



Q3 2009

## FINANCIAL & OPERATING HIGHLIGHTS

	Three months ended			Nine months ended		
	September 30, 2009	2008	% Change	September 30, 2009	2008	% Change
<b>Financial</b> (\$000s, except where noted)						
Oil and natural gas revenue	<b>232,471</b>	317,137	(27)	<b>647,653</b>	743,907	(13)
Funds flow from operations <sup>(1)</sup>	<b>142,927</b>	216,709	(34)	<b>418,433</b>	518,120	(19)
Per share – basic (\$)	<b>1.55</b>	2.62	(41)	<b>4.82</b>	6.32	(24)
– diluted (\$)	<b>1.42</b>	2.36	(40)	<b>4.44</b>	5.65	(21)
Net income	<b>54,846</b>	123,226	(55)	<b>87,971</b>	216,399	(59)
Per share – basic (\$)	<b>0.59</b>	1.49	(60)	<b>1.01</b>	2.64	(62)
– diluted (\$)	<b>0.56</b>	1.35	(59)	<b>0.96</b>	2.39	(60)
Capital expenditures	<b>194,043</b>	257,305	(25)	<b>511,459</b>	629,931	(19)
PetroBakken <sup>(2)</sup>	<b>107,820</b>	165,447	(35)	<b>216,745</b>	345,647	(37)
Petrominerales <sup>(3)</sup>	<b>59,486</b>	76,040	(22)	<b>234,249</b>	225,423	4
Heavy Oil Business Unit	<b>26,737</b>	15,818	69	<b>60,465</b>	58,861	3
Total assets	<b>2,590,943</b>	2,044,996	27	<b>2,590,943</b>	2,044,996	27
Net debt (working capital) <sup>(1)</sup>	<b>(13,228)</b>	230,585	-	<b>(13,228)</b>	230,585	-
Common shares outstanding, end of period (000s)						
Basic	<b>92,978</b>	82,474	13	<b>92,978</b>	82,474	13
Diluted <sup>(4)</sup>	<b>109,830</b>	98,173	12	<b>109,830</b>	98,173	12
<b>Operations</b>						
PetroBakken operating netback (\$/boe except where noted) <sup>(1) (5)</sup>						
Oil and NGL revenue (\$/bbl) <sup>(6)</sup>	<b>67.65</b>	115.11	(41)	<b>58.67</b>	109.65	(46)
Natural gas revenue (\$/mcf) <sup>(6)</sup>	<b>3.55</b>	7.94	(55)	<b>4.21</b>	8.47	(50)
Oil, NGL and natural gas revenue <sup>(6)</sup>	<b>60.66</b>	106.51	(43)	<b>54.25</b>	100.98	(46)
Royalties	<b>9.62</b>	12.72	(24)	<b>7.31</b>	10.68	(32)
Production expenses	<b>6.83</b>	8.84	(23)	<b>6.72</b>	8.99	(25)
Operating netback <sup>(7)</sup>	<b>44.21</b>	84.95	(48)	<b>40.22</b>	81.31	(51)
Petrominerales operating netback (\$/bbl) <sup>(1)</sup>						
Oil revenue <sup>(6)</sup>	<b>61.96</b>	110.53	(44)	<b>53.35</b>	104.63	(49)
Royalties	<b>6.06</b>	11.71	(48)	<b>5.23</b>	10.52	(50)
Production expenses	<b>8.81</b>	8.38	5	<b>8.03</b>	9.76	(18)
Operating netback <sup>(7)</sup>	<b>47.09</b>	90.44	(48)	<b>40.09</b>	84.35	(52)
Average daily production <sup>(5)</sup>						
PetroBakken – oil and NGL (bbls)	<b>15,185</b>	16,024	(5)	<b>17,206</b>	13,868	24
PetroBakken – natural gas (mcf)	<b>16,177</b>	14,047	15	<b>15,761</b>	14,381	10
Total PetroBakken (boe)	<b>17,881</b>	18,365	(3)	<b>19,833</b>	16,265	22
Petrominerales – oil (bbls) <sup>(8)</sup>	<b>21,546</b>	12,485	73	<b>21,621</b>	9,497	128
Total Company conventional (boe)	<b>39,427</b>	30,850	28	<b>41,454</b>	25,762	61

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

<sup>(2)</sup> PetroBakken was referred to in prior quarters as the Canadian Business Unit (“CBU”) and does not include any operational results from the TriStar acquisition completed on October 1, 2009.

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

<sup>(4)</sup> Assumes 10.7 million shares will be issued upon conversion of the Petrobank’s convertible debentures.

- (5) Six mcf of natural gas is equivalent to one barrel of oil equivalent (“boe”). HBU bitumen volumes are excluded from average daily production as Conklin pilot operations are considered to be in the pre-operating stage and accordingly are capitalized.
- (6) Net of transportation expenses.
- (7) Excludes hedging activities. In the third quarter of 2009 PetroBakken realized gains of \$2.50/boe (2008 – realized loss of \$1.90/boe) and no gain or loss was recognized by Petrominerales (2008 – realized loss of \$3.36/bbl). In the first nine months of 2009 PetroBakken realized gains of \$3.85/boe (2008 – realized loss of \$2.08/boe) and no gain or loss was recognized by Petrominerales (2008 – realized loss of \$3.84/bbl).
- (8) Actual production sold for the three and nine months ended September 30, 2009 was 21,239 barrels of oil per day (“bopd”) and 21,345 bopd, respectively (2008 – 12,485 bopd and 9,497 bopd).

## **HIGHLIGHTS (excluding financial and operating results from the TriStar acquisition completed on October 1, 2009)**

(Comparisons are third quarter of 2009 compared to the third quarter of 2008.)

- Petrobank’s production increased by 28% to 39,427 boepd in the third quarter of 2009.
- Despite a sharp 42% drop in world oil prices, Petrobank funds flow from operations only decreased by 34% to \$142.9 million (\$1.42 per diluted share).
- Petrobank achieved net income of \$54.8 million (\$0.56 per diluted share) in the third quarter compared to net income of \$123.2 million (\$1.35 per diluted share) in the same 2008 period.
- On July 10, 2009, Petrobank issued US\$400 million of convertible debentures.
- Our 67% owned subsidiary, Petrominerales Ltd. (“Petrominerales”) increased production by 73% up 21,546 barrels of oil per day (“bopd”).
- Petrominerales operating netbacks averaged US\$42.75 per barrel, with operating costs of US\$8.02 per barrel.
- Our Heavy Oil Business Unit (“HBU”) commenced air injection at our Kerrobert Project in October, combustion was confirmed and wells placed on production in November.
- Our subsidiary PetroBakken Energy Ltd. (“PetroBakken”) was wholly-owned until acquiring TriStar Oil and Gas Ltd. (“TriStar”) on October 1, 2009. Upon completion of the acquisition, Petrobank’s ownership interest in PetroBakken decreased to 64%.
- PetroBakken’s production expenses decreased by 23% to \$6.83/boe in the third quarter (excluding TriStar).
- PetroBakken operating netbacks averaged \$44.21/boe excluding hedging gains of \$2.50/boe (excluding TriStar).

## PETROBAKKEN ENERGY LTD.

A full operational update of our 64% owned subsidiary, PetroBakken Energy Ltd. (TSX:PBN), was published on November 10, 2009 and can be found at [www.petrobakken.com](http://www.petrobakken.com) and [www.sedar.com](http://www.sedar.com).

### PRO FORMA PETROBAKKEN HIGHLIGHTS (including financial and operating results from the TriStar acquisition completed on October 1, 2009)

- PetroBakken production averaged 41,526 boepd in the third quarter of 2009.
- Non-Alberta production averaged 32,448 boepd in the third quarter, 94% weighted to light oil.
- Current PetroBakken production is approximately 44,500 boepd, of which 35,500 boepd is non-Alberta production.
- Strong non-Alberta operating netbacks (excluding hedging gains) of \$46.55/boe with operating costs of \$7.60/boe.
- PetroBakken operating netbacks (excluding hedging gains) of \$40.52/boe with operating costs of \$8.81/boe.
- PetroBakken drilled 89 (67.3 net) wells in the third quarter; including 71 (51.4 net) in the Bakken.
- PetroBakken's forecast 2009 exit production, excluding the anticipated Alberta asset sales, is expected to be above 37,000 boepd (more than 95% light oil).

### THIRD QUARTER PETROBAKKEN PRO FORMA FINANCIAL & OPERATING HIGHLIGHTS (unaudited)

<b>Operations</b>	<b>Pro forma<sup>(1)</sup></b>
Average daily production	
Non-Alberta - oil and NGL (bbls)	<b>30,442</b>
Non-Alberta - natural gas (mcf)	<b>12,030</b>
Total Non-Alberta (boe)	<b>32,448</b>
Alberta - oil and NGL (bbls)	<b>4,063</b>
Alberta - natural gas (mcf)	<b>30,089</b>
Total Alberta (boe)	<b>9,078</b>
Total Company (boe)	<b>41,526</b>
<b>Financial</b> (\$000's, except where noted)	
Net debt <sup>(7)</sup>	<b>1,035,715</b>
Shares outstanding (000's)	<b>171,856</b>
Capital expenditures	<b>190,250</b>
<b>Non-Alberta operating netback</b> <sup>(2)(3)</sup>	
Oil and NGL revenue (\$/bbl) <sup>(4)</sup>	<b>67.46</b>
Natural gas revenue <sup>(3) (4)</sup>	<b>2.92</b>
Oil, NGL and natural gas revenue <sup>(3)(4)</sup>	<b>64.37</b>
Royalties <sup>(5)</sup>	<b>10.22</b>
Production expenses	<b>7.60</b>
Operating netback <sup>(6)</sup>	<b>46.55</b>
Royalties as a % of revenue	<b>16%</b>

<b>Total Company operating netback</b> <sup>(2)(3)</sup>	
Oil and NGL revenue (\$/bbl) <sup>(4)</sup>	<b>65.93</b>
Natural gas revenue <sup>(3) (4)</sup>	<b>3.34</b>
Oil, NGL and natural gas revenue <sup>(3)(4)</sup>	<b>58.30</b>
Royalties <sup>(5)</sup>	<b>8.97</b>
Production expenses	<b>8.81</b>
Operating netback <sup>(6)</sup>	<b>40.52</b>
Royalties as a % of revenue	<b>15%</b>

<sup>(1)</sup> Combines the third quarter results of PetroBakken (Petrobank's Canadian Business Unit) and TriStar Oil & Gas Ltd.

<sup>(2)</sup> Non-GAAP measure. See "Non-GAAP Measures" in this press release.

<sup>(3)</sup> Six mcf of natural gas is equivalent to one barrel of oil equivalent ("boe").

<sup>(4)</sup> Net of transportation expenses.

<sup>(5)</sup> Includes Saskatchewan Resource Surcharge.

<sup>(6)</sup> Excludes hedging activities.

<sup>(7)</sup> Pro forma net debt includes PetroBakken and TriStar net debt at September 30, 2009, plus cash consideration paid to TriStar shareholders and transaction costs associated with the TriStar acquisition.

## HEAVY OIL BUSINESS UNIT OPERATIONAL UPDATE

### Conklin (Whitesands Project)

- P1B and P2B wells drilled and completed.
- P1B on early production.
- P2B production anticipated by November.

The Heavy Oil Business Unit entered the third quarter with production averaging 189 bopd in July. As previously reported, at Conklin (Whitesands Project), P1 was shut in on March 31<sup>st</sup> and P2 on July 24<sup>th</sup> to drill P1B and P2B. In August and September, P3B air injection was reduced and production stabilized at 95 bopd during the drilling and completion of the P1B and P2B wells. Produced oil quality remains consistent.

P1B was drilled and completed as planned in 17 days as a THAI<sup>™</sup> well with a FacsRite<sup>™</sup> liner utilizing cartridge screens designed for superior downhole sand control, liner integrity and increased flow area. P2B was planned as our second CAPRI<sup>™</sup> well. Drilling operations started on July 24<sup>th</sup> with expected completion time similar to P1B. However, during the drilling operations we encountered several mechanical challenges that eventually resulted in extended milling and fishing operations. We ultimately sidetracked the well and completed it with a FacsRite<sup>™</sup> liner. The CAPRI<sup>™</sup> liner remains available for a future well. The rig was released on October 1<sup>st</sup>, at which time we proceeded to complete and tie in the new wells. Restart of the new wells began on October 19<sup>th</sup> with re-initiation of air injection and heating of the production liner. The extended drilling operations on P2B caused significant delays in the start-up of the new wells and our ability to ramp up P3B. We expect both P1B and P2B to be on production by the end of November and plan to ramp up all three wells to their maximum capacity by the end of the first quarter of 2010.

During the quarter we also performed fifteen mandatory regulatory inspections of our plant pressure vessels. We have found no signs of corrosion and very little erosion in the vessels and piping, with no increase in erosion since the last inspections. This further confirms the operational integrity of the THAI<sup>™</sup> process.

## **Kerrobert Project**

- Facilities constructed and commissioned in just six weeks.
- Air injection initiated on October 23<sup>rd</sup>.
- Combustion confirmed and wells placed on production.

At Kerrobert, we received regulatory approval on July 9, 2009, only 54 working days after filing our application with the Saskatchewan regulatory authorities. All drilling was completed on September 7<sup>th</sup>, plant construction began on September 8<sup>th</sup> and we were operational six weeks later. Since the reservoir contains mobile heavy oil, the pre-ignition heating cycle (“PIHC”) was confined to the vertical injection wells for approximately one month prior to initiating air injection on October 23<sup>rd</sup>. The simplicity of the plant design, combined with timely regulatory approval, enabled the project to be on-stream in less than six months from filing our initial application.

Our start-up process was successful, air injection initiated and combustion has now been confirmed. Air injection rate is currently at approximately 10% of design rate. Wellbore temperatures have risen to approximately 190 degrees Celsius from an ambient reservoir temperature of 27 degrees Celsius. Produced gas rates are increasing and gas analyses indicate high temperature combustion. We are currently producing back condensed steam from the pre-heat process (which totaled 35,000 barrels of water), as well as THAI<sup>™</sup> oil and reservoir water. Early liquid production volumes were tested at 180 to 300 barrels per day per well, with oil cuts ranging from zero to 40%. We have seen only trace amounts of solids. The horizontal FacsRite<sup>™</sup> production wells have hydraulic pumps which create a slight drawdown pressure across the horizontal well. As combustion gas production increases and is continuous, we will cease pumping, ramp up air injection, and flow the wells by produced gas lift.

The newly designed surface facilities incorporate several innovations and are a step-change from the original Conklin (Whitesands Project) facilities design. The facilities started up without any issues and continue to operate without incident. The design can be easily expanded when we initiate our plans to completely exploit this heavy oil reservoir.

The Kerrobert THAI<sup>™</sup> project is a 50/50 joint venture with Baytex Energy Trust. This joint venture project highlights the global applicability of THAI<sup>™</sup> technology in conventional heavy oil resources. We believe that a significant portion of the estimated 20 billion of barrels of unrecovered conventional heavy oil resource in Saskatchewan can be commercialized using THAI<sup>™</sup>.

## **May River Project**

The May River Project is our first large-scale commercial THAI<sup>™</sup> application on Petrobank’s oil sands leases west of Conklin, Alberta. The May River design builds on the experience gained from the Conklin facility, and incorporates many of the simplifications that have been successfully implemented in Kerrobert. The project will be built in phases, with initial production capacity of 10,000 barrels of THAI<sup>™</sup> oil per day (bopd), and an ultimate capacity of up to 100,000 bopd.

The regulatory application for May River’s first phase was filed with the Energy Resources and Conservation Board (“ERCB”) and Alberta Environment in December 2008. The application has been deemed complete and is now moving through the regulatory process. We have received the supplemental information requests (“SIRs”) from Alberta Environment on March 31<sup>st</sup> and from the ERCB on July 17<sup>th</sup>. The responses to the SIRs are expected to be filed by the end of November, with approval anticipated in early 2010. To provide investors with more insight into the Alberta regulatory process, our application with the SIRs and all related documents, are available on the ERCB website at [www.ercb.ca](http://www.ercb.ca).

Front-end engineering and design for the May River Project began in the fourth quarter of 2008, and we expect to have completed this phase of engineering in the fourth quarter of 2009. The design incorporates self sufficient power generation utilizing low-BTU produced gas, produced gas sweetening, and future add-on capability for carbon dioxide capture. Unlike other existing oil sands projects, our project will be a net water producer, rather than a water consumer. These design elements combine to make the May River Project an environmentally sustainable process for oil sands and heavy oil development. The project is also designed to utilize a modular approach with direct and immediate applicability to heavy oil projects world-wide.

### **Dawson Project**

The Dawson Project is located near Peace River, Alberta and will be developed in the Bluesky formation. In August 2008, a stratigraphic well was drilled on the project site, which will be used as a thermal observation well during the project's operating phase. The regulatory application for the project was filed on April 2, 2009. We received Alberta Environment's conditional approval on June 26<sup>th</sup> and ERCB's SIRs remain outstanding. This project will be substantially identical to the Kerrobert project and will demonstrate the THAI™ technology in a mobile Peace River oil sands reservoir.

### **Archon Technologies Ltd. – Business Development**

Archon Technologies remains at the forefront of in-situ combustion research. Archon is pursuing two new patents relating to the THAI™ process in addition to our five previous successful patent applications. These patents will serve to maximize production and reduce overall environmental impact of bitumen and heavy oil recovery and to secure the intellectual property rights of Petrobank. The recent introduction of the FacsRite™ liner to the new wells at the Conklin and Kerrobert projects demonstrates the value inherent in Archon's ability to evaluate and subsequently deploy new technologies.

Several companies approached Petrobank in the third quarter to enquire about the possibility of licensing THAI™ and CAPRI™. We have signed several Technology Evaluation Agreements and Confidentiality Agreements with third parties which are the first steps to developing a licensing agreement. Ongoing discussion and negotiations with other potential partners remain a priority within the business unit. There are a number of jurisdictions around the world with significant heavy oil deposits that are seeking new recovery methods to help unlock the full potential of their resources. With superior economic and environmental characteristics, the THAI™ process remains more attractive than other in-situ recovery methods.

We continue to monitor certain third party activities in the area of in-situ combustion with the purpose of vigorously enforcing our current and future intellectual property rights and patents.

## **PETROMINERALES LTD.**

A full operational update of our 67% owned subsidiary, Petrominerales Ltd. (TSX:PMG), was published on November 4, 2009 and can be found at [www.petrominerales.com](http://www.petrominerales.com) and [www.sedar.com](http://www.sedar.com).

Highlights of that release included:

- Crude oil production increased 73% to 21,546 bopd due mainly to drilling successes in Corcel, Neiva and Mapache.
- October average production increased further to 27,047 bopd, driven by production from our A2 side-track; our highest rate oil well in Colombia to-date.
- Operating netbacks averaged US\$42.75 per barrel, with operating costs of US\$8.02 per barrel.
- Petrominerales recorded funds flow from operations of US\$71.7 million (US\$0.71 per diluted Petrominerales share).
- Petrominerales recorded net income of US\$26.2 million (US\$0.26 per diluted Petrominerales share).
- Monterrey crude oil offloading facility was commissioned and deliveries commenced in the third quarter.
- We cased our first exploration well on the Guatiquia Block, Percheron-1, as a potential oil well.
- We tested 16 degree API oil at Rio Ariari-1, our third exploration well on our 818,650 acre land position in the Llanos Basin heavy oil belt.

## **Appointment of Director**

We are pleased to announce the appointment of Gregg Smith to the Board of Directors of Petrobank. Gregg served as Petrobank's Senior Vice President and Chief Operating Officer of the Canadian Business Unit before assuming the role of President and Chief Operating Officer of PetroBakken.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management's Discussion and Analysis ("MD&A") is dated November 11, 2009 and should be read in conjunction with the unaudited consolidated financial statements and accompanying notes of Petrobank Energy and Resources Ltd. ("Petrobank", "we", "our" or the "Company") as at and for the three and nine months ended September 30, 2009, MD&A for the year ended December 31, 2008, and the audited consolidated financial statements as at and for the year ended December 31, 2008. Additional information for the Company, including the Annual Information Form ("AIF"), can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or at [www.petrobank.com](http://www.petrobank.com). All amounts are in Canadian dollars, unless otherwise stated and all tabular amounts are in thousands of Canadian dollars, except share amounts or as otherwise noted. Natural gas volumes have been converted to barrels of oil equivalent ("boe"). Six thousand cubic feet ("mcf") of natural gas is equal to one barrel of oil equivalent based on an energy equivalency conversion method primarily attributable 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 generally accepted accounting principles ("GAAP"), such as funds flow from operations, funds flow per share, EBITDA, net debt and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. Specifically, funds flow from operations and funds flow per share reflect cash generated from operating activities before changes in non-cash working capital. Management considers funds flow from operations and funds flow per share important as they help evaluate performance and demonstrate the Company's ability to generate sufficient cash to fund future growth opportunities and repay debt. EBITDA is defined as earnings before interest, taxes, depreciation, amortization, non-controlling interest and non-cash items. Net debt includes bank debt plus accounts payable and accrued liabilities less current assets (excluding future income tax asset) and is used to evaluate the Company's financial leverage. Profitability relative to commodity prices per unit of production is demonstrated by an operating netback. Funds flow from operations, funds flow per share,

EBITDA, net debt and operating netbacks may not be comparable to those reported by other companies nor should they be viewed as an alternative to cash flow from operations, net income or other measures of financial performance calculated in accordance with GAAP.

### ***Net Income***

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

## **FINANCIAL AND OPERATING REVIEW**

(Comparisons are third quarter of 2009 compared to the third quarter of 2008 and the first nine months of 2009 compared to the first nine months of 2008 unless otherwise noted)

Petrobank reported strong funds flow from operations of \$142.9 million, or \$1.42 per diluted share, in the third quarter of 2009 as year over year production volumes increased by 28% to 39,427 boepd. Funds flow from operations decreased by 34% from the prior year, primarily due to a 42% decrease in world oil prices. PetroBakken infrastructure investments in 2008 helped reduce operating expenses to \$6.83/boe in the third quarter, preserving strong operating netbacks of \$44.21/boe, excluding realized hedging gains of \$2.50/boe. Similarly in Colombia, Petrominerales’ operating netbacks remained strong averaging \$47.09/bbl in the third quarter.

### **Acquisition of TriStar Oil and Gas Ltd.**

On October 1, 2009, PetroBakken, Petrobank’s subsidiary, acquired TriStar Oil and Gas Ltd. (“TriStar”) through a plan of arrangement (the “Arrangement”) and created a new publicly listed company, PetroBakken, which is a Bakken-focused, light oil exploration and production company. PetroBakken is traded on the TSX under the symbol PBN.

Petrobank initially capitalized PetroBakken with its Canadian Business Unit assets and obligations. In return, Petrobank received 109.8 million shares of PetroBakken. Pursuant to the Arrangement, PetroBakken acquired all the outstanding shares of TriStar on October 1, 2009, with TriStar shareholders receiving, in the aggregate, approximately \$584.5 million in cash and 62.1 million shares of PetroBakken (including shares issued to financial advisors), representing 36% of PetroBakken’s shares outstanding on October 1, 2009. **This MD&A does not reflect the assets, liabilities or any operational results of TriStar. The acquisition of TriStar will first be reflected in PetroBakken’s December 31, 2009 consolidated financial statements and MD&A.**

## Average Daily Production

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
PetroBakken						
Oil and NGL (bbls)	<b>15,185</b>	16,024	(5%)	<b>17,206</b>	13,868	24%
Natural gas (mcf)	<b>16,177</b>	14,047	15%	<b>15,761</b>	14,381	10%
Total PetroBakken (boe)	<b>17,881</b>	18,365	(3%)	<b>19,833</b>	16,265	22%
Petrominerales – light / medium oil (bbls) <sup>(1)</sup>	<b>21,546</b>	12,485	73%	<b>21,621</b>	9,497	128%
Total Company conventional (boe)	<b>39,427</b>	30,850	28%	<b>41,454</b>	25,762	61%

<sup>(1)</sup> 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 third quarter and first nine months of 2009 were 21,239 bopd and 21,345 bopd, respectively.

Strong production by both PetroBakken and Petrominerales helped Petrobank average 39,427 boepd in the third quarter. HBU bitumen volumes are excluded from average daily production as the Conklin pilot 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.

The increase in oil and NGL production over the first nine months of 2009 is due to production additions from our Bakken light oil properties in southeast Saskatchewan, which has accounted for approximately 86% of PetroBakken's production in 2009. We drilled 187.5 net Bakken wells in 2008 compared to only 48.5 net wells in the first nine months of 2009, 26.1 of which were drilled in the third quarter of 2009. Of the wells drilled in the third quarter, seven were awaiting completion as at September 30, 2009. Up to the end of June, only two drilling rigs were working in the area which increased to seven rigs during the third quarter. Since the end of September, activity levels have further increased as PetroBakken is now utilizing 13 drilling rigs in the area. Current PetroBakken production based on field estimates, including recent drilling activity and the acquired TriStar assets, is now 44,500 boepd.

Petrominerales production for the three and nine months ended September 30, 2009 increased significantly over the comparable 2008 periods, 73% and 128%, respectively. Production increases in 2009 are primarily due to drilling successes in Corcel, Mapache and Neiva. In Corcel, production increased 55% due to the results of our continued drilling program that added two new production wells in the third quarter, six wells year-to-date. In Mapache, two successful exploration wells, Mapache-1 and Mirasol-1, were brought on production in March of 2009. In Neiva, production increased 616% due to the results of our recent drilling program that added five new production wells in the third quarter of 2009 and 22 wells year-to-date.

In Corcel, production additions in the quarter came from the Boa-1 and A2 side-track wells. Boa-1 commenced production on September 5th at over 6,000 bopd, however after repairing mechanical problems in the well, production is now restricted to less than 3,000 bopd. On September 28th, the A2 side-track well came on production at rates over 10,000 bopd. This allowed Petrominerales to increase total average production in October to 27,047 bopd.

## Average Benchmark and Realized Prices

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
WTI (US\$/bbl)	<b>68.24</b>	118.22	(42%)	<b>57.32</b>	113.52	(50%)
WTI (\$/bbl)	<b>73.67</b>	122.78	(40%)	<b>64.83</b>	115.59	(44%)
AECO natural gas (\$/mcf)	<b>3.02</b>	7.75	(61%)	<b>3.77</b>	8.64	(56%)
US\$ per C\$1	<b>0.91</b>	0.96	(5%)	<b>0.86</b>	0.98	(12%)
PetroBakken – oil and NGL						
Realized price per bbl (\$/bbl)	<b>67.65</b>	115.11	(41%)	<b>58.67</b>	109.65	(46%)
US\$ discount as a % of WTI	<b>7%</b>	7%	-	<b>10%</b>	5%	100%
PetroBakken – natural gas						
Realized price per mcf (\$/mcf)	<b>3.55</b>	7.94	(55%)	<b>4.21</b>	8.47	(50%)
Petrominerales – light / medium oil						
Realized price per bbl (\$/bbl)	<b>67.12</b>	113.64	(41%)	<b>59.79</b>	107.26	(44%)
US\$ discount as a % of WTI	<b>10%</b>	8%	25%	<b>10%</b>	8%	25%

The realized oil and NGL prices received by PetroBakken in the third quarter and first nine months decreased as a result of lower average WTI prices and wider differentials as a percentage of WTI in the nine month period. A portion of the differential is fixed which causes the percentage to increase as WTI decreases. In the third quarter and first nine months, Canadian dollar denominated realized prices benefited from respective 5% and 12% devaluations of the Canadian dollar relative to the U.S. dollar.

In the third quarter and first nine months approximately 13% of natural gas production was sold under the PetroBakken's long-term physical natural gas sales contract at a price of \$5.43 per mcf (2008 – \$5.22 per mcf).

In Colombia, the realized oil prices also decreased as a result of lower average WTI prices. The price differential as a percentage of WTI increased in 2009 as a portion of the differential is fixed while 2009 WTI prices were at lower levels than 2008.

## Revenue

The change in revenue in the third quarter of 2009 compared to the third quarter of 2008 is primarily due to sales volumes that were 28% higher, offset by lower oil prices, as summarized below:

Reconciliation of Changes in Revenue	PetroBakken	Petrominerales	Total
Three months ended September 30, 2008	186,608	130,529	317,137
Sales volumes	(2,742)	54,058	51,316
Price variance	(82,550)	(53,432)	(135,982)
<b>Three months ended September 30, 2009</b>	<b>101,316</b>	<b>131,155</b>	232,471
\$ change in revenue	(85,292)	626	(84,666)
% change in revenue	(46%)	-	(27%)

The change in revenue in the first nine months of 2009 compared to the first nine months of 2008 is primarily due to PetroBakken sales volumes that were 22% higher and Petrominerales sales volumes that were 128% higher, offset by lower oil prices, as summarized below:

Reconciliation of Changes in Revenue	PetroBakken	Petrominerales	Total
Nine months ended September 30, 2008	464,788	279,119	743,907
Sales volumes	48,050	190,597	238,647
Price variance	(213,584)	(121,317)	(334,901)
<b>Nine months ended September 30, 2009</b>	<b>299,254</b>	<b>348,399</b>	<b>647,653</b>
\$ change in revenue	(165,534)	69,280	(96,254)
% change in revenue	(36%)	25%	(13%)

## Revenue

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
PetroBakken revenue	<b>101,316</b>	186,608	(46%)	<b>299,254</b>	464,788	(36%)
Petrominerales revenue	<b>131,155</b>	130,529	-	<b>348,399</b>	279,119	25%
Total revenue	<b>232,471</b>	317,137	(27%)	<b>647,653</b>	743,907	(13%)
PetroBakken transportation expenses	<b>1,531</b>	6,649	(77%)	<b>5,523</b>	14,749	(63%)
Petrominerales transportation expenses	<b>10,088</b>	3,575	182%	<b>37,510</b>	6,850	448%
Total transportation expenses	<b>11,619</b>	10,224	14%	<b>43,033</b>	21,599	99%
PetroBakken revenue, net of transportation costs	<b>99,785</b>	179,959	(45%)	<b>293,731</b>	450,039	(35%)
Petrominerales revenue, net of transportation costs	<b>121,067</b>	126,954	(5%)	<b>310,889</b>	272,269	14%
Total revenue, net of transportation costs	<b>220,852</b>	306,913	(28%)	<b>604,620</b>	722,308	(16%)
PetroBakken gross revenue (\$/boe)	<b>61.59</b>	110.45	(44%)	<b>55.27</b>	104.29	(47%)
PetroBakken transportation costs (\$/boe)	<b>0.93</b>	3.94	(76%)	<b>1.02</b>	3.31	(69%)
PetroBakken realized price, net of transportation costs (\$/boe)	<b>60.66</b>	106.51	(43%)	<b>54.25</b>	100.98	(46%)
Petrominerales gross revenue (\$/bbl)	<b>67.12</b>	113.64	(41%)	<b>59.79</b>	107.26	(44%)
Petrominerales transportation costs (\$/bbl)	<b>5.16</b>	3.11	66%	<b>6.44</b>	2.63	145%
Petrominerales realized price, net of transportation costs (\$/bbl)	<b>61.96</b>	110.53	(44%)	<b>53.35</b>	104.63	(49%)

Total revenue, net of transportation decreased by 28% from the third quarter of 2008 as higher production was offset by significantly lower realized prices in both PetroBakken and Petrominerales.

PetroBakken transportation costs decreased in both dollar terms and on a per boe basis in both the three and nine month periods as an increased number of our wells have been tied into our southeast Saskatchewan production facilities resulting in a significant reduction in trucking costs.

Petrominerales transportation costs relate to trucking sales oil from Corcel and Mapache to various offloading stations. Transportation costs increased from 2008 due to Corcel deliveries made to more distant offloading stations. Transportation costs on a quarter-over-quarter basis in 2009 decreased over US\$1.00 per barrel due to initial volumes being delivered to the new Monterrey offloading station.

Access to pipeline and offloading infrastructure is critical to growing production in Colombia's Llanos Basin. 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. Phase I of the facility (11,000 bopd capacity net to Petrominerales) is complete and oil deliveries commenced on July 9, 2009. The additional offloading capacity is expected to be available in the fourth quarter of 2009. Monterrey is the closest offloading station to Corcel and has now reduced our trucking costs for volumes delivered to Monterrey to under US\$3.00 per barrel.

## Royalties

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
PetroBakken <sup>(1)</sup>	15,820	21,484	(26%)	39,586	47,588	(17%)
Petrominerales	11,836	13,456	(12%)	30,477	27,362	11%
Total royalties	27,656	34,940	(21%)	70,063	74,950	(7%)
PetroBakken – \$ per boe	9.62	12.72	(24%)	7.31	10.68	(32%)
Petrominerales – \$ per bbl	6.06	11.71	(48%)	5.23	10.52	(50%)
PetroBakken – royalties as a % of realized price, net of transportation costs	16%	12%	33%	13%	11%	18%
Petrominerales – royalties as a % of realized price, net of transportation costs	10%	11%	(9%)	10%	10%	-

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

As a percentage of realized prices, net of transportation costs, PetroBakken royalties increased in the third quarter and first nine months as a greater portion of our Bakken wells no longer receive crown royalty holidays. The first 37,740 barrels of production from horizontal Bakken wells drilled on Crown land incur a royalty rate of 2.5% plus Saskatchewan Resource Surcharge of 1.7%. We expect this royalty percentage to decrease in the fourth quarter of 2009 as new producing wells are brought on line.

Colombian government royalties are fixed at a rate of eight percent until Petrominerales' net production per field exceeds 5,000 bopd, and then can 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.

## Gain (Loss) on Risk Management Contracts

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
PetroBakken realized gain (loss)	4,111	(3,211)	-	20,837	(9,269)	-
Petrominerales realized loss	-	(3,860)	-	-	(9,980)	-
PetroBakken unrealized gain (loss)	(3,924)	33,617	-	(28,643)	3,337	-
Petrominerales unrealized loss	-	9,771	-	-	3,960	-
Gain (loss) on risk management contracts	187	36,317	(99%)	(7,806)	(11,952)	(35%)

The realized gain for actual monthly settlements incurred during the third quarter and first nine months in PetroBakken were \$2.50 and \$3.85 per boe, respectively. Unrealized gains and losses represent the change in fair value of the contracts related to expected future settlements.

PetroBakken entered into additional crude oil price risk management contracts subsequent to the end of the third quarter, and assumed additional contracts upon the acquisition of TriStar on October 1, 2009. PetroBakken currently has 8,500 barrels of oil per day hedged for the remainder of 2009, 8,000 barrels of oil per day hedged in 2010 and 3,000 barrels of oil per day hedged in 2011.

At September 30, 2009, PetroBakken had recorded a \$3.8 million asset related to the following crude oil price risk management contracts:

Term	Volume (Bopd)	Price (\$/bbl)	Benchmark
Jan. 1, 2009 – Dec. 31, 2009	2,000	US\$90.00 floor / US\$121.00 ceiling	US\$ 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, 2011 – Dec. 31, 2011	500	C\$80.00 floor / C\$95.60 ceiling	C\$ WTI

The following crude oil price risk management contracts were entered into subsequent to September 30, 2009:

<b>Term</b>	<b>Volume (Bopd)</b>	<b>Price (\$/bbl)</b>	<b>Benchmark</b>
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	1,000	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	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	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	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	1,000	C\$75.00 floor / C\$90.00 ceiling	C\$ WTI

PetroBakken assumed the following crude oil price risk management contracts upon the acquisition of TriStar on October 1, 2009:

<b>Term</b>	<b>Volume (Bopd)</b>	<b>Price (\$/bbl)</b>	<b>Benchmark</b>
Jan. 1, 2008 – Dec. 31, 2009	500	US\$65.00 floor / US\$73.25 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$65.00 floor / US\$76.15 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$65.00 floor / US\$76.30 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$67.00 floor / US\$76.70 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$70.00 floor / US\$75.52 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	250	US\$75.00 floor / US\$96.05 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$75.00 floor / US\$100.00 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	250	US\$75.00 floor / US\$102.00 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$80.00 floor / US\$100.00 ceiling	US\$ WTI
Jul. 1, 2009 – Dec. 31, 2009	500	C\$65.00 floor / C\$76.15 ceiling	C\$ WTI
Jul. 1, 2009 – Dec. 31, 2009	500	C\$65.00 floor / C\$75.65 ceiling	C\$ WTI
Feb. 1, 2008 – Dec. 31, 2009	500	US\$75.00 put	US\$ WTI
Mar. 1, 2008 – Dec. 31, 2009	500	US\$80.00 put	US\$ WTI
Apr. 1, 2007 – Dec. 31, 2009	250	C\$76.60 swap	C\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	250	C\$78.20 swap	C\$ WTI
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\$75.00 floor / C\$100.00 ceiling	C\$ WTI

PetroBakken assumed the following natural gas price risk management contracts upon the acquisition of TriStar on October 1, 2009:

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

Petrobank 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. PetroBakken assumed the following foreign exchange risk management contracts upon the acquisition of TriStar on October 1, 2009:

<b>Term</b>	<b>Type</b>	<b>Amount / Month (US\$000s)</b>	<b>Price</b>	<b>Amount / Month (C\$000s)</b>
May 1, 2008 – Dec. 31, 2009	Put	US\$1,250	\$1.00	C\$1,250
May 1, 2008 – Dec. 31, 2009	Call	US\$2,500	\$1.00	C\$2,500
Dec. 1, 2008 – Dec. 31, 2009	Forward	US\$2,500	\$1.28	C\$3,200

PetroBakken had the following interest rate swap contracts in place at September 30, 2009:

<b>Term</b>	<b>Notional Principal / Month</b>	<b>Fixed Annual Rate (%)</b>
April 2009 – April 2011	\$50 million	1.05%
April 2009 – April 2012	\$50 million	1.30%

PetroBakken assumed the following interest rate swap contracts upon the acquisition of TriStar on October 1, 2009:

<b>Term</b>	<b>Notional Principal / Month</b>	<b>Fixed Annual Rate (%)</b>
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%

### **Production Expenses**

	Three months ended September 30,			Nine months ended September 30,		
	<b>2009</b>	2008	Change	<b>2009</b>	2008	Change
PetroBakken	<b>11,232</b>	14,940	(25%)	<b>36,378</b>	40,101	(9%)
Petrominerales	<b>17,227</b>	9,620	79%	<b>46,786</b>	25,407	84%
Total production expenses	<b>28,459</b>	24,560	16%	<b>83,164</b>	65,508	27%
PetroBakken – \$ per boe	<b>6.83</b>	8.84	(23%)	<b>6.72</b>	8.99	(25%)
Petrominerales – \$ per bbl	<b>8.81</b>	8.38	5%	<b>8.03</b>	9.76	(18%)

Production expenses in PetroBakken decreased in the third quarter and first nine months of 2009, in both total dollar terms and on a unit of production basis. An increasing percentage of our Bakken production is being handled through our four production facilities, two of which were completed in the latter part of 2008. These facilities have also allowed PetroBakken to add liquids rich natural gas production and reserves associated with Bakken light oil production.

Petrominerales completed the first-phase expansion of the Corcel central processing facilities in July 2008 to increase fluid handling capacity to 70,000 barrels of fluid per day. 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 production expenses are fixed, that when combined with higher production, has resulted in lower per barrel costs. Production costs in Colombia increased in the third quarter due mainly to increased water disposal and treatment costs and an 11% appreciation of the Colombian peso. Petrominerales plans to optimize disposal capacity at Corcel and Mapache to minimize water handling costs.

## General and Administrative Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
PetroBakken and HBU (Canada)	<b>4,144</b>	3,434	21%	<b>12,524</b>	9,902	26%
Petrominerales	<b>3,018</b>	2,652	14%	<b>9,610</b>	7,804	23%
Total general and administrative expenses	<b>7,162</b>	6,086	18%	<b>22,134</b>	17,706	25%
PetroBakken and HBU						
– \$ per PetroBakken boe	<b>2.52</b>	2.03	24%	<b>2.31</b>	2.22	4%
Petrominerales – \$ per bbl	<b>1.54</b>	2.31	(33%)	<b>1.65</b>	3.00	(45%)

Total general and administrative costs increased in the third quarter and first nine months of 2009, primarily due to additional personnel as a result of expanding operations. On a unit of production basis, Petrominerales costs have decreased significantly in the 2009 periods due to higher production levels while per unit costs in Canada have remained relatively consistent on a year to date basis. Third quarter per unit costs in Canada increased as production was relatively consistent compared to the third quarter of 2008.

## Stock-Based Compensation Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
PetroBakken and HBU (Petrobank)	<b>4,773</b>	5,089	(6%)	<b>16,581</b>	10,671	55%
Petrominerales	<b>1,155</b>	795	45%	<b>4,011</b>	1,882	113%
Total stock-based compensation	<b>5,928</b>	5,884	1%	<b>20,592</b>	12,553	64%

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

## Interest Expense

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
PetroBakken and HBU (Canada)	<b>5,370</b>	3,603	49%	<b>16,228</b>	10,767	51%
Petrominerales	<b>3,373</b>	2,893	17%	<b>8,920</b>	8,338	7%
Total interest expense	<b>8,743</b>	6,496	35%	<b>25,148</b>	19,105	32%

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 \$2.1 million in the third quarter (2008 – \$3.3 million) and \$10.9 million in the first nine months of 2009 (2008 – \$8.9 million). In addition, the depreciation of the Canadian dollar relative to the U.S. dollar in 2009 compared to the first nine months of 2008 resulted in higher Canadian dollar denominated interest expense as interest on the convertible debentures is payable in U.S. dollars. Interest expense was also higher in Canada as outstanding bank debt averaged approximately \$325 million in the first nine months of 2009 compared to approximately \$160 million in the prior year, offset somewhat by a decrease in interest rates.

### Foreign Exchange Loss (Gain)

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
PetroBakken and HBU	(26,446)	8,421	-	(49,249)	14,240	-
Petrominerales	7,709	(1,331)	-	11,489	67	17,048%
Total foreign exchange loss (gain)	(18,737)	7,090	-	(37,760)	14,307	-

In 2009, Petrobank recognized foreign exchange gains primarily due to the appreciation of the Canadian dollar relative to the U.S. dollar. An unrealized foreign exchange gain of \$30.5 million (2008 – \$8.2 million) in the third quarter of 2009 and \$52.6 million in the first nine months of 2009 (2008 – \$14.1 million loss) was recorded on Petrobank’s U.S. dollar denominated convertible debentures, offset somewhat by Petrominerales foreign exchange losses relating to Colombian peso denominated working capital and future income tax liabilities.

### Depletion, Depreciation and Accretion (“DD&A”) Expense

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
PetroBakken and HBU (Canada)	49,159	47,704	3%	161,447	128,310	26%
Petrominerales	38,864	23,866	63%	133,575	53,735	149%
Total DD&A expense	88,023	71,570	23%	295,022	182,045	62%
PetroBakken and HBU						
– \$ per PetroBakken boe	29.88	28.23	6%	29.82	28.79	4%
Petrominerales – \$ per bbl	19.89	20.78	(4%)	22.92	20.65	11%

The DD&A rate per unit of production in Canada remained relatively consistent year over year. The Petrominerales rates per barrel have decreased slightly in the third quarter of 2009 mainly due to proved reserve additions from drilling successes at Corcel, Mapache and Neiva.

### Current Taxes

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
Current taxes	4,614	15,659	(71%)	7,482	18,381	(59%)

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 September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
PetroBakken and HBU (Canada)	700	29,179	(98%)	4,787	54,424	(91%)
Petrominerales (Colombia)	4,031	4,468	(10%)	1,100	10,097	(89%)
Total future income taxes	4,731	33,647	(86%)	5,887	64,521	(91%)

Petrobank’s future tax expense in Canada is consistent with our change in Canadian income after adjustments for non-deductible items and recognition of future income tax assets that were not previously recognized. A future income tax expense was also recorded in Petrominerales in the third quarter reversing a recovery that had been recorded in the first six months of 2009.

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

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
Net income attributable to NCI	<b>9,796</b>	14,475	(32%)	<b>17,683</b>	27,238	(35%)

The net income attributable to NCI represents the 33.5% and 30.1% non-controlling interest share (2008 – 19.3% and 23.6%) of Petrominerales’ net income for the three and nine month periods ending September 30, 2009, respectively. The net income attributable to NCI decreased in the third quarter and first nine months of 2009 due to lower net income recorded by Petrominerales.

On May 15, 2009, Petrobank sold 9.9 million shares of our Petrominerales holdings for gross proceeds of \$101.5 million. The transaction reduced Petrobank’s ownership interest which was 66.5% as at September 30, 2009.

## Net Income

The change in net income in the third quarter and first nine months of 2009 is primarily due to lower commodity prices and higher DD&A, transportation expenses and production expenses, offset by higher sales volumes, foreign exchange gains, lower royalties and lower current and future income taxes. Net income in the third quarter was also lower due to a decrease in the gain on risk management contracts.

### Reconciliation of Changes in Net Income

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	(\$000s)	Per share <sup>(1)</sup>	(\$000s)	Per share <sup>(1)</sup>
Net income: September 30, 2008	123,226	1.19	216,399	2.32
Increase (decrease) due to:				
Sales volumes	51,316	0.50	238,647	2.56
Realized prices	(135,982)	(1.31)	(334,901)	(3.59)
Royalties	7,284	0.07	4,887	0.06
Risk management contracts	(36,130)	(0.35)	4,146	0.05
Production expenses	(3,899)	(0.04)	(17,656)	(0.19)
Transportation expenses	(1,395)	0.00	(21,434)	(0.23)
Stock-based compensation expenses	(1,076)	0.00	(9,071)	(0.10)
Foreign exchange	25,827	0.25	52,067	0.56
DD&A expense	(16,453)	(0.16)	(112,977)	(1.21)
Current taxes	11,045	0.11	10,899	0.12
Future income taxes	28,916	0.28	58,634	0.63
Other <sup>(2)</sup>	2,167	0.02	(1,669)	(0.02)
<b>Net income: September 30, 2009</b>	<b>54,846</b>	<b>0.56</b>	<b>87,971</b>	<b>0.96</b>

<sup>(1)</sup> Per weighted average number of diluted common shares for the period ending September 30, 2009.

<sup>(2)</sup> Includes interest income, general and administrative expenses, interest expense and net income attributable to non-controlling interest.

## Funds Flow From Operations

The decrease in funds flow from operations in the third quarter and first nine months of 2009 is primarily due to lower commodity prices, higher transportation and production expenses offset by higher production and realized gains on risk management contracts, as summarized below:

### Reconciliation of Changes in Funds Flow From Operations

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	(\$000s)	Per share <sup>(1)</sup>	(\$000s)	Per share <sup>(1)</sup>
Funds flow from operations:				
September 30, 2008	216,709	2.10	518,120	5.41
Increase (decrease) due to:				
Sales volumes	51,316	0.50	238,647	2.50
Realized prices	(135,982)	(1.31)	(334,901)	(3.48)
Royalties	7,284	0.07	4,887	0.06
Realized portion of risk management contracts	11,182	0.12	28,905	0.31
Production expenses	(3,899)	(0.04)	(17,656)	(0.17)
Transportation expenses	(1,395)	0.00	(21,434)	(0.21)
Other <sup>(2)</sup>	(2,288)	(0.02)	1,865	0.02
<b>Funds flow from operations:</b>				
<b>September 30, 2009</b>	<b>142,927</b>	<b>1.42</b>	<b>418,433</b>	<b>4.44</b>

<sup>(1)</sup> Per weighted average number of diluted common shares for the period ending September 30, 2009.

<sup>(2)</sup> 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			Nine months ended		
	2009	2008	Change	2009	2008	Change
Funds flow from operations: Non-GAAP	<b>142,927</b>	216,709	(34%)	<b>418,433</b>	518,120	(19%)
Changes in non-cash working capital	<b>(8,900)</b>	(11,770)	(24%)	<b>(52,008)</b>	(88,176)	(41%)
Cash flow from operating activities: GAAP	<b>134,027</b>	204,939	(35%)	<b>366,425</b>	429,944	(15%)

## Capital Expenditures

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Change	2009	2008	Change
PetroBakken (“PBN”)	107,820	165,447	(35%)	216,745	345,647	(37%)
Petrominerales (“PMG”)	59,486	76,040	(22%)	234,249	225,423	4%
HBU	26,737	15,818	69%	60,465	58,861	3%
<b>Total capital expenditures</b>	<b>194,043</b>	<b>257,305</b>	<b>(25%)</b>	<b>511,459</b>	<b>629,931</b>	<b>(19%)</b>

<b>Q3 2009 Capital Expenditures By Type</b>	<b>PBN</b>	<b>PMG</b>	<b>HBU</b>	<b>Total</b>
Drilling, completions and workovers	62,428	30,741	14,984	108,153
Facilities	11,939	19,578	5,568	37,085
Land	28,443	-	-	28,443
Seismic	2,680	7,264	23	9,967
Pilot capital	-	-	4,324	4,324
Other <sup>(1)</sup>	2,330	1,903	1,838	6,071
<b>Total capital expenditures</b>	<b>107,820</b>	<b>59,486</b>	<b>26,737</b>	<b>194,043</b>

<b>YTD 2009 Capital Expenditures By Type</b>	<b>PBN</b>	<b>PMG</b>	<b>HBU</b>	<b>Total</b>
Drilling, completions and workovers	134,026	136,575	20,022	290,623
Facilities	29,455	57,480	14,564	101,499
Land	37,545	-	253	37,798
Seismic	3,273	32,446	978	36,697
Pilot capital	-	-	18,071	18,071
Other <sup>(1)</sup>	12,446	7,748	6,577	26,771
<b>Total capital expenditures</b>	<b>216,745</b>	<b>234,249</b>	<b>60,465</b>	<b>511,459</b>

<sup>(1)</sup> PBN and PMG include health, safety and environmental, capitalized salaries and office furniture and fixtures. HBU includes \$7.3 million of capitalized cash interest in 2009.

PetroBakken expenditures in the third quarter were mainly focused on drilling, completions and workovers, primarily at our southeast Saskatchewan light oil properties as we drilled 26.1 net Bakken wells bringing our nine month total to 48.5 net wells, and we also drilled our second Montney well in northeast British Columbia. Third quarter expenditures include a significant land acquisition which added 10.5 sections of land in the core of our Bakken operating fairway. The majority of the facilities expenditures in the first nine months included costs to tie-in additional wells and the expansion of gathering systems to our four major facilities.

Third quarter Petrominerales expenditures focused on continuing exploration and development at Corcel, including drilling and completion of the Boa-1 and A2 side-track wells, testing costs associated with the F-1 well, facilities costs at the Corcel central processing facility to increase fluid handling, tie-in of Boa structure production and related civil works on the block. Orito expenditures relate primarily to a water flood pilot project. Neiva expenditures included drilling eight oil wells and completing five wells. Mapache expenditures relate to initial costs for facilities expansion to increase fluid handling capacity. Exploration activity included drilling costs of the Chiquiro Oeste-1 side-track well, infrastructure work preparing future exploration drilling locations in Guatiquia and Rio Ariari and costs associated with the acquisition of 100 square kilometres of 3D seismic in Casimena.

HBU expenditures in the third quarter included drilling two production wells and two air injection wells as well as facility costs at Kerrobert. At the Conklin pilot site, costs included drilling the P2B and P1B wells, facility modifications, workovers, and operating expenses. Currently, operations are considered to

be in the pre-operating stage and as a result, operating expenses net of revenues and interest are capitalized.

## SUMMARY OF QUARTERLY RESULTS

	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Financial</b> (\$000s except where noted)								
Oil and natural gas revenue	232,471	224,396	190,786	206,161	317,137	247,479	179,291	127,308
Funds flow from operations	142,927	150,350	125,156	147,813	216,709	177,923	123,488	92,733
Per share – basic (\$)	1.55	1.78	1.50	1.78	2.62	2.16	1.53	1.20
– diluted (\$)	1.42	1.64	1.40	1.63	2.36	1.92	1.36	1.05
Net income	54,846	34,667	(1,542)	28,083	123,226	57,636	35,537	40,146
Per share – basic (\$)	0.59	0.41	(0.02)	0.34	1.49	0.70	0.44	0.52
– diluted (\$)	0.56	0.40	(0.02)	0.34	1.35	0.64	0.40	0.45
EBITDA	153,133	155,058	130,884	138,529	235,377	182,349	126,998	94,200
Capital expenditures	194,043	144,422	172,994	279,982	257,305	172,356	200,270	136,528
<b>Operations</b>								
<i>PetroBakken operating netbacks by product</i>								
Light/medium oil and NGL sales price, net of transportation (\$/bbl)	67.65	62.22	48.57	57.71	115.11	117.64	91.87	80.83
Royalties	10.75	7.97	5.39	8.90	13.36	11.83	6.44	5.70
Production expenses	7.05	6.66	6.98	8.68	9.56	9.55	10.25	8.94
Operating netback	49.85	47.59	36.20	40.13	92.19	96.26	75.18	66.19
<i>Natural gas sales price, net of transportation (\$/mcf)</i>								
Natural gas sales price, net of transportation (\$/mcf)	3.55	3.91	5.35	6.86	7.94	9.83	7.73	6.05
Royalties	0.54	0.67	0.78	1.06	1.38	1.81	1.35	0.43
Production expenses	0.93	0.95	0.90	0.77	0.66	0.83	0.89	0.64
Operating netback	2.08	2.29	3.67	5.03	5.90	7.19	5.49	4.98
<i>Oil equivalent sales price, net of transportation (\$/boe)</i>								
Oil equivalent sales price, net of transportation (\$/boe)	60.66	56.64	46.81	55.90	106.51	109.43	83.55	72.42
Royalties	9.62	7.40	5.32	8.62	12.72	11.70	6.74	5.11
Production expenses	6.83	6.52	6.81	8.24	8.84	8.88	9.35	7.99
Operating netback	44.21	42.72	34.68	39.04	84.95	88.85	67.46	59.32
<i>Petrominerales operating netback (\$/bbl)</i>								
Oil sales price, net of transportation	61.96	55.76	42.18	54.93	110.53	115.77	86.53	76.53
Royalties	6.06	5.02	4.60	4.68	11.71	11.11	8.25	7.74
Production expenses	8.81	7.86	7.40	7.80	8.38	10.86	10.86	7.34
Operating netback	47.09	42.88	30.18	42.45	90.44	93.80	67.42	61.45
<i>Average daily production</i>								
PetroBakken – light/medium oil and NGL (bbls)	15,185	16,761	19,722	19,841	16,024	14,205	11,351	6,691
PetroBakken – natural gas (mcf)	16,177	16,906	14,179	14,598	14,047	13,871	15,229	9,379
Total PetroBakken conventional (boe)	17,881	19,579	22,085	22,274	18,365	16,517	13,889	8,254
Petrominerales – oil (bbls)	21,546	21,548	21,771	15,344	12,485	7,339	8,635	9,575
Total Company conventional (boe)	39,427	41,127	43,856	37,618	30,850	23,856	22,524	17,829

Significant factors influencing historical 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.
- Light oil production in PetroBakken in the first quarter of 2009 increased by 59% over the first quarter of 2008, reflecting the acquisition of Peerless in January 2008.
- PetroBakken's industry leading drilling activity on the Bakken light oil resource play in southeast Saskatchewan contributed to continued production increases throughout 2008.
- Petrominerales production increased significantly in the last half of 2007 due to additions from the Corcel-A1 discovery well in the third quarter of 2007 and the follow up Corcel-A2 well in the fourth quarter of 2007.
- Petrominerales production increased further 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.
- PetroBakken capital expenditures decreased significantly in the first and second quarter of 2009 in response to lower crude oil prices which has resulted in production declines in the second and third quarter of 2009. Our third quarter expenditures increased as we have ramped up our drilling program considerably.

### **Commitments**

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments as at September 30, 2009:

<b>Type of Obligation</b>	<b>&lt; 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>Thereafter</b>	<b>Total</b>
<i>HBU &amp; Corporate</i>					
Petrobank convertible debentures (US\$) <sup>(1)</sup>	-	-	5,100	400,000	<b>405,100</b>
Office operating leases (\$)	1,850	4,100	3,900	7,800	<b>17,650</b>
<i>PetroBakken</i>					
Office operating leases (\$)	1,850	4,200	6,300	15,000	<b>27,350</b>
<i>Petrominerales</i>					
Petrominerales convertible debentures (US\$) <sup>(2)</sup>	-	81,700	-	-	<b>81,700</b>
Exploration contracts (US\$)	40,300	23,700	-	-	<b>64,000</b>
Petrominerales bank debt (US\$)	25,000	-	-	-	<b>25,000</b>
Offloading facility (US\$)	1,800	-	-	-	<b>1,800</b>
<b>Total Company</b> <sup>(3)</sup>	<b>75,645</b>	<b>121,310</b>	<b>15,668</b>	<b>451,680</b>	<b>664,303</b>

(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 are convertible into common shares of Petrobank at a conversion price of US\$38.08 per share.

(2) The debentures are convertible into common shares of Petrominerales at a conversion price of US\$27.3485 per Petrominerales share.

(3) US\$ amounts have been converted using the September 30, 2009 exchange rate of \$1.0722.

### *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:

	<b>Petrobank</b>	<b>PetroBakken</b>	<b>Petrominerales</b>	<b>Petrobank Consolidated</b>
Net working capital excluding bank debt	\$ 30,158	\$ (10,473)	\$ 20,348	<b>\$ 40,033</b>
Bank debt	\$ -	\$ -	\$ 26,805	<b>\$ 26,805</b>
Convertible debentures – principal amount (US\$)	\$ 405,100	\$ -	\$ 81,700	<b>\$ 486,800</b>
Common share capital	\$ 869,143	\$ -	\$ -	<b>\$ 869,143</b>
Credit facility – maximum borrowing base	\$ 30,000 <sup>(1)</sup>	\$1,050,000 <sup>(2)</sup>	US\$ 80,000	
Available credit capacity	\$ 30,000 <sup>(1)</sup>	\$ 125,000 <sup>(2)</sup>	US\$ 50,300 <sup>(3)</sup>	

<sup>(1)</sup> Petrobank has a commitment for a \$30 million credit facility.

<sup>(2)</sup> Upon the acquisition of TriStar on October 1, 2009, PetroBakken obtained a \$1.05 billion credit facility, of which approximately \$925 million was drawn after closing the transaction.

<sup>(3)</sup> Letters of credit issued against the secured credit facility reduce the amounts available under the facilities.

### *Petrobank Consolidated*

At September 30, 2009, Petrobank on a consolidated basis had \$26.8 million of bank debt and current assets in excess of accounts payable and accrued liabilities of \$40.0 million, resulting in net working capital of \$13.2 million.

### *Petrobank*

Petrobank as shown in the above table includes all corporate activities and the HBU. At September 30, 2009, Petrobank had no bank debt and current assets in excess of accounts payable and accrued liabilities of \$30.2 million. In July 2009, Petrobank completed a US\$400 million convertible bond issuance which allowed us to repay all outstanding Canadian bank debt and significantly increase our financial flexibility.

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 (a non-GAAP measure defined as accounts payable and accrued liabilities less current assets). 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 interest and PetroBakken's intentions of paying an annual dividend of \$0.96 per common share, Petrobank expects to receive \$105 million of dividends annually from PetroBakken paid monthly beginning on November 16, 2009. Petrobank can also raise funds by selling a portion of its ownership interests 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 140% of the prevailing conversion price of the debentures over a specified period (120% for the US\$5.1 million tranche). 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 and credit facility agreements. 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%. Petrobank is not subject to restrictive financial covenants under its stand-alone credit facilities.

*PetroBakken – 64% owned by Petrobank on October 1, 2009 (previously 100% owned)*

At September 30, 2009, PetroBakken had accounts payable and accrued liabilities in excess of current assets, resulting in net debt of \$10.5 million. The ratio of debt to annualized third quarter earnings before interest, taxes and non-cash items was not a meaningful measure as there was no bank debt outstanding.

Subsequent to the end of the quarter and following the TriStar acquisition, PetroBakken entered into a new \$1.05 billion PetroBakken credit facility that is comprised of a \$900 million oil and gas reserve-based revolver, and a six-month \$150 million short-term non-revolving credit facility. The revolving facility has initial terms ending on September 30, 2010, extendable by the lenders for an additional year. If the lenders were to not extend the term, the drawn amount would be due on September 30, 2011. The credit facilities bear interest at the prime rate plus a margin based on a sliding scale ratio of PetroBakken's debt to EBITDA. The syndicate of lenders will assess the borrowing base semi-annually. PetroBakken is not subject to restrictive financial covenants under this credit facility.

Upon closing the TriStar acquisition, PetroBakken had approximately \$925 million drawn on the credit facility. PetroBakken has commenced a disposition process for the majority of its Alberta assets. Any proceeds received from these sales are to be used to repay the \$150 million non-revolving credit facility. Following the sale of the Alberta assets, the ratio of debt to annualized earnings before interest, taxes, depletion, depreciation and accretion and other non-cash items is expected to be below one times.

The economic slowdown in late 2008 and early 2009 and volatile financial and commodity markets impacted PetroBakken's operations in the first nine months of 2009, resulting in fewer wells drilled in 2009 compared to 2008. Oil prices and drilling levels have increased significantly in the third quarter resulting in increases in production in the fourth quarter. We plan to be utilizing approximately 13 rigs by the end of the 2009 and maintain approximately 10 rigs drilling through 2010.

PetroBakken adopted a dividend policy initially targeting payments of \$0.96 per share per annum, payable monthly, with the first dividend expected to be paid on November 16, 2009 to shareholders of record on October 30, 2009.

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

- Funds flow from operations.
- Monetization of risk management contracts.
- Issuance of common shares of PetroBakken.
- Issuance of subordinated or convertible debt.
- Sale of producing or non-producing assets to raise funds in the short term. Incremental cash resources generated as a result would be reduced by any resulting decreases in future cash flows and any required debt payments.

- We expect to satisfy ongoing working capital requirements with funds flow from operations, cash and available credit.

#### *Petrominerales – 67% owned by Petrobank*

At September 30, 2009, Petrominerales had net debt of US\$87.9 million, consisting of bank debt plus principal amount of convertible debentures and accounts payable less current assets. The ratio of net debt to annualized EBITDA was 0.4 times, within a range acceptable to Petrominerales management.

Petrominerales also has a revolving credit facility with an US\$80 million borrowing base that matures on December 20, 2009. Petrominerales has initiated a process with the lenders to renew the bank facility and adjust the borrowing base to reflect current reserves. In addition, Petrominerales maintains local Colombian operating letters of credit to support exploration contracts. At September 30, 2009, letters of credit issued against the Colombian lines of credit (US\$18.7 million) and the secured credit facility (US\$4.7 million) reduces the amounts available under the facilities. Petrominerales also had restricted cash of US\$1.4 million relating to cash deposited as collateral for a letter of credit.

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 12 month earnings before interest, tax, depletion, depreciation and amortization under 2.0 times and to maintain a current ratio greater than 1.0 times (current assets divided by current liabilities less unused bank debt). In its convertible debenture agreement, the financial covenants are 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%.

#### ***Outstanding Share Data***

The number of Petrobank shares outstanding at the date of this MD&A is 93,087,167, an increase of 109,636 shares from September 30, 2009 relating to the exercise of stock options.

#### ***Risks and Uncertainties***

There have been no significant changes in the three and nine months ended September 30, 2009 to the risks and uncertainties identified in the MD&A for the year ended December 31, 2008.

#### ***Critical Accounting Policies and Estimates***

There have been no changes to Petrobank's critical accounting policies and estimates in the three and nine months ended September 30, 2009.

#### ***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 the CICA’s 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 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 adoption of this standard will impact the accounting treatment of future business combinations.

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 adoption of these standards did not have a material impact on our results of operations or financial position. The retrospective presentation changes have been included in the Company’s consolidated financial statements.

### *Recent and Pending Accounting Pronouncements*

In June 2009, the 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. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards (“IFRS”). The Company will include these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

The Canadian Accounting Standards Board has confirmed that IFRS will replace Canadian GAAP effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises. The Company has completed its high-level IFRS impact study and established a timeline for the execution and completion of the conversion project. The impact of IFRS 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.

## ***Regulatory Policies***

### *Certification of Disclosures in Interim Filings*

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

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

During the quarter ended September 30, 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 third quarter 2009 Operational Update and 2008 Annual Report.

## CONSOLIDATED BALANCE SHEETS

(Unaudited, thousands of Canadian dollars)

As at	Sept. 30, 2009	Dec. 31, 2008
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 125,627	\$ 102,181
Restricted cash (Note 4)	1,502	5,487
Accounts receivable and other current assets	155,483	81,702
Risk management assets	4,261	32,904
	<b>286,873</b>	222,274
Other assets	24,204	3,256
Capital assets	2,216,695	2,073,006
Goodwill	63,171	63,171
<b>Total assets</b>	<b>\$ 2,590,943</b>	<b>\$ 2,361,707</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 246,840	\$ 262,777
Bank debt (Note 4)	26,805	-
Future income tax liabilities	1,277	9,860
	<b>274,922</b>	272,637
Bank debt (Note 4)	-	315,162
Convertible debentures (Note 6)	435,922	337,574
Obligations under gas sale contract and deferred credit	4,210	3,170
Asset retirement obligations	23,294	22,100
Future income tax liabilities	202,211	194,685
<b>Total liabilities</b>	<b>940,559</b>	1,145,328
Commitments and contingencies (Note 12)		
<b>Shareholders' equity</b>		
Petrobank shareholders' equity		
Common shares (Note 5)	869,143	574,060
Convertible debentures (Note 6)	76,811	64,089
Contributed surplus (Note 5)	34,249	19,795
Accumulated other comprehensive income (loss) (Note 5)	(18,367)	42,848
Retained earnings	398,236	334,410
Total Petrobank shareholders' equity	1,360,072	1,035,202
Non-controlling interest (Note 7)	290,312	181,177
<b>Total shareholders' equity</b>	<b>1,650,384</b>	1,216,379
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,590,943</b>	<b>\$ 2,361,707</b>

Subsequent events (Notes 3, 9 and 10)

See accompanying notes to these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
<b>Revenues</b>				
Oil and natural gas	\$ 232,471	\$ 317,137	\$ 647,653	\$ 743,907
Royalties	(27,656)	(34,940)	(70,063)	(74,950)
Gain (loss) on risk management contracts	187	36,317	(7,806)	(11,952)
Interest income	182	403	572	2,357
	<b>205,184</b>	<b>318,917</b>	<b>570,356</b>	<b>659,362</b>
<b>Expenses</b>				
Production	28,459	24,560	83,164	65,508
Transportation	11,619	10,224	43,033	21,599
General and administrative	7,162	6,086	22,134	17,706
Stock-based compensation	5,928	5,884	20,592	12,553
Interest	8,743	6,496	25,148	19,105
Foreign exchange loss (gain)	(18,737)	7,090	(37,760)	14,307
Depletion, depreciation and accretion	88,023	71,570	295,022	182,045
	<b>131,197</b>	<b>131,910</b>	<b>451,333</b>	<b>332,823</b>
<b>Income before taxes</b>	<b>73,987</b>	<b>187,007</b>	<b>119,023</b>	<b>326,539</b>
Current taxes	4,614	15,659	7,482	18,381
Future income taxes	4,731	33,647	5,887	64,521
<b>Net income</b>	<b>64,642</b>	<b>137,701</b>	<b>105,654</b>	<b>243,637</b>
Less: Net income attributable to non-controlling interest (Note 7)	9,796	14,475	17,683	27,238
<b>Net income attributable to Petrobank</b>	<b>54,846</b>	<b>123,226</b>	<b>87,971</b>	<b>216,399</b>
<b>Retained earnings, beginning of period</b>	<b>343,390</b>	<b>193,630</b>	<b>334,410</b>	<b>100,457</b>
Conversion of convertible debentures, net of tax (Note 6)	-	(10,529)	(24,145)	(10,529)
<b>Retained earnings, end of period</b>	<b>\$ 398,236</b>	<b>\$ 306,327</b>	<b>\$ 398,236</b>	<b>\$ 306,327</b>
<b>Basic earnings per share (Note 5)</b>	<b>\$ 0.59</b>	<b>\$ 1.49</b>	<b>\$ 1.01</b>	<b>\$ 2.64</b>
<b>Diluted earnings per share (Note 5)</b>	<b>\$ 0.56</b>	<b>\$ 1.35</b>	<b>\$ 0.96</b>	<b>\$ 2.39</b>

See accompanying notes to these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
<b>Net income attributable to Petrobank</b>	<b>\$ 54,846</b>	<b>\$ 123,226</b>	<b>\$ 87,971</b>	<b>\$ 216,399</b>
Other comprehensive income:				
Unrealized gain (loss) on translation of financial statements of self-sustaining foreign operations (Note 5)	(36,883)	14,196	(61,215)	22,895
Interest rate contracts (Note 10)	(512)	-	-	-
<b>Comprehensive income attributable to Petrobank</b>	<b>\$ 17,451</b>	<b>\$ 137,422</b>	<b>\$ 26,756</b>	<b>\$ 239,294</b>

See accompanying notes to these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited, thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
<b>Operating Activities</b>				
Net income attributable to Petrobank	\$ 54,846	\$ 123,226	\$ 87,971	\$ 216,399
Depletion, depreciation and accretion	88,023	71,570	295,022	182,045
Unrealized (gain) loss on risk management contracts	3,924	(43,388)	28,643	(7,297)
Unrealized foreign exchange (gain) loss	(27,290)	8,211	(48,782)	14,136
Stock-based compensation	5,928	5,884	20,592	12,553
Accretion on convertible debentures	2,129	3,334	10,932	8,853
Net income attributable to non-controlling interest	9,796	14,475	17,683	27,238
Future income taxes	4,731	33,647	5,887	64,521
Amortization of other assets	1,125	182	1,631	689
Asset retirement obligations settled	(285)	(432)	(1,146)	(1,017)
	<b>142,927</b>	216,709	<b>418,433</b>	518,120
Changes in non-cash working capital (Note 11)	(8,900)	(11,770)	(52,008)	(88,176)
	<b>134,027</b>	204,939	<b>366,425</b>	429,944
<b>Financing Activities</b>				
Issuance (repayment) of bank debt	(318,975)	-	(288,124)	85,826
Conversion inducement of convertible debentures – including costs (Note 6)	-	-	(36,244)	-
Issuance of convertible debentures – net of issuance costs of \$13.2 million (Note 6)	452,837	-	452,837	-
Equity issued (repurchased) by Petrominerales	(70)	(7,727)	(18,666)	(6,240)
Financing costs relating to bank debt	(73)	-	(1,841)	(781)
Issuance (repurchase) of common shares	5,532	(11,777)	6,249	(9,313)
Amortization of obligations under gas sale contract	(209)	(208)	(619)	(620)
	<b>139,042</b>	(19,712)	<b>113,592</b>	68,872
<b>Investing Activities</b>				
Expenditures on capital assets	(194,043)	(257,305)	(511,459)	(629,931)
Expenditures on other assets	(7,415)	-	(22,314)	-
Sale of interest in subsidiary (Note 7)	-	3,915	106,107	3,915
Changes in restricted cash	2,534	(1,152)	3,985	(1,152)
Corporate acquisition	-	-	-	(67,248)
Changes in non-cash working capital (Note 11)	26,836	47,992	(34,683)	71,367
	<b>(172,088)</b>	(206,550)	<b>(458,364)</b>	(623,049)
Effect of exchange rate changes on cash and cash equivalents	597	2,110	1,793	5,141
<b>Net change in cash and cash equivalents</b>	<b>101,578</b>	(19,213)	<b>23,446</b>	(119,092)
<b>Cash and cash equivalents, beginning of period</b>	<b>24,049</b>	71,560	<b>102,181</b>	171,439
<b>Cash and cash equivalents, end of period</b>	<b>\$ 125,627</b>	\$ 52,347	<b>\$ 125,627</b>	\$ 52,347
Cash and cash equivalents consist of:				
Cash	\$ 89,443	\$ 8,993	\$ 89,443	\$ 8,993
Cash equivalents	\$ 36,184	\$ 43,414	\$ 36,184	\$ 43,414

See accompanying notes to these consolidated financial statements.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2009 and 2008

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

### **Note 1 – Significant Accounting Policies**

The interim consolidated financial statements for Petrobank Energy and Resources Ltd. (“Petrobank”, or the “Company”) as at and for the three and nine months ended September 30, 2009 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2008. The notes to these interim consolidated financial statements do not conform in all respects to the note disclosure requirements of generally accepted accounting policies (“GAAP”) for annual consolidated financial statements. These interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements as at and for the year ended December 31, 2008, except for those disclosed in Note 2 below. The disclosures provided are incremental to those included with the annual financial statements.

### **Note 2 – New Accounting Policies and 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, 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.

#### *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 the CICA’s 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 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 adoption of this standard will impact the accounting treatment of future business combinations.

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 adoption of these standards did not have a material impact on our results of operations or financial position. The retrospective presentation changes have been included in the Company’s consolidated financial statements.

### *Recent and Pending Accounting Pronouncements*

In June 2009, the 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. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards (“IFRS”). The Company will include these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

The Canadian Accounting Standards Board has confirmed that IFRS will replace Canadian GAAP effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises. The Company has completed its high-level IFRS impact study and established a preliminary timeline for the execution and completion of the conversion project. The impact of IFRS 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 3 – Acquisition of TriStar Oil and Gas Ltd.**

On October 1, 2009, Petrobank’s subsidiary PetroBakken Energy Ltd. (“PetroBakken”) acquired TriStar Oil and Gas Ltd. (“TriStar”) through a plan of arrangement (the “Arrangement”) and created a new publicly listed company, PetroBakken, which is a Bakken-focused, light oil exploration and production company. PetroBakken is traded on the TSX under the symbol PBN.

Petrobank initially capitalized PetroBakken with its Canadian Business Unit assets and obligations. In return, Petrobank received 109.8 million shares of PetroBakken which represents 64% of PetroBakken’s shares outstanding on October 1, 2009. Pursuant to the Arrangement, PetroBakken acquired all the outstanding shares of TriStar on October 1, 2009, with TriStar shareholders receiving, in the aggregate, approximately \$584.5 million in cash and 62.1 million shares of PetroBakken (including shares issued to financial advisors), representing 36% of PetroBakken’s shares outstanding on October 1, 2009. The purchase method will be used to account for the TriStar acquisition. **The consolidated financial statements herein do not reflect TriStar’s assets, liabilities or any operational results.**

### **Note 4 – Bank Debt and Restricted Cash**

At September 30, 2009 Petrominerales Ltd. (“Petrominerales”) had US\$25 million of bank debt outstanding under its secured credit facility. The borrowing base under this facility is US\$80 million and is currently set to mature in December 2009. Petrominerales also has an US\$31.4 million operating line of credit.

At September 30, 2009, Petrominerales had restricted cash of US\$1.4 million consisting of cash deposited to guarantee work commitments under exploration contracts and as collateral for a letter of credit.

## Note 5 – Share Capital

As at September 30, 2009, the Company had 92,977,531 common shares, 5,964,550 stock options and 204,310 deferred common shares outstanding. Upon conversion of Petrobank's convertible debentures, a total of 10,683,224 additional shares could be issued.

### *Common Shares*

<b>Common Share Continuity</b>	<b>Number</b>	<b>Amount</b>
Balance at December 31, 2008	83,525,394	\$ 574,060
Issued upon conversion of debentures (Note 6)	8,595,925	291,246
Costs associated with conversion of debentures	-	(2,863)
Tax effect of share issue costs	-	792
Exercise of stock options	856,212	6,249
Transfer from contributed surplus related to stock options and deferred common shares exercised	-	2,127
Tax benefit renounced to shareholders	-	(2,468)
<b>Balance at September 30, 2009</b>	<b>92,977,531</b>	<b>\$ 869,143</b>

### *Contributed Surplus*

<b>Changes in Contributed Surplus</b>	<b>Amount</b>
Balance at December 31, 2008	\$ 19,795
Stock-based compensation	16,581
Transfer from contributed surplus related to stock options and deferred common shares exercised	(2,127)
<b>Balance at September 30, 2009</b>	<b>\$ 34,249</b>

### *Accumulated Other Comprehensive Income*

<b>Changes in Accumulated Other Comprehensive Income</b>	<b>Amount</b>
Balance at December 31, 2008	\$ 42,848
Unrealized gain on translation of financial statements of self-sustaining foreign operations	(61,215)
<b>Balance at September 30, 2009</b>	<b>\$ (18,367)</b>

### *Stock Option Continuity*

	<b>Stock Options</b>	<b>Weighted-Avg Exercise Price</b>
Balance at December 31, 2008	6,596,076	\$ 22.37
Granted	357,749	29.31
Exercised	(856,212)	7.30
Forfeited	(103,063)	24.77
Cancelled	(30,000)	48.57
<b>Balance at September 30, 2009</b>	<b>5,964,550</b>	<b>\$ 24.78</b>

### Deferred Common Share Continuity

	<b>Number</b>
Balance at December 31, 2008	146,810
Granted	57,500
<b>Balance at September 30, 2009</b>	<b>204,310</b>

### Stock-Based Compensation

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

Nine months ended September 30,	<b>2009</b>
Risk free interest rate	<b>1.75 - 2.25%</b>
Dividend rate	<b>0%</b>
Expected life – options (years)	<b>2 to 4</b>
Expected life – deferred common shares (years)	<b>8</b>
Expected volatility	<b>37.5 - 47.5%</b>

The average fair value per stock option granted during the three and nine months ended September 30, 2009 were \$11.01 (2008 – \$17.05) and \$9.67 (2008 – \$16.90) respectively, as at the date of grant. There were no deferred common shares granted during the three months ended September 30, 2009 and 2008. The average fair value per deferred common share granted during the nine months ended September 30, 2009 were \$24.18 (2008 – \$48.00) as at the date of grant.

Stock-based compensation expense for the three and nine months ended September 30, 2009 totalled \$5.9 million (2008 – \$5.9 million) and \$20.6 million (2008 – \$12.6 million), of which \$1.2 million (2008 – \$0.8 million) and \$4.0 million (2008 – \$1.9 million) relate to Petrominerales.

### Earnings Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	<b>2009</b>	2008	<b>2009</b>	2008
<b>Net income adjustments</b>				
Net income attributable to Petrobank, basic	\$ 54,846	\$ 123,226	\$ 87,971	\$ 216,399
Interest expense on Petrobank's convertible debentures	4,293	3,396	2,905	8,654
Tax effect	(1,266)	(1,002)	(857)	(2,554)
Impact of Petrominerales dilution on net income	(350)	(720)	(201)	(1,833)
Net income attributable to Petrobank, diluted	\$ 57,523	\$ 124,900	\$ 89,818	\$ 220,666
<b>Weighted average common share adjustments</b>				
Weighted average common shares outstanding, basic	92,383,658	82,579,064	86,893,648	81,956,120
Effect of convertible debentures	9,655,639	8,774,947	5,664,615	8,774,947
Effect of stock options and deferred common shares	1,324,770	895,869	785,411	1,631,787
Weighted average common shares outstanding, diluted	103,364,067	92,249,880	93,343,674	92,362,854

## Note 6 – Convertible Debentures

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. 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.

On July 10, 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 (Cdn\$44.01) per debenture. Upon conversion, a total of 10,504,202 common shares may be issued.

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 principal balance at maturity. The accretion and the interest paid are expensed as interest expense in the consolidated statement of operations. If the debentures are converted to common shares, the relative portion of the value of the conversion feature under shareholders' equity will be reclassified to common share capital along with the principal amounts converted.

The following table summarizes the liability component of the debentures at September 30, 2009:

	<b>Petrobank</b>	<b>Petrominerales</b>	<b>Total</b>
Balance of liability component, December 31, 2008	\$ 248,909	\$ 88,665	\$ 337,574
Conversion into common shares <sup>(1)</sup>	(228,464)	-	(228,464)
Liability component of debenture issuance	377,918	-	377,918
Accumulated accretion	8,991	3,819	12,810
Accumulated changes in exchange rate	(52,569)	(11,347)	(63,916)
<b>Balance of liability component, September 30, 2009</b>	<b>\$ 354,785</b>	<b>\$ 81,137</b>	<b>\$ 435,922</b>

<sup>(1)</sup> The conversion value of \$228.5 million represents the carrying amount of the liability portion on the conversion date.

## Note 7 – Non-Controlling Interest

The components of the Company's non-controlling interest in Petrominerales, the Company's 66.5% owned subsidiary as at September 30, 2009 are as follows:

	<b>Amount</b>
Balance at December 31, 2008	\$ 181,177
Attributable income	17,683
Stock-based compensation	4,011
Common shares sold by Petrobank <sup>(1)</sup>	96,736
Common shares repurchased by Petrominerales <sup>(2)</sup>	(21,772)
Common shares repurchased from Petrobank <sup>(2)</sup>	9,371
Common shares issued by Petrominerales <sup>(3)</sup>	3,106
<b>Balance at September 30, 2009</b>	<b>\$ 290,312</b>

<sup>(1)</sup> On May 15, 2009 Petrobank sold 9.9 million shares of our Petrominerales holdings for gross proceeds of \$101.5 million (\$96.7 million net of costs). The Company did not record a gain or loss on this transaction.

<sup>(2)</sup> Petrominerales repurchased a total of 1,991,000 Petrominerales common shares during the first nine months of 2009 under a Normal Course Issuer Bid ("NCIB") which authorized Petrominerales to purchase up to 5,032,718 common shares until August 17, 2009. Petrominerales repurchased 3,317,000 common shares under their NCIB.

<sup>(3)</sup> Relates to exercise of Petrominerales stock options.

## Note 8 – Interest Expense

Interest expense includes the following:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cash interest	\$ 8,455	\$ 5,423	\$ 20,597	\$ 16,143
Accretion on Petrobank convertible debentures	2,437	2,933	8,991	8,348
Accretion on Petrominerales convertible debentures	1,238	1,303	3,819	3,717
Amortization of deferred financing costs	435	182	941	689
Capitalized interest related to Whitesands project <sup>(1)</sup>	(3,822)	(3,345)	(9,200)	(9,792)
<b>Interest expense</b>	<b>\$ 8,743</b>	<b>\$ 6,496</b>	<b>\$ 25,148</b>	<b>\$ 19,105</b>

<sup>(1)</sup> Capitalized interest for the nine months ended September 30, 2009 includes \$7.3 million of cash and \$1.9 million of non-cash accretion (2008 – \$6.6 million and \$3.2 million, respectively).

## Note 9 – Capital Management

Petrobank'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:

	Petrobank	PetroBakken	Petrominerales	Petrobank Consolidated
Net working capital (deficit) excluding bank debt	\$ 30,158	\$ (10,473)	\$ 20,348	\$ 40,033
Bank debt	\$ -	\$ -	\$ 26,805	\$ 26,805
Convertible debentures – principal amount (US\$)	\$ 405,100	\$ -	\$ 81,700	\$ 486,800
Common share capital	\$ 869,143	\$ -	\$ -	\$ 869,143
Credit facility – maximum borrowing base	\$ 30,000 <sup>(1)</sup>	\$1,050,000 <sup>(2)</sup>	US\$ 80,000	
Available credit capacity	\$ 30,000 <sup>(1)</sup>	\$ 125,000 <sup>(2)</sup>	US\$ 50,300 <sup>(3)</sup>	

<sup>(1)</sup> Petrobank has a commitment for a \$30 million credit facility.

<sup>(2)</sup> Upon the acquisition of TriStar on October 1, 2009, PetroBakken obtained a \$1.05 billion credit facility, of which approximately \$925 million was drawn after closing the transaction.

<sup>(3)</sup> Letters of credit issued against the secured credit facility reduce the amounts available under the facilities.

### *Petrobank*

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 (a non-GAAP measure defined as accounts payable and accrued liabilities less current assets). In order to maintain or adjust the capital structure, from time to time Petrobank 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 interest and PetroBakken's intentions of paying an annual

dividend of \$0.96 per common share, Petrobank expects to receive \$105 million of dividends annually from PetroBakken paid monthly beginning on November 16, 2009. Petrobank can also raise funds by selling a portion of its ownership interests 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 on its convertible debenture and credit facility agreements. 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%. Petrobank is not subject to restrictive financial covenants under its stand-alone credit facilities.

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 7), the early conversion of the majority of Petrobank's 3% convertible debentures (Note 6), the US\$400 million convertible bond issuance in July 2009 by Petrobank (Note 6), and the formation of PetroBakken (Note 3) have resulted in significant changes to Petrobank's capital structure during 2009.

#### *PetroBakken*

PetroBakken monitors leverage and adjusts its capital structure based on the ratio of bank debt to annualized earnings before interest, taxes and non-cash items. At September 30, 2009, the ratio of debt to the annualized third quarter of 2009 earnings before interest, taxes and non-cash items was not a meaningful measure as there was no bank debt outstanding. Management typically 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 capital plans, 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 capital plan will be approved by the PetroBakken Board of Directors and updates will be prepared and reviewed as required.

PetroBakken adopted a dividend policy initially targeting payments of \$0.96 per share per annum, payable monthly, with the first dividend expected to be paid on November 16, 2009 to shareholders of record on October 30, 2009.

Upon closing the TriStar acquisition on October 1, 2009, PetroBakken entered into a new \$1.05 billion credit facility with a syndicate of banks. This PetroBakken facility is comprised of a \$900 million oil and gas reserve-based revolver, and a six-month \$150 million short-term non-revolving credit facility. PetroBakken has commenced a disposition process for the majority of its Alberta assets. Any proceeds received from these sales are required to be used to repay the \$150 million non-revolving credit facility. The revolving facility has an initial term ending on September 30, 2010, which is extendable by the lenders for an additional year. If the lenders were to not extend the term, the drawn amount would be due on September 30, 2011. The credit facilities bear interest at the prime rate plus a margin based on a sliding scale ratio of PetroBakken's debt to earnings before taxes, depletion, depreciation and amortization ("EBITDA"). The syndicate of lenders will assess the borrowing base semi-annually. PetroBakken is not subject to restrictive financial covenants under this credit facility.

### *Petrominerales*

Petrominerales monitors leverage and adjusts its capital structure based on the ratio of net debt to annualized funds flow. This ratio is calculated as net debt, a non-GAAP measure Petrominerales defines as outstanding bank debt plus the principal amount of Petrominerales convertible debentures and working capital, divided by funds flow from operations before changes in non-cash working capital for the most recent calendar quarter, annualized. At September 30, 2009, the ratio of net debt to annualized funds flow was 0.4 to 1, within an acceptable range to management. Petrominerales uses the ratio of net debt to cash flow as a key indicator of their leverage and to monitor the strength of the Petrominerales balance sheet. In order to facilitate the management of this ratio, Petrominerales prepares annual capital plans, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of their business plan and general industry conditions. The annual capital plan is approved by the Petrominerales Board of Directors and updates are prepared and reviewed as required.

Petrominerales' credit facility agreement matures on December 20, 2009. Petrominerales has initiated a process with the lender to renew the credit facility and adjust the borrowing base to reflect current reserves.

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 12 month EBITDA under 2.0 times and to maintain a current ratio greater than 1.0 time (current assets divided by current liabilities less unused bank debt). 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 10 – 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 September 30, 2009 the majority of the Company's Canadian oil production was being sold to two purchasers. To help mitigate the risk associated with the significant amount of Canadian oil production being sold to the larger purchaser, the Company arranged for early payments and / or letters of credit. Colombian oil production is sold, as determined by market based prices adjusted for quality differentials, to three main counterparties: Ecopetrol, the Colombian national oil company, and the remainder to two international oil companies. Colombian 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. Petrominerales does not anticipate non-performance by these counterparties.

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

As at	<b>Sept. 30, 2009</b>	Dec. 31, 2008
Oil and natural gas customers	<b>\$ 129,940</b>	\$ 57,085
Tax receivable	<b>10,705</b>	10,088
Other	<b>7,938</b>	14,529
Total	<b>\$ 148,583</b>	\$ 81,702

Accounts receivable 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 material 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 by monitoring 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 \$0.8 million allowance for doubtful accounts as at September 30, 2009, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the nine months ended September 30, 2009.

The Company's accounts receivable are aged as follows:

As at	<b>Sept. 30, 2009</b>	Dec. 31, 2008
Not past due	<b>\$ 143,055</b>	\$ 78,697
Past due	<b>5,528</b>	3,005
Total	<b>\$ 148,583</b>	\$ 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 4, that are reviewed semi-annually by the lenders.

The following are the contractual maturities of financial liabilities at September 30, 2009:

<b>Financial Liability</b>	<b>&lt; 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>Thereafter</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 246,840	\$ -	\$ -	\$ -	\$ 246,840
Petrominerales bank debt – principal (US\$)	25,000	-	-	-	25,000
Petrobank convertible debentures – principal (US\$)	-	-	5,100 <sup>(1)</sup>	400,000 <sup>(1)</sup>	405,100
Petrominerales convertible debentures – principal (US\$)	-	81,700 <sup>(2)</sup>	-	-	81,700
<b>Total <sup>(3)</sup></b>	<b>\$ 273,645</b>	<b>\$ 87,599</b>	<b>\$ 5,468</b>	<b>\$ 428,880</b>	<b>\$ 795,592</b>

<sup>(1)</sup> The debentures are convertible to common shares of Petrobank at a conversion price of US\$28.4902 per share. Upon conversion, a total of 179,022 common shares may be issued. At maturity, the Company has the option to redeem the principal amount in cash or common shares if the debentures have not been converted. In July 2009, Petrobank issued US\$400 million of 5.125% convertible debentures maturing in July 2015, with a conversion price of US\$38.08 per share. Upon conversion, a total of 10,504,202 additional common shares may be issued.

<sup>(2)</sup> 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.

<sup>(3)</sup> US\$ amounts have been converted using a period end exchange rate of 1.0722.

#### *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 United States dollars and Colombian expenses are denominated primarily in United States dollars and Colombian pesos. The Company is also exposed as Petrobank's convertible debentures are denominated in United States dollars and Canadian revenues are strongly linked to United States dollar denominated benchmark prices. At September 30, 2009, if the Canadian dollar had depreciated five percent against the United States dollar with all other variables held constant, net income would have been \$15.3 million lower for the three months ended September 30, 2009 (2008 – \$9.1 million lower). Other comprehensive income would have been \$7.7 million higher (2008 – \$10.7 million higher) primarily 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 nine months ended September 30, 2009.

PetroBakken assumed the following foreign exchange risk management contracts upon the acquisition of TriStar on October 1, 2009:

<b>Term</b>	<b>Type</b>	<b>Amount / Month (US\$000s)</b>	<b>Price</b>	<b>Amount / Month (C\$000s)</b>
May 1, 2008 – Dec. 31, 2009	Put	US\$1,250	\$1.00	C\$1,250
May 1, 2008 – Dec. 31, 2009	Call	US\$2,500	\$1.00	C\$2,500
Dec. 1, 2008 – Dec. 31, 2009	Forward	US\$2,500	\$1.28	C\$3,200

#### *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 September 30, 2009:

<b>Term</b>	<b>Volume (Bopd)</b>	<b>Price (\$/bbl)</b>	<b>Benchmark</b>
Jan. 1, 2009 – Dec. 31, 2009	2,000	US\$90.00 floor / US\$121.00 ceiling	US\$ 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, 2011 – Dec. 31, 2011	500	C\$80.00 floor / C\$95.60 ceiling	C\$ WTI

PetroBakken entered into the following crude oil price risk management contracts subsequent to September 30, 2009:

<b>Term</b>	<b>Volume (Bopd)</b>	<b>Price (\$/bbl)</b>	<b>Benchmark</b>
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	1,000	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	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	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	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	1,000	C\$75.00 floor / C\$90.00 ceiling	C\$ WTI

PetroBakken assumed the following crude oil price risk management contracts upon the acquisition of TriStar on October 1, 2009:

<b>Term</b>	<b>Volume (Bopd)</b>	<b>Price (\$/bbl)</b>	<b>Benchmark</b>
Jan. 1, 2008 – Dec. 31, 2009	500	US\$65.00 floor / US\$73.25 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$65.00 floor / US\$76.15 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$65.00 floor / US\$76.30 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$67.00 floor / US\$76.70 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$70.00 floor / US\$75.52 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	250	US\$75.00 floor / US\$96.05 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$75.00 floor / US\$100.00 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	250	US\$75.00 floor / US\$102.00 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$80.00 floor / US\$100.00 ceiling	US\$ WTI
Jul. 1, 2009 – Dec. 31, 2009	500	C\$65.00 floor / C\$76.15 ceiling	C\$ WTI
Jul. 1, 2009 – Dec. 31, 2009	500	C\$65.00 floor / C\$75.65 ceiling	C\$ WTI
Feb. 1, 2008 – Dec. 31, 2009	500	US\$75.00 put	US\$ WTI
Mar. 1, 2008 – Dec. 31, 2009	500	US\$80.00 put	US\$ WTI
Apr. 1, 2007 – Dec. 31, 2009	250	C\$76.60 swap	C\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	250	C\$78.20 swap	C\$ WTI
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\$75.00 floor/ C\$100.00 ceiling	C\$ WTI

PetroBakken assumed the following natural gas price risk management contracts upon the acquisition of TriStar on October 1, 2009:

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

	Three months ended September 30,		Nine months ended September 30,	
	<b>2009</b>	2008	<b>2009</b>	2008
Risk management contracts				
Realized gain (loss)	\$ 4,111	\$ (7,071)	\$ 20,837	\$ (19,249)
Unrealized gain (loss)	(3,924)	43,388	(28,643)	7,297
<b>Gain (loss) on risk management contracts</b>	<b>\$ 187</b>	<b>\$ 36,317</b>	<b>\$ (7,806)</b>	<b>\$ (11,952)</b>

The unrealized loss represents the change in fair value of the crude oil price risk management contracts related to expected future settlements. The fair value of the remaining risk management assets at September 30, 2009 was \$4.3 million (December 31, 2008 – \$32.9 million), of which \$3.8 million related to the crude oil price risk management contracts. If crude oil prices had been 10% lower on September 30, 2009, with all other variables held constant, the change in the fair value of the risk management contracts would have resulted in net income and other comprehensive income that was \$1.0 million higher for the three and nine months then ended (2008 – \$6.4 million higher).

### *Interest Rate Risk*

The Company is exposed to interest rate cash flow risk on floating interest rate bank debt due to fluctuations in market interest rates and interest rate price 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 September 30, 2009:

<b>Term</b>	<b>Notional Principal / Month</b>	<b>Fixed Annual Rate (%)</b>
Apr. 2009 – Apr. 2011	\$50 million	1.050%
Apr. 2009 – Apr. 2012	\$50 million	1.300%

PetroBakken assumed the following interest rate swap contracts upon the acquisition of TriStar on October 1, 2009:

<b>Term</b>	<b>Notional Principal / Month</b>	<b>Fixed Annual Rate (%)</b>
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%

The fair value of the interest rate swaps as at September 30, 2009 was \$0.5 million. A change in interest rates would have no impact on net income for the three month period ended September 30, 2009 as the bank debt facility was undrawn for the majority of the quarter. Had interest rates been 1% higher for the nine months ended September 30, 2009 net income would have decreased by \$0.6 million due to interest charged on the Company's floating rate bank debt that was outstanding over the first six months of the year. If interest rates had been 1% higher at September 30, 2009, net income would have increased by \$1.8 million (2008 – \$nil) due to the change in fair value of the interest rate swaps.

### *Fair Value of Financial Instruments*

The Company's financial instruments are classified as cash and cash equivalents, restricted cash, accounts receivable, risk management asset, accounts payable and accrued liabilities, bank debt, convertible debentures and obligations under gas sale contract on the balance sheet. The carrying value and fair value of these financial instruments at September 30, 2009 is disclosed below by financial instrument category, as well as any related gain, loss, expense or revenue for the nine months ended September 30, 2009:

<b>Financial Instrument</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Gain / (Loss)</b>	<b>Expense</b>	<b>Revenue</b>
<i>Assets Held For Trading</i>					
Cash and cash equivalents <sup>(1)</sup>	125,627	125,627	-	-	-
Restricted cash	1,502	1,502	-	-	-
Risk management contracts	4,261	4,261	(7,806) <sup>(2)</sup>	-	-
<i>Loans and Receivables</i>					
Accounts receivable	148,583	148,583	-	-	-
<i>Other Liabilities</i>					
Accounts payable and accrued liabilities	246,840	246,840	-	-	-
Bank debt	26,805	26,805	-	4,474 <sup>(3)</sup>	-
Convertible debentures	435,922	641,756 <sup>(4)</sup>	63,916 <sup>(5)</sup>	20,674 <sup>(6)</sup>	-
Obligations under gas sale contract	2,551	1,085	-	-	619 <sup>(7)</sup>

<sup>(1)</sup> The effective yield on cash equivalents at September 30, 2009 was 0.3% (December 31, 2008 – 0.6%).

<sup>(2)</sup> Included in loss on risk management contracts on the statement of operations and retained earnings, and statement of comprehensive income. The unrealized loss of \$28.6 million representing the change in fair value of the contracts is added back on the statement of cash flow.

<sup>(3)</sup> Included in interest expense net of capitalized interest on the statement of operations and retained earnings and statement of comprehensive income. The amortization of deferred financing costs is included on the statement of cash flow. The effective yield on bank debt before capitalized interest at September 30, 2009 was 3.5% (December 31, 2008 – 3.5%).

<sup>(4)</sup> The Company estimated the fair value of the convertible debentures based on market transactions close to September 30, 2009. The principal amounts of the Petrobank and Petrominerales convertible debentures at September 30, 2009 are US\$405.1 million and US\$81.7 million, respectively.

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

<sup>(6)</sup> 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 and Petrominerales are 9.4% and 9.7%, respectively.

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

The risk management contracts are recorded at their fair value based on quoted market prices in the futures market on the balance sheet date; accordingly, there is no difference between fair value and carrying value. The fair value of the obligations under gas sale contract 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. Canadian bank debt is recorded

on the balance sheet net of deferred financing costs which results in a difference between the carrying value and the fair value. Due to the short term nature of: cash and cash equivalents, restricted cash, accounts receivable and other current assets, and accounts payable and accrued liabilities their carrying values approximate their fair values.

#### Note 11 – Changes in Non-Cash Working Capital

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
<b>Change in:</b>				
Accounts receivable and other current assets	\$ (6,215)	\$ (41,567)	\$ (73,781)	\$ (138,883)
Accounts payable and accrued liabilities	23,737	65,663	(15,937)	123,009
Income taxes payable	-	12,126	-	13,786
Depletion related to other current assets	457	-	1,368	(363)
Deferred credit	(43)	-	1,659	-
	<b>17,936</b>	<b>36,222</b>	<b>(86,691)</b>	<b>(2,451)</b>
Working capital deficiencies acquired	-	-	-	(14,358)
	<b>\$ 17,936</b>	<b>\$ 36,222</b>	<b>\$ (86,691)</b>	<b>\$ (16,809)</b>
<b>Changes relating to:</b>				
Attributable to operating activities	\$ (8,900)	\$ (11,770)	\$ (52,008)	\$ (88,176)
Attributable to financing activities	\$ -	\$ -	\$ -	\$ -
Attributable to investing activities	\$ 26,836	\$ 47,992	\$ (34,683)	\$ 71,367
<b>Other cash flow information:</b>				
Cash taxes paid	\$ 1,099	\$ 966	\$ 2,154	\$ 3,138
Cash interest paid	\$ 2,495	\$ 2,427	\$ 16,137	\$ 12,465
Cash interest received	\$ 20	\$ 308	\$ 332	\$ 2,115

#### Note 12 – Commitments and Contingencies

The information contained within this note summarizes significant changes in the Company's commitments since December 31, 2008.

At September 30, 2009, the Company has spent its 2009 flow-through share expenditure commitments.

Pursuant to exploration contracts, Petrominerales has work commitments totalling US\$64.0 million (December 31, 2008 – US\$48.6 million) to be completed during the next three years. The 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\$24.8 million and pledged US\$1.4 million in restricted cash to guarantee the obligations under these exploration contracts.

At September 30, 2009 Petrominerales has remaining costs of US\$1.8 million (December 31, 2008 – US\$15.3 million) to be incurred in 2009 for the construction of a crude oil offloading facility in Colombia.

## Note 13 – Segmented Information

Three months ended September 30,	2009			2008		
	Canada and Other <sup>(1)</sup>	Colombia	Total	Canada and Other <sup>(1)</sup>	Colombia	Total
<b>Revenues</b>						
Oil and natural gas	\$ 101,316	\$ 131,155	\$ 232,471	\$ 186,608	\$ 130,529	\$ 317,137
Royalties	(15,820)	(11,836)	(27,656)	(21,484)	(13,456)	(34,940)
Gain (loss) on risk management contracts	187	-	187	30,406	5,911	36,317
Interest income	95	87	182	114	289	403
	<b>85,778</b>	<b>119,406</b>	<b>205,184</b>	<b>195,644</b>	<b>123,273</b>	<b>318,917</b>
<b>Expenses</b>						
Production	11,232	17,227	28,459	14,940	9,620	24,560
Transportation	1,531	10,088	11,619	6,649	3,575	10,224
General and administrative	4,144	3,018	7,162	3,434	2,652	6,086
Stock-based compensation	4,773	1,155	5,928	5,089	795	5,884
Interest	5,370	3,373	8,743	3,603	2,893	6,496
Foreign exchange loss (gain)	(26,446)	7,709	(18,737)	8,421	(1,331)	7,090
Depletion, depreciation and accretion	49,159	38,864	88,023	47,704	23,866	71,570
	<b>49,763</b>	<b>81,434</b>	<b>131,197</b>	<b>89,840</b>	<b>42,070</b>	<b>131,910</b>
<b>Income before taxes</b>	<b>36,015</b>	<b>37,972</b>	<b>73,987</b>	<b>105,804</b>	<b>81,203</b>	<b>187,007</b>
Current taxes	-	4,614	4,614	-	15,659	15,659
Future income taxes (recovery)	700	4,031	4,731	29,179	4,468	33,647
<b>Net income</b>	<b>35,315</b>	<b>29,327</b>	<b>64,642</b>	<b>76,625</b>	<b>61,076</b>	<b>137,701</b>
Less: Net income attributable to non-controlling interest	-	9,796	9,796	-	14,475	14,475
<b>Net income attributable to Petrobank</b>	<b>\$ 35,315</b>	<b>\$ 19,531</b>	<b>\$ 54,846</b>	<b>\$ 76,625</b>	<b>\$ 46,601</b>	<b>\$ 123,226</b>
Identifiable assets	\$ 1,889,448	\$ 698,698	\$ 2,588,146	\$ 1,451,688	\$ 593,308	\$ 2,044,996
Goodwill	\$ 63,171	\$ -	\$ 63,171	\$ 54,860	\$ -	\$ 54,860
Expenditures on capital and other assets	\$ 134,557	\$ 66,901	\$ 201,458	\$ 181,265	\$ 76,040	\$ 257,305

<sup>(1)</sup> Canada includes Heavy Oil Business Unit capital expenditures of \$26.7 million in 2009 (2008 – \$15.8 million), identifiable assets at September 30, 2009 of \$466.8 million (2008 – \$337.5 million) including goodwill of \$28.1 million (2008 – \$28.1 million), and negligible revenues and expenses as operations are considered to be in the pre-operating stage and accordingly are capitalized.

Nine months ended September 30,	2009			2008		
	Canada and Other <sup>(1)</sup>	Colombia	Total	Canada and Other <sup>(1)</sup>	Colombia	Total
<b>Revenues</b>						
Oil and natural gas	\$ 299,254	\$ 348,399	\$ 647,653	\$ 464,788	\$ 279,119	\$ 743,907
Royalties	(39,586)	(30,477)	(70,063)	(47,588)	(27,362)	(74,950)
Loss on risk management contracts	(7,806)	-	(7,806)	(5,932)	(6,020)	(11,952)
Interest income	176	396	572	367	1,990	2,357
	<b>252,038</b>	<b>318,318</b>	<b>570,356</b>	<b>411,635</b>	<b>247,727</b>	<b>659,362</b>
<b>Expenses</b>						
Production	36,378	46,786	83,164	40,101	25,407	65,508
Transportation	5,523	37,510	43,033	14,749	6,850	21,599
General and administrative	12,524	9,610	22,134	9,902	7,804	17,706
Stock-based compensation	16,581	4,011	20,592	10,671	1,882	12,553
Interest	16,228	8,920	25,148	10,767	8,338	19,105
Foreign exchange loss (gain)	(49,249)	11,489	(37,760)	14,240	67	14,307
Depletion, depreciation and accretion	161,447	133,575	295,022	128,310	53,735	182,045
	<b>199,432</b>	<b>251,901</b>	<b>451,333</b>	<b>228,740</b>	<b>104,083</b>	<b>332,823</b>
<b>Income before taxes</b>	<b>52,606</b>	<b>66,417</b>	<b>119,023</b>	<b>182,895</b>	<b>143,644</b>	<b>326,539</b>
Current taxes	-	7,482	7,482	-	18,381	18,381
Future income taxes	4,787	1,100	5,887	54,424	10,097	64,521
<b>Net income</b>	<b>47,819</b>	<b>57,835</b>	<b>105,654</b>	<b>128,471</b>	<b>115,166</b>	<b>243,637</b>
Less: Net income attributable to non-controlling interest	-	17,683	17,683	-	27,238	27,238
<b>Net income attributable to Petrobank</b>	<b>\$ 47,819</b>	<b>\$ 40,152</b>	<b>\$ 87,971</b>	<b>\$ 128,471</b>	<b>\$ 87,928</b>	<b>\$ 216,399</b>
Identifiable assets	\$1,889,448	\$ 698,698	\$ 2,588,146	\$1,451,688	\$ 593,308	\$2,044,996
Goodwill	\$ 63,171	\$ -	\$ 63,171	\$ 54,860	\$ -	\$ 54,860
Expenditures on capital and other assets	\$ 277,210	\$ 256,563	\$ 533,773	\$ 404,508	\$ 225,423	\$ 629,931

<sup>(1)</sup> Canada includes Heavy Oil Business Unit capital expenditures of \$60.5 million in 2009 (2008 – \$58.9 million), identifiable assets at September 30, 2009 of \$466.8 million (2008 – \$337.5 million) including goodwill of \$28.1 million (2008 – \$28.1 million), and negligible revenues and expenses as operations are considered to be in the pre-operating stage and accordingly are capitalized.



**PETROBANK**

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