Q2 2010

SECOND QUARTER RESULTS

PETROBANK

STRENGTH IN OUR RESOURCES

FINANCIAL & OPERATING HIGHLIGHTS

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	% Change	**2010**	2009	% Change
Financial ($000s, except where noted)						
Oil and natural gas revenue	**573,040**	224,396	155	**1,106,173**	415,182	166
Funds flow from operations [1]	**334,592**	150,350	123	**668,546**	275,506	143
Per share – basic ($)	**3.18**	1.78	79	**6.51**	3.28	98
– diluted ($)	**3.12**	1.64	90	**6.26**	3.03	107
Net income	**41,050**	34,667	18	**123,549**	33,125	273
Per share – basic ($)	**0.39**	0.41	(5)	**1.20**	0.39	208
– diluted ($)	**0.35**	0.40	(13)	**1.11**	0.39	185
Capital expenditures						
PetroBakken	**122,688**	38,901	215	**307,804**	108,925	183
Petrominerales	**115,055**	93,203	23	**231,264**	174,763	32
Heavy Oil Business Unit ("HBU")	**10,653**	12,318	(14)	**34,587**	33,728	3
Total Company	**248,396**	144,422	72	**573,655**	317,416	81
Total assets	**7,160,685**	2,421,171	196	**7,160,685**	2,421,171	196
Common shares, end of period (000s)						
Basic	**105,993**	92,267	15	**105,993**	92,267	15
Diluted [2]	**110,167**	99,270	11	**110,167**	99,270	11
Operations						
PetroBakken operating netback ($/boe except where noted) [1] [3]						
Oil and NGL revenue ($/bbl) [4]	**70.98**	62.22	14	**73.61**	54.88	34
Natural gas revenue ($/mcf) [4]	**4.11**	3.91	5	**4.57**	4.56	-
Oil and natural gas revenue [4]	**62.86**	56.64	11	**66.65**	51.45	30
Royalties	**9.17**	7.40	24	**9.43**	6.30	50
Production expenses	**7.59**	6.52	16	**7.69**	6.67	15
Operating netback [5]	**46.10**	42.72	8	**49.53**	38.48	29
Petrominerales operating netback ($/bbl) [1]						
Oil revenue [4]	**65.15**	55.76	17	**65.87**	49.01	34
Royalties	**6.51**	5.02	30	**7.02**	4.81	46
Production expenses	**6.61**	7.86	(16)	**5.60**	7.63	(27)
Operating netback	**52.03**	42.88	21	**53.25**	36.56	46
Average daily production						
PetroBakken – oil and NGL (bbls)	**34,852**	16,761	108	**36,245**	18,233	99
PetroBakken – natural gas (mcf)	**44,469**	16,906	163	**38,598**	15,550	148
Total PetroBakken (boe) [3]	**42,263**	19,579	116	**42,678**	20,825	105
Petrominerales – oil (bbls) [6]	**44,203**	21,548	105	**41,218**	21,659	90
Total Company conventional (boe) [7]	**86,466**	41,127	110	**83,896**	42,484	97

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

(2) Consists of common shares, stock options, deferred common shares, incentive shares and convertible debentures as at the period end date.

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

(4) Net of transportation expenses and excludes revenue from purchased oil.

(5) Excludes hedging activities.

(6) Actual production sold for the three and six months ended June 30, 2010 was 49,466 barrels of oil per day ("bopd") and 43,995 bopd, respectively (2009 – 21,390 bopd and 21,399 bopd). After adjusting for third party purchased oil and marketed on their behalf, Petrominerales actual production sold and used in per barrel calculations was 44,560 bopd and 40,880 bopd, respectively.

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

Petrobank's results include the financial and operating results of PetroBakken Energy Ltd. ("PetroBakken") (TSX:PBN), 58% owned by Petrobank and Petrominerales Ltd. ("Petrominerales") (TSX:PMG), 66% owned by Petrobank. PetroBakken announced second quarter financial and operating results on August 10, 2010. Petrominerales announced second quarter financial and operating results on August 5, 2010.

All references to $ are Canadian dollars unless otherwise noted. All comparisons are to the prior year period, unless otherwise noted.

Q2 2010 HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS

- Petrobank's consolidated production increased 110% to 86,466 barrels of oil equivalent per day ("boepd") in the second quarter of 2010 compared to 41,127 boepd in the second quarter of 2009 due to production increases in PetroBakken and Petrominerales.
- Funds flow from operations increased 123% to $334.6 million in the second quarter of 2010. On a per diluted share basis, funds flow from operations increased 90% to $3.12.
- Net income increased 18% to $41.1 million in the second quarter of 2010. On a per diluted share basis, net income decreased 13% to $0.35.

Petrobank's Heavy Oil Business Unit ("HBU")

- Petrobank incurred $10.7 million of capital expenditures in the second quarter related to our Kerrobert heavy oil project and the May River / Conklin oil sands projects.
- We successfully completed pump reconfigurations at Kerrobert and the project is now producing at 250 barrels of oil per day ("bopd") and trending up.
- Kerrobert production is being consistently upgraded insitu by over six degrees API.
- Regulatory approval for the Kerrobert 10 well expansion project was received on August 6th, 54 working days from the initial application submission.
- The May River Project is waiting for final approval from the ERCB, although Alberta Environment contingent approval for the project was received April 12, 2010.

PetroBakken

- PetroBakken's production averaged 42,263 boepd in the second quarter of 2010, a 116% increase over the prior year, primarily driven by the acquisition of TriStar Oil & Gas Ltd. ("TriStar") on October 1, 2009 and drilling activities in the Bakken. Production declined 2% compared to the first quarter of 2010 due to a reduction in drilling activity during spring break-up.
- In April 2010, we improved our financial flexibility through a $100 million increase in our revolving credit facility. The borrowing limit was increased from $900 million to $1 billion.
- Our operating netback (excluding hedging gains) of $46.10/boe improved 8% over the prior year primarily due to the increase in oil prices. Compared to the first quarter of 2010, operating netbacks decreased 13% as a result of lower pricing partially offset by lower royalties and production expenses.
- Drilled 37 (27.4 net) wells in the second quarter; including 28 (22.1 net) in the Bakken, and 5 (3.6 net) in conventional plays in southeast Saskatchewan.
- PetroBakken completed the acquisition of Result Energy Inc., the third of our Cardium focused corporate acquisitions, and one non-core property disposition.

Petrominerales

- Second quarter crude oil production grew to 44,203 bopd, a 105% gain over the prior year and a 16% gain over the first quarter of 2010.
- Generated a solid operating netback of US$50.93 per barrel in the quarter, a 38% increase.
- Drilled two new oil discoveries on our Central Llanos Basin acreage in Colombia, Yenac-1 and Capybara-1.
- Petrominerales completed the acquisition of PanAndean Resources plc on April 14, 2010. PanAndean assets include four exploration contracts in Peru and one in Colombia totalling 6.7 million gross (2.6 million net) acres.

On August 10, 2010, Petrominerales announced a US$550 million convertible debenture offering (the “Offering”). The debentures are convertible into common shares of Petrominerales and have an annual coupon rate of 2.625% and a conversion price of US$34.746 (Cdn$36.254) per debenture. The debentures will be issued at 100% of their principal amount and, unless previously redeemed, converted or cancelled, will mature in 2016. The debentures are expected to be issued on or about August 25, 2010. The offering is subject certain approvals, including the approval of the Toronto Stock Exchange.

HEAVY OIL BUSINESS UNIT OPERATIONAL UPDATE

Kerrobert Project

Early in the second quarter we installed and commissioned progressive cavity pumps, modified wellhead configurations and added bottomhole pressure monitoring appropriate for the new pumps. As a result, the wells were offline for the first half of the second quarter. We also experienced downtime late in second quarter and early in the third quarter due to incinerator repairs, well clean up procedures, and the replacement of a metal-on-metal pump on one of the wells to an elastomeric design.

The reconfigured wells were brought online and stabilized during mid-May. The new wellheads and downhole instrumentation will provide us with the ability to control and optimize well performance. Production rates have ranged from 60 to 150 bopd per well as we lined out the pumps. We established new well operating parameters, and cleaned up the wells as they continue the transition from primary heavy oil to THAI™ oil production. We are now producing upgraded oil consistently in the 14 to 18 degree API range. We are seeing minimal solids production, all of which has been less than the Facsrite™ mesh size. Our Kerrobert project is currently averaging 250 bopd and rising.

Additional compression was installed and became operational at the end of April and we have ramped up air injection to over 2/3 of designed capacity. Wellbore temperatures at the toes of the wells have stabilized above 200 degrees Celsius and we have operated at temperatures of up to 650 degrees Celsius. Temperatures are rising along both wellbores with heel temperatures up to 90 degrees Celsius versus an ambient reservoir temperature of 27 degrees Celsius.

Our ten well expansion plans for Kerrobert are progressing and we have received both our environmental and enhanced oil recovery approvals as of August 6, 2010 which was just 54 working days from the application date and only 14 working days from receipt of our final freehold consents. We expect drilling to commence during the third quarter of 2010. Startup operations for the pre-ignition heating cycle with steam injection are planned for early November 2010 and air injection is expected to commence in Q1 of 2011.

Conklin Project

During the second quarter the majority of production at Conklin came from our P3B well with production rates averaging 100 bopd and maximum rates exceeding 535 bopd. Production was adversely impacted by downtime related to surface equipment issues and while we established full communication between P1B and P2B and the combustion front.

During the quarter we continued evaluating reconfiguration and pumping options for the Conklin wells, building on our Kerrobert experience. We also continued to operate the P3B well at higher bottomhole pressures in April. The testing was completed late in the month and production rates were measured at up to 480 bopd. The testing has demonstrated that operating at a higher backpressure improves well control and production. We expect to make minor modifications to our current surface facilities to enable sustained operations at higher backpressures in conjunction with the reconfiguration to include pumps. In the last week of April, the P3B well was shut-in to enable the replacement of a packer in the A3 injection well. The work was completed and the well was restarted during mid-May. Upon the restart we encountered a surface casing vent flow (“SCVF”) which, pursuant to ERCB regulations, required the well to be shut in. After evaluating the potential causes of the SCVF over a 30 day period in cooperation with the ERCB, it was determined that the SCVF was not material. The well was brought back on in mid July. During this extended downtime we took the opportunity to complete preventive maintenance on the P3B well train.

On the P1B well and the P2B well, we progressed towards establishing full communication with the combustion zone. We now understand that these wells were drilled further away from the combustion zone than originally projected, resulting in a longer restart time. We have recorded temperatures in the offsetting observation wells of between 300 – 500 degrees Celsius indicating the combustion zone is now in proximity of the wells. Production rates have ranged from 100 to 150 bopd of partially upgraded oil.

Production on all wells was interrupted by operating problems encountered with our new high efficiency incinerator design which constrained the produced gas and liquid production from the wells. Design issues have now been addressed, and the unit has performed above design specifications as of mid-July. We also scheduled a five-day maintenance turnaround for the middle of July.

With the facilities fully operational and the maintenance issues addressed, we have increased air injection rates on the P1B and the P2B wells to up to 100,000 m3/day as we aggressively establish full communication with the combustion zone. By the end of the third quarter we will have installed a gas lift string and bottom hole pressure monitor and will have conducted another high bottomhole pressure run on P3B. We will also maintain high air injection rates on the P1B and P2B wells to facilitate rapid communication.

In March of 2010 we acquired our fourth seismic survey over the Conklin pilot area. The new survey has been processed and we are interpreting the results. The time lapse seismic has proven to provide sensitive analysis of the movement of the combustion front.

May River Project

Engineering, procurement, and construction management on the project has been awarded for the wellsites, pipelines, and central processing facility. Petrobank has initiated ordering long lead materials and equipment, and with timely regulatory approval, steam start-up could occur in mid-2012. An additional 12 OSE stratigraphic wells and 3D seismic over the project area have been completed, allowing us to further delineate the reservoir and to optimize well placements for the 18 well pairs planned for Phase 1 of the project.

The regulatory application for May River’s first phase was filed with the ERCB and Alberta Environment in December 2008. The first round of SIR’s from Alberta Environment and the ERCB were responded to

in mid-December 2009. We have received and responded to the second round of SIR's from Alberta Environment and they have given the project contingent approval (subject to ERCB approval) on April 12, 2010. We received the second round of SIR's from the ERCB on May 13, 2010 and responses were submitted on June 1, 2010. The final hurdle to approval will be the resolution of two Statements of Concern ("SOC"). The SOCs were recently filed and are general in nature. Pursuant to Section 26 of the Energy Resources Conservation Act (ERCA), the SOC holders must demonstrate how their rights are directly and adversely impacted by the project. To date, they have not provided such information, and the ERCB is soliciting both parties to determine if they have legitimate concerns and standing before they will issue the final approval for the project.

The May River design is CO_2 capture ready, incorporates power generation utilizing low energy produced gas, sulphur recovery, and will be a net water producer rather than a water user, making our May River project a leading environmentally sustainable benchmark for oil sands and heavy oil development. The project utilizes a modular approach that is designed to be installed and operated on heavy oil projects world-wide.

Dawson Project

The second round of SIR's were received from the ERCB in June and responses were submitted in July. There are no Statements of Concern filed related to this project. Engineering has been completed and equipment procurement will commence as soon as final approvals have been received. Dawson is a joint venture project located near Peace River, Alberta with a significant heavy oil resource in the Bluesky formation.

Archon Technologies / Business Development

Archon Technologies Ltd. is a wholly-owned subsidiary of Petrobank. Archon maintains a state of the art laboratory with highly qualified staff, all of whom are committed to developing, evaluating and patenting new technologies supporting and protecting the THAI™ and CAPRI™ technologies. Archon has eight additional global patents or patents pending related to the THAI™ process. In addition, successful bench scale testing of several new ground breaking technologies at the lab has encouraged Archon to undertake design of small scale field pilots at Conklin, Alberta. The technologies tested include the use of a variation of enriched air injection schemes and conversion of H_2S to elemental sulphur through direct oxidation. This will also enhance the Crystasulf™ technology. These technologies are expected to significantly improve the economic benefits of THAI™ by increasing early stage oil production rate and simplifying surface handling of H_2S. The small scale field pilots to confirm the merits of these new technologies are planned for the winter of 2010/11. Additionally, Archon is currently constructing new bench scale tests to evaluate the effectiveness of alternative sand control systems to be used for future THAI™ projects. The field and lab tests will help further improve the overall operational robustness and economics of THAI™ process.

Economic and environmental benefits of our innovative technology has continued to generate strong world-wide interest in licensing initiatives. Our joint venture strategy is to demonstrate and commercialize THAI™ and CAPRI™ in a wide range of large global heavy oil resource opportunities. THAI™ has many potential benefits over SAGD, including expected higher resource recovery (70%-80% versus 30%-50% for SAGD), lower production and capital costs, minimal usage of natural gas and fresh water, a partially upgraded crude oil product, reduced diluent requirements for transportation, and lower greenhouse gas emissions. The THAI™ process also has the potential to operate in lower pressure, lower quality, thinner and deeper reservoirs than current steam-based recovery processes. The continued field demonstration of THAI™ will have an enormous impact on resource recovery and estimates of reserve volumes.

As we have previously reported, we are in final negotiations with a large international energy company and progressing towards potential agreements with others to license THAI™ and develop it in their heavy oil fields. These negotiations are complex and require the integration of many business, legal and financial aspects within our business model which leads to long negotiation cycles.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated August 12, 2010 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 six months ended June 30, 2010, MD&A for the year ended December 31, 2009, and the audited consolidated financial statements as at and for the year ended December 31, 2009. Additional information for the Company, including the Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com or at www.petrobank.com. All amounts are in Canadian dollars, unless otherwise stated and all tabular amounts are in thousands of Canadian dollars, except share amounts or as otherwise noted. The energy content of natural gas has been measured in gigajoules ("GJ"). Natural gas volumes have been converted to barrels of oil equivalent ("boe"). Six thousand cubic feet ("mcf") of natural gas is equal to one barrel based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boes may be misleading, especially if used in isolation.

FORWARD-LOOKING STATEMENTS

In addition to historical information, the MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance (often, but not always, through the use of words or phrases such as "will likely result," "expected," "is anticipated," "believes," "estimated," "intends," "plans," "projection" and "outlook"). These statements are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development of drilling and related activities; costs and availability of services; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; risks associated with oil and gas operations; the timing and outcome of resolving Petrominerales' dispute with the Colombian National Hydrocarbon Agency, 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 and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. Specifically, funds flow from operations and funds flow per share reflect cash generated from operating activities before changes in non-cash working capital. Management considers funds flow from operations and funds flow per share important as they help evaluate performance and demonstrate the Company's ability to generate sufficient cash to fund future growth opportunities and repay debt. EBITDA is defined as earnings before interest, taxes, depreciation, amortization, non-controlling interests and non-cash items. Operating netback is determined by dividing sales revenue less transportation and purchased oil, royalties and production expenses by sales volumes of produced oil. Profitability relative to commodity prices per unit of production is demonstrated by an operating netback. Funds flow from operations, funds flow per share, EBITDA and operating netbacks may not be comparable to those reported by other companies nor should they be viewed as an alternative to cash flow from operations, net income or other measures of financial performance calculated in accordance with GAAP.

PETROBANK'S BUSINESS UNITS

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

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

PetroBakken, 58% owned by Petrobank as at June 30, 2010, contains conventional oil and gas operations throughout western Canada with a primary focus on light oil developments from the Bakken formation in southeast Saskatchewan and in the Cardium play in Alberta. Petrobank results include 100% of PetroBakken's results; the minority interest share, which Petrobank does not own, is recorded as income applicable to non-controlling interests on the consolidated statements of operations and retained earnings and as paid-in capital and non-controlling interests on the consolidated balance sheets. Results for PetroBakken are reported on a continuity of interest basis and as such incorporate Petrobank's CBU operations for the periods prior to the formation of PetroBakken.

Petrominerales, 66% owned by Petrobank as at June 30, 2010, is focused on oil exploration and production in the countries of Colombia and Peru. Petrobank results include 100% of Petrominerales' results; the minority interest share, which Petrobank does not own, is recorded as income applicable to non-controlling interests on the consolidated statements of operations and retained earnings and as paid-in capital and non-controlling interests on the consolidated balance sheets.

COMPARATIVES

Comparisons presented in this MD&A are second quarter of 2010 compared to the second quarter of 2009, unless otherwise noted.

NET INCOME

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

SIGNIFICANT TRANSACTIONS

PetroBakken

On January 25, 2010, PetroBakken issued US$750 million of convertible debentures. The debentures are convertible into common shares of PetroBakken at a conversion price that is adjusted for dividends paid. Based on dividends paid to date, the conversion price is now $39.14 per debenture. The convertible debentures have an annual coupon rate of 3.125% and mature in February 2016.

On February 25, 2010, PetroBakken acquired all the issued and outstanding shares of Berens Energy Ltd. ("Berens") for cash consideration of $252.8 million and the assumption of bank indebtedness of approximately $74.9 million for total consideration of $344.4 million. There was a working capital deficiency of $16.6 million at the acquisition date. The acquisition was accounted for using the purchase method.

On March 12, 2010, PetroBakken acquired all the issued and outstanding shares of Rondo Petroleum Inc. ("Rondo") for cash consideration of approximately $88.7 million, assumption of bank indebtedness of approximately $16.0 million and the issuance of 5.5 million PetroBakken common shares. There was a working capital deficiency of $22.2 million at the acquisition date. The acquisition was accounted for using the purchase method.

On April 1, 2010, PetroBakken acquired all of the issued and outstanding shares of Result Energy Inc. ("Result") for cash consideration (net of cash acquired) of $141.2 million and the issuance of 11.2 million PetroBakken common shares. There was working capital of $2.7 million at the acquisition date. The acquisition was accounted for using the purchase method.

During the six month period ended June 30, 2010, PetroBakken closed four divestitures representing approximately 3,700 barrels of oil equivalent ("boepd") of production (50% natural gas) in Alberta for net proceeds of $120.8 million.

On May 17, 2010, PetroBakken announced its intention to commence a normal course issuer bid ("NCIB") pursuant to which the Company is authorized to purchase up to 9,431,255 common shares or 10% of currently issued and outstanding shares. The NCIB commenced May 17, 2010 and will end on May 18, 2011 or an earlier time if the NCIB is completed or terminated at the Company's option. As of June 30, 2010, a total of 137,100 common shares had been repurchased and cancelled at an average price of $22.91 per PetroBakken share.

Petrominerales

On April 14, 2010, Petrominerales acquired all of the issued and outstanding shares of PanAndean Resources plc for US$29.6 million. The assets acquired pursuant to the acquisition include 6.7 million gross (2.6 million net) acres from four exploration blocks in Peru and one exploration block in Colombia.

On August 10, 2010, Petrominerales announced a US$550 million convertible debenture offering (the "Offering"). The debentures are convertible into common shares of Petrominerales and have an annual coupon rate of 2.625% and a conversion price of US$34.746 (Cdn$36.254) per debenture. The debentures will be issued at 100% of their principal amount and, unless previously redeemed, converted or cancelled, will mature in 2016. The debentures are expected to be issued on or about August 25, 2010. The offering is subject certain approvals, including the approval of the Toronto Stock Exchange.

FINANCIAL AND OPERATIONAL REVIEW

(Comparisons presented in this MD&A are second quarter of 2010 compared to the second quarter of 2009 and the first six months of 2010 compared to the first six months of 2009 unless otherwise noted.)

Average Daily Production	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
PetroBakken						
Oil and NGL (bbls)	**34,852**	16,761	108%	**36,245**	18,233	99%
Natural gas (mcf)	**44,469**	16,906	163%	**38,598**	15,550	148%
Total PetroBakken (boe)	**42,263**	19,579	116%	**42,678**	20,825	105%
Petrominerales – oil (bbls) [(1)]	**44,203**	21,548	105%	**41,218**	21,659	90%
Total Company conventional (boe)	**86,466**	41,127	110%	**83,896**	42,484	97%

(1) Represents crude oil produced in the period. Actual sales volumes may be different due to crude oil in transit at the period end date. Sales volumes in the second quarter and first six months of 2010 were 49,466 bopd and 43,995 bopd, respectively (2009 – 21,390 bopd and 21,399 bopd), as detailed in the Sales Volumes Reconciliation table below. After adjusting for third party purchased oil and marketed on their behalf, Petrominerales actual production sold and used in per barrel calculations was 44,560 bopd and 40,880 bopd, respectively.

Strong production from PetroBakken and Petrominerales in the second quarter of 2010 helped the Company achieve record average daily production in the second quarter of 2010. HBU bitumen volumes are excluded from average daily production as operations are considered to be in the pre-operating stage and accordingly revenues are offset against capitalized costs as opposed to being recognized in net income.

PetroBakken

The 2010 production additions came from drilling our light oil properties in southeast Saskatchewan and the Berens, Rondo, and Result corporate acquisitions, offset by asset divestitures and shut-in production at Monias in northeast British Columbia. Drilling activity increased significantly in the first six months of 2010, as compared to the same period in the prior year, commensurate with the increase in oil prices. We drilled 86.9 net wells in the first six months of 2010, with 27.4 wells drilled in the second quarter, compared to 7.3 wells drilled in the second quarter of 2009, and a 2009 year to date total of 22.4 net wells. In 2010 our drilling to date has been focused in southeast Saskatchewan for both Bakken, with 61.6 net wells drilled of which 56.8 were net bilateral wells, and conventional Mississippian light oil opportunities, with 21.5 net wells drilled. Drilling activity declined significantly in the second quarter over the first quarter of 2010 due to spring break-up. The corporate acquisitions added approximately 5,600 boepd of production starting in late February 2010. Non-core property dispositions (approximately 5,700 boepd of production) were completed between December 2009 and April 2010 and more than offset the acquired production for year to date on a total and average basis. In the first quarter we encountered completion difficulties in the second lateral of our Montney well at Monias which caused us to shut-in approximately 800 boepd of production. We brought this well back on production late in the second quarter and are completing further testing and currently restricting the production rate on this well to approximately 2 mmcf per day.

Production in early August is approximately 40,000 boepd. With an extended spring break-up delaying drilling operations, particularly on our Cardium inventory, production increases are expected to occur late in the third quarter and into the fourth quarter of 2010.

Petrominerales

Production for the three month period ended June 30, 2010 increased 105 percent to 44,203 bopd. This increase is primarily due to drilling success at Neiva and Guatiquia, offset by natural production declines at Corcel and Orito. On a quarter-over-quarter basis, 2010 second quarter production increased 16 percent over the first quarter 2010.

Guatiquia production relates to the Candelilla discovery made at the end of 2009. The Candelilla-1 well was placed on production December 31, 2009, and the Candelilla-2 and 3 wells were placed on production February 15 and March 29, 2010, respectively. Guatiquia production increased in the second quarter of 2010 due to having all three Candelilla wells on production for the three month period. In Corcel, production decreased forty percent as no additional wells were drilled on the block from the time the A2 sidetrack well was put on production September 28, 2009 until the C2 well came on production May 31, 2010. In addition, second quarter Corcel production was negatively affected from certain Corcel wells being restricted or shut-in due to temporary limitations in our water handling capacity in May and June. In Neiva, production increased 45 and 73 percent for the three and six month periods ended June 30, 2010 due to results of Petrominerales' on-going development drilling program. In 2010, fourteen wells have been drilled and placed on production in Neiva. On April 13, 2010, the Yenac-1 exploration well on the Casimena Block was brought on production.

Sales Volumes Reconciliation (bopd)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	**2010**	2009
Period production	**44,203**	21,548	**41,218**	21,659
Inventory changes and other	**357**	(158)	**(338)**	(260)
Sales volumes of produced oil	**44,560**	21,390	**40,880**	21,399
Purchased oil	**4,906**	-	**3,115**	-
Sales volumes	**49,466**	21,390	**43,995**	21,399

The purchased oil relates to oil purchased from and marketed on behalf of third parties.

Average Benchmark and Realized Prices

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
WTI (US$/bbl)	**78.06**	59.79	31%	**78.47**	51.68	52%
WTI ($/bbl)	**80.13**	68.32	17%	**81.04**	60.27	34%
AECO natural gas ($/mcf)	**3.88**	3.44	13%	**4.42**	4.20	5%
US$ per C$1	**0.97**	0.86	13%	**0.97**	0.83	17%
PetroBakken – oil and NGL						
Realized price per bbl ($/bbl)	**72.30**	63.21	14%	**74.65**	56.00	33%
US$ discount as a % of WTI	**11%**	8%	38%	**9%**	9%	-
PetroBakken – natural gas						
Realized price per mcf ($/mcf)	**4.11**	3.93	5%	**4.57**	4.59	-
Petrominerales – light / medium oil						
Realized price per bbl ($/bbl) [1]	**72.88**	62.65	16%	**73.48**	56.09	31%
US$ discount as a % of WTI	**19%**	20%	(5%)	**17%**	21%	(19%)

(1) Excludes revenues associated with purchased oil of $31.6 million and $40.8 million, respectively, for the three and six month periods ended June 30, 2010.

PetroBakken

In the second quarter and first six months of 2010 realized oil and NGL prices increased due to higher WTI prices partially offset by a stronger Canadian dollar compared to the U.S. dollar. The second quarter of 2010 also experienced wider price differential to WTI as demand for Canadian sourced crude was down particularly for May and June.

Realized natural gas prices in the second quarter increased due to higher AECO prices. Realized gas prices decreased slightly in the first six months of 2010 despite slightly higher AECO benchmark prices. The premium for both periods decreased as the proportion of sales sold under a higher premium long-term gas contract decreased as a percentage of overall gas sales.

Petrominerales

The majority of Petrominerales' production is priced in relation to the Colombian Vasconia and Caño Limon oil streams. The 2010 realized oil prices increased 16 and 31 percent for the three and six month periods ended, respectively, mainly due to similar increases in the benchmark WTI price. The discount as a percentage of WTI has decreased in 2010 primarily due to a narrowing of the differential between WTI and the Vasconia oil stream, offset by higher transportation costs.

Revenue

The change in revenue in the second quarter of 2010 compared to the second quarter of 2009 is primarily due to higher sales recorded by Petrominerales, increased sales with PetroBakken's acquisition of TriStar and increased drilling activity, combined with higher oil prices and Petrominerales oil revenue from third party oil purchases, as summarized below:

Reconciliation of Changes in Revenue	PetroBakken	Petrominerales	Total
Three months ended June 30, 2009	102,452	121,944	224,396
Sales volume variance	132,012	153,661	285,673
Price variance	11,490	19,912	31,402
Oil revenue from third party oil purchases	-	31,569	31,569
Three months ended June 30, 2010	**245,954**	**327,086**	**573,040**
$ change in revenue	143,502	205,142	348,644
% change in revenue	140%	168%	155%

The change in revenue in the first six months of 2010 compared to the first six months of 2009 is primarily due higher sales recorded by Petrominerales, increased sales with PetroBakken's acquisition of TriStar and increased drilling activity, combined with higher oil prices and Petrominerales oil revenue from third party oil purchases, as summarized below:

Reconciliation of Changes in Revenue	PetroBakken	Petrominerales	Total
Six months ended June 30, 2009	197,938	217,244	415,182
Sales volume variance	266,436	258,547	524,983
Price variance	57,286	67,903	125,189
Oil revenue from third party oil purchases	-	40,819	40,819
Six months ended June 30, 2010	**521,660**	**584,513**	**1,106,173**
$ change in revenue	323,722	367,269	690,991
% change in revenue	164%	169%	166%

Net Realized Prices	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
PetroBakken						
Gross revenue	**245,954**	102,452	140%	**521,660**	197,938	164%
Transportation expense	**4,204**	1,541	173%	**6,804**	3,992	70%
PetroBakken revenue	**241,750**	100,911	140%	**514,856**	193,946	165%
Gross revenue ($/boe)	**63.95**	57.50	11%	**67.53**	52.51	29%
Transportation expense ($/boe)	**1.09**	0.86	27%	**0.88**	1.06	(17%)
PetroBakken realized price ($/boe)	**62.86**	56.64	11%	**66.65**	51.45	30%
Petrominerales						
Gross revenue	**327,086**	121,944	168%	**584,513**	217,244	169%
Transportation expense	**31,349**	13,404	134%	**56,274**	27,422	105%
Purchased oil	**31,569**	-	-	**40,819**	-	-
Petrominerales revenue	**264,168**	108,540	143%	**487,420**	189,822	157%
Gross revenue ($/bbl) [1]	**72.88**	62.65	16%	**73.48**	56.09	31%
Transportation expense ($/bbl)	**7.73**	6.89	12%	**7.61**	7.08	7%
Petrominerales realized price ($/bbl)	**65.15**	55.76	17%	**65.87**	49.01	34%

(1) Excludes revenues associated with purchased oil.

PetroBakken

Net realized price for the second quarter and first six months of 2010 improved mainly due to higher WTI prices. On a unit of production basis transportation expenses increased in the second quarter due to higher costs for trucking in this period. As our production infrastructure expands with operations in southeast Saskatchewan, more wells are tied into facilities which ultimately reduce transportation expense on a unit of production basis, the effect of which can be seen in the first six months of 2010 when compared to the prior year period.

Petrominerales

All production, excluding Orito and Neiva which are connected to pipelines, is trucked to various offloading stations for sale. Transportation costs increased to $7.73 per barrel or 12 percent in the second quarter of 2010 mainly due to trucking a larger portion of volumes to more distant stations due to higher overall production and restricted capacity at certain offloading stations and pipeline segments in the Llanos Basin, offset somewhat by an appreciation of the Canadian dollar relative to the U.S. dollar.

Royalties	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
PetroBakken [1]	**35,258**	13,195	167%	**72,799**	23,766	206%
Petrominerales	**26,395**	9,771	170%	**51,967**	18,641	179%
Total royalties	**61,653**	22,966	168%	**124,766**	42,407	194%
PetroBakken – $ per boe	**9.17**	7.40	24%	**9.42**	6.30	50%
Petrominerales – $ per bbl	**6.51**	5.02	30%	**7.02**	4.81	46%
PetroBakken – royalties as a % of realized price	**15%**	13%	15%	**14%**	12%	17%
Petrominerales – royalties as a % of realized price	**10%**	9%	11%	**11%**	10%	10%

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

PetroBakken

Royalties increased in the second quarter and first six months of 2010 due to production additions from the TriStar acquisition and higher oil prices. Royalties as a percentage of revenue increased following the TriStar acquisition as a higher proportion of our production is subject to higher rate freehold royalties that do not receive a royalty holiday. On crown lands in Saskatchewan the first 37,740 barrels of production from horizontal wells receive a royalty holiday but incurs Saskatchewan Resource Surcharge of 1.7 percent.

Petrominerales

Colombian government royalties are fixed at a rate of eight percent until the Company's net production per field exceeds 5,000 bopd and then increase by one percent for each incremental 10,000 bopd of production per field. In addition, a high price participation payment is applied under certain Colombian exploration contracts when the cumulative production in an exploitation area within a block exceeds five million barrels. The high price participation payment is payable to the ANH and is calculated as a percentage of the difference between the realized oil price and a threshold oil price set by the ANH, multiplied by a contractual rate. The contractual rate is generally 30% but varies among exploration contracts.

Production from the Corcel Block is also subject to an eight percent net profits interest ("NPI"). The NPI account is a cumulative balance that includes the deduction of capital investments such that when negative, no amount is payable.

In the second quarter of 2010, royalties increased 170 percent due to higher production combined with higher crude oil prices. Royalties as a percentage of realized oil prices increased to 11 percent mainly due to a higher royalty rate charged on Candelilla production due to the field exceeding 5,000 bopd.

Petrominerales currently has a dispute with the Colombian Agencia Nacional de Hidrocarburos (National Hydrocarbon Agency) ("ANH") related to the interpretation of the Corcel Block exploration contract ("Corcel Contract") entered into between Petrominerales and the ANH on June 2, 2005.

The Corcel Contract requires a high price participation payment ("Additional Contribution") to be paid by Petrominerales to the ANH once an exploitation area has cumulatively produced more than five million barrels of oil, determined before the deduction of royalties. The Additional Contribution is paid at 30 percent of the price received above certain threshold prices, based on the oil quality produced.

The ANH has indicated their view that exploitation areas under the Corcel Contract should be combined for the purposes of determining when the Additional Contribution is payable. As combined production from the Corcel-A, Corcel-C and Corcel-D exploitation areas has exceeded five million barrels of oil, the ANH asserts that Petrominerales is required to pay an Additional Contribution with respect to production from Corcel-A, Corcel-C and Corcel-D from January 2010 onwards and on a go-forward basis for all of Petrominerales' exploitation areas combined in the Corcel Block. Based on their view, the ANH has issued invoices to Petrominerales aggregating US$21.7 million to June 30, 2010. As at June 30, 2010, the Corcel-A, Corcel-C and Corcel-D exploitation areas have individually produced 4.5, 3.2 and 2.2 million barrels, respectively. Individually, none of Petrominerales' exploitation areas on the Corcel Block have cumulatively produced more than five million barrels of oil.

Petrominerales disagrees with the ANH interpretation and views the Corcel Contract as providing that payment of the Additional Contribution is required once each exploitation area has cumulatively produced more than five million barrels of oil.

The dispute is currently in a conflict resolution process as provided for in the Corcel Contract. Petrominerales believes that the resolution of this dispute will be in favour of the Company, and accordingly, no additional royalty provision has been made in these financial statements.

Gain (Loss) on Risk Management Contracts

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
PetroBakken realized gain (loss)						
Crude oil derivative contracts	**(741)**	6,172	-	**(1,139)**	16,727	-
Natural gas derivative contracts	**1,012**	-	-	**1,253**	-	-
Interest rate swap contracts	**(731)**	-	-	**(1,593)**	-	-
PetroBakken unrealized gain (loss)						
Crude oil derivative contracts	**16,889**	(16,392)	-	**14,938**	(24,720)	-
Natural gas derivative contracts	**(1,813)**	-	-	**1,250**	-	-
Interest rate swap contracts	**131**	-	-	**1,470**	-	-
Gain (loss) on risk management contracts	**14,747**	(10,220)	-	**16,179**	(7,993)	-

PetroBakken

PetroBakken enters into commodity price derivative contracts to limit exposure to declining commodity prices protecting project economics and providing increased stability of cash flows and capital expenditure programs. Commodity prices fluctuate for a number of reasons including change in economic conditions, political events, weather conditions, disruptions in supply, and changes in demand. PetroBakken's risk management activities are conducted pursuant to PetroBakken's risk management policies that have been approved by PetroBakken's Board of Directors.

The majority of our financial commodity derivative contracts are option based contracts and as such, their fair value at a particular point in time is affected by underlying commodity prices, expected commodity price volatility and the duration of the contract. The fair value of fixed price derivative contracts at a particular point in time is determined by the expected future settlements of the underlying commodity or interest rate. At June 30, 2010, the fair value of financial derivative contracts was an asset of $12.8 million. The fair value of this asset represents the estimated amount required to settle PetroBakken's outstanding contracts at June 30, 2010 and will be different than what will eventually be realized.

The gain or loss on risk management contracts is made up of two components; the realized component reflects actual settlements that occurred during the period, and the unrealized component represents the change in the fair value of contracts during the period. The unrealized gain on risk management contracts in the second quarter and first six months of 2010 is primarily the result of the reduction in expected future WTI prices.

The following table summarizes the change in and the fair value of derivative contracts:

	Crude Oil	Natural Gas	Interest	**Six months ended June 30, 2010**
Opening risk management liability	(6,488)	470	(118)	**(6,136)**
Unrealized gain	14,938	1,250	1,470	**17,658**
Contracts acquired	-	1,980	(688)	**1,292**
Risk management asset, June 30, 2010	8,450	3,700	664	**12,814**

At June 30, 2010, PetroBakken recorded an $8.4 million asset related to crude oil price risk management contracts. The following is a summary of crude oil derivative contracts in place as at June 30, 2010:

Crude Oil Price Risk Management Contracts – WTI [(1)]

Term	Volume (bopd)	Average Price ($/bbl)	Benchmark
Apr. 1, 2010 – Dec. 31, 2010	5,000	$71.50 floor / $93.15 ceiling	C$ WTI
Apr. 1, 2010 – Dec. 31, 2010	4,000	$72.50 floor / $95.04 ceiling	US$ WTI
Apr. 1, 2010 – Dec. 31, 2010	1,000	$72.50 Put	US$ WTI
Jan. 1, 2011 – Dec. 31, 2011	2,500	$78.00 floor / $95.40 ceiling	C$ WTI
Jan. 1, 2011 – Dec. 31, 2011	4,500	$76.11 floor / $101.43 ceiling	US$ WTI

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

At June 30, 2010, PetroBakken recorded a $3.7 million asset related to the following natural gas price risk management contracts:

Natural Gas Price Risk Management Contracts – AECO

Term	Volume (GJ/d)	Price ($/GJ)	Type
Nov. 1, 2009 – Oct. 31, 2010	1,500	$5.00 floor / $6.25 ceiling	Collar
Nov. 1, 2009 – Nov. 30, 2010	2,500	$5.00 floor / $7.20 ceiling	Collar
Nov. 1, 2009 – Oct. 31, 2010	1,200	$5.36	Fixed Price Swap
Apr. 1, 2010 – Mar. 31, 2011	2,000	$6.00	Fixed Price Swap
Apr. 1, 2010 – Dec. 31, 2011	2,000	$6.02	Fixed Price Swap

At June 30, 2010, PetroBakken recorded a $0.7 million asset related to the following interest rate swap contracts:

Term	Notional Principal / Month	Fixed Annual Rate (%)
Apr. 2009 – Apr. 2011	C$50 million	1.050%
Apr. 2009 – Apr. 2012	C$50 million	1.300%
Jan. 2009 – Jan. 2012	C$50 million	1.620%
Jan. 2009 – Jan. 2012	C$50 million	1.653%
Feb. 2009 – Feb. 2012	C$25 million	1.540%
Feb. 2009 – Feb. 2012	C$25 million	1.510%
Feb. 2009 – Feb. 2011	C$40 million	2.390%
Jun. 2009 – Jun. 2012	C$25 million	2.094%

Production Expenses	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
PetroBakken	**29,189**	11,610	151%	**59,431**	25,146	136%
Petrominerales	**26,816**	15,299	75%	**41,442**	29,559	40%
Total production expenses	**56,005**	26,909	108%	**100,873**	54,705	84%
PetroBakken – $ per boe	**7.59**	6.52	16%	**7.69**	6.67	15%
Petrominerales – $ per bbl	**6.61**	7.86	(16%)	**5.60**	7.63	(27%)

PetroBakken

Production expenses increased in the second quarter and first six months of 2010 primarily as a result of a more than doubling of production. Production expenses per boe increased in the second quarter and first six months due to higher cost production acquired from TriStar partially offset by cost efficiencies gained during the quarter due to the expansion of facilities infrastructure in southeast Saskatchewan in 2010. These facilities have also allowed us to add liquids rich natural gas production and reserves

associated with Bakken light oil production. Operating costs in our core area of southeast Saskatchewan averaged $6.31 per boe in the second quarter and $6.34 in the first six months.

Petrominerales

In 2010, production expenses have increased primarily due to higher production levels during the three and six month periods ended June 30, 2010. On a per barrel basis, production expenses were comparable with prior periods on a U.S. dollar basis, but lower in the Canadian dollar reporting currency due to an appreciation of the Canadian dollar.

The Colombian national oil company, Ecopetrol, is responsible for primary production operations at Orito and Neiva at a cost (subject to annual inflation, currency, and other adjustments) of US$5.68 per barrel and US$3.11 per barrel, respectively, in 2010.

General and Administrative Expenses

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
HBU and Corporate	**2,242**	961	133%	**3,885**	1,901	104%
PetroBakken	**8,137**	3,479	134%	**15,655**	6,479	142%
Petrominerales	**5,222**	3,173	65%	**10,462**	6,592	59%
Total general and administrative expenses	**15,601**	7,613	105%	**30,002**	14,972	100%
PetroBakken – $ per boe	**2.12**	1.95	9%	**2.03**	1.72	18%
Petrominerales – $ per bbl	**1.29**	1.63	(21%)	**1.41**	1.70	(17%)

Total general and administrative costs increased in the second quarter and first six months of 2010 primarily to additional personnel and office costs as a result of expanding operations in all business units. PetroBakken also incurred consulting costs associated with the integration of operations and assets. On a unit of production basis, PetroBakken's costs increased slightly while Petrominerales costs decreased due to higher production levels and an appreciation of the Canadian dollar relative to the U.S. dollar.

Stock-Based Compensation Expenses

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
HBU and Corporate	**2,702**	1,384	95%	**5,953**	2,873	107%
PetroBakken	**7,295**	4,170	75%	**12,531**	8,935	40%
Petrominerales	**2,447**	1,434	71%	**5,069**	2,856	77%
Total stock-based compensation expenses	**12,444**	6,988	78%	**23,553**	14,664	61%

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

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

Interest Expense	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
HBU and Corporate	**183**	2,202	(92%)	**1,617**	5,395	(70%)
PetroBakken	**19,145**	2,447	682%	**34,047**	5,463	523%
Petrominerales	**3,681**	2,587	42%	**7,272**	5,547	31%
Total interest expense	**23,009**	7,236	218%	**42,936**	16,405	162%

Interest expense includes interest on bank debt and convertible debentures, fees on letters of credit, amortization of deferred financing costs and accretion on the convertible debentures. Interest expense includes non-cash accretion related to the convertible debentures of $8.3 million in the second quarter and $15.6 million in the first six months of 2010 (2009 – $4.0 million and $8.8 million).

HBU and Corporate

Following the early conversion of Petrobank's remaining convertible debentures into common shares in the second quarter; interest expense was reduced to only the amortization of deferred financing costs.

PetroBakken

Interest expense increased in the second quarter and first six months of 2010 primarily as a result of interest expense and accretion on the convertible debentures that were issued on January 25, 2010. Bank debt was repaid at the end of January 2010 when the convertible debentures were issued, and increased throughout the next six months to fund the Berens, Rondo, and Result acquisitions.

Petrominerales

Interest expense was higher in the second quarter and first six months of 2010 mainly due to higher standby fees associated with Petrominerales' expanded US$150 million secured bank facility that closed on December 30, 2009.

Foreign Exchange Loss (Gain)	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
HBU and Corporate	**637**	(29,797)	-	**(8,803)**	(22,803)	(61%)
PetroBakken	**24,966**	-	-	**17,695**	-	-
Petrominerales	**1,319**	7,290	(82%)	**5,791**	3,780	53%
Total foreign exchange loss (gain)	**26,922**	(22,507)	-	**14,683**	(19,023)	-

HBU and Corporate

The Company recognized foreign exchange gains in the first six months of 2010 due to an appreciation of the Canadian dollar relative to the U.S. dollar upon conversion of Petrobank's remaining U.S. dollar denominated convertible debentures into common shares. As of June 30, 2010, Petrobank no longer has any convertible debentures outstanding.

PetroBakken

As PetroBakken's convertible debentures are denominated in U.S. dollars, the vast majority of unrealized foreign exchange gains and losses typically relate to the change in the foreign exchange rate compared to the rate at the end of the previous period, except in the six month period when it was the rate on January 25, 2010 when the debentures were issued. A stronger Canadian dollar at June 30, 2010 resulted in a foreign exchange gain for the quarter.

Petrominerales

The Colombian peso appreciated one percent relative to the U.S. dollar in the second quarter of 2010 and resulted in a $1.3 million foreign exchange loss. The Colombian peso to U.S. dollar exchange rate changed from 1,929 at March 31, 2010 to 1,916 at June 30, 2010. For the six months ended June 30, 2010, the Colombian peso appreciated six percent and resulted in a $5.8 million loss. Changes in this exchange rate impact Petrominerales' U.S. dollar denominated expenses and expenditures as approximately 60 percent of Petrominerales' expenditures are incurred in Colombian pesos.

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

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
HBU and Corporate	**211**	85	148%	**404**	169	139%
PetroBakken	**135,255**	53,309	154%	**269,180**	112,119	140%
Petrominerales	**79,796**	44,860	78%	**140,846**	94,711	49%
Total DD&A expense	**215,262**	98,254	119%	**410,430**	206,999	98%
PetroBakken – $ per boe	**35.17**	29.92	18%	**34.85**	29.75	17%
Petrominerales – $ per bbl	**19.68**	23.05	(15%)	**19.04**	24.45	(22%)

PetroBakken

DD&A increased on both an absolute and unit of production basis in the second quarter and first six months of 2010 due primarily to the TriStar acquisition.

Petrominerales

DD&A expense in the second quarter of 2010 increased 78 percent over 2009 due to a 105 percent production increase offset by a 15 percent lower per barrel depletion rate and an appreciation of the Canadian dollar. For the six months ended June 30, 2010, DD&A expense increased 49 percent due to a 90 percent increase in production offset by a 22 percent decrease in the depletion rate and an appreciation of the Canadian dollar. The decrease in depletion rate per barrel was mainly due to lower 2009 finding and development costs, associated with a 43 percent increase in gross total proved reserves to 36.0 million barrels at December 31, 2009.

Current Taxes	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
Petrominerales current taxes	**23,982**	1,391	1,624%	**53,704**	2,868	1,773%

Current taxes consist of income and equity taxes in Colombia. Equity tax is based on equity capitalization levels in Colombia. Petrominerales' pre-tax income is subject to the Colombian statutory income tax rate of 33%.

Future Income Taxes	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
HBU and Corporate	**(233)**	3,257	-	**(4,395)**	190	-
PetroBakken	**11,422**	2,512	355%	**24,698**	3,897	534%
Petrominerales (Colombia)	**10,691**	4,740	126%	**10,429**	(2,931)	-
Total future income taxes	**21,880**	10,509	108%	**30,732**	1,156	2,558%

HBU and Corporate

The future income tax recovery in the second quarter and first six months is consistent with income earned after adjustments for non-deductible and non-taxable items.

PetroBakken

PetroBakken's future income tax expense for the second quarter and first six months is higher than expected mainly due to the effect of unrealized foreign exchange capital losses associated with PetroBakken's U.S. dollar denominated convertible debentures. If realized, these losses can only be utilized against capital gains.

Petrominerales

When combined with the current tax expense in Colombia, Petrominerales had U.S. dollar denominated effective tax rates of 29 and 28 percent in the second quarter and first six months of 2010, respectively. The effective tax rates are lower than the Colombian statutory income tax rate of 33% largely as a result of enhanced tax deductions for the acquisition of certain capital assets.

Net Income Attributable to Non-Controlling Interests ("NCI")

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
PetroBakken	**(6,432)**	-	-	**8,103**	-	-
Petrominerales	**29,013**	5,466	431%	**55,326**	7,887	601%
Net income attributable to NCI	**22,581**	5,466	313%	**63,429**	7,887	704%

The net income attributable to NCI represents the non-controlling interest share of PetroBakken's and Petrominerales' net income. The NCI share in PetroBakken averaged approximately 42 percent in the second quarter and 39 percent in the first six months of 2010 (2009 – nil). The NCI share in Petrominerales averaged approximately 34 percent in the second quarter and first six months of 2010 (2009 – 30 percent and 28 percent, respectively).

Net Income

The change in net income in the second quarter and first six months of 2010 is primarily due to higher sales volumes, higher commodity prices and gains on risk management contracts, partially offset by higher DD&A expense, royalties, production, transportation, general and administrative, stock-based compensation, interest and foreign exchange losses, higher current and future income taxes and higher non-controlling interests as summarized in the table below.

Reconciliation of Changes in Net Income

	Three months ended June 30,		Six months ended June 30,	
	($000s)	Per share [1]	($000s)	Per share [1]
Net income: June 30, 2009	34,667	0.32	33,125	0.31
Increase (decrease) due to:				
Sales volumes	285,673	2.66	524,983	4.91
Realized prices	31,402	0.29	125,189	1.17
Royalties	(38,687)	(0.36)	(82,359)	(0.77)
Risk management contracts	24,967	0.23	24,172	0.23
Production expenses	(29,096)	(0.27)	(46,168)	(0.43)
Transportation expenses	(20,608)	(0.19)	(31,664)	(0.30)
General and administrative expenses	(7,988)	(0.07)	(15,030)	(0.14)
Stock-based compensation expenses	(5,456)	(0.05)	(8,889)	(0.08)
Interest expenses	(15,773)	(0.14)	(26,531)	(0.25)
Foreign exchange	(49,429)	(0.46)	(33,706)	(0.32)
DD&A expense	(117,008)	(1.09)	(203,431)	(1.90)
Current taxes	(22,591)	(0.21)	(50,836)	(0.48)
Future income taxes	(11,371)	(0.11)	(29,576)	(0.28)
Non-controlling interests	(17,115)	(0.19)	(55,542)	(0.56)
Other [2]	(537)	(0.01)	(188)	0.00
Net income: June 30, 2010	**41,050**	**0.35**	**123,549**	**1.11**

(1) Per weighted average number of diluted common shares for the periods ending June 30, 2010.
(2) Includes revenue from third party oil purchases less purchased oil, interest income and acquisition costs.

Funds Flow From Operations

The increase in funds flow from operations in the second quarter and first six months of 2010 is primarily due to higher sales volumes and higher commodity prices, partially offset by higher royalties, realized hedging losses, higher production, transportation, general and administrative and cash interest expenses, as well as higher current taxes.

Reconciliation of Changes in Funds Flow From Operations

	Three months ended June 30,		Six months ended June 30,	
	($000s)	Per share [1]	($000s)	Per share [1]
Funds flow from operations:				
June 30, 2009	150,350	1.40	275,506	2.58
Increase (decrease) due to:				
Sales volumes	285,673	2.66	524,983	4.91
Realized prices	31,402	0.29	125,189	1.17
Royalties	(38,687)	(0.36)	(82,359)	(0.77)
Realized portion of risk management contracts	(6,632)	(0.06)	(18,206)	(0.17)
Production expenses	(29,096)	(0.27)	(46,168)	(0.43)
Transportation expenses	(20,608)	(0.19)	(31,664)	(0.30)
General and administrative expenses	(7,988)	(0.07)	(15,030)	(0.14)
Cash interest expense	(9,046)	(0.08)	(14,734)	(0.13)
Realized foreign exchange	2,320	0.02	2,423	0.02
Current taxes	(22,591)	(0.21)	(50,836)	(0.48)
Other [2]	(505)	(0.01)	(558)	0.00
Funds flow from operations:				
June 30, 2010	**334,592**	3.12	**668,546**	6.26

[1] Per weighted average number of diluted common shares for the periods ending June 30, 2010.
[2] Includes revenue from third party oil purchases less purchased oil, interest income, acquisition costs 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 June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
Funds flow from operations: Non-GAAP	**334,592**	150,350	123%	**668,546**	275,506	143%
Changes in non-cash working capital	**45,221**	(29,216)	-	**(71,065)**	(43,108)	65%
Cash flow from operating activities: GAAP	**379,813**	121,134	214%	**597,481**	232,398	157%

Capital Expenditures	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	**2010**	2009	Change
HBU and Corporate	**10,653**	12,318	(14%)	**34,587**	33,728	3%
PetroBakken ("PBN")	**122,688**	38,901	215%	**307,804**	108,925	183%
Petrominerales ("PMG")	**115,055**	93,203	23%	**231,264**	174,763	32%
Total capital expenditures	**248,396**	144,422	72%	**573,655**	317,416	81%

Q2 2010 Capital Expenditures By Type	HBU and Corporate	PBN	PMG	Total
Drilling and completions	1,830	83,264	53,838	138,932
Facilities	442	13,825	50,398	64,665
Land	-	13,449	-	13,449
Seismic	2,108	716	8,061	10,885
Capitalized operations in pre-operating phase	3,574	-	-	3,574
Asset acquisition	-	6,901	-	6,901
Other [(1)]	2,699	4,533	2,758	9,990
Total capital expenditures	**10,653**	**122,688**	**115,055**	**248,396**

(1) Includes health, safety and environmental, capitalized salaries and office furniture and fixtures. HBU also includes $0.6 million of capitalized cash interest.

HBU and Corporate

HBU expenditures in the second quarter of 2010 included pump replacements and operating expenses at Kerrobert, workovers and operating expenses at Conklin, processing 3D seismic to further define the resource for the May River Project, and capitalized interest. Currently, the business unit operations are considered to be in the pre-operating stage and as a result, operating expenses net of revenues and interest are capitalized. Capitalized operations in pre-operating phase also include well workovers related to our Conklin Project.

PetroBakken

Expenditures in the second quarter 2010 were focused on drilling, completions and recompletions, primarily at our southeast Saskatchewan light oil properties, where we drilled 22.1 net Bakken wells and 3.6 net conventional wells. We also drilled 1.7 net wells in Alberta on acquired properties. Drilling and completions costs also included cost to complete and tie in wells from the acquired companies. The majority of facilities expenditures in the second quarter included costs to tie-in additional wells and the expansion of gathering systems to our five major facilities in southeast Saskatchewan. Land expenditures were primarily related to Cardium crown land acquisitions.

Petrominerales

Second quarter capital expenditures at Corcel included facilities costs at the Corcel central processing facility to increase fluid handling capacity and other improvements, drilling and completion costs for the C2 oil well, completion costs for the F1 water injector well, seismic costs related to the 2010 3D seismic acquisition program and civil construction and drilling costs related to the remaining 2010 drilling program. Exploration activity included civil construction costs associated with 2010 Central Llanos exploration program, drilling and completion costs associated with the Capybara-1 well, initial drilling costs associated with the Cerillo-1 well and seismic costs related to the 3D program acquired on Block 31. Mapache expenditures related mainly to drilling costs associated with the Mapana-1 and Manzanillo-1 exploration wells and civil construction for the remaining exploration drilling program. Neiva expenditures included drilling nine and completing eight oil wells and performing eight well optimizations. Guatiquia expenditures included final completion costs associated with Candelilla-3

exploration well and facilities costs for the installation of flow lines and early production facilities. Heavy oil block expenditures relate to initial civil works for the 2010 exploration drilling program.

YTD 2010 Capital Expenditures By Type	HBU and Corporate	PBN	PMG	Total
Drilling and completions	6,857	215,688	109,089	331,634
Facilities	3,380	18,985	90,483	112,848
Land	-	48,736	-	48,736
Seismic	5,947	5,107	25,456	36,510
Capitalized operations in pre-operating phase	12,242	-	-	12,242
Asset acquisition	-	10,363	-	10,363
Other (1)	6,161	8,925	6,236	21,322
Total capital expenditures	**34,587**	**307,804**	**231,264**	**573,655**

(1) Includes health, safety and environmental, capitalized salaries and office furniture and fixtures. HBU also includes $2.8 million of capitalized cash interest.

HBU and Corporate

HBU expenditures in the first six months of 2010 included facility, ongoing start-up costs and operating expenses at Kerrobert, workovers and operating expenses at Conklin, drilling oil sands exploration wells and obtaining 3D seismic to further define the resource for the May River Project, and capitalized interest. Currently, the business unit operations are considered to be in the pre-operating stage and as a result, operating expenses net of revenues and interest are capitalized. Capitalized operations in pre-operating phase also include well workovers related to our Conklin Project.

PetroBakken

Expenditures in the first six months of 2010 were focused on drilling, completions and recompletions, primarily at our southeast Saskatchewan light oil properties, where we drilled 61.6 net Bakken wells and 21.5 net conventional wells. We also drilled 2.8 net wells in Alberta on acquired properties. In addition, in the six month period 1.0 net well was drilled in northeast BC. Drilling and completions expenditures also included costs to complete and tie in wells from the acquired companies. The majority of facilities expenditures in the first six months included costs to tie-in additional wells and the expansion of gathering systems to our five major facilities in southeast Saskatchewan. Land expenditures were primarily related to Cardium crown land acquisitions.

Petrominerales

The six month period capital expenditures at Corcel included facilities costs at the Corcel central processing facility to increase fluid handling capacity and other improvements, drilling and completion costs for the C2 oil well, completion costs for the F1 water injector well, seismic costs related to the 2010 3D seismic acquisition program and civil construction and drilling costs related to the remaining 2010 drilling program. Guatiquia included drilling and completing the Candelilla-2 and 3 exploration wells and facilities costs for the installation of flow lines and early production facilities. Exploration activity included civil construction costs associated with 2010 Central Llanos exploration program and drilling and initial completion costs associated with three exploration wells; Yenac-1, Capybara-1 and Cerillo-1, seismic costs related to the 3D acquisition program on Block 31. Neiva expenditures included drilling fourteen and completing sixteen oil wells and performing eleven well optimizations. Mapache expenditures related mainly to drilling costs associated with the Mapana-1 and Manzanillo-1 exploration wells and civil construction for the remaining exploration drilling program. Heavy oil block expenditures related to drilling, completion and testing of the Rio Ariari-2 well and initial civil works initial civil works for the 2010 exploration drilling program. Orito expenditures related primarily to a water flood pilot project.

Goodwill

As a result of the Result acquisition by PetroBakken, goodwill increased by $204.8 million in the second quarter. The increase related to PetroBakken for the first six months totalled $457.6 million, which also reflects the Berens and Rondo acquisitions. Petrominerales' acquisition of PanAndean in the second quarter increased goodwill by $5.3 million, resulting in total goodwill as at June 30, 2010 of $1,524.0 million.

SUMMARY OF QUARTERLY RESULTS

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial ($000s except where noted)								
Oil and natural gas revenue	**573,040**	533,133	446,021	232,471	224,396	190,786	206,161	317,137
Funds flow from operations [1]	**334,592**	333,954	279,004	142,927	150,350	125,156	147,813	216,709
Per share – basic ($)	**3.18**	3.33	2.99	1.55	1.78	1.50	1.78	2.62
– diluted ($)	**3.12**	3.14	2.65	1.42	1.64	1.40	1.63	2.36
Net income (loss)	**41,050**	82,499	57,108	54,846	34,667	(1,542)	28,083	123,226
Per share – basic ($)	**0.39**	0.82	0.61	0.59	0.41	(0.02)	0.34	1.49
– diluted ($)	**0.35**	0.76	0.56	0.56	0.40	(0.02)	0.34	1.35
EBITDA	**370,933**	356,058	295,515	153,133	155,058	130,884	138,529	235,377
Capital expenditures	**248,396**	325,259	279,398	194,043	144,422	172,994	279,982	257,305
Operations								
PetroBakken operating netbacks by product [2]								
Crude oil and NGL sales price, net of transportation ($/bbl)	**70.98**	76.08	71.63	67.65	62.22	48.57	57.71	115.11
Royalties	**10.36**	10.56	11.26	10.75	7.97	5.39	8.90	13.36
Production expenses	**7.89**	7.95	8.45	7.05	6.66	6.98	8.68	9.56
Operating netback [3]	**52.73**	57.57	51.92	49.85	47.59	36.20	40.13	92.19
Natural gas sales price, net of transportation ($/mcf)	**4.11**	5.20	4.61	3.55	3.91	5.35	6.86	7.94
Royalties	**0.60**	0.60	0.63	0.54	0.67	0.78	1.06	1.38
Production expenses	**1.03**	1.12	1.16	0.93	0.95	0.90	0.77	0.66
Operating netback [3]	**2.48**	3.48	2.82	2.08	2.29	3.67	5.03	5.90
Oil equivalent sales price, net of transportation ($/boe) [2]	**62.86**	70.41	65.05	60.66	56.64	46.81	55.90	106.51
Royalties	**9.17**	9.68	10.14	9.62	7.40	5.32	8.62	12.72
Production expenses	**7.59**	7.80	8.23	6.83	6.52	6.81	8.24	8.84
Operating netback [3]	**46.10**	52.93	46.68	44.21	42.72	34.68	39.04	84.95
Petrominerales operating netback ($/bbl)								
Crude oil sales price, net of transportation and excludes revenue from purchased oil	**65.15**	67.17	65.23	61.96	55.76	42.18	54.93	110.53
Royalties	**6.51**	7.39	7.14	6.06	5.02	4.60	4.68	11.71
Production expenses	**6.61**	6.71	8.05	8.81	7.86	7.40	7.80	8.38
Operating netback [3]	**52.03**	53.07	50.04	47.09	42.88	30.18	42.45	90.44
Average daily production								
PetroBakken – crude oil and NGL (bbls)	**34,852**	37,654	38,796	15,185	16,761	19,722	19,841	16,024
PetroBakken – natural gas (mcf)	**44,469**	32,662	40,951	16,177	16,906	14,179	14,598	14,047
Total PetroBakken conventional (boe) [2]	**42,263**	43,098	45,621	17,881	19,579	22,085	22,274	18,365
Petrominerales – crude oil (bbls) [4]	**44,203**	38,199	24,555	21,546	21,548	21,771	15,344	12,485
Total Company conventional (boe)	**86,466**	81,297	70,176	39,427	41,127	43,856	37,618	30,850

(1) Non-GAAP measure. See "Non-GAAP Measures" section within the MD&A.
(2) Six Mcf of natural gas is equivalent to one barrel of oil equivalent.
(3) Excludes hedging activities.
(4) Actual production sold for the three months ended June 30, 2010 was 49,466 bopd. After adjusting for third party purchased oil and marketed on their behalf, Petrominerales actual production sold and used in per barrel calculations was 44,560 bopd.

Significant factors influencing quarterly results were:

- Strong production in both PetroBakken and Petrominerales and high benchmark oil prices in the third quarter of 2008 resulted in dramatic increases in operating netbacks, revenue and funds flow from operations. In the fourth quarter of 2008 and second quarter of 2009 benchmark crude oil prices declined significantly, which negatively affected profitability, despite higher production levels. Crude oil benchmark prices began to recover throughout 2009 (although not to the level experienced in the third quarter of 2008) contributing to improved netbacks, revenue and funds flow from operations.
- PetroBakken light oil and natural gas production in the fourth quarter of 2009 and the first and second quarters of 2010 increased significantly over prior quarters mainly due to the acquisition of TriStar on October 1, 2009. Gas production also increases in the second quarter of 2010 due to a full quarter of production associated with the Berens acquisition.
- PetroBakken production decreased in the second quarter of 2010 compared to the first quarter of 2010 as a result of lower activity levels and field restrictions due to spring break-up. Production from the Result acquisition was partially offset by the non-core property dispositions that occurred at the end of April 2010.
- Compared to the first quarter of 2010, second quarter 2010 PetroBakken netbacks decreased primarily due to lower WTI and AECO gas prices.
- Petrominerales production increased in the fourth quarter of 2008 due to production additions from the Corcel-C3 and D1 wells, offset by a temporary suspension of operations at the Orito field due to a general strike in the region.
- First quarter 2009 Petrominerales production increased further due to additions from Corcel-D2, two wells on the Mapache block and six wells at Neiva.
- Fourth quarter 2009 Petrominerales production increased mainly due to the Corcel-A2 side-track well.
- First quarter 2010 Petrominerales production increased mainly due to three Candelilla wells drilled on Petrominerales' Guatiquia Block.

Commitments

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments as at June 30, 2010:

Type of Obligation (000's)	< 1 Year	1-3 Years	3-5 Years	Thereafter	Total
HBU and Corporate					
Office operating leases ($)	1,800	4,700	5,100	9,600	**21,200**
PetroBakken					
Office operating leases ($)	3,852	9,221	10,328	17,246	**40,647**
Petrominerales					
Exploration contracts (US$) [1] [2]	45,700	23,700	-	-	**69,400**
Transportation contract (US$)	2,001	-	-	-	**2,001**
Office lease (US$)	1,900	3,800	2,800	-	**8,500**
Total Company ($) [3]	58,259	43,087	18,398	26,846	**146,590**

(1) These work commitments are normal course of business exploration activities that include property costs, acquisition and processing of seismic data and drilling exploration wells. Petrominerales has issued letters of credit totalling US$21.4 million and pledged US$1.4 million in restricted cash to guarantee the obligations under these exploration contracts.

(2) Following the Colombian Open Bid Round June 2010, Petrominerales was awarded Block 59 and Block 15. Our first phase work commitments on Block 59 will include spending US$24.2 million over three years to acquire 300 square kilometres of 3D seismic and drilling four exploration wells. Our first phase work commitments on Block 15 will include spending US$10.0 million over three years to acquire 100 square kilometres of 3D seismic and drilling two exploration wells. These commitments will be included once the contracts are signed.

(3) US$ amounts have been converted using the June 30, 2010 exchange rate of $1.0606.

Liquidity and Capital Resources

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

	HBU and Corporate	PetroBakken	Petrominerales	Consolidated Petrobank
Net working capital deficit (surplus) – excluding convertible debentures	$ (22,413)	$ 133,520	$ (71,354)	**$ 39,753**
Bank debt – principal	$ -	$ 564,206	$ -	**$ 564,206**
Convertible debentures – principal amount (US$)	$ -[1]	$ 750,000	$ 81,700	**$ 831,700**
Common share capital [2]	$1,352,067	$ 3,168,605	US$ 202,811	**$1,352,067**
Credit facility – borrowing base	$ 30,000	$ 1,000,000	US$ 150,000	
Available credit capacity	$ 30,000	$ 435,794	US$ 150,000	

(1) In April and May 2010, all of the remaining US$154.4 million Petrobank convertible debentures were converted into a total of 4,099,455 common shares. As a result, the outstanding principal amount of Petrobank convertible debentures has been reduced to nil.

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

HBU and Corporate

Petrobank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Petrobank considers its capital structure to include common share capital, bank debt and working capital. In order to maintain or adjust the capital structure, from time to time Petrobank may issue common shares or other securities, obtain project financing, sell assets or adjust its capital spending to manage current and projected debt levels. Based on Petrobank's current ownership and PetroBakken's intentions of paying an annual dividend of $0.96 per PetroBakken share, Petrobank expects to receive $105.4 million of dividends annually from PetroBakken paid monthly. Based on Petrobank's current ownership and Petrominerales' intentions of paying an annual dividend of $0.50 per Petrominerales share, Petrobank expects to receive $32.6 million of dividends annually from Petrominerales paid quarterly. Combined, Petrobank expects to receive total annual dividends of $138 million from its subsidiaries. Petrobank can also raise funds by selling a portion of its ownership in PetroBakken and Petrominerales or by issuing additional debt secured by these interests.

At June 30, 2010, HBU and corporate had no bank debt and current assets in excess of accounts payable and accrued liabilities of $22.4 million.

Petrobank's HBU and Corporate operating segment has a $30 million secured credit facility. The reserve-based revolving credit facility has an initial term ending April 30, 2011, extendable by the lender for an additional year. If the lender were to not extend the term, the drawn amount would become due on April 30, 2012. The credit facility bears interest at the prime rate plus a margin based upon the collateral value of Petrobank's ownership in its public subsidiaries. The facility is secured by a $100 million demand debenture and a securities pledge in respect of the issued and outstanding shares of Petrobank's publicly traded subsidiaries. While drawn, the HBU and Corporate operating segment must maintain a coverage ratio of not less than 2:1.

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

PetroBakken – 58% owned by Petrobank

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

As at June 30, 2010, PetroBakken had $564.2 million of bank debt on its $1 billion credit facility. The credit facility is with a syndicate of banks and matures June 3, 2011. A review of the facility was completed in the second quarter of 2010 and resulted in a $100 million increase in the credit facility and altered it from a borrowing base to covenant based facility with no semi-annual review. While the facility is no longer a borrowing base facility the amount of the facility is based on, among other things, reserves, results from operations, current and forecasted commodity prices and the current economic environment. The credit facility provides that advances may be made by way of direct advances, banker's acceptances, or standby letters of credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances, and at the bank's U.S. base rate plus an applicable margin for U.S. dollar advances. The applicable margin charged by the bank is based on a sliding scale ratio of PetroBakken's debt to earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA"). The facility is secured by a $2.0 billion demand debenture and a securities pledge on the Company's assets. The credit facility has financial covenants that limit secured debt to EBITDA not to exceed 3:1, limit total debt (total debt defined as facility debt plus the value of outstanding debentures in Canadian dollars) to EBITDA to 4:1, and limit secured debt to 50% of total liabilities plus total equity.

On January 25, 2010, PetroBakken issued convertible debentures with an annual coupon of 3.125% for gross proceeds of US$750 million. The convertible debentures have financial covenants that limit the amount of security and encumbrances PetroBakken has to 35% of total assets. Proceeds from the issuance of the convertible debenture were used to repay all outstanding bank debt. In February 2010 PetroBakken made a $327.7 million cash payment, including repayment of bank debt, for the acquisition of Berens. In March 2010 PetroBakken made a $104.7 million cash payment, including repayment of bank debt, for the acquisition of Rondo, and in April 2010 PetroBakken made a net $141.2 million cash payment for the acquisition of Result. PetroBakken closed gross $112.0 million of Alberta non-core property dispositions in the first quarter of 2010 and closed an additional property disposition on April 30, 2010 for gross proceeds of $18.0 million.

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

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

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

Petrominerales – 66% owned by Petrobank

Petrominerales' capital program for the first half of 2010 was funded internally from operating cash flows. The remainder of the 2010 capital program is expected to be funded through a combination of existing cash balances, operating cash flows, and prudent use of credit facilities. At June 30, 2010, Petrominerales had a net working capital surplus of US$67.2 million and an undrawn US$150 million borrowing base. Petrominerales believes it is well positioned financially with significant available credit capacity, assets that are providing strong production growth and operating netbacks along with an extensive inventory of exploration prospects.

Petrominerales has a revolving credit facility with a US$150 million borrowing base that is undrawn. The borrowing base is reviewed with the lender semi-annually. Petrominerales also has US$81.7 million of convertible debentures outstanding that mature on December 6, 2010. The market price of Petrominerales' shares is currently greater than the exercise price of the debentures, which are convertible into common shares of the Company at the option of the holder at a conversion price of US$27.3485 per share, subject to adjustment for dividends. If the convertible debentures are not converted to equity before maturity, Petrominerales has an option to force conversion of the debentures at the prevailing conversion price should the price of the Company's common shares exceed 130 percent of the prevailing conversion price of the debentures for 20 trading days within a period of 30 consecutive trading days.

On August 10, 2010, Petrominerales announced a US$550 million convertible debenture offering. The debentures are convertible into common shares of Petrominerales and have an annual coupon rate of 2.625% and a conversion price of US$34.746 (Cdn$36.254) per debenture. The debentures will be issued at 100% of their principal amount and, unless previously redeemed, converted or cancelled, will mature in 2016. The debentures are expected to be issued on or about August 25, 2010.

Petrominerales also maintains local Colombian operating lines of credit of US$32.9 million that are primarily used to issue letters of credit to support exploration contracts. At June 30, 2010, letters of credit issued against the Colombian operating lines of credit totalled US$20.0 million.

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

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

Petrominerales initiated a quarterly dividend payment of $0.125 per share ($0.50 per share annually), effective for the second quarter of 2010. Petrominerales' strategy is to provide a reasonable dividend yield to shareholders while executing an accretive growth-oriented, exploration focused business plan.

Outstanding Share Data

The number of Petrobank shares outstanding at the date of this MD&A is 105,993,065, unchanged from June 30, 2010.

Risks and Uncertainties

There have been no significant changes in the three and six months ended June 30, 2010 to the risks and uncertainties identified in the MD&A for the year ended December 31, 2009.

Sensitivities

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

The following factors demonstrate the expected impact on annualized before tax cash flow excluding the effect of hedging:

Change of:		(millions)
PetroBakken		
Crude oil	US$1.00/bbl WTI reference price (assuming 35,000 bopd)	**$5.2**
	1,000 bopd of production @ US$75/bbl WTI	**$19.7**
Natural gas	$1.00/mcf AECO reference price (assuming 42 mmcf per day)	**$8.6**
	10 mmcf per day of production @ $4.50/mcf AECO	**$13.7**
Currency	US$0.01 in exchange rate	**$7.8**
Interest rate	1% change in interest rate	**$2.3**
Petrominerales		
Crude oil	US$1.00/bbl WTI reference price (assuming 40,000 bopd)	**$13.5**
	1,000 bopd of production @ US$75/bbl WTI	**$19.8**

Critical Accounting Policies and Estimates

There have been no changes to the Company's critical accounting policies and estimates in the three and six months ended June 30, 2010.

Changes in Accounting Policies

International Financial Reporting Standards

In February 2008, the CICA's Accounting Standards Board confirmed the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") will be required for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010 and an opening balance sheet at January 1, 2010 showing the changes from Canadian GAAP to IFRS.

IFRS uses a conceptual framework similar to Canadian GAAP, but prescribes certain differences for recognition, measurement and disclosure principles which are outlined below under "*Potential Impacts of IFRS Adoption"*.

Petrobank commenced its IFRS Conversion Project in late 2008 by completing an initial scoping phase, and has established a project plan and project team, which includes key finance staff, management, external advisors and the audit committee.

The Company's project plan broken out by accounting policies and procedures, financial statement preparation, training and communication, business impacts, IT systems and control environment is as follows:

Key Activity	Milestones	Status
Accounting policies and procedures:		
• Identify differences between Canadian GAAP and IFRS • Revise and finalize accounting policies under IFRS • Identify potential adjustments to initial and subsequent IFRS financial statements • Develop IFRS-compliant financial statements, including transition period disclosures	• Approval of IFRS policies and opening balance sheet by senior management • Senior management approval and audit committee review of policy decisions • Revised accounting policy and procedures manuals in place by changeover date	• Accounting policy alternatives have been analyzed and key accounting policy decisions are currently being reviewed by management • Analysis to support finalization of opening balance sheet adjustments is underway
Financial statement preparation:		
• Prepare first-time adoption reconciliation required under IFRS 1 • Prepare financial statements and note disclosures in compliance with IFRS • Quantify the effects of converting to IFRS	• Senior management approval and audit committee review of pro forma financial statements	• Draft opening balance sheet and transition note disclosure in progress • The Company is in the process of determining transition year impacts of IFRS • IFRS compliant financial statements and notes are in progress

Training and communication:		
• Develop and deliver targeted IFRS training to employees and management • Ensure internal and external stakeholders receive ongoing appropriate communications • Provide Company-specific training on revised policies and procedures to affected personnel	• Training to be provided to relevant employees prior to changeover date • Impacts of converting to IFRS communicated prior to changeover	• Key employees involved with implementation have completed sufficient and ongoing training throughout the year • Quarterly disclosure of project status in MD&A
Business impacts:		
• Identify impacts of conversion on contracts including financial covenants and compensation arrangements • Identify impacts of conversion on taxation	• Impacts of contracts identified • Taxation impacts identified	• Adoption of IFRS is not expected to have a significant impact on current material contracts • Analysis of taxation impacts is currently underway
IT systems:		
• Identify changes required to IT systems and implement solutions • Implement solution for capturing financial information under Canadian GAAP and IFRS during the year of transition to IFRS	• Necessary changes to IT systems implemented by changeover date • Solution for capturing financial information under multiple sets of accounting principles implemented	• Required changes to IT systems are identified and tracked as IFRS work progresses • Consultants have been engaged to assist in transitioning current system to accommodate IFRS
Control environment:		
• For all changes to policies and procedures identified, assess effectiveness of internal controls over financial reporting (“ICFR”) and disclosure controls and procedures (“DC&P”) and implement any necessary changes • Design and implement internal controls over the IFRS changeover process	• Internal controls over IFRS changeover process in place and tested prior to changeover	• Relevant internal controls are being assessed as work progresses • Specific controls have been established in relation to the IFRS changeover process

Significant differences that have been identified between Canadian GAAP and IFRS that will impact Petrobank and its subsidiaries are: property, plant and equipment, exploration and evaluation assets, depletion and depreciation, impairment testing, share based payments and decommissioning liabilities as well as increased disclosure requirements. The majority of adjustments required on transition to IFRS will be made retrospectively against opening retained earnings at the date of transition. Certain IFRS standards may be modified, and as a result, the impact may be different than Petrobank’s current expectations. The project team is currently determining the financial statement impact of these standards. The impact on the consolidated financial statements is not reasonably determinable at this time.

First-time Adoption of IFRSs ("IFRS 1")

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

Area of IFRSs	Summary of Exemption Available
Property, Plant and Equipment	• The Company may elect to report items of property, plant and equipment, in its opening balance sheet on transition date at deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under Canadian GAAP (as long as that amount was close to either its fair value, cost or adjusted cost). The exemption can be applied on an asset-by-asset basis. Oil and gas assets that were part of the full cost pool and determined to be development or producing assets are able to be allocated to Cash Generating Units (CGU's) on date of transition pro rata using reserve values or volumes, subject to an impairment test on date of transition • Impact is currently under review by management and in the process of being quantified
Share-Based Payments	• The Company may elect to not apply IFRS 2, "Share-Based Payments", to equity instruments which vested before the Company's date of transition to IFRS. The Company may also elect not to apply IFRS 2 to liabilities arising from share-based payment transactions which settled before the date of transition to IFRS. • It is expected that the Company will not apply IFRS 2 to equity instruments granted which vested before the Company's date of transition to IFRS. The Company will also elect to not apply IFRS 2 to liabilities arising from share-based payment transactions which settled before the date of transition to IFRS • Impact is currently in the process of being quantified
Decommissioning Liabilities	• In accounting for changes in obligations to dismantle, remove and restore items of property, plant and equipment, the guidance in IFRSs requires changes in such obligations to be added to or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. Rather than recalculating the effect of all such changes throughout the life of the obligation, the Company may elect to measure the liability and the related depreciation effects at the date of transition to IFRS • The Company intends to elect to measure any decommissioning liabilities and the related depreciation effects at the date of transition to IFRS • Impact has not yet been quantified

Expected Areas of Significance

The key areas where we expect accounting policies may differ and where accounting policy decisions are necessary that may impact the Company's consolidated financial statements are set out in the following table. Note that this does not include impact of transition policy choices made under IFRS 1, described above.

Accounting Policy Area	Impact of Policy Adoption
Impairment of Assets ("IAS 36")	• IFRS uses the concept of cash generating units to accumulate asset carrying costs to test and measure impairment. IFRS will require impairment testing to be performed at the cash generating unit level, which is lower than the current cost centre level. In addition, IAS 36 uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of: value-in-use and fair value less costs to sell. Value in use is defined as the amount equal to the present value of future cash flows expected to be derived from the asset. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP, which uses undiscounted cash flows to test and measure impairment This may result in more frequent write-downs in the carrying amounts of assets under IFRS because the asset carrying amounts previously supported under Canadian GAAP were based on undiscounted cash flows. However, under IAS 36, impairment losses that were previously recognized may be reversed where circumstances change such that the impairment is reduced. This differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses • Petrobank is currently evaluating the impact of these policies under IFRS.
Exploration and Evaluation Expenditures ("IFRS 6")	• Oil and gas companies are required to account for exploration and evaluation expenditures in accordance with IFRS 6, which permits a number of accounting policy choices. For example, this standard addresses the recognition, measurement, presentation and disclosure requirements for costs incurred in the exploration phase. Unlike Canadian GAAP, IFRS requires the identification and presentation of exploration and evaluation expenditures to be separated from developed and producing assets. In addition, Petrobank will be required to perform an impairment test on exploration and evaluation expenditures when there is a determination that the expenditures have resulted in a technically feasible and commercially viable project. At that time, the expenditures would be tested for impairment, and then transferred to the developed and producing assets category • Petrobank is currently evaluating its policy options and applicable impact of these policies under IFRS. Impact is in the process of being quantified
Property, Plant, and Equipment ("IAS 16")	• IFRS and Canadian GAAP contain the same basic principles of accounting for property, plant and equipment. However, IAS 16 requires costs recognized as property, plant and equipment to be allocated to the significant parts of the asset and to amortize each significant component separately. This is a departure from Canadian GAAP for full cost oil and gas companies, and may increase the number of components to be amortized separately, and could impact the amount of amortization expense. Under IAS 16, companies have the choice to account for property, plant and equipment under the cost model, or the revaluation model • It is expected that Petrobank will choose and apply the cost model to account for its property, plant and equipment after transition to IFRS
Borrowing Costs	• IFRS requires the capitalization of borrowing costs that are associated with the construction and development of certain assets. Under Canadian GAAP, Petrobank's subsidiaries expense all borrowing costs. Analysis of this standard is currently underway by Petrobank's subsidiaries to determine a methodology and quantify the amount of borrowing costs that will be capitalized under IFRS. Under IFRS certain borrowing costs may be capitalized to the balance sheet and not expensed as currently reported • No impact expected on transition

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 June 30, 2010, 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 second quarter 2010 Operational Update and the 2009 Annual Report.

PETROBANK ENERGY AND RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS

(Thousands of Canadian dollars)

As at	**June 30, 2010**	Dec. 31, 2009
Assets		
Current assets		
Cash and cash equivalents	**$ 178,047**	$ 135,515
Restricted cash	**1,541**	1,439
Accounts receivable and other current assets	**329,323**	223,770
Risk management assets (Note 10)	**11,366**	-
Future income tax assets	**1,190**	782
	521,467	361,506
Other assets	**27,495**	27,859
Capital assets	**5,081,432**	4,316,222
Risk management assets (Note 10)	**6,340**	-
Goodwill (Note 3)	**1,523,953**	1,060,981
Total assets	**$ 7,160,687**	$ 5,766,568
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 525,795**	$ 481,916
Income taxes payable	**27,975**	-
Convertible debentures (Note 6)	**84,173**	80,409
Risk management liabilities (Note 10)	**4,320**	2,694
Future income tax liabilities	**3,130**	-
	645,393	565,019
Bank debt (Note 5)	**557,126**	748,185
Convertible debentures (Note 6)	**590,263**	348,957
Other long-term liabilities	**3,463**	3,961
Asset retirement obligations	**70,890**	69,122
Risk management liabilities (Note 10)	**572**	3,442
Future income tax liabilities	**582,520**	482,570
Total liabilities	**2,450,227**	2,221,256
Commitments and contingencies (Note 12)		
Shareholders' equity		
Petrobank shareholders' equity		
Common shares (Note 4)	**1,352,067**	880,183
Convertible debentures (Note 6)	**-**	76,811
Contributed surplus (Note 4)	**36,127**	33,436
Paid-in capital (Note 4)	**967,821**	875,924
Accumulated other comprehensive loss (Note 4)	**(18,329)**	(29,894)
Retained earnings	**519,882**	455,344
Total Petrobank shareholders' equity	**2,857,568**	2,291,804
Non-controlling interests (Note 8)	**1,852,892**	1,253,508
Total shareholders' equity	**4,710,460**	3,545,312
Total liabilities and shareholders' equity	**$ 7,160,687**	$ 5,766,568

Subsequent event (Note 6)

See accompanying notes to these consolidated financial statements.

PETROBANK ENERGY AND RESOURCES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Thousands of Canadian dollars, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	**2010**	2009
Revenues				
Oil and natural gas	**$ 573,040**	$ 224,396	**$1,106,173**	$ 415,182
Royalties	**(61,653)**	(22,966)	**(124,766)**	(42,407)
Gain (loss) on risk management contracts	**14,747**		**16,179**	
(Note 10)		(10,220)		(7,993)
Interest income	**233**	261	**137**	390
	526,367	191,471	**997,723**	365,172
Expenses				
Production	**56,005**	26,909	**100,873**	54,705
Transportation	**35,553**	14,945	**63,078**	31,414
Purchased oil	**29,764**	-	**38,372**	-
General and administrative	**15,601**	7,613	**30,002**	14,972
Acquisition (Note 3)	**2,314**	-	**2,382**	-
Stock-based compensation	**12,444**	6,988	**23,553**	14,664
Interest (Note 7)	**23,009**	7,236	**42,936**	16,405
Foreign exchange loss (gain)	**26,922**	(22,507)	**14,683**	(19,023)
Depletion, depreciation and accretion	**215,262**	98,254	**410,430**	206,999
	416,874	139,438	**726,309**	320,136
Income before taxes	**109,493**	52,033	**271,414**	45,036
Current taxes	**23,982**	1,391	**53,704**	2,868
Future income tax	**21,880**	10,509	**30,732**	1,156
Net income	**63,631**	40,133	**186,978**	41,012
Less: Net income attributable to non-controlling interest (Note 8)	**22,581**	5,466	**63,429**	7,887
Net income attributable to Petrobank shareholders	**41,050**	34,667	**123,549**	33,125
Retained earnings, beginning of period	**495,817**	332,868	**455,344**	334,410
Conversion of convertible debentures, net of tax (Note 6)	**(16,985)**	(24,145)	**(59,011)**	(24,145)
Retained earnings, end of period	**$ 519,882**	$ 343,390	**$ 519,882**	$ 343,390
Basic earnings per share (Note 4)	**$ 0.39**	$ 0.41	**$ 1.20**	$ 0.39
Diluted earnings per share (Note 4)	**$ 0.35**	$ 0.40	**$ 1.11**	$ 0.39

See accompanying notes to these consolidated financial statements.

PETROBANK ENERGY AND RESOURCES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	**2010**	2009
Net income attributable to Petrobank shareholders	**$ 41,050**	$ 34,667	**$ 123,549**	$ 33,125
Other comprehensive income:				
Unrealized gain (loss) on translation of Petrominerales' financial statements (Note 4)	**28,442**	(38,089)	**11,565**	(24,332)
Unrealized gain on interest rate contracts	**-**	697	**-**	512
Comprehensive income (loss) attributable to Petrobank shareholders	**$ 69,492**	$ (2,725)	**$ 135,114**	$ 9,305

See accompanying notes to these consolidated financial statements.

PETROBANK ENERGY AND RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOW

(Thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	**2010**	2009
Operating Activities				
Net income	**$ 41,050**	$ 34,667	**$ 123,549**	$ 33,125
Depletion, depreciation and accretion	**215,262**	98,254	**410,430**	206,999
Unrealized loss (gain) on risk management contracts)	**(15,207)**	16,392	**(17,658)**	24,720
Unrealized foreign exchange loss (gain)	**26,165**	(25,584)	**(3,547)**	(21,492)
Stock-based compensation	**12,444**	6,988	**23,553**	14,664
Accretion on convertible debentures	**8,283**	3,968	**15,622**	8,803
Realized loss on foreign exchange contract (Note 6)	**-**	-	**18,184**	-
Net income attributable to non-controlling interests	**22,581**	5,466	**63,429**	7,887
Future income taxes	**21,880**	10,509	**30,732**	1,156
Amortization of deferred financing costs and other assets	**2,660**	248	**5,484**	506
Asset retirement obligations settled	**(526)**	(558)	**(1,232)**	(862)
	334,592	150,350	**668,546**	275,506
Changes in non-cash working capital (Note 11)	**45,221**	(29,216)	**(71,065)**	(43,108)
	379,813	121,134	**597,481**	232,398
Financing Activities				
Issuance (repayment) of bank debt	**221,406**	31,509	**(282,427)**	30,851
Early conversion of convertible debentures – including costs (Note 6)	**(27,953)**	(36,244)	**(29,317)**	(36,244)
Issuance of convertible debentures – net of costs	**-**	-	**769,651**	-
Realized loss on foreign exchange contract (Note 6)	**-**	-	**(18,184)**	-
Equity issued (repurchased) by Petrominerales [1]	**2,219**	(10,694)	**4,200**	(18,596)
Equity issued (repurchased) by PetroBakken [1]	**(3,140)**	-	**(3,140)**	-
Financing costs relating to bank debt	**(1,764)**	(1,534)	**(1,764)**	(1,768)
Dividends paid or declared by subsidiaries	**(57,664)**	-	**(99,351)**	-
Issuance (repurchase) of common shares (Note 4) [1]	**30**	532	**8,381**	717
Amortization of obligations under gas sale contract	**(206)**	(206)	**(410)**	(410)
Changes in non-cash working capital (Note 11)	**13,485**	-	**11,533**	-
	146,413	(16,637)	**359,172**	(25,450)
Investing Activities				
Expenditures on capital assets	**(248,396)**	(144,422)	**(573,655)**	(317,416)
Expenditures on other assets	**(1,477)**	(10,752)	**(2,522)**	(14,899)
Corporate acquisitions	**(171,771)**	-	**(513,290)**	-
Proceeds from dispositions (Note 3)	**15,723**	-	**121,755**	-
Dividends received or receivable from subsidiaries	**34,509**	-	**60,861**	-
Sale of interest in subsidiary (Note 6)	**-**	102,010	**-**	106,107
Changes in restricted cash	**(145)**	(18)	**(102)**	1,451
Changes in non-cash working capital (Note 11)	**(27,357)**	(67,957)	**(9,363)**	(61,519)
	(398,914)	(121,139)	**(916,316)**	(286,276)
Effect of exchange rate changes on cash and cash equivalents	**3,258**	(171)	**2,195**	1,196
Net change in cash and cash equivalents	**130,570**	(16,813)	**42,532**	(78,132)
Cash and cash equivalents, beginning of period	**47,477**	40,862	**135,515**	102,181
Cash and cash equivalents, end of period	**$ 178,047**	$ 24,049	**$ 178,047**	$ 24,049

(1) Equity issued (repurchased) by subsidiaries and issuance (repurchase) of common shares is shown as net of costs.

See accompanying notes to these consolidated financial statements.

PETROBANK ENERGY AND RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended June 30, 2010 and 2009
(Unaudited, all tabular amounts are expressed in thousands of Canadian dollars, unless 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 months ended June 30, 2010 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2009. 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, 2009. The disclosures provided within are incremental to those included with the annual financial statements.

NOTE 2 – CHANGES IN ACCOUNTING POLICIES

Pending Accounting Pronouncements

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

NOTE 3 – ACQUISITIONS AND DISPOSITIONS

PetroBakken Energy Ltd. ("PetroBakken" or "PBN")

Corporate Acquisitions:

Result Energy Inc.

On April 1, 2010, PetroBakken acquired all of the issued and outstanding shares of Result Energy Inc. ("Result") for $441.8 million, net of cash and working capital acquired. The common shares issued were valued using the share price of PetroBakken on April 1, 2010. Result was a publicly traded company with the majority of its production and prospect inventory in the Cardium formation in west central Alberta. As such, goodwill consists largely of the strategic benefit that the increased presence in the Cardium formation will bring to the Company. None of the goodwill recognized is expected to be deductible for income tax purposes. The consolidated statement of operations includes the results of operations for the period following the closing of the transaction on April 1, 2010, these amounts have not been disclosed separately below as it is impracticable to do so.

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

Net assets acquired		Amount
Capital assets	$	261,334
Working capital		2,672
Asset retirement obligations		(1,784)
Fair value of financial instruments		440
Goodwill		204,758
Future income tax liability		(22,902)
Total net assets acquired	**$**	**444,518**

Consideration paid		Amount
Cash (net of cash acquired)	$	141,230
Common shares issued (11,232,904)		303,288
Total purchase price	**$**	**444,518**

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

Rondo Petroleum Inc.

On March 12, 2010, PetroBakken acquired all of the issued and outstanding shares of Rondo Petroleum Inc. ("Rondo") for $277.2 million, including Rondo bank debt net of cash acquired and working capital deficiency assumed. The common shares issued were valued using the share price of PetroBakken on March 12, 2010. Rondo was a private company with the majority of its production and prospect inventory in the Cardium formation. As such, goodwill consists largely of the strategic benefit that increased presence in the Cardium formation will bring to the Company. None of the goodwill recognized is expected to be deductible for income tax purposes. The consolidated statement of operations includes the results of operations for the period following the closing of the transaction on March 12, 2010, these amounts have not been disclosed separately below as it is impracticable to do so.

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

Net assets acquired		Amount
Capital assets	$	205,677
Working capital deficiency		(22,214)
Bank debt (net of cash acquired)		(16,033)
Asset retirement obligations		(1,967)
Goodwill		107,195
Future income tax liability		(33,690)
Total net assets acquired	**$**	**238,968**

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

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

Berens Energy Ltd.

On February 25, 2010, PetroBakken acquired all of the issued and outstanding shares of Berens Energy Ltd. ("Berens") for $344.4 million, including Berens bank debt net of cash acquired and working capital deficiency assumed. Berens was a publicly traded company with production primarily from properties in Alberta and the majority of its prospect inventory in the Cardium formation in west central Alberta. As such, goodwill consists largely of the strategic benefit that the initial presence in the Cardium formation of Alberta will bring to the Company. None of the goodwill recognized is expected to be deductible for income tax purposes. The consolidated statement of operations includes the results of operations for the period following the closing of the transaction on February 25, 2010, these amounts have not been disclosed separately as it is impracticable to do so.

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

Net assets acquired		Amount
Capital assets	$	216,946
Working capital deficiency		(16,660)
Bank debt (net of cash acquired)		(74,873)
Asset retirement obligations		(3,351)
Fair value of financial instruments		852
Goodwill		145,699
Future income tax liability		(15,796)
Total net assets acquired	**$**	**252,817**

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

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

TriStar Oil & Gas Ltd.

On October 1, 2009, PetroBakken acquired all of the issued and outstanding shares of TriStar Oil & Gas Ltd. ("TriStar") for a total cost of $2.8 billion, including TriStar bank debt and working capital deficiency assumed. The common shares issued were valued using an implied value based on the share price of TriStar on October 1, 2009 due to the fact that PetroBakken had not commenced trading on October 1, 2009. TriStar was a publicly traded company with the majority of its production from the light oil properties in southeast Saskatchewan. As such, goodwill consists largely of the strategic benefit that the increased presence in southeast Saskatchewan will bring to the Company. None of the goodwill recognized is deductible for income tax purposes.

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

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

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

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

Asset Divestitures

During the six month period ended June 30, 2010, PetroBakken closed four divestitures representing approximately 3,700 barrels of oil equivalent ("boepd") of production (50% natural gas) in Alberta for net proceeds of $121.8 million.

Petrominerales Ltd. ("Petrominerales" or "PMG")

PanAndean

On April 14, 2010, Petrominerales acquired 100 percent of the issued and outstanding common shares of PanAndean Resources plc ("PanAndean") for US$29.6 million in cash by way of Scheme of Arrangement under U.K. Law. At the acquisition date, PanAndean was a public company listed on the AIM exchange with exploration stage properties in Colombia and Peru. This acquisition was completed to facilitate Petrominerales' strategy to increase its presence in Peru and build on existing acreage in the Ucayali Basin. As such, goodwill consists largely of the strategic benefit that increased presence in the Ucayali Basin of Peru will bring to the Company. None of the goodwill recognized is expected to be deductible for income tax purposes. The consolidated statement of operations includes the results of operations since April 14, 2010; these amounts have not been disclosed separately as it is impracticable to do so. Petrominerales incurred $1.1 million of costs related to the acquisition that have been expensed in the statement of operations.

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

Consideration paid net of cash acquired		Amount
Cash paid	$	31,345
Cash acquired		(804)
Total consideration paid, net of cash acquired	**$**	**30,541**

Assets acquired and liabilities assumed		Amount
Financial assets	$	547
Property, plant and equipment		33,893
Goodwill		5,320
Financial liabilities		(337)
Future income tax liability		(8,882)
Total net assets acquired	**$**	**30,541**

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

Goodwill

As a result of the above mentioned acquisitions the impact on goodwill for the six months ended June 30, 2010 is as follows:

Goodwill	HBU and Corporate	PBN	PMG	Total
Balance at December 31, 2009	$ 28,119	$1,032,862	$ -	$ 1,060,981
Acquisition of Berens	-	145,699	-	145,699
Acquisition of Rondo	-	107,195	-	107,195
Acquisition of Result	-	204,758	-	204,758
Acquisition of PanAndean	-	-	5,320	5,320
Balance at June 30, 2010	**$ 28,119**	**$1,490,514**	**$ 5,320**	**$ 1,523,953**

NOTE 4 – SHARE CAPITAL

As at June 30, 2010, Petrobank had 105,993,065 common shares, 3,873,907 stock options, 220,629 deferred common shares, 6,123 directors deferred common shares and 72,864 incentive shares outstanding.

Common Shares

Common Share Continuity	Number	Amount
Balance at December 31, 2009	93,616,958	$ 880,183
Issued upon conversion of debentures (Note 6)	11,551,554	467,739
Costs associated with conversion of debentures	-	(11,647)
Tax effect of share issue costs	-	3,067
Exercise of stock options	819,053	9,463
Exercise of deferred common shares	5,500	-
Transfer from contributed surplus related to stock options and deferred common shares exercised	-	3,262
Balance at June 30, 2010	**105,993,065**	**$ 1,352,067**

Contributed Surplus

Changes in Contributed Surplus	Amount
Balance at December 31, 2009	$ 33,436
Stock-based compensation	5,953
Transfer from contributed surplus related to stock options and deferred common shares exercised	(3,262)
Balance at June 30, 2010	**$ 36,127**

Paid-in Capital

Changes in Paid-in Capital	Amount
Balance at December 31, 2009	$ 875,924
Changes of ownership interest in PetroBakken	94,919
Changes of ownership interest in Petrominerales	(3,022)
Balance at June 30, 2010	**$ 967,821**

Accumulated Other Comprehensive Income (Loss)

Changes in Accumulated Other Comprehensive Income (Loss)	Amount
Balance at December 31, 2009	$ (29,894)
Unrealized loss on translation of Petrominerales' financial statements	11,565
Balance at June 30, 2010	**$ (18,329)**

Stock Options

Stock Option Continuity	Stock Options	Weighted-Average Exercise Price
Balance at December 31, 2009	4,091,079	$ 28.34
Granted	737,194	44.72
Exercised	(819,053)	11.55
Forfeited	(135,313)	30.30
Balance at June 30, 2010	**3,873,907**	**$ 34.94**

Deferred Common Shares

Deferred Common Share Continuity	Number
Balance at December 31, 2009	204,310
Granted	21,819
Exercised	(5,500)
Balance at June 30, 2010	**220,629**

Directors Deferred Common Shares

In the second quarter of 2010, shareholders approved a non-employee directors deferred common share plan. The plan allows the holder to receive one common share upon the vesting and payment of $0.05 per share exercise price. The directors deferred common shares granted typically vest after three years from the date of grant and expire 10 years after the date of grant.

The Company granted 6,123 directors deferred common shares during the second quarter of 2010.

Incentive Shares

In the second quarter of 2010, shareholders approved an incentive plan for directors, officers, service providers and employees. The plan allows the holder to receive one common share upon the vesting and payment of $0.05 per share exercise price. The terms of the incentive shares granted are determined by the Company's Board of Directors but typically, incentive shares vest after four years from the date of grant and expire between five and 10 years after the date of grant.

The Company granted 72,864 incentive shares during the second quarter of 2010.

Stock-Based Compensation

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

Six months ended June 30,	2010	2009
Risk free interest rate	**2.25%**	1.75% – 2.25%
Dividend rate	**0%**	0%
Expected life – incentive shares (years)	**2.75 – 3.75**	-
Expected life – stock options (years)	**2 – 4**	3.75 – 4
Expected life – deferred common shares (years)	**8**	8
Expected life – directors deferred common shares (years)	**8**	-
Expected volatility	**33%**	37.5% – 47.5%
Fair value of incentive shares granted	**$ 40.35**	-
Fair value of stock options granted	**$ 12.66**	$ 9.95
Fair value of deferred common shares granted	**$ 53.89**	$ 24.18
Fair value of directors deferred common shares granted	**$ 40.03**	-

Earnings Per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	**2010**	2009
Net income attributable to Petrobank shareholders adjustments				
Basic	**$ 41,050**	$ 34,667	**$ 123,549**	$ 33,125
Interest expense on Petrobank's convertible debentures	**29**	4,374	**1,612**	2,199
Tax effect	**(9)**	(1,291)	**(452)**	(649)
Impact of Petrominerales dilution on net income	**(3,321)**	(249)	**(6,507)**	(125)
Impact of PetroBakken dilution on net income	**15**	-	**(47)**	-
Net income attributable to Petrobank, diluted	**$ 37,764**	$ 37,501	**$ 118,155**	$ 34,550
Weighted average common share adjustments				
Weighted average common shares outstanding, basic	**105,204,044**	84,668,160	**102,736,421**	84,103,145
Effect of convertible debentures	**891,390**	7,232,099	**2,995,905**	3,636,028
Effect of stock options, deferred common shares and incentive shares	**1,180,485**	1,016,906	**1,108,509**	511,262
Diluted	**107,275,919**	92,917,165	**106,840,835**	88,250,435

NOTE 5 – BANK DEBT

As at June 30, 2010	**HBU and Corporate**	**PetroBakken**	**Petrominerales**	**Petrobank Consolidated**
Bank debt outstanding	$ -	$ 564,206	$ -	**$ 564,206**
Deferred financing costs	-	(7,080)	-	**(7,080)**
Bank debt	**$ -**	**$ 557,126**	**$ -**	**$ 557,126**

Heavy Oil Business Unit ("HBU") and Corporate

Petrobank's HBU and Corporate operating segment closed a $30 million secured credit facility on April 14, 2010. The reserve-based revolving credit facility has an initial term ending April 30, 2011, extendable by the lender for an additional year. If the lender were to not extend the term, the drawn amount would become due on April 30, 2012. The credit facility bears interest at the prime rate plus a margin based upon the collateral value of Petrobank's ownership in its public subsidiaries. The facility is secured by a $100 million demand debenture and a securities pledge in respect of the issued and outstanding shares of Petrobank's publicly traded subsidiaries. While available, the HBU and Corporate operating segment must maintain an interest coverage ratio of not less than 2:1.

PetroBakken

PetroBakken's reserve-based revolving credit facility borrowing limit was increased during the second quarter of 2010 from $900 million to $1.0 billion following its semi-annual review by the lenders and was amended to become a covenant-based facility with no semi-annual review.

Petrominerales

Petrominerales has a US$150 million secured credit facility. Petrominerales also has lines of credit available in Colombia totalling US$32.8 million. At June 30, 2010, Petrominerales had letters of credit totalling US$21.4 million and pledged US$1.4 million in restricted cash to guarantee the obligations under these exploration contracts. Letters of credit issued against the Colombian operating line of credit (US$20.0 million) reduce the amounts available under the facility.

NOTE 6 – CONVERTIBLE DEBENTURES

Petrobank ("PBG")

5.125% Convertible Debentures

In January 2010, debentures with a face value of US$250.7 million were converted into a total of 7,452,099 common shares and $300.0 million (net of costs) was credited to share capital. Petrobank paid $1.4 million to debenture holders and issued 868,988 more shares than per the original debenture agreement in order to early convert their holdings into common shares. As a result, the Company recorded a $42.0 million, net of tax, reduction in retained earnings relating to the early conversion.

In April 2010, the remaining US$149.3 million principal amount of Petrobank's 5.125% convertible debentures were converted into a total of 3,920,446 common shares and $150.1 million (net of costs) was credited to share capital. Petrobank paid $28.0 million to debenture holders in order to early convert their holdings into common shares. As a result, the Company recorded a $17.0 million, net of tax, reduction in retained earnings relating to the early conversion.

3.0% Convertible Debentures

In May 2010, Petrobank forced conversion of the remaining 3.0% debentures with a principal value of US$5.1 million, upon which 179,009 common shares were issued and $6.0 million was credited to share capital.

PetroBakken

On January 25, 2010, PetroBakken issued US$750 million of convertible debentures maturing in February 2016. The debentures are convertible into common shares of PetroBakken and have an annual coupon rate of 3.125% and an initial conversion price of US$39.61 per debenture. The conversion price is subject to change in certain circumstances including for dividends paid by PetroBakken. Due to dividends paid to PetroBakken shareholders from February to May 2010, the conversion price has been adjusted to US$39.14 per debenture. Upon conversion based on the current conversion price, a total of 19,161,983 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$750 million issuance resulted in $577 million being classified as a liability and $194 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 U.S. dollar denominated convertible debentures are translated for accounting purposes based on the Canadian dollar exchange rate on the date of issue. PetroBakken entered into currency swap agreements prior to the date of issue and the actual Canadian dollar proceeds received by PetroBakken resulted in an $18.2 million realized foreign exchange loss in the first quarter of 2010.

Petrominerales

As at June 30, 2010, the principal balance of the debentures is US$81.7 million. If converted, a total of 2,987,367 Petrominerales common shares may be issued, subject to normal provisions for adjustments of the conversion price such as dividends, a special distribution to shareholders or upon a change of control. Petrominerales has an option to force conversion of the debentures at the prevailing conversion price should the price of Petrominerales' common shares exceed 130% of the prevailing conversion price of the debentures for 20 trading days within a period of 30 consecutive trading days.

The following table summarizes the liability component of the debentures at June 30, 2010:

	PBG	PBN	PMG	Total
Balance of liability component, December 31, 2009	$ 348,957	$ -	$ 80,409	$ 429,366
Liability component of debenture issuance [1]	-	577,153	-	577,153
Accretion	1,503	11,498	2,621	15,622
Conversion into common shares [2]	(342,940)	-	-	(342,940)
Changes in exchange rates	(7,520)	1,612	1,143	(4,765)
Balance of liability component, June 30, 2010	**$ -**	**$ 590,263**	**$ 84,173**	**$ 674,436**

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

(2) The conversion value of $342.9 million represents the carrying amount of the liability portion on the conversion dates.

On August 10, 2010, Petrominerales announced a US$550 million convertible debenture offering (the "Offering"). The debentures are convertible into common shares of Petrominerales and have an annual coupon rate of 2.625% and a conversion price of US$34.746 (Cdn$36.254) per debenture. The debentures will be issued at 100% of their principal amount and, unless previously redeemed, converted or cancelled, will mature in 2016. The debentures are expected to be issued on or about August 25, 2010. The offering is subject certain approvals, including the approval of the Toronto Stock Exchange.

NOTE 7 – INTEREST EXPENSE

Interest expense includes the following:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	**2010**	2009
Cash interest	**$ 13,854**	$ 5,411	**$ 27,218**	$ 12,142
Accretion on convertible debentures:				
Petrobank	**233**	2,948	**1,503**	6,554
PetroBakken	**6,724**	-	**11,498**	-
Petrominerales	**1,327**	1,271	**2,621**	2,581
Amortization of deferred financing costs and other assets	**1,484**	248	**2,908**	506
Capitalized interest related to Conklin project[1]	**(613)**	(2,642)	**(2,812)**	(5,378)
Interest expense	**$ 23,009**	$ 7,236	**$ 42,936**	$ 16,405

NOTE 8 – NON-CONTROLLING INTERESTS

The components of the Company's non-controlling interests in PetroBakken, Petrobank's 58% owned subsidiary as at June 30, 2010 and Petrominerales, Petrobank's 66% owned subsidiary are as follows:

	PetroBakken	Petrominerales	Total
Balance at December 31, 2009	$ 1,069,805	$ 183,703	$ 1,253,508
Attributable income	8,103	55,326	63,429
Stock-based compensation	12,531	5,069	17,600
Issuance of convertible debentures	194,113	-	194,113
Common shares repurchased	(3,140)	-	(3,140)
Changes in ownership interest [1]	358,634	7,238	365,872
Dividends paid or declared by subsidiaries	(86,952)	(12,399)	(99,351)
Dividends received or receivable by Petrobank	52,704	8,157	60,861
Balance at June 30, 2010	**$ 1,605,798**	**$ 247,094**	**$ 1,852,892**

[1] Reflects the book values of the non-controlling interest share related to shares issued in connection with acquisitions and changes in non-controlling interest due to stock options, deferred common shares and incentive shares exercised in the period.

NOTE 9 – CAPITAL MANAGEMENT

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

	HBU and Corporate	PetroBakken	Petrominerales	Petrobank Consolidated
Working capital deficit (surplus) – excluding convertible debentures	$ (22,413)	$ 133,520	$ (71,354)	**$ 39,753**
Bank debt – principal	$ -	$ 564,206	$ -	**$ 564,206**
Convertible debentures – principal amount (US$)	$ -	$ 750,000	$ 81,700	**$ 831,700**
Common share capital [1]	$1,352,067	$ 3,168,605	US$ 202,811	**$ 1,352,067**
Credit facility – borrowing base	$ 30,000	$ 1,000,000	US$ 150,000	
Available credit capacity	$ 30,000	$ 435,794	US$ 150,000	

[1] The common share capital of PetroBakken and Petrominerales eliminates upon consolidation of these financial statements.

Petrobank's and each of our public subsidiary's policies are to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence.

HBU and Corporate

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

Based on Petrobank's current ownership and PetroBakken's intentions of paying an annual dividend of $0.96 per PetroBakken share, Petrobank expects to receive $105.4 million of dividends annually from PetroBakken paid monthly. Based on Petrobank's current ownership and Petrominerales' intentions of paying an annual dividend of $0.50 per Petrominerales share, Petrobank expects to receive $32.6 million of dividends annually from Petrominerales paid quarterly. Combined, Petrobank expects to receive total annual dividends of $138 million from its subsidiaries. Petrobank can also raise funds by selling a portion of its ownership in PetroBakken and Petrominerales or by issuing additional debt secured by these interests.

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

PetroBakken

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

PetroBakken monitors leverage and adjusts its capital structure based on the ratio of bank debt to annualized earnings before interest, taxes and non-cash items (a non-GAAP measure). At June 30, 2010, the ratio of debt to annualized second quarter 2010 earnings before interest, taxes and non-cash items was 0.8 to 1, which is within a range acceptable to management. PetroBakken uses the ratio of debt to annualized earnings before interest, taxes and non-cash items as a key indicator of the Company's leverage and to monitor the strength of the balance sheet. In order to facilitate the management of this ratio, the Company prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, changes in capital structure, execution of the Company's business plan and general industry conditions. The annual budget is approved by the PetroBakken Board of Directors and updates are prepared and reviewed as required.

PetroBakken is in compliance with the covenants on its credit facility agreements. The credit facility has financial covenants that limit the ratio of secured debt (defined as total drawn on credit facility) to earnings before interest, taxes, depreciation and amortization ("EBITDA") to 3:1, limit the ratio of total debt (defined as total drawn on credit facility plus value of outstanding convertible debenture in Canadian dollars) to EBITDA to 4:1, and limit secured debt to 50% of total liabilities plus total equity.

PetroBakken's convertible debentures are considered to be equity as opposed to debt for capital management purposes. The Company has the option to repay the principal and interest amount in common shares or cash.

PetroBakken is in compliance with the covenants on its convertible debentures. The convertible debenture agreement stipulates that the ratio of secured debt to total assets is not to exceed 35%.

PetroBakken had positive cash flow from operations for the three and six months ended June 30, 2010, and a credit facility with $435.8 million of available capacity as at June 30, 2010.

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

Petrominerales

Petrominerales monitors leverage and adjusts its capital structure based on the ratio of net debt to annualized cash flow. This ratio is calculated as net debt, a non-GAAP measure Petrominerales defines as outstanding bank debt plus the principal amount of convertible debentures and working capital, divided by cash flow from operations before changes in non-cash working capital for the most recent calendar quarter, annualized. At June 30, 2010, net debt was negative since Petrominerales had a working capital surplus and the convertible debentures were considered equity since the market price of Petrominerales shares was greater than the conversion price. Petrominerales uses the ratio of net debt to cash flow as a key indicator of Petrominerales' leverage and to monitor the strength of the balance sheet. In order to facilitate the management of this ratio, Petrominerales prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of Petrominerales' business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

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

Petrominerales initiated a quarterly dividend payment of $0.125 per share, effective for the second quarter of 2010. Petrominerales' strategy is to provide a reasonable dividend yield to shareholders while executing an accretive growth-oriented business plan.

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 June 30, 2010, oil, natural gas and NGL production of the Company's Canadian oil production is sold to a number of oil and gas marketers. The Company's policy to mitigate the risk associated with these balances is to establish marketing relationships with large purchasers and, where practical, obtain support in the form of guarantees or letters of credit.

Petrominerales' crude oil production is sold, as determined by market based prices adjusted for quality differentials, to four main counterparties: Ecopetrol, the Colombian state oil company, and the remainder to three international oil companies. Petrominerales' oil revenue is received in Bermuda and is denominated in U.S. dollars. Typically, Petrominerales' maximum credit exposure to customers is up

to two months' sales revenue except for the production month of December where November sales and part of December sales from the main oil purchaser are received by the end of the year. Petrominerales does not anticipate non-performance by any of the counterparties. In addition, Petrominerales reduced its credit risk to certain counterparties in 2010 through credit insurance.

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

As at	June 30, 2010	Dec. 31, 2009
Oil and natural gas customers	**$ 295,746**	$ 177,476
Tax receivable	**-**	8,856
Other	**17,698**	18,118
Total	**$ 313,444**	$ 204,450

Receivables from oil and natural gas marketers are normally collected 25 to 45 days after the month of production. Receivables from joint-venture partners related to capital and operating expenses are generally collected between 45 and 90 days after the month of billing. The Company historically has not experienced any collection issues with its oil and natural gas customers or joint interest partners.

Cash and cash equivalents and restricted cash consist of cash bank balances and short term deposits maturing in less than 90 days. The Company manages the credit exposure related to short term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding investment vehicles with higher risk such as asset backed commercial paper.

The carrying amount of accounts receivable, cash and cash equivalents and restricted cash represent the Company's maximum credit exposure. The Company had a $1.8 million allowance for doubtful accounts as at June 30, 2010 (December 31, 2009 – $1.8 million). For the three and six months ended June 30, 2010 and 2009, the Company did not provide for any doubtful accounts nor was it required to write-off any receivables.

The Company's accounts receivables are aged as follows:

As at	June 30, 2010	Dec. 31, 2009
Not past due	**$ 298,292**	$ 196,450
Past due	**15,152**	8,000
Total	**$ 313,444**	$ 204,450

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, PetroBakken has revolving asset based credit facilities, as outlined in Note 5, which has an initial maturity date of June 3, 2011, extendable by the lenders for an additional year. If the lenders were to not extend the term, the drawn amount would become due on June 3, 2012.

The following are the contractual maturities of financial liabilities at June 30, 2010:

Financial Liability	< 1 Year	1-3 Years	3-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	$ 553,770	$ -	$ -	$ -	$ 553,770
PetroBakken bank debt – principal	-	564,206	-	-	564,206
PetroBakken convertible debentures – principal (US$) [1]	-	-	-	750,000	750,000
Petrominerales convertible debentures – principal (US$)	81,700	-	-	-	81,700
Total [2]	**$ 640,421**	**$ 564,206**	**$ -**	**$ 795,450**	**$ 2,000,077**

(1) The debentures are convertible to common shares of PetroBakken at an initial conversion price of US$39.61 per PetroBakken share. The conversion price is subject to change in certain circumstances including dividends paid by PetroBakken. Due to dividends paid to shareholders of PetroBakken from February to May 2010, the conversion price has been adjusted to US$39.14 per debenture. Upon conversion based on the current conversion price, a total of 19,161,983 common shares may be issued.

(2) US$ amounts have been converted using a period end exchange rate of 1.0606.

Market Risk

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

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

Foreign Currency Risk

The Company is exposed to foreign currency fluctuations as Colombian revenues are denominated in U.S. dollars and Colombian expenses are denominated primarily in U.S. dollars and Colombian pesos. The Company is also exposed as PetroBakken's convertible debentures are denominated in U.S. dollars and Canadian revenues are strongly linked to U.S. dollar denominated benchmark prices. When appropriate, the Company may enter into agreements to fix the exchange rate of Canadian dollars to U.S. dollars in order to manage exchange rate risks. The Company had no forward exchange rate contracts in place as at June 30, 2010.

At June 30, 2010, if the Canadian dollar had depreciated five percent against the U.S. dollar with all other variables held constant, net income would have been $24.8 million lower for the three month ended June 30, 2010 (2009 – $0.1 million higher), due to PetroBakken's U.S. dollar denominated convertible debentures and PetroBakken's U.S. dollar denominated risk management contracts. Other comprehensive income would have been $47.8 million lower (2009 – $23.4 million higher) due to the foreign currency balances of Petrominerales that are translated into Petrobank's consolidated financial statements. The Company had no forward exchange rate contracts in place as at or during the three and six months ended June 30, 2010.

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 and political 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 derivative contracts in place as at June 30, 2010:

Crude Oil Price Risk Management Contracts – WTI[(1)]

Term	Volume (bopd)	Average Price ($/bbl)	Benchmark
Apr. 1, 2010 – Dec. 31, 2010	5,000	$71.50 floor / $93.15 ceiling	C$ WTI
Apr. 1, 2010 – Dec. 31, 2010	4,000	$72.50 floor / $95.04 ceiling	US$ WTI
Apr. 1, 2010 – Dec. 31, 2010	1,000	$72.50 Put	US$ WTI
Jan. 1, 2011 – Dec. 31, 2011	2,500	$78.00 floor / $95.40 ceiling	C$ WTI
Jan. 1, 2011 – Dec. 31, 2011	4,500	$76.11 floor / $101.43 ceiling	US$ WTI

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

PetroBakken had the following natural gas price risk management contracts outstanding as at June 30, 2010:

Natural Gas Price Risk Management Contracts – AECO

Term	Volume (GJ/d)	Price ($/GJ)	Type
Nov. 1, 2009 – Oct. 31, 2010	1,500	$5.00 floor / $6.25 ceiling	Collar
Nov. 1, 2009 – Nov. 30, 2010	2,500	$5.00 floor / $7.20 ceiling	Collar
Nov. 1, 2009 – Oct. 31, 2010	1,200	$5.36	Fixed Price Swap
Apr. 1, 2010 – Mar. 31, 2011	2,000	$6.00	Fixed Price Swap
Apr. 1, 2010 – Dec. 31, 2011	2,000	$6.02	Fixed Price Swap

The fair value of the commodity risk management contract asset as at June 30, 2010 is $12.1 million (December 31, 2009 – $6.0 million liability). If crude oil prices had been 10% lower on June 30, 2010, with all other variables held constant, the change in the fair value of the risk management contracts would have resulted in net income that was $27.9 million higher for the three and six months then ended (2009 – $2.1 million higher). If natural gas prices had been 10% lower on June 30, 2010, with all other variables held constant, the change in the fair value of the risk management contracts would have resulted in net income that was $0.9 million higher for the three and six months then ended (2009 - $nil).

Long-Term Physical Gas Sale Contract

The Company is committed to deliver 2,209 GJ per day of natural gas under an escalating price contract which expires on October 31, 2012. The wellhead price under this contract for the six months ended

June 30, 2010 was $5.35 per GJ. The Company applies the expected purchase and sale exemption to this contract and accordingly does not apply hedge accounting principles to this contract.

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. 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 June 30, 2010:

Term	Notional Principal / Month	Fixed Annual Rate (%)
Apr. 2009 – Apr. 2011	C$50 million	1.050%
Apr. 2009 – Apr. 2012	C$50 million	1.300%
Jan. 2009 – Jan. 2012	C$50 million	1.620%
Jan. 2009 – Jan. 2012	C$50 million	1.653%
Feb. 2009 – Feb. 2012	C$25 million	1.540%
Feb. 2009 – Feb. 2012	C$25 million	1.510%
Feb. 2009 – Feb. 2011	C$40 million	2.390%
Jun. 2009 – Jun. 2012	C$25 million	2.094%

The fair value of the interest rate swap contracts as at June 30, 2010 was an asset of $0.7 million (December 31, 2009 – $0.1 million liability). If interest rates had been 1% higher at June 30, 2010, net income would have increased by $4.1 million (2009 – $2.0 million higher) due to the change in fair value of the interest rate swaps.

Fair Value of Financial Derivative Contracts

The following table summarizes the change in the fair value of derivative contracts:

	Crude Oil	Natural Gas	Interest	**Six months ended June 30, 2010**
Opening risk management liability	$ (6,488)	$ 470	$ (118)	**$ (6,136)**
Unrealized gain	14,938	1,250	1,470	**17,658**
Contracts acquired	-	1,980	(688)	**1,292**
Risk management asset, June 30, 2010	**$ 8,450**	**$ 3,700**	**$ 664**	**$ 12,814**

The net risk management asset/liability consists of current and non-current assets and liabilities. The table below summarizes the components of the net risk management asset/liability as at June 30, 2010:

	Crude Oil	Natural Gas	Interest	**As at June 30, 2010**
Current				
Risk management asset	$ 7,780	$ 3,121	$ 465	**$ 11,366**
Risk management liability	(4,189)	-	(131)	**(4,320)**
Non-current				
Risk management asset	5,216	579	545	**6,340**
Risk management liability	(357)	-	(215)	**(572)**
Net risk management asset	**$ 8,450**	**$ 3,700**	**$ 664**	**$ 12,814**

Risk management contracts	Three months ended June 30, 2010	2009	Six months ended June 30, 2010	2009
Realized gain (loss):				
Crude oil derivative contracts	**$ (741)**	$ 6,172	**$ (1,139)**	$ 16,727
Natural gas derivative contracts	**1,012**		**1,253**	
Interest rate swap contracts	**(731)**	-	**(1,593)**	-
Unrealized gain (loss):				
Crude oil derivative contracts	**16,889**	(16,392)	**14,938**	(24,720)
Natural gas derivative contracts	**(1,813)**		**1,250**	
Interest rate swap contracts	**131**	-	**1,470**	-
Gain (loss) on risk management contracts	**$ 14,747**	$ (10,220)	**$ 16,179**	$ (7,993)

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

Fair Value of Financial Instruments

The Company's financial instruments are classified as cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, risk management liabilities, bank debt, convertible debentures and obligations under gas sale contract included within other long-term liabilities on the balance sheet. The carrying value and fair value of these financial instruments at June 30, 2010 is disclosed in the table that follows by financial instrument category, as well as any related gain, loss, expense or revenue for the six months ended June 30, 2010:

Financial Instrument	**Carrying Value**	**Fair Value**	**Gain**	**Interest Expense**	**Revenue**
Assets Held For Trading					
Cash and cash equivalents [(1)]	178,047	178,047	-	-	-
Restricted cash	1,541	1,541	-	-	-
Loans and Receivables					
Accounts receivable	313,444	313,444	-	-	-
Other Liabilities					
Accounts payable and accrued liabilities	525,795	525,795	-	-	-
Risk management liabilities (net)	12,814	12,814	16,179[(2)]	-	-
Bank debt	557,126	564,206	-	15,335[(3)]	-
Convertible debentures	674,436	831,088[(4)]	3,089[(5)]	27,601[(6)]	-
Obligations under gas sale contract	1,933	373	-	-	410[(7)]

(1) The effective yield on cash equivalents at June 30, 2010 was 0.2% (December 31, 2009 – 0.3%).

(2) Included in gain on risk management contracts on the statement of operations and retained earnings, and statement of comprehensive income. The unrealized gain of $17.7 million is included on the statement of cash flow.

(3) Included in interest expense net of capitalized interest on the statement of operations and retained earnings and statement of comprehensive income. The amortization of deferred financing costs is included on the statement of cash flow. The effective yield on bank debt before capitalized interest at June 30, 2010 was 3.2% (December 31, 2009 – 3.6%).

(4) The Company estimated the fair value of the convertible debentures based on market transactions close to June 30, 2010. The principal amounts of the PetroBakken and Petrominerales convertible debentures at June 30, 2010 are US$750 million and US$81.7 million, respectively.

(5) Included in foreign exchange loss (gain) on the statement of operations and retained earnings, and statement of cash flow. In addition, a $1.1 million loss relating to the foreign currency translation of the liability component of Petrominerales' convertible debentures is also included on the statement of comprehensive income.

(6) Included in interest expense net of capitalized interest on the statement of operations and retained earnings and statement of comprehensive income. The non-cash interest expense relating to the accretion of the initial discounts and transaction costs that are netted against the liabilities are included in accretion on convertible debentures on the statement of cash flow. The effective yield on the convertible debentures issued by PetroBakken is 9.0% and 9.7% on the convertible debentures issued by Petrominerales.

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

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

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

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

The risk management contracts (level 2) are recorded at their fair value based on quoted market prices in the futures market on the balance sheet date; accordingly, there is no difference between fair value and carrying value. Bank debt (level 1) is recorded on the balance sheet net of deferred financing costs which results in a difference between carrying value and the fair value. The fair value of the convertible debentures (level 2) is estimated based on market transactions close to the balance sheet date, while the carrying value only represents the liability component of the debentures. The fair value of the obligations under the gas sale contract (level 2) is based on the estimated cash payment necessary to settle the contract at the balance sheet date. Cash payments are calculated based on discounted cash flow analysis using prevailing market prices at the time. Due to the short term nature of: cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities their carrying values approximate their fair values.

NOTE 11 – CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	**2010**	2009
Change in:				
Accounts receivable and other current assets	**$ 24,790**	$ (29,009)	**$ (105,553)**	$ (67,566)
Accounts payable and accrued liabilities	**(8,208)**	(65,905)	**43,879**	(39,674)
Income taxes payable	**12,766**	-	**27,975**	-
Depletion related to other current assets	**(837)**	39	**884**	911
Other	**(44)**	1,702	**(88)**	1,702
	28,467	(97,173)	**(32,903)**	(104,627)
Working capital deficiencies acquired (Note 3)	**2,882**	-	**(35,992)**	-
	$ 31,349	$ (97,173)	**$ (68,895)**	$ (104,627)
Changes relating to:				
Attributable to operating activities	**$ 45,221**	$ (29,216)	**$ (71,065)**	$ (43,108)
Attributable to financing activities	**$ 13,485**	$ -	**$ 11,533**	$ -
Attributable to investing activities	**$ (27,357)**	$ (67,957)	**$ (9,363)**	$ (61,519)

Other cash flow information:				
Cash taxes paid	**$ 1,064**	$ 1,055	**$ 1,064**	$ 1,055
Cash interest paid	**$ 13,995**	$ 10,273	**$ 35,140**	$ 13,642
Cash interest received	**$ 64**	$ 211	**$ 104**	$ 312

Cash and cash equivalents consist of:				
Cash	**$ 11,176**	$ 5,619	**$ 11,176**	$ 5,619
Cash equivalents	**$ 166,871**	$ 18,430	**$ 166,871**	$ 18,430

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments at June 30, 2010:

Type of Commitment	< 1 Year	1-3 Years	3-5 Years	Thereafter	Total
HBU and Corporate					
Office operating leases ($)	1,800	4,700	5,100	9,600	**21,200**
PetroBakken					
Office operating leases ($)	3,852	9,221	10,328	17,246	**40,647**
Petrominerales					
Exploration contracts (US$) [1] [2]	45,700	23,700	-	-	**69,400**
Transportation contract (US$)	2,001	-	-	-	**2,001**
Office lease (US$)	1,900	3,800	2,800	-	**8,500**
Total Company ($) [3]	58,259	43,087	18,398	26,846	**146,590**

(1) These work commitments are normal course of business exploration activities that include property costs, acquisition and processing of seismic data and drilling exploration wells. Petrominerales has issued letters of credit totalling US$20.0 million and pledged US$1.4 million in restricted cash to guarantee the obligations under these exploration contracts.

(2) Following the Colombian Open Bid Round June 2010, Petrominerales was awarded Block 59 and Block 15. Our first phase work commitments on Block 59 will include spending US$24.2 million over three years to acquire 300 square kilometres of 3D seismic and drilling four exploration wells. Our first phase work commitments on Block 15 will include spending US$10.0 million over three years to acquire 100 square kilometres of 3D seismic and drilling two exploration wells. These commitments will be included once the contracts are signed.

(3) US$ amounts have been converted using the June 30, 2010 exchange rate of $1.0606.

The development of certain of the Company's assets and the success of its operations are dependent on obtaining sufficient financing to fund its working capital requirements and future capital expenditure commitments. The Company plans to fund these commitments with existing cash balances, funds flow from operations, available credit facilities, new debt and potentially through the issuance of equity. The HBU and Corporate segment also receives dividends from PetroBakken and Petrominerales providing funding for ongoing capital projects.

Contingencies

In the normal course of operations, the Company and its subsidiaries have disputes with industry participants for which the Company currently cannot determine the ultimate result. The Company and its subsidiaries records costs as they are incurred or become determinable. Management believes the resolution of these matters would not have a material adverse effect on the Company's consolidated financial position or results from operations.

Petrominerales currently has a dispute with the Colombian Agencia Nacional de Hidrocarburos (National Hydrocarbon Agency) ("ANH") related to the interpretation of the Corcel Block exploration contract ("Corcel Contract") entered into between Petrominerales and the ANH on June 2, 2005.

The Corcel Contract requires a high price participation payment ("Additional Contribution") to be paid by Petrominerales to the ANH once an exploitation area has cumulatively produced more than five million barrels of oil, determined before the deduction of royalties. The Additional Contribution is paid at 30 percent of the price received above certain threshold prices, based on the oil quality produced.

The ANH has indicated their view that all exploitation areas under the Corcel Contract should be combined for the purposes of determining when the Additional Contribution is payable. As combined production from the Corcel-A, Corcel-C and Corcel-D exploitation areas has exceeded five million barrels of oil, the ANH asserts that Petrominerales is required to pay an Additional Contribution with respect to production from Corcel-A, Corcel-C and Corcel-D from January 2010 onwards and on a go-forward basis

for all of Petrominerales' exploitation areas combined in the Corcel Block. Based on their view, the ANH has issued invoices to Petrominerales aggregating US$21.7 million as at June 30, 2010. As at June 30, 2010, the Corcel-A, Corcel-C and Corcel-D exploitation areas have individually produced 4.5, 3.2 and 2.2 million barrels, respectively. Individually, none of Petrominerales' exploitation areas on the Corcel Block have cumulatively produced more than five million barrels of oil.

Petrominerales disagrees with the ANH interpretation and views the Corcel Contract as providing that payment of the Additional Contribution is required once each individual exploitation area has cumulatively produced more than five million barrels of oil.

The dispute is currently in a conflict resolution process as provided for in the Corcel Contract. Petrominerales believes that the resolution of this dispute will be in favour of the Company, and accordingly, no additional royalty provision has been made in these financial statements.

NOTE 13 – SEGMENTED INFORMATION

Three months ended June 30,	2010				2009			
	PBN	PMG	HBU and Corporate	Total	PBN	PMG	HBU and Corporate	Total
Revenues								
Oil and natural gas	$ 245,954	$ 327,086	$ -	$ 573,040	$ 102,452	$121,944	$ -	$ 224,396
Royalties	(35,258)	(26,395)	-	(61,653)	(13,195)	(9,771)	-	(22,966)
Gain (loss) on risk management contracts	14,747	-	-	14,747	(10,220)	-	-	(10,220)
Interest income	-	59	174	233	-	210	51	261
	225,443	300,750	174	526,367	79,037	112,383	51	191,471
Expenses								
Production	29,189	26,816	-	56,005	11,610	15,299	-	26,909
Transportation	4,204	31,349	-	35,553	1,541	13,404	-	14,945
Purchased oil	-	29,764	-	29,764	-	-	-	-
General and administrative	8,137	5,222	2,242	15,601	3,479	3,173	961	7,613
Acquisition related	1,218	1,096	-	2,314	-	-	-	-
Stock-based compensation	7,295	2,447	2,702	12,444	4,170	1,434	1,384	6,988
Interest	19,145	3,681	183	23,009	2,447	2,587	2,202	7,236
Foreign exchange loss (gain)	24,966	1,319	637	26,922	-	7,290	(29,797)	(22,507)
Depletion, depreciation and accretion	135,255	79,796	211	215,262	53,309	44,860	85	98,254
	229,409	181,490	5,975	416,874	76,556	88,047	(25,165)	139,438
Income (loss) before taxes	(3,966)	119,260	(5,801)	109,493	2,481	24,336	25,216	52,033
Current taxes	-	23,982	-	23,982	-	1,391	-	1,391
Future income taxes (recovery)	11,422	10,691	(233)	21,880	2,512	4,740	3,257	10,509
Net income (loss)	(15,388)	84,587	(5,568)	63,631	(31)	18,205	21,959	40,133
Income (loss) applicable to non-controlling interests	(6,432)	29,013	-	22,581	-	5,466	-	5,466
Net income (loss) attributable to Petrobank shareholders	$ (8,956)	$ 55,574	$ (5,568)	$ 41,050	$ (31)	$ 12,739	$ 21,959	$ 34,667
Identifiable assets	$5,507,569	$1,112,399	$ 540,719	$7,160,687	$1,297,287	$725,603	$398,281	$2,421,171
Goodwill	$1,490,514	$ 5,320	$ 28,119	$1,523,953	$ 35,052	$ -	$ 28,119	$ 63,171
Capital expenditures	$ 122,688	$ 115,056	$ 10,652	$ 248,396	$ 38,901	$ 93,203	$ 12,318	$ 144,422
Dividends paid or declared (received or receivable)	$ 45,265	$ 12,399	$ (34,509)	$ 23,155	$ -	$ -	$ -	$ -

Six months ended June 30,	2010				2009			
	PBN	PMG	HBU and Corporate	Total	PBN	PMG	HBU and Corporate	Total
Revenues								
Oil and natural gas	**$ 521,660**	**$ 584,513**	**$ -**	**$1,106,173**	$ 197,938	$217,244	$ -	$ 415,182
Royalties	**(72,799)**	**(51,967)**	**-**	**(124,766)**	(23,766)	(18,641)	-	(42,407)
Gain on risk management contracts	**16,179**	**-**	**-**	**16,179**	(7,993)	-	-	(7,993)
Interest income	**-**	**96**	**41**	**137**	-	309	81	390
	465,040	**532,642**	**41**	**997,723**	166,179	198,912	81	365,172
Expenses								
Production	**59,431**	**41,442**	**-**	**100,873**	25,146	29,559	-	54,705
Transportation	**6,804**	**56,274**	**-**	**63,078**	3,992	27,422	-	31,414
Purchased oil	**-**	**38,372**	**-**	**38,372**	-	-	-	-
General and administrative	**15,655**	**10,462**	**3,885**	**30,002**	6,479	6,592	1,901	14,972
Acquisition related	**1,286**	**1,096**	**-**	**2,382**	-	-	-	-
Stock-based compensation	**12,531**	**5,069**	**5,953**	**23,553**	8,935	2,856	2,873	14,664
Interest	**34,047**	**7,272**	**1,617**	**42,936**	5,463	5,547	5,395	16,405
Foreign exchange loss (gain)	**17,695**	**5,791**	**(8,803)**	**14,683**	-	3,780	(22,803)	(19,023)
Depletion, depreciation and accretion	**269,180**	**140,846**	**404**	**410,430**	112,119	94,711	169	206,999
	416,629	**306,624**	**3,056**	**726,309**	162,134	170,467	(12,465)	320,136
Income (loss) before taxes	**48,411**	**226,018**	**(3,015)**	**271,414**	4,045	28,445	12,546	45,036
Current taxes	**-**	**53,704**	**-**	**53,704**	-	2,868	-	2,868
Future income taxes (recovery)	**24,698**	**10,429**	**(4,395)**	**30,732**	3,897	(2,931)	190	1,156
Net income	**23,713**	**161,885**	**1,380**	**186,978**	148	28,508	12,356	41,012
Income applicable to non-controlling interests	**8,103**	**55,326**	**-**	**63,429**	-	7,887	-	7,887
Net income attributable to Petrobank shareholders	**$ 15,610**	**$ 106,559**	**$ 1,380**	**$ 123,549**	**$ 148**	**$ 20,621**	**$ 12,356**	**$ 33,125**
Identifiable assets	**$5,507,569**	**$1,112,399**	**$ 540,719**	**$7,160,687**	$1,297,287	$725,603	$398,281	$2,421,171
Goodwill	**$1,490,514**	**$ 5,320**	**$ 28,119**	**$1,523,953**	$ 35,052	$ -	$ 28,119	$ 63,171
Capital expenditures	**$ 307,804**	**$ 231,265**	**$ 34,586**	**$ 573,655**	$ 108,925	$174,763	$ 33,728	$ 317,416
Dividends paid or declared (received or receivable)	**$ 86,952**	**$ 12,399**	**$ (60,861)**	**$ 38,490**	$ -	$ -	$ -	$ -

PETROBANK

STRENGTH IN OUR RESOURCES

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