and NGL production of the Company's Canadian oil production is sold to a number of oil and gas marketers. The Company's policy to mitigate the risk associated with these balances is to establish marketing relationships with large purchasers and, where practical, obtain support in the form of guarantees or letters of credit.

Petrominerales' crude oil production is sold, as determined by market based prices adjusted for quality differentials, to four main counterparties: Ecopetrol, the Colombian national oil company, and the remainder to three international oil companies. Petrominerales' oil revenue is received in Bermuda and is denominated in United States dollars. Typically, Petrominerales' maximum credit exposure to customers is up to two months' sales revenue except for the production month of December where November sales and part of December sales from the main oil purchaser are received by the end of the year. Petrominerales does not anticipate non-performance by any of the counterparties. In addition, Petrominerales reduced its credit risk to certain counterparties in 2009 through credit insurance.

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

As at December 31,	2009	2008
Oil and natural gas customers	\$ 177,476	\$ 57,085
Tax receivable	8,856	10,088
Other	18,118	14,529
Total	\$ 204,450	\$ 81,702

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

Cash and cash equivalents 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 Company's maximum credit exposure. The Company had a \$1.8 million allowance for doubtful accounts as at December 31, 2009 (2008 – \$0.8 million). For the years ended December 31, 2009 and 2008, the Company wrote off less than \$0.1 million of receivables in both years.

The Company's accounts receivables are aged as follows:

As at December 31,	2009	2008
Not past due	\$ 196,450	\$ 78,697
Past due	8,000	3,005
Total	\$ 204,450	\$ 81,702

Liquidity Risk

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

The Company prepares annual capital expenditure budgets, which are monitored and updated as considered necessary. Production is monitored regularly to provide current cash flow estimates and the Company utilizes authorizations for expenditures on projects to manage capital expenditures. To facilitate the capital expenditure program, the Company has revolving asset based credit facilities, as outlined in Note 7, that are reviewed semi-annually by the lenders.

The following are the contractual maturities of financial liabilities at December 31, 2009:

Financial Liability	< 1 Year	1-3 Years	3-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 481,916	\$ -	\$ -	\$ -	\$ 481,916
PetroBakken bank debt – principal	-	755,727	-	-	755,727
Petrominerales letters of credit (US\$)	5,645	2,375	11,832	-	19,852
Petrobank convertible debentures – principal (US\$) ⁽¹⁾	-	5,100	-	400,000	405,100
Petrominerales convertible debentures – principal (US\$) ⁽²⁾	81,700	-	-	-	81,700
Total ⁽³⁾	\$ 573,331	\$ 763,551	\$ 12,383	\$ 418,640	\$ 1,767,905

(1) The US\$5.1 million and US\$400 million of debentures are convertible to common shares of Petrobank at a conversion price of US\$28.4902 per share, and US\$38.08 per share, respectively. In January 2010 US\$250.7 million principal amount of the Petrobank convertible debentures due in 2016 were early converted into a total of 7,452,099 common shares. As a result, the total outstanding principal amount of Petrobank convertible debentures has been reduced to US\$154.4 million. At maturity, the Company has the option to redeem the principal amount in cash or common shares if the debentures have not been converted. Upon conversion of the remaining Petrobank debentures, a total of 4,099,716 additional common shares may be issued.

(2) The debentures are convertible to common shares of Petrominerales at a conversion price of US\$27.3485 per Petrominerales share. Upon conversion, 2,987,367 Petrominerales common shares may be issued. At maturity, Petrominerales will redeem the principal amount in cash if the debentures have not been converted.

(3) US\$ amounts have been converted using a period end exchange rate of 1.0466.

Market Risk

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

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

Foreign Currency Risk

The Company is exposed to foreign currency fluctuations as Colombian revenues are denominated in U.S. dollars and Colombian expenses are denominated primarily in U.S. dollars and Colombian pesos. The Company is also exposed as Petrobank's convertible debentures are denominated in U.S. dollars and Canadian revenues are strongly linked to U.S. dollar denominated benchmark prices. When appropriate, the Company may enter into agreements to fix the exchange rate of Canadian dollars to U.S. dollars in order to manage exchange rate risks. The Company had no forward exchange rate contracts in place as at December 31, 2009.

At December 31, 2009, if the Canadian dollar had depreciated five percent against the U.S. dollar with all other variables held constant, net income would have been \$15.3 million lower for the year ended December 31, 2009 (2008 – \$9.5 million lower), due to Petrobank's U.S. dollar denominated convertible debentures, offset by the risk management contracts related to Canadian production. Other comprehensive income would have been \$11.2 million higher (2008 – \$14.5 million higher) due to the foreign currency balances of Petrominerales that are translated into Petrobank's consolidated financial statements. The Company had no forward exchange rate contracts in place as at or during the year ended December 31, 2009.

Commodity Price Risk

Changes in commodity prices may significantly impact the results of the Company's operations and cash generated from operating activities, and can also impact the Company's borrowing base under its secured credit facilities. Lower commodity prices can also reduce the Company's ability to raise capital. Crude oil prices are impacted by world economic events that dictate the levels of supply and demand. Natural gas prices in Canada are influenced primarily by North American supply and demand. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives. The Company's policy is to only enter into commodity contracts considered appropriate to a maximum of 50% of forecasted production volumes.

PetroBakken had the following crude oil price risk management contracts outstanding at December 31, 2009:

Term	Volume (bopd)	Price (\$/bbl)	Benchmark
Jan. 1, 2010 – Dec. 31, 2010	500	C\$65.00 floor / C\$87.25 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$65.00 floor / C\$90.00 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$65.00 floor / C\$99.50 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$70.00 floor / C\$87.85 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$82.45 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$93.65 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$94.15 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	1,000	C\$75.00 floor / C\$98.30 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$100.00 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 floor / US\$93.05 ceiling	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 floor / US\$93.25 ceiling	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 floor / US\$95.00 ceiling	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 floor / US\$95.00 ceiling	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$75.00 floor / US\$94.75 ceiling	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$75.00 floor / US\$95.00 ceiling	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 put	US\$WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$75.00 put	US\$WTI
Jan. 1, 2011 – Dec. 31, 2011	1,000	C\$75.00 floor / C\$90.00 ceiling	C\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$75.00 floor / US\$93.75 ceiling	US\$WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$75.00 floor / US\$95.00 ceiling	US\$WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$75.00 floor / US\$99.00 ceiling	US\$WTI
Jan. 1, 2011 – Dec. 31, 2011	500	C\$80.00 floor / C\$95.60 ceiling	C\$WTI
Jan. 1, 2011 – Dec. 31, 2011	1,000	C\$80.00 floor / C\$100.70 ceiling	C\$WTI

Subsequent to December 31, 2009, PetroBakken entered into the following crude oil price risk management contracts:

Term	Volume (bopd)	Price (\$/bbl)	Benchmark
Feb. 1, 2010 – Dec. 31, 2010	500	US\$75.00 floor / US\$97.00 ceiling	US\$ WTI
Feb. 1, 2010 – Dec. 31, 2010	500	US\$75.00 floor / US\$97.25 ceiling	US\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$80.00 floor / US\$98.55 ceiling	US\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$80.00 floor / US\$98.60 ceiling	US\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$75.00 floor / US\$104.00 ceiling	US\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$75.00 floor / US\$104.25 ceiling	US\$ WTI

PetroBakken had the following natural gas price risk management contracts were outstanding at December 31, 2009:

Term	Volume (Gigajoule ("GJ") / day)	Price (\$/GJ)	Benchmark
Nov. 1, 2009 – Oct. 31, 2010	1,500	C\$5.00 floor / C\$6.25 ceiling	AECO
Nov. 1, 2009 – Nov. 30, 2010	2,500	C\$5.00 floor / C\$7.20 ceiling	AECO

PetroBakken assumed the following natural gas price risk management contracts upon the acquisition of Berens Energy Ltd. ("Berens") on February 25, 2010 (Note 15):

Term	Volume (GJ/d)	Price (\$/GJ)	Benchmark
Aug. 1, 2009 – Mar. 31, 2010	2,000	C\$4.00 fixed price swap	AECO
Aug. 1, 2009 – Mar. 31, 2010	2,000	\$4.16 fixed price swap	AECO
Aug. 1, 2009 – Mar. 31, 2010	2,000	C\$4.18 fixed price swap	AECO
Apr. 1, 2010 – Mar. 31, 2011	2,000	C\$6.00 fixed price swap	AECO
Apr. 1, 2010 – Dec. 31, 2011	2,000	C\$6.02 fixed price swap	AECO

The fair value of the commodity risk management contract liability at December 31, 2009 is \$6.0 million (2008 – \$32.9 million asset). If crude oil prices had been 10% lower on December 31, 2009, with all other variables held constant, the change in the fair value of the risk management contracts would have resulted in net income that was \$20.6 million higher for the year then ended. If natural gas prices had been 10% lower on December 31, 2009, with all other variables held constant, the change in the fair value of the risk management contracts would have resulted in net income that was \$0.5 million higher for the year then ended.

Long-Term Physical Gas Sale Contract

PetroBakken is committed to deliver 2,209 GJ per day of natural gas under an escalating price contract which expires October 31, 2012. The wellhead price under this contract in 2009 was \$5.15 per GJ and was increased to \$5.35 per GJ effective January 1, 2010. PetroBakken applies the expected purchase and sale exemption to this contract and accordingly does not apply hedge accounting principles to this contract.

Interest Rate Risk

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

PetroBakken had the following interest rate swap contracts in place at December 31, 2009:

Term	Notional Principal / Month	Fixed Annual Rate (%)
Apr. 2009 – Apr. 2011	\$50 million	1.050%
Apr. 2009 – Apr. 2012	\$50 million	1.300%
Jan. 2009 – Jan. 2012	\$50 million	1.620%
Jan. 2009 – Jan. 2012	\$50 million	1.653%
Feb. 2009 – Feb. 2012	\$25 million	1.540%
Feb. 2009 – Feb. 2012	\$25 million	1.510%
Jun. 2009 – Jun. 2012	\$25 million	2.094%

PetroBakken assumed the following interest rate swap contracts upon the acquisition of Berens on February 25, 2010.

Term	Notional Principal / Month	Fixed Annual Rate (%)
Feb. 2009 – Feb. 2011	\$40 million	2.390%

The fair value of the interest rate swap contracts as at December 31, 2009 was \$0.1 million. If interest rates had been 1% higher at December 31, 2009, net income would have increased by \$5.0 million due to the change in fair value of the interest rate swaps.

Years ended December 31,	2009	2008
Realized gain (loss) on risk management contracts	\$ 23,972	\$ (13,277)
Unrealized gain (loss) on risk management contracts	(41,941)	44,319
Gain on risk management contracts	\$ 17,969	\$ 31,042

The unrealized gain (loss) represents the change in fair value of the underlying risk management contracts to be settled in the future. The realized gain (loss) represents the risk management contracts settled in the period.

Fair Value of Financial Instruments

The Company's financial instruments are classified as cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, risk management liabilities, bank debt, convertible debentures and obligations under gas sale contract included within other long-term liabilities on the balance sheet. The carrying value and fair value of these financial instruments at December 31, 2009 is disclosed below by financial instrument category, as well as any related gain, loss, expense or revenue for the year ended December 31, 2009:

Financial Instrument	Carrying Value	Fair Value	Gain / (Loss)	Interest Expense	Revenue
<i>Assets Held For Trading</i>					
Cash and cash equivalents ⁽¹⁾	135,515	135,515	-	-	-
Restricted cash	1,439	1,439	-	-	-
<i>Loans and Receivables</i>					
Accounts receivable	204,450	204,450	-	-	-
<i>Other Liabilities</i>					
Accounts payable and accrued liabilities	481,916	481,916	-	-	-
Risk management liabilities	6,136	6,136	(17,969) ⁽²⁾	-	-
Bank debt	748,185	755,727	-	22,050 ⁽³⁾	-
Convertible debentures	429,366	708,483 ⁽⁴⁾	61,064 ⁽⁵⁾	21,497 ⁽⁶⁾	-
Obligations under gas sale contract	2,343	527	-	-	827 ⁽⁷⁾

(1) The effective yield on cash equivalents at December 31, 2009 was 0.3% (2008 – 0.6%).

(2) Included in gain (loss) on risk management contracts on the statement of operations and retained earnings, and statement of comprehensive income. The unrealized loss of \$41.9 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 December 31, 2009 was 3.6% (2008 – 3.5%).

(4) The Company estimated the fair value of the convertible debentures based on market transactions close to December 31, 2009. The principal amounts of the Petrobank and Petrominerales convertible debentures at December 31, 2009 are US\$405.1 million and US\$81.7 million, respectively.

(5) Included in foreign exchange loss (gain) on the statement of operations and retained earnings, and statement of cash flow. In addition, a \$13.3 million gain relating to the foreign currency translation of the liability component of Petrominerales' convertible debentures is also included on the statement of comprehensive income.

(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 on the convertible debentures issued by Petrobank are 9.2% and 9.4% for the respective 5.125% (US\$400 million face value) and 3% (US\$5.1 million face value) and 9.7% on the convertible debentures issued by Petrominerales.

(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 Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

The Company's financial instruments have been assessed on the fair value hierarchy described above. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

The risk management contracts (level 2) 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. Bank debt (level 1) is recorded on the balance sheet net of deferred financing costs which results in a difference between carrying value and the fair value. The fair value of the convertible debentures (level 2) is estimated based on market transactions close to the balance sheet date, while the carrying value only represents the liability component of the debentures. The fair value of the obligations under the gas sale contract (level 2) is 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. Due to the short term nature of: cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities their carrying values approximate their fair values.

NOTE 15 – TECHNOLOGY PARTNERSHIPS CANADA AND INNOVATIVE ENERGY TECHNOLOGIES PROGRAM FINANCING

Technology Partnerships Canada (“TPC”) will invest \$9.0 million towards the development and field demonstration of the Company’s THAI™ technology at the Conklin Project. Under the TPC funding commitment, TPC agreed to contribute 20.134% of eligible expenditures for the Conklin Project to a maximum of \$9.0 million, all of which has been recorded as a reduction in capital assets. Upon commercialization of the THAI™ technology, TPC is entitled to receive a royalty based on three separate revenue streams. The first stream is based on three percent of the initial Conklin Project revenues earned after January 1, 2006 with initial payments due May 1, 2010. The second stream is based on 0.6% of Whitesands Insitu Partnership revenues (excluding initial project revenues) earned after January 1, 2009 with initial payments due May 1, 2010. The third stream is based on three percent of all third-party THAI™ licensing revenues earned after January 1, 2008 with initial payments due May 1, 2009. If, as of December 31, 2017 the cumulative royalty paid from the three royalty streams has not reached \$26.2 million, royalty payments will continue until \$26.2 million has been paid or until December 31, 2022, whichever occurs first.

The Company has received a \$10.0 million grant, from the Government of Alberta, in the form of a royalty credit for Alberta Crown royalties. This program is administered by Alberta Energy’s Innovative Energy Technologies Program. For the year ended December 31, 2009, the Company recorded a benefit of \$1.3 million (2008 – \$3.2 million) as a reduction of capital assets and royalties payable.

NOTE 16 – CHANGES IN NON-CASH WORKING CAPITAL

Years ended December 31,	2009	2008
Change in:		
Accounts receivable and other current assets	\$ (142,068)	\$ (39,957)
Accounts payable and accrued liabilities	219,139	94,860
Depletion related to other current assets	783	(362)
Other assets	1,618	-
Capital assets	(22,586)	-
	56,886	54,541
Working capital deficiencies acquired (Note 5)	(83,625)	(13,278)
	\$ (26,739)	\$ 41,263
Changes relating to:		
Attributable to operating activities	\$ 18,377	\$ (12,323)
Attributable to financing activities	\$ 16,143	\$ -
Attributable to investing activities	\$ (61,259)	\$ 53,586
Other cash flow information:		
Cash taxes paid	\$ 2,154	\$ 4,206
Cash interest paid	\$ 33,826	\$ 22,395
Cash interest received	\$ 432	\$ 2,509

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments at December 31, 2009:

Type of Commitment	2010	2011	2012	2013	2014	Thereafter	Total
<i>HBU and Corporate</i>							
Petrobank convertible debentures (US\$) ⁽¹⁾	-	-	5,100	-	-	400,000	405,100
Office operating leases (\$)	1,800	1,800	2,400	2,500	2,600	11,600	22,700
<i>PetroBakken</i>							
Bank debt (\$)	-	755,727	-	-	-	-	755,727
Office operating leases (\$)	4,338	4,261	5,456	5,788	5,788	15,762	41,393
<i>Petrominerales</i>							
Petrominerales convertible debentures (US\$) ⁽²⁾	81,700	-	-	-	-	-	81,700
Exploration contracts (US\$) ⁽³⁾	42,300	3,500	23,700	-	-	-	69,500
Transportation contract (US\$) ⁽⁴⁾	5,915	11,862	11,863	11,863	11,862	-	53,365
Offloading facility (US\$)	2,400	-	-	-	-	-	2,400
Office lease (US\$)	1,800	1,900	1,900	1,900	1,900	-	9,400
Total Commitments ⁽⁵⁾	\$146,503	\$ 779,855	\$ 52,402	\$ 22,692	\$ 22,791	\$446,002	\$1,470,245

(1) The US\$5.1 million of debentures are convertible into common shares of Petrobank at a conversion price of US\$28.4902 per share. The US\$400 million of debentures (subsequently reduced to US\$149.3 million in January 2010) are convertible into common shares of Petrobank at a conversion price of US\$38.08 per share.

(2) The Petrominerales debentures mature on December 6, 2010 and are convertible into common shares of Petrominerales at a conversion price of US\$27.3485 per share.

(3) These work commitments are normal course of business exploration activities that include property costs, acquisition and processing of seismic data and drilling exploration wells. Petrominerales has issued letters of credit totalling US\$18.8 million and pledged US\$1.4 million in restricted cash to guarantee the obligations under these exploration contracts.

(4) Petrominerales entered into a take-or-pay transportation contract to deliver up to 10,000 barrels of oil per day in the Llanos Basin of Colombia.

(5) US\$ amounts have been converted using the December 31, 2009 exchange rate of \$1.0466.

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

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

NOTE 18 – SUBSEQUENT EVENTS

Petrobank

In January 2010, US\$250.7 million principal amount of Petrobank convertible debentures were converted early into a total of 7,452,099 common shares. As a result, the outstanding principal amount of Petrobank convertible debentures has been reduced to US\$154.4 million.

PetroBakken

On January 25, 2010, PetroBakken completed a US\$750 million convertible debenture offering. The debentures are convertible into common shares of PetroBakken at a conversion price of US\$39.61 per share, have an annual coupon rate of 3.125% and mature in February 2016.

On January 28, 2010, PetroBakken entered into an arrangement agreement to acquire all of the issued and outstanding shares of Result Energy Inc. ("Result") for cash consideration of \$200 million and the issuance of 11.2 million PetroBakken common shares. Result had positive working capital of approximately \$60 million as at the time of announcement. The arrangement is expected to close on or about April 1, 2010. This acquisition will be accounted for using the purchase method.

On February 25, 2010, PetroBakken acquired all of the issued and outstanding shares of Berens Energy Ltd. ("Berens") for cash consideration of \$271 million and the assumption of working capital deficiency of approximately \$72 million for total consideration of approximately \$343 million. This acquisition will be accounted for using the purchase method.

On March 12, 2010, PetroBakken acquired all of the issued and outstanding shares of Rondo Petroleum Inc. ("Rondo") for consideration of \$88.7 million cash, the issuance of approximately 5.5 million PetroBakken shares and the assumption of Rondo's debt. As a result, Petrobank's ownership interest in PetroBakken was reduced to 62%. This acquisition will be accounted for using the purchase method.

PetroBakken is in the process of divesting non-core assets in Alberta. In addition to the divestiture discussed in Note 5, in February and early March 2010 PetroBakken closed three additional divestitures representing approximately 3,000 boepd (55% natural gas) of production for gross proceeds of \$112 million.

Petrominerales

Petrominerales has made an offer to purchase all of the issued and outstanding shares of PanAndean Resources PLC (AIM:PRE) by way of scheme of arrangement.

The cash consideration is approximately US\$28.5 million before expenses, and is subject to PanAndean shareholder approval, which is expected to occur in April, 2010.

NOTE 19 – SEGMENTED INFORMATION

Years ended December 31,	2009				2008			
	PetroBakken	Petrominerales	HBU and Corporate	Total	PetroBakken	Petrominerales	HBU and Corporate	Total
Revenues								
Oil and natural gas	\$ 575,588	\$ 518,086	\$ -	\$ 1,093,674	\$ 585,800	\$ 364,268	\$ -	\$ 950,068
Royalties	(82,151)	(47,297)	-	(129,448)	(65,252)	(33,974)	-	(99,226)
Gain (loss) on risk management contracts	(17,969)	-	-	(17,969)	33,046	(2,004)	-	31,042
Interest income	211	411	13	635	536	2,486	-	3,022
	475,679	471,200	13	946,892	554,130	330,776	-	884,906
Expenses								
Production	70,913	65,738	-	136,651	56,983	36,409	-	93,392
Transportation	8,820	53,537	-	62,357	21,212	14,460	-	35,672
General and administrative	15,253	13,686	4,100	33,039	10,512	10,744	3,314	24,570
Acquisition related	19,155	-	-	19,155	-	-	-	-
Stock-based compensation	18,650	5,167	6,274	30,091	10,831	2,843	3,960	17,634
Interest	18,699	11,534	13,314	43,547	9,542	11,398	7,012	27,952
Foreign exchange loss (gain)	1,105	9,346	(57,753)	(47,302)	-	1,067	46,782	47,849
Gain on repurchase of Petrominerales convertible debentures	-	-	-	-	-	(6,269)	-	(6,269)
Depletion, depreciation and accretion	303,714	177,780	411	481,905	187,372	87,681	323	275,376
	456,309	336,788	(33,654)	759,443	296,452	158,333	61,391	516,176
Income before taxes	19,370	134,412	33,667	187,449	257,678	172,443	(61,391)	368,730
Current taxes	-	10,234	-	10,234	-	4,938	-	4,938
Future income taxes (recovery)	(24,027)	11,588	(3,514)	(15,953)	71,329	27,089	(12,314)	86,104
Net income	43,397	112,590	37,181	193,168	186,349	140,416	(49,077)	277,688
Income applicable to non-controlling interests	12,019	36,070	-	48,089	-	33,206	-	33,206
Net income attributable to Petrobank shareholders	\$ 31,378	\$ 76,520	\$ 37,181	\$ 145,079	\$ 186,349	\$ 107,210	\$ (49,077)	\$ 244,482
Identifiable assets	\$ 4,480,604	\$ 746,187	\$ 539,777	\$ 5,766,568	\$ 1,318,090	\$ 679,090	\$ 364,527	\$ 2,361,707
Goodwill	\$ 1,032,862	\$ -	\$ 28,119	\$ 1,060,981	\$ 35,052	\$ -	\$ 28,119	\$ 63,171
Capital expenditures	\$ 394,023	\$ 320,815	\$ 76,019	\$ 790,857	\$ 545,833	\$ 281,748	\$ 82,332	\$ 909,913
Dividends paid or declared (received or receivable)	\$ 41,246	\$ -	\$ (26,352)	\$ 14,894	\$ -	\$ -	\$ -	\$ -