CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited, thousands of Canadian dollars)

Three months ended March 31,	Note	2011	2010
Oil and natural gas revenues	5	**$ 236,999**	$ 238,165
Gain (loss) on risk management contracts	20	**(38,351)**	1,432
		198,648	239,597
Production		**38,137**	30,242
Transportation		**2,755**	2,600
General and administrative	6	**8,810**	7,586
Share-based compensation	17	**5,444**	7,297
Loss (gain) on disposition	13	**248**	(6,928)
Gain on derivative financial liability	14	**(28,270)**	(48,096)
Interest and other	7	**21,994**	15,434
Foreign exchange gain		**(14,175)**	(8,862)
Depletion and depreciation expense	11	**100,020**	97,608
Income before taxes		**63,685**	142,716
Income tax expense	16	**10,310**	23,523
Net income and comprehensive income		**$ 53,375**	$ 119,193
Basic earnings per share	18	**$ 0.29**	$ 0.69
Diluted earnings per share	18	**$ 0.28**	$ 0.69

See accompanying notes to these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited, thousands of Canadian dollars)

As at,	Note	March 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Assets				
Current assets				
Cash and cash equivalents		**$ -**	$ -	$ 24,569
Accounts receivable	8	**183,320**	147,339	126,899
Prepaid expenses		**14,050**	11,151	16,722
Risk management assets	20	**1,359**	2,231	-
		198,729	160,721	168,190
Non-current assets held for sale	13	**-**	-	139,512
Exploration and evaluation	10	**986,740**	1,045,805	682,090
Property, plant and equipment	11	**3,431,295**	3,162,474	2,408,512
Goodwill	12	**1,496,005**	1,496,005	1,032,862
Total assets		**$ 6,112,769**	$ 5,865,005	$ 4,431,166
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities		**$ 421,774**	$ 344,476	$ 323,254
Risk management liabilities	20	**37,566**	12,682	2,694
		459,340	357,158	325,948
Bank debt	9	**962,262**	824,845	748,185
Convertible debentures	14	**592,708**	600,844	-
Derivative financial liability	14	**47,871**	76,141	-
Other long-term liabilities		**8,711**	5,170	3,961
Non-current liabilities held for sale	13	**-**	-	15,387
Decommissioning liability	15	**137,252**	132,495	107,572
Risk management liabilities	20	**14,603**	2,597	3,442
Deferred tax liabilities		**507,535**	497,225	359,252
		2,730,282	2,496,475	1,563,747
Shareholders' equity				
Common shares	17	**3,148,194**	3,147,238	2,717,098
Contributed surplus	17	**40,953**	36,462	7,125
Retained earnings		**193,340**	184,830	143,196
		3,382,487	3,368,530	2,867,419
Total liabilities and equity		**$ 6,112,769**	$ 5,865,005	$ 4,431,166

Commitments and contingencies (Note 23)

See accompanying notes to these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited, thousands of Canadian dollars)

	Notes	Common Shares	Contributed Surplus	Retained Earnings	Total
January 1, 2010		$ 2,717,098	$ 7,125	$ 143,196	$ 2,867,419
Net earnings		-	-	119,193	119,193
Shares issued for acquisitions	17	150,266	-	-	150,266
Share-based compensation	17	-	7,297	-	7,297
Dividends on common shares		-	-	(41,687)	(41,687)
March 31, 2010		$ 2,867,364	$ 14,422	$ 220,702	$ 3,102,488
January 1, 2011		$ 3,147,238	$ 36,462	$ 184,830	$ 3,368,530
Net earnings		-	-	53,375	53,375
Common shares issued under employee incentive plan	17	3	-	-	3
Share-based compensation	17	-	5,444	-	5,444
Transfer from contributed surplus related to shares issued under employee incentive plan	17	953	(953)	-	-
Dividends on common shares		-	-	(44,865)	(44,865)
March 31, 2011		**$ 3,148,194**	**$ 40,953**	**$ 193,340**	**$ 3,382,487**

See accompanying notes to these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited, thousands of Canadian dollars)

Three months ended March 31,	Notes	2011	2010
Operating Activities			
Net income		**$ 53,375**	$ 119,193
Adjusted for:			
Depletion and depreciation	11	**100,020**	97,608
Income tax expense	16	**10,310**	23,523
Unrealized loss (gain) on risk management contracts		**37,762**	(2,451)
Unrealized foreign exchange gain		**(13,856)**	(24,942)
Share-based compensation	17	**5,444**	7,297
Loss (gain) on disposition	13	**248**	(6,928)
Gain on derivative financial liability	14	**(28,270)**	(48,096)
Accretion on convertible debentures	14	**5,720**	4,048
Accretion on decommissioning liability	15	**1,344**	1,257
Realized foreign exchange loss related to financing	14	**-**	18,184
Amortization of deferred financing costs		**1,341**	1,064
Decommissioning liabilities settled	15	**(414)**	(706)
		173,024	189,051
Changes in non-cash working capital	22	**(34,624)**	(42,806)
		138,400	146,245
Investing Activities			
Expenditures on property, plant, and equipment		**(304,869)**	(146,955)
Exploration and evaluation expenditures		**(2,612)**	(38,161)
Acquisitions	13	**-**	(341,519)
Proceeds from dispositions	13	**1,284**	106,032
Changes in non-cash working capital	22	**77,296**	45,998
		(228,901)	(374,605)
Financing Activities			
Issuance of shares	17	**3**	-
Issuance (repayment) of bank debt		**136,076**	(503,833)
Issuance of convertible debentures – net of costs	14	**-**	769,651
Realized loss on foreign exchange contract	14	**-**	(18,184)
Amortization of obligations under gas sale contract		**(204)**	(204)
Dividends		**(44,865)**	(41,687)
Changes in non-cash working capital	22	**(509)**	(1,952)
		90,501	203,791
Net change in cash and cash equivalents		**-**	(24,569)
Cash and cash equivalents, beginning of period		**-**	24,569
Cash and cash equivalents, end of period		**$ -**	$ -
Other cash flow information:			
Cash interest paid		**$ 13,579**	$ 8,913

See accompanying notes to these condensed interim consolidated financial statements.

Note 1 – Corporate Information and Basis of Presentation

Corporate Information

PetroBakken Energy Ltd. ("PetroBakken" or the "Company") is a Canadian corporation with shares listed on the Toronto Stock Exchange ("TSX"). The registered office and principal address is located at Fifth Avenue Place, East Tower, 800, 425 – 1 Street S.W., Calgary, Alberta, T2P 3L8.

The Company is principally engaged in the exploration and development of oil and natural gas in western Canada. The Company's parent is Petrobank Energy and Resources Ltd. The condensed interim consolidated financial statements of the Company as at and for the three months ended March 31, 2011 comprise the company and its subsidiaries; refer to Note 24 for details.

Basis of Presentation

The condensed interim consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. The statements represent the first consolidated financial statements that have been prepared in accordance with IFRS. The first date IFRS was applied was January 1, 2010. Previously the consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Note 25 contains the reconciliations between Canadian GAAP and IFRS.

The condensed interim consolidated financial statements were approved by the Company's Board of Directors on May 9, 2011. Amounts recorded for depletion and depreciation costs and amounts used for property, plant and equipment and goodwill impairment calculations are based on a number of factors including estimates of oil and natural gas reserves and future costs required to develop those reserves. Share-based compensation is based upon expected volatility and option life estimates. Decommissioning liabilities and accretion on decommissioning liabilities are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates. The derivative financial liability related to the convertible debenture and the gain or loss on derivative financial liability is based on estimated fair value using the Black-Scholes model. The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

Note 2 – Significant Accounting Policies

Non-Current Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continued use. The sale of these assets must be considered highly probable. A sale is considered highly probable if the assets and disposal groups are available for immediate sale, and management has stated their intention to sell the

properties within one year. Non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying amount and the fair value less costs to sell, and are no longer depreciated.

Reserves

For the basis of these condensed interim consolidated financial statements, proved reserves are those reserves claimed to have a reasonable certainty (normally at least 90% confidence) of being recoverable under existing economic and political conditions, with existing technology. Probable reserves are attributed to known accumulations, and claim a 50% confidence level of recovery. Reserves are determined pursuant to National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities.*

Exploration and Evaluation Assets

Costs incurred prior to establishing commercial viability and technically feasibility are initially considered to be exploration and evaluation ("E&E") assets. This includes costs such as land and lease acquisition costs, and geological and geophysical costs. E&E costs are not depleted and are carried forward until proved reserves are determined to exist. A review of E&E costs is carried out at least annually to determine if reserves exist. Upon determination of reserves, costs are tested for impairment and reclassified to oil and natural gas assets. If commercial viability and technical feasibility is not established through the determination of proved reserves and there are no future plans for activity, then the E&E assets are determined to be impaired and the amounts are transferred to property, plant and equipment to be depleted.

Property, Plant, and Equipment

Unless initially classified as E&E assets, all costs related to the acquisition, exploration and development of oil and natural gas properties are capitalized and are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. These costs include land and lease acquisition costs, annual charges on non-producing properties, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, costs for production facilities, decommissioning costs, and carrying costs. Repairs and maintenance costs are expensed as incurred.

Oil and natural gas assets are accumulated in cost centre's based on cash generating units ("CGU's"). Costs are depreciated and depleted using the unit-of-production method based upon estimated proved plus probable reserves before royalties. Costs subject to depletion include estimated costs to develop proved plus probable reserves and exclude estimated salvage value. Reserve and production volumes of oil and natural gas are converted to common units on the equivalency basis of six mcf to one barrel of oil, reflecting the approximate relative energy content.

Proceeds from the disposition of oil and natural gas properties are credited against the accumulated costs of the properties sold and any gains or losses will be recorded in the statement of operations in the period when the disposition occurred.

Depreciation of corporate and other fixed assets is calculated using the declining balance method at a rate of 30 percent.

Impairment

An impairment test will be performed whenever events and circumstances indicate that the carrying value of the asset or CGU may exceed the recoverable amount, unless there is goodwill allocated to the CGU, in which case the impairment test must be performed at least annually. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Exploration and evaluation assets are allocated to the CGU they relate to for purposes of impairment testing. If there is indication of an impairment loss, the costs carried on the balance sheet in excess of the recoverable amount are charged to the statement of operations.

Impairment losses from prior periods are assessed at each reporting date for indications that the impairment loss no longer exists or has decreased. Impairment losses, other than those related to goodwill, can be reversed if there is a change in the estimates used to determine the recoverable amount. Reversal of impairment losses cannot exceed the carrying value of the asset prior to impairment less any depreciation and depletion that would have been taken if no impairment was recognized.

Disclosure for Oil and Gas Activities

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

Business Combinations and Goodwill

The purchase price used in a business combination is based on the fair value at the date of acquisition. The cost of the acquisition is measured at the fair value of the assets acquired net of liabilities assumed. All acquisition costs are expensed as incurred. Contingent liabilities are recognized at fair value at the date of the acquisition, and subsequently remeasured at each reporting period until settled. The excess of cost over fair value of the net assets and liabilities acquired is recorded as goodwill. Goodwill is allocated to the CGU expected to benefit from the synergies of the combination.

Goodwill has been recorded at cost and is not amortized. Goodwill is tested for impairment at least annually or whenever events or circumstances indicate that goodwill is impaired. Goodwill is assessed for impairment by assessing the recoverable amount of the CGU that the goodwill was allocated to. If goodwill is impaired the carrying value is reduced to the estimated fair value and an impairment loss is recorded in net income. Impairment on goodwill is not reversed. No impairment to goodwill has been recorded to date.

Capitalization of borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a capital project under construction for a substantial period of time (the Company defines this time period as being greater than one year) are capitalized and added to the project cost during construction until such time that the assets are substantially ready for their intended use. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred less interest income earned. Any income generated from short-term investments reduces the related total capitalized borrowing costs. Where the funds used to finance a project form part of general borrowings, the

amount capitalized is calculated using the weighted average of rates applicable to these general borrowings during the period. All other borrowing costs are recognized in the statement of operations and comprehensive income in the period they are incurred. No borrowing costs have been capitalized to date.

Decommissioning Liabilities

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

Financial Instruments

All financial assets and liabilities are recognized on the balance sheet when the Company becomes a party to the contractual provisions of the instrument and are initially recognized at fair value. Subsequent measurement of the financial instruments is based on their classification. Each financial instrument is classified into one of the following categories: financial assets and financial liabilities at fair value through profit and loss; loans or receivables; financial assets held to maturity; financial assets available for sale; and other financial liabilities. The classification depends on the characteristics and the purpose for which the financial instruments were acquired. Except in very limited circumstances, the classification of financial instruments is not subsequently changed. Financial instruments carried at fair value through profit and loss on our balance sheet include cash and cash equivalents, risk management contracts, and the derivative financial liability. Realized and unrealized gains and losses on financial assets and liabilities carried at fair value through profit and loss are recognized in net income in the periods such gains and losses arise. Transaction costs related to these financial assets and liabilities are included in net income when incurred. Financial instruments carried at cost or amortized cost include accounts receivable, accounts payable and accrued liabilities, bank debt, convertible debentures, and other long-term liabilities. Transaction costs incurred for these types of financial instruments, such as transaction costs related to bank debt and the convertible debenture, are included with the initial fair value and the instrument is carried at amortized cost. These costs are amortized into net income over the life of the asset or liability using the effective interest rate method, the amortization of these costs is included in interest expense on the statement of operations and comprehensive income. When bank debt is nil and the bank facility has not been cancelled, these costs are recorded as other assets. Gains and losses on financial assets and liabilities carried at cost or amortized cost, are recognized in net income when these assets or liabilities settle.

Derivatives

The Company may use derivative financial instruments to manage fluctuations in commodity prices, foreign currency exchange rates and interest rates. These derivative instruments are recorded at fair value at the balance sheet date and any changes in fair value are recorded in net income during the period of change unless the requirements for hedge accounting are met. Fair values of financial instruments are determined from third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in income in the period they occur.

Management may elect to use hedge accounting when there is a high degree of correlation between the price movements in the financial instruments and the items designated as being hedged and has documented the relationship between the instruments and the hedged item as well as its risk management objective and strategy for undertaking hedge transactions. At March 31, 2011 management had not designated any of its outstanding financial instruments as hedges.

Joint Operations

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

Revenue Recognition

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

Earnings Per Share

The Company computes basis earnings per share using net income divided by the weighted average number of common shares outstanding. The Company uses the treasury stock method in computing the weighted average number of diluted common shares outstanding. This method assumes that the proceeds on exercise of in-the-money stock options, incentive shares and deferred common shares are used to repurchase the Company's common shares at the average market price during the relevant period. The number of diluted common shares outstanding also reflects the potential dilution that would occur if the convertible debentures were converted into common shares using the prevailing conversion price on the balance sheet date.

Share-Based Compensation

The Company accounts for share-based compensation using the fair-value method of accounting for stock options, incentive shares and deferred common shares (collectively referred to as "Rights") granted to directors, officers and employees using the Black-Scholes option-pricing model. Share-based compensation expense is recorded and reflected as share-based compensation expense over the vesting period with a corresponding amount reflected in the share-based compensation reserved which is included in the balance sheets as contributed surplus. Share-based compensation expense is calculated as the estimated fair value for the related Rights at the time of grant, amortized over their

vesting period using graded vesting. When Rights are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common share capital. The amount recognized as expense is adjusted for an estimated forfeiture rate for Rights that will not vest, which is adjusted as actual forfeitures occur, until the shares are fully vested.

Income Taxes

Income tax expense represents the sum of current tax and deferred tax expense. Income tax is recognized in net earnings except to the extent it relates to items recognized directly in shareholders' equity, in which case the income tax expense is recognized in shareholders' equity. Current income taxes are measured at the amount, if any, expected to be recoverable from or payable to taxation authorities based on the income tax rates enacted or expected to be enacted at the end of the reporting period.

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets or liabilities are recorded to reflect differences between the accounting and tax base of assets and liabilities, and income tax loss carry forwards. Deferred income taxes are measured using tax rates that are expected to apply to the period when the deferred tax asset is realized or deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The effect of any changes in tax rates is recognized in net income in the period in which the change occurs or in shareholders' equity, depending on the nature of the item(s) affected by the adjustment.

Deferred income tax assets and liabilities are not recognized for temporary differences relating to: the initial recognition of goodwill; the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss or taxable profit or loss; and certain differences associated with subsidiaries, branches and associates, and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for deductible temporary differences to the extent it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow the asset to be recovered.

The Company offsets deferred tax assets and deferred tax liabilities relating to the same taxable entity. The Company may also offset deferred tax assets and deferred tax liabilities relating to different taxable entities, where the amounts relate to income taxes levied by the same taxation authority and the entities intend to realize the assets and settle the liabilities simultaneously.

Cash and Cash Equivalents

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

Leases

Payments made under operating leases are recognized as an expense in the statement of operations and comprehensive income on a straight-line basis over the lease term.

Convertible Debentures

The Company separates convertible debentures into debt and derivative financial liability components on the consolidated balance sheet. On initial recognition the debt component is recorded as a liability at amortized cost. The discount on debt component is unwound using the effective interest rate method to the face value at maturity and is expensed as accretion. The accretion on the convertible debentures is included in interest and other expense.

On initial recognition, the fair value of the derivative financial liability is determined using the Black-Scholes option pricing model. Any change in the fair value of the derivative financial liability at each reporting period is recognized in the statement of operations and comprehensive income.

Foreign Currency

The functional and presentation currency of the Company is the Canadian dollar which is the principal currency of the primary economic environment in which it operates. Foreign currency transactions are translated to the functional currency using the exchange rate at the date of the transactions. Retranslation to the functional currency is done at the end of each reporting period for monetary assets and liabilities.

Note 3 – Changes in Accounting Policies

March 31, 2011 is the first period PetroBakken is reporting under IFRS. Accounting standards for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS.

Pending Accounting Pronouncements

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") have issued the following new accounting standards or amendments to standards which are applicable beginning after April 1, 2011 or later periods:

IFRS 9 – Financial Instruments

In an effort to reduce the complexity of accounting for financial instruments the IASB has engaged in a project to replace IAS 39. Under current expected IASB timeline, the Company expects to adopt IFRS 9 on January 1, 2013.

The application of these standards is not expected to have a material impact on the financial statements of the Company.

Note 4 – Segmented Information

For the period ended March 31, 2011, the Company operates primarily in one operating segment, namely the exploration, development, and production of oil and natural gas. Revenue is derived from the sale of oil and natural gas within Canada and as such there are no material reportable segments.

Note 5 – Oil and natural gas revenue

Included within oil and gas revenue are for the three months ended March 31, 2011 are sales of $281.3 million (2010 - $275.7 million) and royalty expenses of $44.3 million (2010 - $37.5 million).

Note 6 – General and Administrative

Included within general and administrative expense are employee salaries and benefits of $6.3 million for the three months ended March 31, 2011 (2010 - $4.8 million).

Note 7 – Interest and Other

The interest and other costs for the Company are broken down as follows:

Three months ending March 31,		**2011**		2010
Interest on credit facility and other	**$**	**7,860**	$	4,718
Amortization of deferred financing costs		**1,341**		1,064
Accretion on convertible debenture		**5,720**		4,048
Interest expense on convertible debenture		**5,729**		4,347
Accretion on decommissioning liability		**1,344**		1,257
Interest and Other	**$**	**21,994**	$	15,434

Note 8 – Accounts receivable

	March 31, 2011	Dec. 31, 2010
Receivables from oil and natural gas customers	$ 171,368	$ 139,684
Other trade receivables	11,952	7,655
Accounts receivable	**$ 183,320**	$ 147,339

Refer to Note 20 for more information on the risk management policy and the credit quality of accounts receivable.

Note 9 – Bank Debt

The Company maintains a covenant based revolving credit facility with a syndicate of banks. The facility's lending amount has a borrowing capacity of $1.2 billion. The current term for the facility ends June 3, 2011 and can be extended by the lenders for an additional year. If the lenders were not to extend the term, the drawn amount would become due on June 3, 2012. The credit facility bears interest at the prime rate plus a margin based on a sliding scale ratio of PetroBakken's debt to earnings before interest, depletion, depreciation and amortization ("EBITDA"). The facility is secured by a $2.0 billion demand debenture and a securities pledge of Company's assets.

As at,	March 31, 2011	Dec. 31, 2010
Bank debt outstanding	$ 965,864	$ 829,788
Deferred financing costs	(3,602)	(4,943)
Bank debt	$ 962,262	$ 824,845

Note 10 – Exploration and Evaluation Assets

Exploration and evaluation assets comprise the Company's exploration and evaluation projects which are pending determination of proved and probable reserves.

	March 31, 2011	Dec. 31, 2010
Exploration and evaluation assets, beginning of period	$ 1,045,805	$ 682,090
Additions	2,612	122,580
Acquisitions	-	352,002
Dispositions	(398)	(5,089)
Transfers to property, plant, and equipment	(61,279)	(105,778)
Exploration and evaluation assets, end of period	$ 986,740	$ 1,045,805

Note 11 – Property, Plant, and Equipment

	Oil and Natural Gas Assets	Other	Total
Cost			
As at January 1, 2011	**$ 4,117,803**	**$ 22,819**	**$ 4,140,622**
Additions	**302,290**	**6,406**	**308,696**
Dispositions	**(1,134)**	**-**	**(1,134)**
Acquisitions	**-**	**-**	**-**
Transfers from E&E assets	**61,279**	**-**	**61,279**
As at March 31, 2011	**$ 4,480,238**	**$ 29,225**	**$ 4,509,463**
Depletion, Depreciation, and Impairment			
As at January 1, 2011	**$ 966,403**	**$ 11,745**	**$ 978,148**
Charge for the period	**99,051**	**969**	**100,020**
As at March 31, 2011	**$ 1,065,454**	**$ 12,714**	**$ 1,078,168**
Carrying amount as at March 31, 2011	**$ 3,414,784**	**$ 16,511**	**$ 3,431,295**

	Oil and Natural Gas Assets	Other	Total
Cost			
As at January 1, 2010	$ 2,984,001	$ 16,787	$ 3,000,788
Additions	695,331	6,032	701,363
Dispositions	(97)	-	(97)
Acquisitions	332,790	-	332,790
Transfers from E&E assets	105,778	-	105,778
As at December 31, 2010	$ 4,117,803	$ 22,819	$ 4,140,622
Depletion, Depreciation, and Impairment			
As at January 1, 2010	$ 584,012	$ 8,264	$ 592,276
Charge for the period	382,391	3,481	385,872
As at December 31, 2010	$ 966,403	$ 11,745	$ 978,148
Carrying amount as at December 31, 2010	$ 3 ,151,400	$ 11,074	$ 3,162,474

Other fixed assets are mainly comprised of office furniture and fixtures, and computer equipment. Included in accounts payable and accrued liabilities at March 31, 2011 is $279.2 million related to accrued capital (December 31, 2010 - $203.8 million).

Note 12 – Goodwill

	March 31, 2011	Dec. 31, 2010
Goodwill, beginning of period	$ 1,496,005	$ 1,032,862
Acquisitions	-	463,143
Goodwill, end of period	$ 1,496,005	$ 1,496,005

Goodwill acquired through business combinations has been allocated to the CGU or groups of CGU's that are expected to benefit from the synergies of the acquisition. For purposes of impairment testing, goodwill is allocated to the following CGU's or groups of CGU's which represents the lowest level for which goodwill is monitored for internal purposes**:**

Cash generating unit(s)	**March 31, 2011**	Dec. 31, 2010
Bakken and Conventional (Saskatchewan)	$ 1,024,551	$ 1,024,551
BC	8,311	8,311
Cardium (Alberta)	463,143	463,143
Goodwill as at March 31, 2011	$ 1,496,005	$ 1,496,005

In assessing goodwill for impairment the carrying amount of the CGU's are compared to the recoverable amount of the CGU which is the higher of the fair value less costs to sell and the value in use. For impairment testing of goodwill the recoverable amount is based on the value in use. The value in use is calculated using the discounted value of proved plus probable reserves.

The key assumptions used in determining value in use were the discount rate, commodity prices, volumes, and inventory of undrilled locations. The values assigned to the key assumptions represent management assessment of the future trends in the oil and natural gas industry and are based on both external and internal sources. A discount rate of 10% (2010 – 10%) was used in the assessment for impairment for all CGU's.

Note 13 – Acquisitions and Dispositions

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 as operations were consolidated on the acquisition date.

This transaction has been accounted for using the acquisition 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 and exploration and evaluation assets	$	261,334
Working capital		2,672
Decommissioning liabilities		(3,590)
Fair value of financial instruments		440
Goodwill		206,094
Deferred tax liability		(22,432)
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 as operations were consolidated on the acquisition date.

This transaction has been accounted for using the acquisition 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 and exploration and evaluation assets	$	205,677
Working capital deficiency		(22,214)
Bank debt (net of cash acquired)		(16,033)
Decommissioning liabilities		(4,387)
Goodwill		108,985
Deferred tax liability		(33,060)
Total net assets acquired	**$**	**238,968**

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

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 below as it is impracticable to do so as operations were consolidated on the acquisition date.

This transaction has been accounted for using the acquisition 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 and exploration and evaluation assets	$	216,946
Working capital deficiency		(16,660)
Bank debt (net of cash acquired)		(74,873)
Decommissioning liabilities		(6,549)
Fair value of financial instruments		852
Goodwill		148,064
Deferred tax liability		(14,963)
Total net assets acquired	**$**	**252,817**

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

Asset Divestitures

During the three month period ended March 31, 2011, PetroBakken closed minor divestitures for net proceeds of $1.3 million (2010 - $106.0 million) and recorded a loss on asset disposal of $0.3 million (2010 - $6.9 million gain).

Note 14 – Convertible Debentures

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 the Company. Due to dividends paid to shareholders of PetroBakken from February 2010 to March 2011, the conversion price has been adjusted to US$37.74 per debenture. Upon conversion based on the current conversion price, a total of 19,872,814 common shares may be issued, however the Company has an option to repay the debentures in cash. If the repayment was in cash, the cash amount paid is variable and is equal to the total shares to be issued multiplied by the 20 day weighted average market price at the date of conversion. In addition, the bondholders have a one-time put option right of prepayment of the debentures for 100 per cent of the par value plus accrued interest on February 8, 2013. The bondholders must exercise their put option within a 10 day period between December 10 and December 20, 2012.

The debentures have been classified as a liability net of the fair value of the conversion feature which has been classified as a derivative financial liability. The US$750 million issuance, including transaction costs, resulted in $617.1 million being classified as a liability and $152.6 million being classified as a derivative financial liability. At inception, the fair value of the derivative financial liability was determined using the Black-Scholes valuation model. The following assumptions were used:

At January 25, 2010	
Risk free interest rate	**2.65%**
Annual dividend per share[1]	**$0.00**
Expected life (years)	**6**
Expected volatility[2]	**31%**
CDN/US $ FX rate	**1.06**
Market price	**CDN$31.70**
Conversion price	**US $39.61**

(1) Dividend per share is nil because the share conversion price is adjusted for dividends paid.
(2) Expected volatility includes a premium for the difference between US$/CDN$ exchange rates.

The liability portion is measured at amortized cost and will be accreted up to the principal balance at maturity using the effective interest rate method. The accretion and the interest paid are expensed as an interest expense in the consolidated statement of operations. The derivative financial liability is measured at fair value through profit and loss, with changes to the fair value being recorded as a gain or loss on derivative financial liability.

If the debentures are converted to common shares, the relative portion of the value of the conversion feature under derivative financial liability will be reclassified to common share capital along with the principal amounts converted.

The US dollar denominated convertible debentures are translated for accounting purposes based on the Canadian dollar exchange rate on the date of issue and at the end of the applicable reporting period. The Company entered into currency swap agreements prior to the date of issue and the actual Canadian dollar proceeds received by the Company resulted in an $18.2 million realized foreign exchange loss in the first quarter of 2010.

The following table summarizes the liability component of the convertible debentures:

	March 31, 2011	Dec. 31, 2010
Liability component of debenture, beginning of period	$ 600,844	$ -
Issuance of convertible debenture	-	617,101
Accumulated accretion	5,720	21,556
Accumulated changes in exchange rate	(13,856)	(37,813)
Liability component, end of period	**$ 592,708**	$ 600,844

The following assumptions were used in determining the fair value of the derivative financial liability at March 31:

Three months ended March,	2011	2010
Risk free interest rate	2.84%	3.00%
Annual dividend per share[1]	-	-
Expected life (years)	4.75	5.75
Expected volatility	35%	31%
CDN/US $ FX rate	0.98	1.02
Market price	CDN$18.36	CDN$26.52
Conversion price	US $37.74	US $39.61

[1] Dividend per share is nil because the share conversion price is adjusted for dividends paid.

The following table summarizes the derivative financial liability:

	March 31, 2011	Dec. 31, 2010
Derivative financial liability, beginning of period	$ 76,141	$ -
Issuance of convertible debenture	-	152,550
Accumulated gain	(28,270)	(76,409)
Derivative financial liability, end of period	**$ 47,871**	$ 76,141

Note 15 – Decommissioning Liability

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

Changes to decommissioning liability were as follows:

	March 31, 2011	Dec. 31, 2010
Decommissioning liability, beginning of period	**$ 132,495**	$ 107,572
Obligations incurred	**3,525**	7,941
Obligations acquired (Note 13)[1]	**311**	16,484
Obligations disposed	**(9)**	(1,930)
Obligations settled	**(414)**	(2,634)
Accretion	**1,344**	5,062
Decommissioning liability, end of period	**$ 137,252**	$ 132,495

[1] Includes $1,958 of acquired obligations as a result of property acquisitions in 2010.

The decommissioning liability has been calculated using an inflation rate of two percent and discounted using a risk free rate of four percent per annum. Most of these obligations are not expected to be paid for several years extending up to 45 years in the future and are expected to be funded from the general resources of the Company at the settlement date. The total undiscounted amount of estimated cash flows required to settle the liabilities at March 31, 2011 is $230.5 million (December 31, 2010 – $204.8 million).

Note 16 – Income Taxes

Income tax expense is comprised of the following amounts:

	March 31, 2011	March 31, 2010
Deferred income tax	**$ 10,310**	$ 23,523
Current income tax	**-**	-
Income tax expense	**$ 10,310**	$ 23,523

Income tax expense differs from the amount that would have been expected by applying the statutory tax rate to income before taxes. The principal reasons for this difference are as follows:

	March 31, 2011	March 31, 2010
Income before tax expense	$ 63,685	$ 142,716
Statutory tax rate	27.54%	29.04%
Expected tax expense	17,539	41,445
Increase (decrease) in tax expense resulting from:		
Non-taxable gain on derivative financial liability	(7,786)	(13,967)
Non-taxable foreign exchange gains	(1,908)	(981)
Share-based compensation	1,499	2,119
Accretion of convertible debentures	1,575	1,176
Valuation of temporary differences at deferred tax rates	(847)	(6,934)
Other	238	665
Income tax expense	$ 10,310	$ 23,523

Note 17 – Share Capital

Authorized

The authorized capital of PetroBakken consists of an unlimited number of PetroBakken Class A Shares without nominal or par value, an unlimited number of Class B Shares without nominal or par value and an unlimited number of Preferred Shares without nominal or par value. Class B Shares hold equal voting rights as Class A Shares and are convertible into Class A shares on a one for one basis at no extra cost.

Normal course issuer bid

Pursuant to the Company's Normal Course Issuer Bid ("NCIB"), as approved by the Toronto Stock Exchange ("TSX") on May 17, 2010, the Company is authorized to purchase up to 9,431,255 common shares, subject to daily trading restrictions, representing approximately 5% of the issued and outstanding common shares at the date of implementation of the NCIB. The Company is authorized to make purchases during the period from May 17, 2010 to May 18, 2011, or until such earlier time as the NCIB is completed or terminated at the option of the Company. Any common shares PetroBakken purchases under the NCIB will be purchased on the open market through the facilities of the TSX or other exchanges at the prevailing market price at the time of the transaction. Common shares acquired under the NCIB are cancelled. A copy of the notice filed by PetroBakken with the TSX can be obtained by shareholders at no charge by contacting PetroBakken.

In the first quarter of 2011, the Company did not repurchase and cancel any PetroBakken common shares (2010 – nil) under the NCIB.

Common Shares

Class A Share Continuity	Number	Amount
Balance at January 1, 2010	156,891,940	$ 2,306,151
Issued upon acquisition of Rondo (Note 13)	5,524,471	150,266
Issued upon acquisition of Result (Note 13)	11,232,904	303,288
Exercise of incentive shares and deferred common shares	207,146	10
Repurchase of common shares	(1,680,400)	(28,241)
Transfer from contributed surplus related to incentive shares and deferred common shares exercised	-	4,817
Balance at December 31, 2010	172,176,061	$ 2,736,291
Exercise of incentive shares and deferred common shares	52,750	3
Transfer from contributed surplus related to incentive shares and deferred common shares exercised	-	953
Balance at March 31, 2011	**172,228,811**	**$ 2,737,247**

Class B Share Continuity	Number	Amount
Balance at January 1, 2010 and 2011 and March 31, 2011	**14,964,358**	**$ 410,947**

Total of Class A and Class B Common Shares	Number	Amount
Balance at March 31, 2011	**187,193,169**	**$ 3,148,194**

Contributed Surplus

Changes in Contributed Surplus	Amount
Balance at January 1, 2010	$ 7,125
Share-based compensation	34,154
Transfer from contributed surplus related to incentive shares and deferred common shares exercised	(4,817)
Balance at December 31, 2010	$ 36,462
Share-based compensation	5,444
Transfer from contributed surplus related to incentive shares and deferred common shares exercised	(953)
Balance at March 31, 2011	**$ 40,953**

Stock Options

Options granted under the stock option plan have an exercise price that is no less than the five day weighted average trading price of the Company's common shares on the Toronto Stock Exchange prior to the date of the grant. Stock options terms are determined by the Company's Board of Directors but typically, options vest evenly over a period of four years from the date of grant and expire between five and 10 years after the date of grant.

The following is a continuity of stock options outstanding:

	March 31, 2011		December 31, 2010	
	Stock Options	**Weighted-Average Exercise Price**	Stock Options	Weighted-Average Exercise Price
Opening	**6,030,283**	**$ 25.15**	4,161,500	$ 34.15
Granted	**555,300**	**19.26**	3,495,495	23.66
Forfeited	**(388,960)**	**23.25**	(1,626,712)	32.24
Closing	**6,196,623**	**$ 24.74**	6,030,283	$ 25.15

The following summarizes information about stock options outstanding at March 31, 2011:

Stock Options Outstanding

Range of exercise prices	Number	Weighted – Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
17.76 - 23.11	1,463,600	4.7	$ 20.26
23.12 – 23.14	3,170,273	4.9	23.12
23.15 – 34.54	1,562,750	7.5	32.21
	6,196,623	**5.5**	**$ 24.74**

As at March 31, 2011, there were 311,625 stock options vested and exercisable into common shares with a weighted average exercise price of $34.40.

Incentive Shares

The incentive plan allows holders to receive one common share upon payment of $0.05 per share. Incentive share terms are determined by the Company's Board of Directors but typically, incentive shares vest over a period of four years from the date of grant and expire between five and 10 years from the date of grant. Up to 4.0 million incentive shares have been approved for issuance under this plan.

The following is a continuity of incentive shares outstanding:

	March 31, 2011	Dec. 31, 2010
Opening	**2,159,210**	1,971,384
Granted	**113,000**	784,291
Exercised	**(52,132)**	(206,419)
Forfeited	**(157,041)**	(390,046)
Closing	**2,063,037**	**2,159,210**

As at March 31, 2011, there were 378,629 incentive shares vested and exercisable into common shares at $0.05 per share. The remaining incentive shares vest over four years.

Deferred Common Shares

The holders of deferred common shares are entitled to receive one common share upon payment of $0.05 per share. The deferred common shares vest after three years or immediately upon resignation or retirement, and expire 10 years from the date of the grant. Up to 1.0 million deferred common shares have been approved for issuance under this plan.

The following is a continuity of deferred common shares outstanding:

	March 31, 2011	Dec. 31, 2010
Opening	**42,136**	1,751
Granted	**30,239**	41,112
Exercised	**(618)**	(727)
Closing	**71,757**	**42,136**

As at March 31, 2011, there were no deferred common shares exercisable into common shares.

Share-Based Compensation

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

Three months ended March 31,	**2011**	2010
Risk free interest rate	**2.25%**	2.25%
Annual dividend per share	**$0.96**	$0.96
Expected life – incentive shares (years)	**3.75**	0.75 – 3.75
Expected life – stock options (years)	**3.75**	3.75
Expected life – deferred common shares (years)	**8.0**	8.0
Estimated forfeiture rate	**7%**	7%
Average fair value at grant date – incentive shares	**$15.98**	$23.37
Average fair value at grant date – options	**$2.77**	$4.28
Average fair value at grant date – deferred common shares	**$16.14**	$27.24
Expected volatility	**28%**	25%

Share-based compensation expense for the three months ended March 31, 2011 totalled $5.4 million (2010 - $7.3 million).

Note 18 – Earnings per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of common share outstanding during the period. Diluted loss per share reflects the potential dilution of stock options, incentive shares, deferred common shares, and convertible debentures.

Net income used in determining earning per share is presented below:

Three months ended March 31,	**2011**	2010
Net income	**$ 53,375**	$ 119,193

The following table summarize the basic and diluted weighted average number of Class A and Class B common shares:

Three months ended March 31,	**2011**	2010
Weighted average common shares outstanding, basic	**187,170,196**	173,083,959
Effect of:		
Stock options	**-**	-
Incentive shares	**1,172,792**	427,963
Deferred common shares	**71,583**	6,731
Weighted average common shares outstanding, diluted	**188,414,571**	173,518,653

In determination of the weighted average number of diluted common shares outstanding for the three months ended March 31, 2011, 6,196,623 stock options, nil incentive shares, and nil deferred common shares are excluded because the effect would be anti-dilutive (2010 – 4,568,000 stock options, nil incentive shares, and nil deferred common shares). The 19,872,814 common shares that could be issued on the conversion of the debenture (2010 – 18,934,612) were also considered anti-dilutive and were excluded from the weighted average number of diluted shares.

Note 19 – Capital Management

The Company's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence.

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

As at	Mar. 31, 2011	December 31, 2010
Working capital deficit	$ 224,404	$ 185,986
Bank debt – principal	965,864	829,788
Convertible debentures – principal amount (US$)	750,000	750,000
Common share capital	3,148,194	3,147,238
Credit facility – borrowing base	$ 1,200,000	$ 1,200,000
Available credit capacity	234,136	370,212

The Company monitors leverage and adjusts its capital structure based on the ratio of bank debt to annualized earnings before interest, taxes and non-cash items. At March 31, 2011, the ratio of bank debt to annualized first quarter 2011 earnings before interest, taxes and non-cash items was 1.3 to 1, which is within a range acceptable to management. PetroBakken uses the ratio of bank 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.

The Company is in compliance with all covenants on its credit facility agreement. 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 on a trailing 12 month basis 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%.

The Company had positive cash flow from operations for the three months ended March 31, 2011 and a credit facility with $234.1 million of available capacity as at March 31, 2011.

Note 20 – 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 objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors of PetroBakken have 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 it faces and may utilize financial instruments to mitigate these risks.

Credit Risk

A substantial portion of our accounts receivable is with customers and joint-venture participants in the oil and natural gas industry and is 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 March 31, 2011, oil, natural gas and NGL production is being sold to a number of oil and gas marketers. Accounts receivable from oil and natural gas marketers are normally collected 25 days after the month of production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers and, where practical, obtain support in the form of guarantees or letters of credit. Receivables from joint-venture partners related to capital and operating expenses are generally collected between 45 and 90 days after the month of billing. The Company historically has not experienced any collection issues with its oil and natural gas marketers or joint interest partners.

The carrying amount of accounts receivable and cash and cash equivalents represent the Company's maximum credit exposure. PetroBakken had a $2.0 million allowance for doubtful accounts as at March 31, 2011 (December 31, 2010 – $1.9 million). The full amount of the allowance for doubtful accounts relates to items that are past due.

PetroBakken's accounts receivables are aged as follows:

As at	March 31, 2011	Dec. 31, 2010
Not past due	**$ 180,348**	$ 140,698
Past due	**2,972**	6,641
Total	**$ 183,320**	$ 147,339

Liquidity Risk

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

The Company prepares annual capital expenditure budgets, which are monitored and updated as considered necessary. Production is monitored regularly to provide current cash flow estimates and the Company utilizes authorizations for expenditures on projects to manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving credit facility, as outlined in Note 9, 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 March 31, 2011:

Financial Liability	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	$ 421,774	$ -	$ -	$ 421,774
Risk management liabilities	37,566	14,603	-	52,169
Bank debt – principal	-	965,864	-	965,864
Convertible debentures – principal (US$)	-	-	750,000	750,000
Total[1]	**$ 459,340**	**$ 980,467**	**$ 728,850**	**$ 2,168,657**

[1] US$ amounts have been converted using a period end exchange rate of $0.9718.

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 uses derivative instruments to manage market risk. The Board of Directors of PetroBakken has approved a hedging policy and periodically reviews the results of all risk management activities and all outstanding positions.

Foreign Currency Risk

The Company is exposed to fluctuations in the exchange rate between the Canadian dollar and the US dollar. Crude oil, and to a certain extent, natural gas prices are based upon reference prices denominated in US dollars, while the majority of the Company's expenses are denominated in Canadian dollars. The Company also has a convertible debenture with semi-annual interest payments based in US dollars. When appropriate, the Company may enter into agreements to fix the exchange rate of Canadian dollars to US dollars in order to manage exchange rate risks. The Company had no forward exchange rate contracts in place as at March 31, 2011.

At March 31, 2011, if the Canadian dollar had depreciated five percent against the United States dollar with all other variables held constant, net income would have been $28.3 million lower for the three months ended March 31, 2011 (2010 – $23.7 million lower), due to the period end valuation of US dollar denominated risk management contracts outstanding and convertible debentures.

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 lending value under its secured credit facility. 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. It has been PetroBakken's policy to only enter into commodity contracts considered appropriate to a maximum of 50% of forecasted production.

The following is a summary of crude oil derivative contracts in place as at March 31, 2011:

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

Term	Volume (bopd)	Average Price ($/bbl)	Benchmark
Apr. 1, 2011 – Dec. 31, 2011	2,500	$78.00 floor/$95.40 ceiling	C$WTI
Apr. 1, 2011 – Dec. 31, 2011	4,500	$76.11 floor/$101.43 ceiling	US$WTI
Apr. 1, 2011 – Jun. 30, 2011	1,000	$75.00 floor/$104.53 ceiling	US$WTI
Apr. 1, 2011 – Jun. 30, 2012	2,000	$75.00 floor/$99.59 ceiling	US$WTI
Jul. 1, 2011 – Dec. 31, 2012	1,000	$75.00 floor/$98.25 ceiling	US$WTI
Jan. 1, 2012 – Jun. 30, 2013	3,750	$75.00 floor/$123.10 ceiling	US$WTI
Jan. 1, 2012 – Dec. 31, 2013	250	$75.00 floor/$131.75 ceiling	US$WTI
Jul. 1, 2012 – Jun. 30, 2013	1,000	$75.00 floor/$117.45 ceiling	US$WTI

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

The following is a summary of crude oil contracts that were entered into subsequent to March 31, 2011:

Term	Volume (bopd)	Price ($/bbl)	Benchmark
Jan. 1, 2012 – Dec. 31, 2013	1,000	$83.75 floor/$132.60 ceiling	US$WTI
Jul. 1, 2013 – Dec. 31, 2013	250	$75.00 floor/$133.10 ceiling	US$WTI

The average of the above volumes is as follows:

Term	Volume (bopd)	Average Price ($/bbl)[(1)]	Benchmark
2011	10,000	$75.70 floor/$98.88 ceiling	US$WTI
2012	7,500	$76.17 floor/$117.83 ceiling	US$WTI
2013	4,000	$77.19 floor/$126.57 ceiling	US$WTI

(1) Canadian dollar contracts are converted at an exchange rate of $0.9718.

The following natural gas price risk management contracts were outstanding as at March 31, 2011:

Natural Gas Price Risk Management Contracts – AECO

Term	Volume (GJ/d)	Price ($/GJ)	Type
Apr. 1, 2011 – Dec. 31, 2011	2,000	$6.00	Fixed Price Swap

The fair value of the commodity risk management contract liability as at March 31, 2011 is $50.5 million (December 31, 2010 – $12.8 million liability). If crude oil prices had been 10% lower on March 31, 2011, 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 $34.3 million higher for the three months then ended (2010 – $24.9 million higher). If natural gas prices had been 10% lower on March 31, 2011, 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 $0.1 million higher for the three months then ended (2010 – $0.9 million).

Long-Term Physical Gas Sale Contract

The Company is committed to deliver 2,209 GJ per day of natural gas under an escalating price contract which expires October 31, 2012. The wellhead price under this contract for the three months ended March 31, 2011 was $5.57 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. The obligation under gas sales contract is included on other long-term liabilities on the balance sheet.

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 as at March 31, 2011:

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

The fair value of the interest rate swap contracts as at March 31, 2011 was a liability of $0.3 million (December 31, 2010 - $0.2 million liability). If interest rates had been 1% higher at March 31, 2011, net income would have increased by $2.0 million (2010 – $4.8 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	Total
Risk management asset (liability), December 31, 2010	(14,835)	2,022	(235)	(13,048)
Unrealized loss	(36,943)	(769)	(50)	(37,762)
Risk management asset (liability), March 31, 2011	(51,778)	1,253	(285)	(50,810)

The net risk management asset/liability consists of current and non-current assets and liabilities. The tables below summarize the components of the net risk management asset/liability as at March 31, 2011 and December 31, 2010:

	Crude Oil	Natural Gas	Interest	March 31, 2011
Current				
Risk management asset	-	1,253	106	1,359
Risk management liability	(37,210)	-	(356)	(37,566)
Non-current				
Risk management asset	-	-	-	-
Risk management liability	(14,568)	-	(35)	(14,603)
Net risk management asset (liability)	(51,778)	1,253	(285)	(50,810)

	Crude Oil	Natural Gas	Interest	December 31, 2010
Current				
Risk management asset	-	2,022	167	2,189
Risk management liability	(12,318)	-	(364)	(12,682)
Non-current				
Risk management asset	-	-	42	42
Risk management liability	(2,517)	-	(80)	(2,597)
Net risk management asset (liability)	(14,835)	2,022	(235)	(13,048)

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. The table below summarizes the components of the realized and unrealized risk management gains and losses for the periods ended March 31, 2011 and 2010:

Three months ended March 31,	**2011**	2010
Realized gain (loss) on risk management contracts:		
Crude oil derivative contracts	**$ (1,096)**	$ (398)
Natural gas derivative contracts	**741**	241
Interest rate swap contracts	**(234)**	(862)
	(589)	(1,019)
Unrealized gain (loss) on risk management contracts:		
Crude oil derivative contracts	**(36,943)**	(1,951)
Natural gas derivative contracts	**(769)**	3,063
Interest rate swap contracts	**(50)**	1,339
	(37,762)	2,451
Gain (loss) on risk management contracts	**$ (38,351)**	$ 1,432

Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, risk management liabilities, bank debt, convertible debentures, derivative financial liability, and obligations under the gas sale contract on the balance sheet. The carrying value and fair value of these financial instruments at March 31, 2011 is disclosed below by financial instrument classification, as well as any related gain, loss, expense or revenue for the three months ended March 31, 2011:

Financial Instrument	Carrying Value	Fair Value	Gain/ (Loss)	Interest Expense	Revenue
Accounts receivable	183,320	183,320	-	-	-
Accounts payable and accrued liabilities	421,774	421,774	-	-	-
Risk management liability (net)	50,810	50,810	(38,351)[(1)]	-	-
Bank debt	962,262	965,864	-	9,191[(2)]	-
Convertible debentures	592,708	712,451[(3)]	13,856[(4)]	11,449[(5)]	-
Derivative financial liability	47,871	47,871	28,270[(6)]	-	-
Obligations under gas sale contract	1,312	(2,328)[(7)]	-	-	204[(8)]

(1) Included in gain (loss) on risk management contracts on the statement of operations and retained earnings. The unrealized loss of $37.8 million is included on the statement of cash flow.

(2) Included in interest expense on the statement of operations and retained earnings. The effective yield on bank debt at March 31, 2011 was 3.3% (December 31, 2010 – 3.5%).

(3) The Company estimated the fair value of the convertible debenture based on the market transactions closed on March 31, 2011.

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

(5) Included in interest expense on the statement of operations, comprehensive income, and retained earnings and statement of cash flow. The effective yield on the convertible debenture is 7.8%.

(6) Included in loss (gain) on derivative financial liability on the statement of operations, comprehensive income, and retained earnings and statement of cash flow.

(7) The estimated fair value of the long-term physical gas sale contract is based on AECO forward strip pricing and is in an asset position at March 31, 2011.

(8) Included in oil and natural gas revenues on the statement of operations and retained earnings. 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.

Assessment of the significance of a particular input to the fair value measurement requires judgment 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. The derivative financial liability (level 2) is recorded at fair value based on the valuation determined through using inputs from quoted market prices on the balance sheet date; accordingly there is no difference between the carrying value and the fair value. Due to the short-term nature of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities, their carrying values approximate their fair values.

Bank debt bears interest at a floating rate and accordingly fair value approximates carrying value.

Note 21 – Operating Leases

Operating lease payments represent monthly rent payables. The table below shows the expense recorded in the three months ended March 31, 2011:

Three months ended March 31,	**2011**	2010
Minimum lease payments	**$ 1,277**	$ 1,380
Sub-lease rentals	**(219)**	(197)
Net Lease payments	**$ 1,058**	$ 1,183

Note 22 – Changes in Non-Cash Working Capital

Three months ended March 31,	**2011**	2010
Change in:		
Accounts receivable	**$ (35,981)**	$ (6,985)
Prepaid expenses	**(2,899)**	6,319
Accounts payable and accrued liabilities	**77,298**	40,824
Other	**3,745**	(44)
	42,163	40,114
Working capital deficiencies acquired (Note 13)	**-**	(38,874)
	$ 42,163	$ 1,240
Changes relating to:		
Attributable to operating activities	**$ (34,624)**	$ (42,806)
Attributable to financing activities	**$ (509)**	$ (1,952)
Attributable to investing activities	**$ 77,296**	$ 45,998

Note 23 – Commitments and Contingencies

The following is a summary of the estimated costs required to fulfill the Company’s remaining contractual commitments at March 31, 2011:

Type of commitment	2011	2012	2013	2014	2015	Thereafter	Total
Office leases[1]	$3,242	$4,054	$5,745	$5,771	$5,605	$25,852	$50,269
Drilling and completion rigs	6,830	9,003	8,698	6,902	-	-	31,433
Total	$10,072	$13,057	$14,443	$12,673	$5,605	$25,852	$81,702

(1) Includes sublease payments of $23.6 million.

Note 24 – Related Party Transactions

Significant subsidiaries

Subsidiary	Country of Incorporation	Ownership interest	
		2011	2010
PetroBakken Capital Ltd.	Canada	100%	100%
Southside Petroleum Ltd.	US	100%	100%
Southside Oil & Gas Ltd.	US	100%	100%

The Company either directly or through its subsidiaries owns a 100% interest in PBN Partnership.

Transactions with Petrobank Energy and Resources Ltd. ("Petrobank")

As at March 31, 2011, Petrobank owned 59% of the Company's shares.

The Company is party to a management services agreement with Petrobank providing for certain executive functions as well as other services, including administration, financial, treasury, accounting, information technology, human resources support and office space for PetroBakken employees. The fee is based on a negotiated value for services provided. Amounts paid to Petrobank under this agreement totalled $0.6 million for the three months ended March 31, 2011 (2010 - $0.6 million) and were recorded as general and administrative expense. At March 31, 2011 there was $0.6 million included within accounts payable related to this balance (December 31, 2010 - $Nil).

Effective May 2011, the management services agreement has been amended to recognize that the Company will no longer be sub-leasing office space from Petrobank and has agreed to pay a lease cancellation payment of $3.0 million, which is to be paid out over a nine year period. This amount may be reduced in certain circumstances.

Note 25 – Transition to IFRS

Transition Elections

The Company has applied the following exceptions and exemptions to full retrospective application of IFRS:

Exemption/Election	Impact
Estimates	Estimates made under Canadian GAAP are consistent with estimates made under IFRS after adjustments for changes in accounting policies.
Business Combinations	The Company elected not to retrospectively apply IFRS 3, *Business Combinations* to business combinations that occurred prior to the transition date and such business combinations have not been restated. Goodwill from business combinations that took place prior to transition date were tested for impairment on transition and were determined not to be impaired.
Deemed cost of property, plant and equipment	As described in Note 25 a.
Decommissioning liabilities included in the cost of property, plant, and equipment	As described in Note 25 c.
Share-based payment transactions	As described in Note 25 d.

Reconciliation of Canadian GAAP to IFRS

IFRS 1 requires the Company to reconcile equity, comprehensive income, and cash flows for prior periods. The Company's first time adoption of IFRS did not have any impact on total operating, investing, or financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods for equity, and comprehensive income.

Reconciliation of Equity	Note	Dec. 31, 2010	March 31, 2010	Jan. 1, 2010
Shareholders' equity Canadian GAAP		$ 3,456,734	$ 3,298,852	$ 2,951,823
Assets held for sale	b	(48,656)	(48,656)	(48,656)
Gain on disposal of assets	b	9,259	6,928	-
Depletion and depreciation	f	134,935	35,152	-
Convertible debentures	h	(194,113)	(194,113)	-
Accretion on convertible debentures	h	3,977	726	-
Foreign exchange on convertible debentures	h	2,267	1,590	-
Derivative financial liability	h	76,409	48,096	-
Accretion on decommissioning liability	c	(466)	(92)	-
Decommissioning liability	c	(65,711)	(65,711)	(65,711)
Deferred tax	e	(6,105)	19,716	29,963
Shareholders' equity IFRS		$ 3,368,530	$ 3,102,488	$ 2,867,419

Reconciliation of comprehensive income	Note	Twelve months ended Dec. 31, 2010	Three months ended Mar. 31, 2010
Net income and comprehensive income, Canadian GAAP		$ 47,985	$ 39,101
Share-based compensation	d	(11,266)	(2,061)
Gain on disposition	b	9,259	6,928
Gain on derivative financial liability	h	76,409	48,096
Gain on unrealized foreign exchange on convertible debentures	h	2,267	1,590
Depletion and depreciation	f	134,935	35,152
Accretion on convertible debentures	h	3,977	726
Accretion on decommissioning liability	c	(466)	(92)
Deferred tax expense	e	(36,068)	(10,247)
Net income and comprehensive income, IFRS		$ 227,032	$ 119,193

Notes to the Reconciliation

a. IFRS 1 election for full cost oil and gas entities

The Company elected an IFRS 1 exemption whereby the Canadian GAAP full cost pool was measured upon transition to IFRS as follows:

(i) pre-development assets were reclassified from the full cost pool to exploration and evaluation assets at the amount that was recorded under Canadian GAAP; and

(ii) the remaining full cost pool was allocated to the oil and natural gas assets components pro rata using reserve values.

This resulted in a $692.5 million increase in exploration and evaluation assets with a corresponding decrease in property, plant and equipment on transition date. During the three months ended March 31, 2010 the balance in exploration and evaluation assets increased by $149.4 million due to land and seismic acquired in the quarter partially offset by transfers to property, plant and equipment. The increase for the year ended December 31, 2010 as a result of this was $363.7 million.

b. Assets held for sale

In the fall of 2009 the Company made the decision to dispose of certain oil and gas properties. Under Canadian GAAP, these properties were not considered assets held for sale due to AcG-16 – *Oil and Gas Accounting Full Cost*. The assets sold in 2010 met the criteria of assets held for sale under IFRS 5. This resulted in a $188.2 million increase in assets held for sale with a decrease in property, plant, and equipment of $177.8 million and a decrease in exploration and evaluation assets of $10.4 million. In addition, there was an increase in non-current liabilities held for sale of $15.4 million and a corresponding decrease in decommissioning liabilities.

An impairment test was completed when the assets were transferred to held for sale and an impairment of $48.7 million was recorded on transition. The fair value less costs to sell was used to determine the recoverable amount. The fair value less costs to sell was based on preliminary bids received from the market for the assets. This resulted in a decrease of the same amount in non-current assets held for sale and retained earnings.

During the three months ended March 31, 2010 the disposition of three of the non-core property dispositions was completed. This resulted in a gain of $6.9 million as the proceeds received were higher than the carrying value for one of the dispositions completed. This resulted in an increase of the same amount to property, plant and equipment. The balance in assets held for sale was reduced by $108.2 million as a result of this.

In the year ended December 31, 2010 the remaining non-core property disposition was completed, which resulted in the balance in assets being held for sale being reduced to $nil. The non-core property dispositions along with other minor dispositions that took place in the year resulted in a gain of $9.3 million for the year.

c. Decommissioning liability

Under Canadian GAAP asset retirement obligations were discounted at a credit adjusted risk free rate of 8% for the Company. Under IFRS the estimated cash flow to abandon and remediate the wells and facilities has been risk adjusted at a risk free rate of 4% percent. Upon transition to IFRS this resulted in a $65.7 million increase in the decommissioning obligations with a corresponding decrease in retained earnings. The impact of the change in discount rate in the first quarter of 2010 was $3.6 million. A portion of this change is related to the Berens and Rondo acquisitions, with goodwill increasing by $4.2 million and the deferred tax liability decreasing by $1.5 million. The remainder relates to obligations incurred/disposed of in the quarter, and resulted in property, plant, and equipment increasing by $2.1 million. For the year ended December 31, 2010 the impact of the change in discount rate was $6.0 million. The portion related to the Berens, Rondo and Result acquisitions resulted in an increase in goodwill of $5.5 million and a decrease in deferred tax of $1.9M, the remaining change related obligations incurred and disposed decreased property plant and equipment by $1.4 million.

The change in the discount rate resulted in an increase to accretion in the first quarter and the year of $0.1 million and $0.5 million respectively, with a corresponding increase to the decommissioning liability.

Under Canadian GAAP accretion was included in depletion and depreciation. Under IFRS it is included in interest and other expenses.

d. Share based payments

Under Canadian GAAP, the Company recognized an expense related to their share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple. Under IFRS, the Company is required to recognize the expense using graded vesting and estimate a forfeiture rate.

The Company elected an IFRS 1 exemption for all options issued whereby the share-based compensation expense and contributed surplus for options that vested prior to the transition date were not required to be restated. As a result of applying graded vesting and a forfeiture rate to options that were not fully vested prior to the transition an adjustment of $0.9 million to contributed surplus and retained earnings was recorded.

For the three months ended March 31, 2010 the impact of using graded vesting resulted in an increase in share-based compensation and contributed surplus of $2.1 million. The impact on this for the year ended December 31, 2010 was $11.3 million.

e. Income taxes:

Many of the Company's IFRS transitional adjustments have related effects on deferred taxes. Upon transition to IFRS, the Company's deferred tax liability decreased by $29.9 million, due primarily to transitional adjustments affecting the carrying value of property, plant, and equipment, exploration and evaluation assets, non-current assets and liabilities held for sale, and decommissioning liabilities.

For the three months ended March 31, 2010, the Company recorded additional deferred tax expense of $10.2 million upon the transition to IFRS. For the year ended December 31, 2010, the Company recorded additional deferred tax expense of $36.1 million. These adjustments were recorded as decreases to net income.

In accordance with Canadian GAAP, the Company presented certain future income tax assets and future income tax liabilities as current assets or current liabilities. Under IFRS, all deferred tax assets and liabilities are disclosed as long-term.

f. Depletion policy:

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas interests on a unit of production basis over proved plus probable reserves. The Company chose to deplete over proved plus probable reserves as this reserve category better matches the economic valuation parameters of the Company’s asset base. The depletion policy under Canadian GAAP was based on units of production over proved reserves. In addition, depletion was done on the Canadian cost centre under Canadian GAAP. IFRS requires depletion and depreciation to be calculated based on individual components (i.e. fields or combinations thereof). There was no impact of this difference on adoption of IFRS at January 1, 2010 as a result of the IFRS 1 election as discussed above.

For the three months ended March 31, 2010 component accounting resulted in a decrease to depletion of $35.2 million with a corresponding increase to property, plant and equipment. For the year ended December 31, 2010 the impact was $134.9 million.

g. Revenue

Under Canadian GAAP revenue is required to be recorded gross of royalties. Under IFRS, revenue is recorded net of royalties. This is a change in presentation and therefore there was no impact of this difference on adoption of IFRS or for the three months ended March 31, 2010 or the year ended December 31, 2010.

h. Convertible Debenture

As the convertible debenture has cash settlement option it was determined that the conversion option would be accounted for as a financial derivative liability under IFRS. Under Canadian GAAP the conversion option was accounted for as a component of equity. On issuance of the debenture the financial derivative liability had a value of $152.6 million and the liability portion had value of $617.1 million. This was a decrease of $39.9 million from Canadian GAAP, in addition the equity portion of the convertible debentures of $194.1 million was eliminated, and deferred taxes were increased by $1.6 million. In the first quarter as a result of the change in the liability portion, accretion on convertible debenture decreased by $0.7 million and unrealized foreign exchange gain on the debentures increased by $1.6 million. In the first quarter there was a gain on the derivative financial liability of $48.1 million, as the liability is fair valued at each reporting date. For the year ended December 31, 2010 there was a decrease in accretion of $4.0 million, an increase in foreign exchange gain of $2.3 million and a gain on the derivative financial liability of $76.4 million.

Consolidated statement of financial position at the date of transition, January 1, 2010.

	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		$ 24,569	$ -	$ 24,569
Accounts receivable		126,899	-	126,899
Prepaid expenses		16,722	-	16,722
Deferred tax asset	e	782	(782)	-
		168,972	(782)	168,190
Non-current assets held for sale	b	-	139,512	139,512
Exploration and evaluation assets	a,b	-	682,090	682,090
Property, plant, and equipment	a,b	3,278,770	(870,258)	2,408,512
Goodwill		1,032,862	-	1,032,862
Total assets		$ 4,480,604	$ (49,438)	$ 4,431,166
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 323,254	$ -	$ 323,254
Risk management liabilities		2,694	-	2,694
		325,948	-	325,948
Bank debt		748,185	-	748,185
Other long-term liabilities		3,961	-	3,961
Non-current liabilities held for sale	b	-	15,387	15,387
Decommissioning liability	b,c	57,248	50,324	107,572
Risk management liabilities		3,442	-	3,442
Deferred tax liabilities	e	389,997	(30,745)	359,252
		1,528,781	34,966	1,563,747
Shareholders' equity				
Common shares		2,717,098	-	2,717,098
Contributed surplus	d	6,191	934	7,125
Retained earnings	b,c,d,e	228,534	(85,338)	143,196
		2,951,823	(84,404)	2,867,419
Total liabilities and equity		$ 4,480,604	$ (49,438)	$ 4,431,166

Consolidated statement of financial position at March 31, 2010

As at,	Note	Canadian GAAP	Transition Adjustments	2010 IFRS adjustments	IFRS
Assets					
Current assets					
Cash and cash equivalents		$ -	$ -	$ -	$ -
Accounts receivable		133,884	-	-	133,884
Prepaid expenses		10,403	-	-	10,403
Risk management assets		4,825	-	-	4,825
Deferred tax asset	e	2,490	(782)	(1,708)	-
		151,602	(782)	(1,708)	149,112
Non-current assets held for sale	b	-	139,512	(108,225)	31,287
Exploration and evaluation assets	a,b	-	682,090	149,369	831,459
Property, plant and equipment	a,b,c,f	3,644,335	(870,258)	(1,151)	2,772,926
Risk management assets		2,587	-	-	2,587
Goodwill	c	1,285,756	-	4,155	1,289,911
Total assets		$ 5,084,280	$ (49,438)	$ 42,440	5,077,282
Liabilities and Equity					
Current liabilities			-		
Accounts payable and accrued liabilities		$ 364,078	$ -	$ -	$ 364,078
Risk management liabilities		9,040	-	-	9,040
Future income tax liabilities	e	1,329	-	(1,329)	-
		374,447	-	(1,329)	373,118
Bank debt		336,322	-	-	336,322
Convertible debentures	h	558,575	-	37,632	596,207
Derivative financial liability	h	-	-	104,454	104,454
Other long-term liabilities		3,713	-	-	3,713
Non-current liabilities held for sale	b	-	15,387	(7,601)	7,786
Decommissioning liability	b,c	59,643	50,324	11,224	121,191
Risk management liabilities		1,205	-	-	1,205
Deferred tax liabilities	b,e,h	451,523	(30,745)	10,020	430,798
		1,785,428	34,966	154,400	1,974,794
Shareholders' equity					
Common shares		2,867,364	-	-	2,867,364
Convertible debentures	h	194,113	-	(194,113)	-
Contributed surplus	d	11,427	934	2,061	14,422
Retained earnings		225,948	(85,338)	80,092	220,702
		3,298,852	(84,404)	(111,960)	3,102,488
Total liabilities and equity		$ 5,084,280	$ (49,438)	$ 42,440	$ 5,077,282

Reconciliation of Consolidated Statement of Operations, Comprehensive Income, and Retained Earnings for the three months ended March 31, 2010.

Three months ended March 31, 2010	**Note**	Canadian GAAP	Effect of Transition to IFRS	IFRS
Oil and natural gas revenues	g	$ 238,165	$ -	$ 238,165
Gain on risk management contracts		1,432	-	1,432
		239,597	-	239,597
Production expenses		30,242	-	30,242
Transportation expenses		2,600	-	2,600
General and administrative expenses		7,518	-	7,518
Acquisition related expenses		68	-	68
Share-based compensation expenses	d	5,236	2,061	7,297
Gain on disposition	b	-	(6,928)	(6,928)
Gain on derivative financial liability	h	-	(48,096)	(48,096)
Interest and other	c,h	14,902	532	15,434
Foreign exchange gain	h	(7,271)	(1,591)	(8,862)
Depletion and depreciation expense[1]	c,f	133,925	(36,317)	97,608
Income before taxes		52,377	90,339	142,716
Income tax expense	e	13,276	10,247	23,523
Net income and comprehensive income		$ 39,101	$ 80,092	$ 119,193
Retained earnings, beginning of period		$ 228,534	$ (85,338)	$ 143,196
Cash dividends paid or declared		(41,687)	-	(41,687)
Retained earnings, end of period		$ 225,948	(5,246)	$ 220,702
Basic earnings per share		$ 0.23	$ 0.46	$ 0.69
Diluted earnings per share		$ 0.23	$ 0.46	$ 0.69

[1] Canadian GAAP amount includes accretion expense. IFRS adjustment includes reclassification of accretion of $1.2M to financing expense

Consolidated statement of financial position at December 31, 2010.

As at,	Note	Canadian GAAP	Transition Adjustments	2010 IFRS adjustments	IFRS
Assets					
Current assets					
Cash and cash equivalents		$ -	$ -	$ -	$ -
Accounts receivable		147,339	-	-	147,339
Prepaid expenses		11,151	-	-	11,151
Risk management assets		2,231	-	-	2,231
Deferred tax asset	e	3,455	(782)	(2,673)	-
		164,176	(782)	(2,673)	160,721
Non-current assets held for sale	b	-	139,512	(139,512)	-
Exploration and evaluation assets	a,b	-	682,090	363,715	1,045,805
Property, plant and equipment	a,b,c,f	4,114,105	(870,258)	(81,373)	3,162,474
Risk management assets		-	-		-
Goodwill	c	1,490,514	-	5,491	1,496,005
Total assets		$ 5,768,795	$ (49,438)	$ 145,648	5,865,005
Liabilities and Equity					
Current liabilities			-		
Accounts payable and accrued liabilities		$ 344,476	$ -	$ -	$ 344,476
Risk management liabilities		12,682	-	-	12,682
Future income tax liabilities	e	608	-	(608)	-
		357,766	-	(608)	357,158
Bank debt		824,845	-	-	824,845
Convertible debentures	h	567,140	-	33,704	600,844
Derivative financial liability	h	-	-	76,141	76,141
Other long-term liabilities		5,170	-	-	5,170
Non-current liabilities held for sale	b	-	15,387	(15,387)	-
Decommissioning liability	a,c	60,258	50,324	21,913	132,495
Risk management liabilities		2,597	-	-	2,597
Deferred tax liabilities	e	494,285	(30,745)	33,685	497,225
		2,312,061	34,966	149,448	2,496,475
Shareholders' equity					
Common shares		3,147,238	-	-	3,147,238
Convertible debentures	h	194,113	-	(194,113)	-
Contributed surplus	d	24,262	934	11,266	36,462
Retained earnings		91,121	(85,338)	179,047	184,830
		3,456,734	(84,404)	(3,800)	3,368,530
Total liabilities and equity		$ 5,768,795	$ (49,438)	$ 145,648	$ 5,865,005

Reconciliation of Consolidated Statement of Operations, Comprehensive Income, and Retained Earnings for the year ended December 31, 2010.

Year ended December 31, 2010	**Note**	Canadian GAAP	Effect of Transition to IFRS	IFRS
Oil and natural gas revenues	g	$ 866,492	$ -	$ 866,492
Loss on risk management contracts		(8,426)	-	(8,426)
		858,066	-	858,066
Production expenses		124,481	-	124,481
Transportation expenses		15,270	-	15,270
General and administrative expenses		33,233	-	33,233
Acquisition related expenses		1,286	-	1,286
Share-based compensation expenses	d	22,888	11,266	34,154
Gain on disposition	b	-	(9,259)	(9,259)
Gain on derivative financial liability	h	-	(76,409)	(76,409)
Interest and other	c,h	75,611	1,086	76,697
Foreign exchange (gain) loss	h	(19,541)	(2,268)	(21,809)
Depletion and depreciation expense[1]	f	525,403	(139,531)	385,872
Income before taxes		79,435	215,115	294,550
Income tax expense	e	31,450	36,068	67,518
Net income and comprehensive income		$ 47,985	$ 179,047	$ 227,032
Retained earnings, beginning of period		$ 228,534	$ (85,338)	$ 143,196
Cash dividends paid or declared		(177,205)	-	(177,205)
Repurchase of common shares		(8,193)	-	(8,193)
Retained earnings, end of period		$ 91,121	$ 93,709	$ 184,830
Basic earnings per share		$ 0.26	$ 0.97	$ 1.23
Diluted earnings per share		$ 0.26	$ 0.97	$ 1.23

(1) Canadian GAAP amount includes accretion expense. IFRS adjustment includes reclassification of accretion to financing expense.

CORPORATE INFORMATION

DIRECTORS

Ian Brown [(1)]
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Calgary, Alberta

Corey C. Ruttan
Calgary, Alberta

Dan Themig [(2)]
Calgary, Alberta

John D. Wright [(2)]
Calgary, Alberta

(1) Member of the Audit Committee
(2) Member of the Reserves Committee
(3) Member of the Compensation Committee

OFFICERS

John D. Wright
Chairman and Chief Executive Officer

R. Gregg Smith
President and Chief Operating Officer

Mary Bulmer
Vice President, Corporate Services

Lawrence Fisher
Vice President, Land

Andrea Hatzinikolas
Corporate Secretary

Peter Hawkes
Vice President, Exploration

William A. Kanters
Vice President, Business Development and Corporate Planning

Rene LaPrade
Senior Vice President, Operations

Doreen Scheidt
Controller

Peter D. Scott
Senior Vice President and Chief Financial Officer

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SYMBOL: PBN

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