

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated November 9, 2009 and should be read in conjunction with the unaudited consolidated financial statements and accompanying notes of PetroBakken Energy Ltd. ("PetroBakken", "we" or "our") as at and for the three and nine months ended September 30, 2009, Petrobank Energy and Resources Ltd.'s ("Petrobank") Canadian Business Unit ("CBU") MD&A for the year ended December 31, 2008, and the CBU audited financial statements as at and for the year ended December 31, 2008, which can be found in the TriStar Oil & Gas Ltd. ("TriStar") Information Circular dated August 31, 2009 available at www.petrobakken.com. All amounts are in Canadian dollars, unless otherwise stated and all tabular amounts are in thousands of Canadian dollars, except share amounts or as otherwise noted. Natural gas volumes have been converted to barrels of oil equivalent ("boe"). Six thousand cubic feet ("Mcf") of natural gas is equal to one barrel of oil equivalent based on an energy equivalency conversion method primarily attributable at the burner tip and does not represent a value equivalency at the wellhead. Boes may be misleading, especially if used in isolation.

Acquisition of TriStar

On October 1, 2009, PetroBakken Energy Ltd. ("PetroBakken") acquired all of the issued and outstanding common shares of TriStar Oil & Gas Ltd. ("TriStar") pursuant to a plan of arrangement, whereby TriStar shareholders received aggregate consideration of \$584.5 million in cash, and 62.1 million common shares of PetroBakken (including shares issued to financial advisors), representing 36% of total PetroBakken shares outstanding on October 1, 2009. Subsequent to the transaction, Petrobank Energy and Resources Ltd. ("Petrobank") retains a 64% ownership interest in PetroBakken.

Upon closing the TriStar acquisition, PetroBakken entered into a new \$1.05 billion credit facility with a syndicate of banks. This PetroBakken facility is comprised of a \$900 million oil and gas reserve-based revolver, and a six-month \$150 million short-term non-revolving credit facility.

It is important to note that this MD&A does not reflect the assets, liabilities or any operational results of TriStar. The acquisition of TriStar will first be reflected in PetroBakken's December 31, 2009 consolidated financial statements and MD&A.

Basis of Presentation

PetroBakken was incorporated in Alberta on July 30, 2009 as a 100% wholly-owned subsidiary of Petrobank. PetroBakken was capitalized with Petrobank's CBU assets and obligations. In return, Petrobank received 109.8 million common shares of PetroBakken. As PetroBakken and the CBU assets were under common control, the consolidated financial statements have been presented on a continuity-of-interest basis of accounting and represent the activities of the above noted entities from the date each commenced operations. The consolidated financial statements presented for comparative purposes reflect the financial position, results of operations and cash flows as if PetroBakken had been consolidated with the CBU assets since inception.

Forward-Looking Statements

In addition to historical information, the MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance (often, but not always, through the use of words or phrases such as “will likely result,” “expected,” “is anticipated,” “believes,” “estimated,” “intends,” “plans,” “projection” and “outlook”). These statements are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development drilling and related activities; costs and availability of services; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; risks associated with oil and gas operations; and other factors, many of which are beyond the control of PetroBakken. Accordingly, there is no representation made by PetroBakken that actual results achieved during the forecast period will be the same in whole or in part as those forecasts. Except to the extent required by law, PetroBakken assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to PetroBakken, or persons acting on their behalf, are qualified in their entirety by these cautionary statements.

Non-GAAP Measures

This report contains financial terms that are not considered measures under Canadian generally accepted accounting principles (“GAAP”), such as funds flow from operations, net debt and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and stakeholders. Specifically, funds flow from operations reflects cash generated from operating activities before changes in non-cash working capital. Management considers funds flow from operations important as it helps evaluate performance and demonstrate the ability to generate sufficient cash to fund future growth opportunities and repay debt. Net debt includes bank debt outstanding plus accounts payable and accrued liabilities less current assets (excluding future income tax asset) and is used to evaluate PetroBakken’s financial leverage. Profitability relative to commodity prices per unit of production is demonstrated by an operating netback. Funds flow from operations, net debt and operating netbacks may not be comparable to those reported by other companies nor should they be viewed as an alternative to cash flow from operations or other measures of financial performance calculated in accordance with GAAP.

FINANCIAL AND OPERATING REVIEW

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

Average Daily Production

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
Oil and NGL (bbls)	15,185	16,024	(5%)	17,206	13,868	24%
Natural gas (mcf)	16,177	14,047	15%	15,761	14,381	10%
Total (boe)	17,881	18,365	(3%)	19,833	16,265	22%

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

Average Benchmark and Realized Prices

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
WTI (US\$/bbl)	68.24	118.22	(42%)	57.32	113.52	(50%)
WTI (\$/bbl)	73.67	122.78	(40%)	64.83	115.59	(44%)
AECO natural gas (\$/mcf)	3.02	7.75	(61%)	3.77	8.64	(56%)
US\$ per C\$1	0.91	0.96	(5%)	0.86	0.98	(12%)
Oil and NGL						
Realized price per bbl (\$/bbl)	67.65	115.11	(41%)	58.67	109.65	(46%)
US\$ discount as a % of WTI	7%	7%	-	10%	5%	100%
Natural gas						
Realized price per mcf (\$/mcf)	3.55	7.94	(55%)	4.21	8.47	(50%)

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

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

Revenue

The change in revenue in the third quarter of 2009 compared to the third quarter of 2008 is primarily due to lower oil prices, as summarized below:

Reconciliation of Changes in Revenue	Total
Three months ended September 30, 2008	186,608
Sales volumes	(2,742)
Price variance	(82,550)
Three months ended September 30, 2009	101,316
\$ change in revenue	(85,292)
% change in revenue	(46%)

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

Reconciliation of Changes in Revenue	Total
Nine months ended September 30, 2008	464,788
Sales volumes	48,050
Price variance	(213,584)
Nine months ended September 30, 2009	299,254
\$ change in revenue	(165,534)
% change in revenue	(36%)

Revenue	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
Revenue	101,316	186,608	(46%)	299,254	464,788	(36%)
Transportation expenses	1,531	6,649	(77%)	5,523	14,749	(63%)
Total revenue, net of transportation costs	99,785	179,959	(45%)	293,731	450,039	(35%)
Gross revenue (\$/boe)	61.59	110.45	(44%)	55.27	104.90	(47%)
Transportation costs (\$/boe)	0.93	3.94	(76%)	1.02	3.92	(74%)
Realized price, net of transportation costs (\$/boe)	60.66	106.51	(43%)	54.25	100.98	(46%)

Revenue, net of transportation decreased by 45% from the third quarter of 2008 and by 35% from the first nine months of 2008 primarily due to significantly lower realized prices.

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

Royalties	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
Royalties ⁽¹⁾	15,820	21,484	(26%)	39,586	47,588	(17%)
\$ per boe	9.62	12.72	(24%)	7.31	10.68	(32%)
Royalties as a % of realized price, net of transportation costs	16%	12%	33%	13%	11%	18%

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

Royalties as a percentage of realized prices, net of transportation costs, increased in the third quarter and first nine months as a greater portion of the Company's Bakken wells no longer receive crown royalty holidays. The first 37,740 barrels of production from horizontal Bakken wells drilled on Crown land incur

a royalty rate of 2.5% plus Saskatchewan Resource Surcharge of 1.7%. We expect this royalty percentage to decrease in the fourth quarter of 2009 as new producing wells are brought on line.

Gain (Loss) on Risk Management Contracts

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
Realized gain (loss)	4,111	(3,211)	-	20,838	(9,269)	-
Unrealized gain (loss)	(3,924)	33,617	-	(28,644)	3,337	-
Gain (loss) on risk management contracts	187	30,406	(99)	(7,806)	(5,932)	32%

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

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

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

Term	Volume (Bopd)	Price (\$/bbl)	Benchmark
Jan. 1, 2009 – Dec. 31, 2009	2,000	US\$90.00 floor / US\$121.00 ceiling	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$93.65 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$94.15 ceiling	C\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	500	C\$80.00 floor / C\$95.60 ceiling	C\$ WTI

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

Term	Volume (Bopd)	Price (\$/bbl)	Benchmark
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 floor / US\$93.05 ceiling	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 floor / US\$93.25 ceiling	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	1,000	US\$70.00 floor / US\$95.00 ceiling	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$75.00 floor / US\$94.75 ceiling	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$75.00 floor / US\$95.00 ceiling	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$70.00 floor / C\$87.85 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$82.45 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 put	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$75.00 put	US\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	1,000	US\$75.00 floor / US\$95.00 ceiling	US\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$75.00 floor / US\$99.00 ceiling	US\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	1,000	C\$75.00 floor / C\$90.00 ceiling	C\$ WTI

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

Term	Volume (Bopd)	Price (\$/bbl)	Benchmark
Jan. 1, 2008 – Dec. 31, 2009	500	US\$65.00 floor / US\$73.25 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$65.00 floor / US\$76.15 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$65.00 floor / US\$76.30 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$67.00 floor / US\$76.70 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$70.00 floor / US\$75.52 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	250	US\$75.00 floor / US\$96.05 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$75.00 floor / US\$100.00 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	250	US\$75.00 floor / US\$102.00 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$80.00 floor / US\$100.00 ceiling	US\$ WTI
Jul. 1, 2009 – Dec. 31, 2009	500	C\$65.00 floor / C\$76.15 ceiling	C\$ WTI
Jul. 1, 2009 – Dec. 31, 2009	500	C\$65.00 floor / C\$75.65 ceiling	C\$ WTI
Feb. 1, 2008 – Dec. 31, 2009	500	US\$75.00 put	US\$ WTI
Mar. 1, 2008 – Dec. 31, 2009	500	US\$80.00 put	US\$ WTI
Apr. 1, 2007 – Dec. 31, 2009	250	C\$76.60 swap	C\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	250	C\$78.20 swap	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$65.00 floor / C\$87.25 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$65.00 floor / C\$90.00 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$65.00 floor / C\$99.50 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$100.00 ceiling	C\$ WTI

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

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

PetroBakken 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 PetroBakken's expenses are denominated in Canadian dollars. The Company may enter into agreements to fix the exchange rate of Canadian dollars to US dollars in order to manage exchange rate risks. PetroBakken assumed the following foreign exchange risk management contracts upon the acquisition of TriStar on October 1, 2009:

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

At September 30, 2009, PetroBakken had recorded a \$0.5 million asset related to the following interest rate swap contracts:

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

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

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

Production Expenses	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
Production expenses	11,232	14,940	(25%)	36,378	40,101	(9%)
\$ per boe	6.83	8.84	(23%)	6.72	8.99	(25%)

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

General and Administrative Expenses

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
General and administrative expenses	3,217	2,616	23%	9,696	7,565	28%
\$ per boe	1.96	1.55	26%	1.79	1.70	5%

General and administrative costs increased in the third quarter and first nine months of 2009, attributed primarily to additional personnel as a result of expanding operations. Lower production volumes in the third quarter of 2009 contributed to the 26% increase on a unit of production basis.

Stock-Based Compensation Expenses

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
Stock-based compensation expenses	3,524	3,827	(8%)	12,459	7,902	58%

Stock-based compensation expenses relate to stock options and deferred common shares granted by Petrobank. The calculation of this non-cash expense is based on the fair value of stock options and deferred common shares granted, amortized over the vesting period of the option, or immediately upon grant of the deferred common shares. These expenses have been directly derived from Petrobank's accounting records to represent the portion attributable to PetroBakken operations.

Interest Expense	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
Interest expense	1,608	2,050	(22%)	7,152	6,495	10%

Interest expense includes interest on bank debt, fees on letters of credit and amortization of deferred financing costs. Interest expense decreased in the third quarter as the PetroBakken credit facility was undrawn for the majority of the quarter. Interest expense was higher in the first nine months of 2009 as outstanding bank debt averaged approximately \$325 million in the first half of 2009 compared to approximately \$160 million in the prior year, offset somewhat by a decrease in interest rates.

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

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
DD&A expense	49,072	47,622	3%	161,191	128,071	26%
\$ per boe	29.83	28.19	6%	29.77	28.84	3%

The DD&A rate per unit of production remained relatively consistent year over year.

Future Income Taxes	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
Future income taxes	5,729	36,120	(84%)	9,626	65,514	(85%)

PetroBakken’s future income tax expense is relatively consistent with the PetroBakken’s change in income after adjustments for non-deductible items.

Net Income

As summarized in the table below, the decrease in net income in the third quarter of 2009 and in the first nine months of 2009 is primarily due to lower commodity prices, risk management contracts and higher DD&A expenses, offset by lower royalties, lower transportation expenses and lower future income taxes. Higher sales volumes further offset the decrease in net income for the nine months of 2009.

Reconciliation of Changes in Net Income

	Three months ended Sept. 30,	Nine months ended Sept. 30,
Net income: September 30, 2008	81,820	141,238
Increase (decrease) due to:		
Sales volumes	(2,742)	48,050
Realized prices	(82,550)	(213,584)
Royalties	5,664	8,002
Risk management contracts	(30,219)	(1,874)
Production expenses	3,708	3,723
Transportation expenses	5,118	9,226
Stock-based compensation expenses	303	(4,557)
DD&A expense	(1,450)	(33,120)
Future income taxes	30,391	55,888
Other ⁽¹⁾	(179)	(2,980)
Net income: September 30, 2009	9,864	10,012

⁽¹⁾ Includes interest income, general and administrative expenses and interest expense.

Funds Flow From Operations

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

Reconciliation of Changes in Funds Flow From Operations

	Three months ended Sept. 30,	Nine months ended Sept. 30,
Funds flow from operations: September 30, 2008	135,388	338,709
Increase (decrease) due to:		
Sales volumes	(2,742)	48,050
Realized prices	(82,550)	(213,584)
Royalties	5,664	8,002
Realized portion of risk management contracts	7,322	30,106
Production expenses	3,708	3,723
Transportation expenses	5,118	9,226
Other ⁽¹⁾	194	(2,979)
Funds flow from operations: September 30, 2009	72,102	221,253

⁽¹⁾ Includes interest income, general and administrative expenses, cash interest expense and asset retirement obligations settled.

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

	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
Funds flow from operations: Non-GAAP	72,102	135,388	(47%)	221,253	338,709	(35%)
Changes in non-cash working capital	7,753	16,181	(52%)	(5,216)	(2,816)	85%
Cash flow from operating activities: GAAP	79,855	151,569	(47%)	216,037	335,893	(36%)

Capital Expenditures	Three months ended Sept. 30,			Nine months ended Sept. 30,		
	2009	2008	Change	2009	2008	Change
Capital expenditures	107,820	165,447	(35%)	216,745	345,647	(37%)

Q3 2009 Capital Expenditures By Type	Total
Drilling, completions and workovers	62,428
Land	28,443
Facilities	11,939
Seismic	2,680
Other ⁽¹⁾	2,330
Total capital expenditures	107,820

YTD 2009 Capital Expenditures By Type	Total
Drilling, completions and workovers	134,026
Land	37,545
Facilities	29,455
Seismic	3,273
Other ⁽¹⁾	12,446
Total capital expenditures	216,745

⁽¹⁾ Includes health, safety and environmental, capitalized salaries and office furniture and fixtures.

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

SUMMARY OF QUARTERLY RESULTS

	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial (\$000s except where noted)								
Total assets	1,421,233	1,297,287	1,309,251	1,318,090	1,105,992	988,796	966,201	444,078
Capital expenditures	107,820	38,901	70,024	200,186	165,447	69,711	110,489	79,045
Oil and natural gas revenue	101,316	102,452	95,486	121,012	186,608	168,757	109,423	57,221
Net income	9,864	(31)	179	45,111	81,820	32,993	26,425	12,482
Operations								
<i>Operating netbacks by product</i>								
Light/medium oil and NGL sales price, net of transportation (\$/bbl)	67.65	62.22	48.57	57.71	115.11	117.64	91.87	80.83
Royalties	10.75	7.97	5.39	8.90	13.36	11.83	6.44	5.70
Production expenses	7.05	6.66	6.98	8.68	9.56	9.55	10.25	8.94
Operating netback	49.85	47.59	36.20	40.13	92.19	96.26	75.18	66.19
Natural gas sales price, net of transportation (\$/mcf)	3.55	3.91	5.35	6.86	7.94	9.83	7.73	6.05
Royalties	0.54	0.67	0.78	1.06	1.38	1.81	1.35	0.43
Production expenses	0.93	0.95	0.90	0.77	0.66	0.83	0.89	0.64
Operating netback	2.08	2.29	3.67	5.03	5.90	7.19	5.49	4.98
Oil equivalent sales price, net of transportation (\$/boe)	60.66	56.64	46.81	55.90	106.51	109.43	83.55	72.42
Royalties	9.62	7.40	5.32	8.62	12.72	11.70	6.74	5.11
Production expenses	6.83	6.52	6.81	8.24	8.84	8.88	9.35	7.99
Operating netback	44.21	42.72	34.68	39.04	84.95	88.85	67.46	59.32
<i>Average daily production</i>								
Light/medium oil and NGL (bbls)	15,185	16,761	19,722	19,841	16,024	14,205	11,351	6,691
Natural gas (mcf)	16,177	16,906	14,179	14,598	14,047	13,871	15,229	9,379
Total (boe)	17,881	19,579	22,085	22,274	18,365	16,517	13,889	8,254

Significant factors influencing quarterly results were:

- Strong production and high benchmark oil prices in the first three quarters of 2008 resulted in dramatic increases in operating netbacks, revenue and funds flow from operations. Since that time, benchmark crude oil prices have declined significantly, which has negatively affected profitability and funds flow from operations.
- PetroBakken's industry leading drilling activity on the Bakken light oil resource play in southeast Saskatchewan contributed to significant production increases throughout 2008.
- Light oil production in the first quarter of 2008 increased by 70% over the fourth quarter of 2007, reflecting the acquisition of Peerless in January 2008.
- Recovering oil commodity prices in the third quarter of 2009 have provided the highest operating netback since the third quarter of 2008.
- Capital expenditures decreased significantly in the first and second quarter of 2009 in response to lower crude oil prices which has resulted in production declines in the second and third quarter of 2009. Our third quarter expenditures increased as we have ramped up our drilling program considerably.

Commitments

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

Type of Obligation	< 1 Year	1-3 Years	3-5 Years	Thereafter	Total
Office operating leases	\$ 1,850	\$ 4,200	\$ 6,300	\$ 15,000	\$ 27,350

Liquidity and Capital Resources

At September 30, 2009, PetroBakken was undrawn on its credit facility as a result of net investments by Petrobank during the quarter. Petrobank had accounts payable and accrued liabilities in excess of current assets of \$10.5 million. The ratio of debt to annualized earnings of the most recent quarter before interest, taxes, depreciation and other non-cash items was not a meaningful measure as bank debt was nil.

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

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

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

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

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

Risks and Uncertainties

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

Critical Accounting Policies and Estimates

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

Changes in Accounting Policies

The consolidated financial statements include the accounts of PetroBakken and its subsidiaries as at and for the periods ended September 30, 2009 and 2008. All subsidiaries are wholly-owned and their operations are fully reflected in the consolidated financial statements. All intercompany transactions have been eliminated.

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

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

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

On January 1, 2009, management adopted CICA Handbook Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-controlling Interests*, which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary subsequent to a business combination. The adoption of these standards did not have a material impact on our results of operations or financial position.

Recent and Pending Accounting Pronouncements

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, *Financial Instruments — Disclosures*. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards ("IFRS"). Management will include these additional disclosures in its annual financial statements for the year ending December 31, 2009.

The Canadian Accounting Standards Board has confirmed that IFRS will replace Canadian GAAP effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises. Management has completed its high-level IFRS impact study and established a timeline for the execution and completion of the conversion project. The impact of IFRS on PetroBakken's financial statements is not reasonably determinable at this time. Key information will be disclosed as it becomes available during the transition period.

Regulatory Policies

Certification of Disclosures in Interim Filings

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

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

During the quarter ended September 30, 2009, there has been no change in Petrobank's or PetroBakken's ICFR that has materially affected, or is reasonably likely to materially affect, Petrobank's or PetroBakken's ICFR. Petrobank, including PetroBakken, has continually had in place systems relating to DC&P and ICFR and will continue to monitor such procedures as our business evolves.



PETROBAKKEN

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**PETROBAKKEN ENERGY LTD.
CONSOLIDATED BALANCE SHEETS**

(Unaudited, thousands of Canadian dollars)

(See Note 1: Acquisition of TriStar Oil & Gas Ltd.)

(See Note 2: Basis of Presentation)

As at	Sept. 30, 2009	Dec. 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 71,510	\$ 868
Accounts receivable	46,730	45,104
Prepaid expenses	3,299	3,201
Risk management assets	4,261	32,904
	125,800	82,077
Other assets	1,536	-
Capital assets	1,258,845	1,200,961
Goodwill	35,052	35,052
Total assets	\$ 1,421,233	\$ 1,318,090
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 136,273	\$ 172,895
Future income tax liabilities	1,277	9,860
	137,550	182,755
Bank debt	-	315,162
Obligations under gas sale contract and deferred credit	4,210	3,170
Asset retirement obligations	12,354	11,170
Future income tax liabilities	127,144	157,499
	281,258	669,756
Commitments and contingencies (Note 8)		
Equity		
Common shares (Note 4)	903,580	421,951
Retained earnings	236,395	226,383
	1,139,975	648,334
Total liabilities and equity	\$ 1,421,233	\$ 1,318,090

Subsequent events (Notes 1, 4 and 6)

See accompanying notes to these consolidated financial statements.

PETROBAKKEN ENERGY LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Unaudited, thousands of Canadian dollars)

(See Note 1: Acquisition of TriStar Oil & Gas Ltd.)

(See Note 2: Basis of Presentation)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenues				
Oil and natural gas	\$ 101,316	\$ 186,608	\$ 299,254	\$ 464,788
Royalties	(15,820)	(21,484)	(39,586)	(47,588)
Gain (loss) on risk management contracts	187	30,406	(7,806)	(5,932)
Interest income	94	114	175	367
	85,777	195,644	252,037	411,635
Expenses				
Production	11,232	14,940	36,378	40,101
Transportation	1,531	6,649	5,523	14,749
General and administrative	3,217	2,616	9,696	7,565
Stock-based compensation	3,524	3,827	12,459	7,902
Interest	1,608	2,050	7,152	6,495
Depletion, depreciation and accretion	49,072	47,622	161,191	128,071
	70,184	77,704	232,399	204,883
Income before future income taxes	15,593	117,940	19,638	206,752
Future income taxes	5,729	36,120	9,626	65,514
Net income	9,864	81,820	10,012	141,238
Retained earnings, beginning of period	\$ 226,531	\$ 99,452	\$ 226,383	\$ 40,034
Retained earnings, end of period	\$ 236,395	\$ 181,272	\$ 236,395	\$ 181,272
Basic and diluted earnings per share (Note 4)	\$ 0.09	\$ 0.75	\$ 0.09	\$ 1.29

See accompanying notes to these consolidated financial statements.

PETROBAKKEN ENERGY LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, thousands of Canadian dollars)

(See Note 1: Acquisition of TriStar Oil & Gas Ltd.)

(See Note 2: Basis of Presentation)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net income	\$ 9,864	\$ 81,820	\$ 10,012	\$ 141,238
Other comprehensive income:				
Interest rate contracts (Note 6)	(512)	-	-	-
Comprehensive income	\$ 9,352	\$ 81,820	\$ 10,012	\$ 141,238

See accompanying notes to these consolidated financial statements.

PETROBAKKEN ENERGY LTD.
CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited, thousands of Canadian dollars)

(See Note 1: Acquisition of TriStar Oil & Gas Ltd.)

(See Note 2: Basis of Presentation)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Operating Activities				
Net income	\$ 9,864	\$ 81,820	\$ 10,012	\$ 141,238
Depletion, depreciation and accretion	49,072	47,622	161,191	128,071
Unrealized loss (gain) on risk management contracts	3,924	(33,617)	28,643	(3,337)
Stock-based compensation	3,524	3,827	12,459	7,902
Future income taxes	5,729	36,120	9,626	65,514
Amortization of deferred financing costs	274	48	468	338
Asset retirement obligations settled	(285)	(432)	(1,146)	(1,017)
	72,102	135,388	221,253	338,709
Changes in non-cash working capital (Note 7)	7,753	16,181	(5,216)	(2,816)
	79,855	151,569	216,037	335,893
Financing Activities				
Net investment by (to) Petrobank (Note 4)	394,073	(30,563)	420,606	(66,810)
Issuance (repayment) of bank debt	(335,000)	-	(315,658)	95,993
Financing costs relating to bank debt	-	-	(1,508)	(477)
Amortization of obligations under gas sale contract	(209)	(209)	(619)	(621)
	58,864	(30,772)	102,821	28,085
Investing Activities				
Expenditures on capital assets	(107,820)	(165,447)	(216,745)	(345,647)
Acquisition	-	-	-	(67,248)
Changes in non-cash working capital (Note 7)	36,061	44,858	(31,471)	55,852
	(71,759)	(120,589)	(248,216)	(357,043)
Net change in cash and cash equivalents	66,960	208	70,642	6,935
Cash and cash equivalents, beginning of period	4,550	7,801	868	1,074
Cash and cash equivalents, end of period	\$ 71,510	\$ 8,009	\$ 71,510	\$ 8,009
Cash and cash equivalents consist of:				
Cash	\$ 47,248	\$ 8,009	\$ 47,248	\$ 8,009
Cash equivalents	\$ 24,262	\$ -	\$ 24,262	\$ -
Other cash flow information:				
Cash interest paid	\$ 1,597	\$ 1,967	\$ 8,008	\$ 5,547
Cash interest received	\$ 69	\$ 47	\$ 81	\$ 205

See accompanying notes to these consolidated financial statements.

PETROBAKKEN ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008.
(Unaudited, all tabular amounts are expressed in thousands of Canadian dollars unless otherwise noted)

Note 1 – Acquisition of TriStar Oil & Gas Ltd.

On October 1, 2009, PetroBakken Energy Ltd. (“PetroBakken”) acquired all of the issued and outstanding common shares of TriStar Oil & Gas Ltd. (“TriStar”) pursuant to a plan of arrangement, whereby TriStar shareholders received aggregate consideration of \$584.5 million in cash, and 62.1 million common shares of PetroBakken (including shares issued to financial advisors), representing 36% of total PetroBakken shares outstanding on October 1, 2009. Subsequent to the transaction, Petrobank Energy and Resources Ltd. (“Petrobank”) retains a 64% ownership interest in PetroBakken.

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

These consolidated financial statements have been prepared to present the financial position, results of operations and cash flows for PetroBakken. **It is important to note that the financial statements herein do not reflect TriStar’s assets, liabilities or any operational results. The acquisition of TriStar will first be reflected in PetroBakken’s December 31, 2009 consolidated financial statements.**

Note 2 – Basis of Presentation

The interim financial statements for PetroBakken as at September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008 should be read in conjunction with the Petrobank Canadian Business Unit (“CBU”) audited financial statements as at and for the year ended December 31, 2008 which can be found in the TriStar Information Circular dated August 31, 2009 available on www.petrobakken.com. The notes to these interim financial statements do not conform in all respects to the note disclosure requirements of generally accepted accounting policies (“GAAP”) for annual financial statements. These interim financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual financial statements of the CBU as at and for the year ended December 31, 2008, except for those disclosed in Note 3 below. The disclosures provided herein are incremental to those included with the annual financial statements.

PetroBakken was incorporated in Alberta on July 30, 2009 as a 100% wholly-owned subsidiary of Petrobank. PetroBakken was capitalized with Petrobank’s CBU assets and obligations. In return, Petrobank received 109.8 million common shares of PetroBakken.

As PetroBakken and the CBU assets were under common control, these consolidated financial statements have been presented on a continuity-of-interest basis of accounting and represent the activities of the above noted entities from the date each commenced operations. The consolidated financial statements presented for comparative purposes reflect the financial position, results of operations and cash flows as if PetroBakken had been consolidated with the CBU assets since inception.

Note 3 – Changes in Accounting Policies

The consolidated financial statements include the accounts of PetroBakken and its subsidiaries. All subsidiaries are wholly-owned and their operations are fully reflected in the consolidated financial statements. All intercompany transactions have been eliminated.

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

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

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

On January 1, 2009, management adopted CICA Handbook Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-controlling Interests*, which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary subsequent to a business combination. The adoption of these standards did not have a material impact on our results of operations or financial position.

Recent and Pending Accounting Pronouncements

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, *Financial Instruments — Disclosures*. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards (“IFRS”). Management will include these additional disclosures in its annual financial statements for the year ending December 31, 2009.

The Canadian Accounting Standards Board has confirmed that IFRS will replace Canadian GAAP effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises. Petrobank has completed its high-level IFRS impact study and established a preliminary timeline for the execution and completion of the conversion project. The impact of IFRS on PetroBakken’s financial statements is not reasonably determinable at this time. Key information will be disclosed as it becomes available during the transition period.

Note 4 – 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.

PetroBakken issued one share upon incorporation on July 30, 2009, and issued 109,800,000 common shares as consideration for the historical cost of the net investment of the CBU net assets and liabilities with an ascribed book value of \$903,580. Upon closing the acquisition of TriStar on October 1, 2009, an additional 62,056,298 common shares were issued by PetroBakken bringing the total shares outstanding to 171,856,298. Subsequent to the acquisition of TriStar on October 1, 2009, 4,037,500 stock options, 2,008,360 incentive shares and 2,022 deferred common shares were granted to directors, officers and employees.

Earnings Per Share

For purposes of the earnings per share calculation, it was assumed that all 109,800,001 shares issued as at September 30, 2009 have been outstanding since January 1, 2008.

Note 5 – Capital Management

PetroBakken'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.

PetroBakken manages its capital structure by making adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. PetroBakken considers its capital structure to include common share capital, bank debt and working capital (a non-GAAP measure defined as cash and cash equivalents plus accounts receivable, prepaid expenses and risk management assets less accounts payable and accrued liabilities). In order to manage the capital structure, from time to time PetroBakken may issue common shares, debt or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

As at	Sept. 30, 2009	Dec. 31, 2008
Bank debt – principal	\$ -	\$ 315,658
Working capital deficiency	\$ 10,473	\$ 90,818
Common share capital	\$ 903,580	\$ 421,951

PetroBakken monitors leverage and adjusts its capital structure based on the ratio of bank debt to annualized earnings before interest, taxes and non-cash items. At September 30, 2009, the ratio of debt to the annualized third quarter of 2009 earnings before interest, taxes and non-cash items was not a meaningful measure as there was no bank debt. Management typically uses the ratio of debt to annualized earnings before interest, taxes and non-cash items as a key indicator of PetroBakken's leverage and to monitor the strength of the balance sheet. In order to facilitate the management of this ratio, PetroBakken prepares annual capital plans, which are updated as necessary depending on varying factors including current and forecast commodity prices, changes in capital structure, execution of PetroBakken's business plan and general industry conditions. The annual capital plan will be approved by the Board of Directors and updates will be prepared and reviewed as required.

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

Note 6 – Financial Instruments and Financial Risk Management

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

The Board of Directors has overall responsibility for the establishment and oversight of PetroBakken's financial risk management framework and monitored risk management activities. PetroBakken identifies and analyzes the risks it is faced with and may utilize financial instruments to mitigate these risks.

Credit Risk

A substantial portion of accounts receivable are with customers and joint-venture participants in the oil and natural gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers and participants. At September 30, 2009, the majority of oil production is being sold to two purchasers, while the majority of natural gas production is sold to an international oil and gas company. To help mitigate the risk associated with the significant amount of oil production being sold to the larger purchaser, PetroBakken has arranged for early payments and or letters of credit. At September 30, 2009, PetroBakken's accounts receivables consisted of \$45.9 million (Dec. 31, 2008 – \$37.3 million) of receivables from oil and natural gas customers and \$0.8 million (Dec. 31, 2008 – \$7.8 million) of other trade receivables.

Accounts receivable from oil and natural gas marketers are normally collected 25 days after the month following production. PetroBakken'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. PetroBakken historically has not experienced any collection issues with its oil and natural gas customers or joint interest partners.

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

The carrying amount of accounts receivable and cash and cash equivalents represent PetroBakken's maximum credit exposure. PetroBakken had a \$0.8 million allowance for doubtful accounts as at September 30, 2009, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the nine months ended September 30, 2009.

PetroBakken's accounts receivable are aged as follows:

As at	Sept. 30, 2009	Dec. 31, 2008
Not past due	\$ 45,016	\$ 43,413
Past due	1,714	1,691
Total	\$ 46,730	\$ 45,104

Liquidity Risk

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

PetroBakken prepares annual capital expenditure budgets, which are monitored and updated as considered necessary. Production is monitored regularly to provide current cash flow estimates and PetroBakken utilizes authorizations for expenditures on projects to manage capital expenditures. To facilitate the capital expenditure program, PetroBakken has a revolving asset based credit facility which will be reviewed semi-annually by the lenders.

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

Financial Liability	< 1 Year	1-3 Years	3-5 Years	Total
Accounts payable and accrued liabilities	\$ 136,273	\$ -	\$ -	\$ 136,273

Market Risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices, and interest rates will affect PetroBakken'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.

PetroBakken uses derivative instruments to manage market risk. The Board of Directors of PetroBakken will periodically review the results of all risk management activities and all outstanding positions.

Foreign Currency Risk

PetroBakken 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 PetroBakken's expenses are denominated in Canadian dollars. When appropriate, the Company enters into agreements to fix the exchange rate of Canadian dollars to US dollars in order to manage exchange rate risks.

At September 30, 2009, if the Canadian dollar had depreciated five percent against the United States dollar with all other variables held constant, net income would have been \$0.1 million higher for the three and nine months ended September 30, 2009, due to the period end valuation of risk management contracts outstanding.

PetroBakken had no forward exchange rate contracts in place as at or during the nine months ended September 30, 2009. PetroBakken assumed the following foreign exchange risk management contracts upon the acquisition of TriStar on October 1, 2009:

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

Commodity Price Risk

Changes in commodity prices may significantly impact the results of operations and cash generated from operating activities, and can also impact the borrowing base under its secured credit facility. Lower commodity prices can also reduce the ability to raise capital. Crude oil prices are impacted by world economic events that dictate the levels of supply and demand. Natural gas prices in Canada are influenced primarily by North American supply and demand. From time to time the entity 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 crude oil price risk management contracts were outstanding at September 30, 2009:

Term	Volume (Bopd)	Price (\$/bbl)	Benchmark
Jan. 1, 2009 – Dec. 31, 2009	2,000	US\$90.00 floor / US\$121.00 ceiling	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$93.65 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$94.15 ceiling	C\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	500	C\$80.00 floor / C\$95.60 ceiling	C\$ WTI

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

Term	Volume (Bopd)	Price (\$/bbl)	Benchmark
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 floor / US\$93.05 ceiling	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 floor / US\$93.25 ceiling	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	1,000	US\$70.00 floor / US\$95.00 ceiling	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$75.00 floor / US\$94.75 ceiling	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$75.00 floor / US\$95.00 ceiling	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$70.00 floor / C\$87.85 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$82.45 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$70.00 put	US\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	US\$75.00 put	US\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	1,000	US\$75.00 floor / US\$95.00 ceiling	US\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	500	US\$75.00 floor / US\$99.00 ceiling	US\$ WTI
Jan. 1, 2011 – Dec. 31, 2011	1,000	C\$75.00 floor / C\$90.00 ceiling	C\$ WTI

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

Term	Volume (Bopd)	Price (\$/bbl)	Benchmark
Jan. 1, 2008 – Dec. 31, 2009	500	US\$65.00 floor / US\$73.25 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$65.00 floor / US\$76.15 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$65.00 floor / US\$76.30 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$67.00 floor / US\$76.70 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$70.00 floor / US\$75.52 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	250	US\$75.00 floor / US\$96.05 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$75.00 floor / US\$100.00 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	250	US\$75.00 floor / US\$102.00 ceiling	US\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	500	US\$80.00 floor / US\$100.00 ceiling	US\$ WTI
Jul. 1, 2009 – Dec. 31, 2009	500	C\$65.00 floor / C\$76.15 ceiling	C\$ WTI
Jul. 1, 2009 – Dec. 31, 2009	500	C\$65.00 floor / C\$75.65 ceiling	C\$ WTI
Feb. 1, 2008 – Dec. 31, 2009	500	US\$75.00 put	US\$ WTI
Mar. 1, 2008 – Dec. 31, 2009	500	US\$80.00 put	US\$ WTI
Apr. 1, 2007 – Dec. 31, 2009	250	C\$76.60 swap	C\$ WTI
Jan. 1, 2008 – Dec. 31, 2009	250	C\$78.20 swap	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$65.00 floor / C\$87.25 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$65.00 floor / C\$90.00 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$65.00 floor / C\$99.50 ceiling	C\$ WTI
Jan. 1, 2010 – Dec. 31, 2010	500	C\$75.00 floor / C\$100.00 ceiling	C\$ WTI

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

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

	Three months ended September 30, 2009		Nine months ended September 30, 2009	
Risk management contracts				
Realized gain (loss)	\$ 4,111	\$ (3,211)	\$ 20,837	\$ (9,269)
Unrealized gain (loss)	(3,924)	33,617	(28,643)	3,337
Gain (loss) on risk management contracts	\$ 187	\$ 30,406	\$ (7,806)	\$ (5,932)

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

Interest Rate Risk

PetroBakken is exposed to interest rate cash flow risk on floating interest rate bank debt due to fluctuations in market interest rates. The remainder of PetroBakken's financial assets and liabilities are not exposed to interest rate risk.

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

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

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

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

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

Fair Value of Financial Instruments

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

Financial Instrument	Carrying Value	Fair Value	Gain / (Loss)	Interest Expense ⁽³⁾	Revenue
<i>Assets Held For Trading</i>					
Cash and cash equivalents ⁽¹⁾	71,510	71,510	-	-	-
Risk management contracts	4,261	4,261	(7,806) ⁽²⁾	-	-
<i>Loans and Receivables</i>					
Accounts receivable	46,730	46,730	-	-	-
<i>Other Liabilities</i>					
Accounts payable and accrued liabilities	136,273	136,273	-	-	-
Obligations under gas sale contract	2,551	1,085	-	-	619 ⁽⁴⁾

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

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

⁽³⁾ Included in interest expense on the statement of operations and retained earnings and statement of comprehensive income. The amortization of deferred financing costs is added back on the statement of cash flow. The effective yield on bank debt at September 30, 2009 was nil as the bank debt facility was undrawn (December 31, 2008 – 3.5%).

⁽⁴⁾ Included in oil and natural gas revenues on the statement of operations and retained earnings and statement of comprehensive income. The amortization of obligations under gas sale contract is included on the statement of cash flow.

The risk management contracts are recorded at their fair value based on quoted market prices in the futures market on the balance sheet date; accordingly, there is no difference between fair value and carrying value. The fair value of the obligations under gas sale contract is based on the estimated cash payment necessary to settle the contract at the balance sheet date. Cash payments are calculated based on discounted cash flow analysis using prevailing market prices at the time. 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.

Note 7 – Changes in Non-Cash Working Capital

	Three months ended September 30, 2009		2008		Nine months ended September 30, 2009		2008	
Change in:								
Accounts receivable	\$	(603)	\$	3,302	\$	(1,626)	\$	(35,035)
Prepaid expenses		228		(616)		(98)		(2,911)
Accounts payable and accrued liabilities		44,232		58,353		(36,622)		105,340
Deferred credit		(43)		-		1,659		-
		43,814		61,039		(36,687)		67,394
Working capital deficiencies acquired		-		-		-		(14,358)
	\$	43,814	\$	61,039	\$	(36,687)	\$	53,036
Changes relating to:								
Attributable to operating activities	\$	7,753	\$	16,181	\$	(5,216)	\$	(2,816)
Attributable to investing activities	\$	36,061	\$	44,858	\$	(31,471)	\$	55,852

Note 8 – Commitments and Contingencies

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

Type of Commitment	Rem. 2009	2010	2011	2012	2013	Thereafter	Total
Office operating leases	\$ 460	\$ 1,850	\$ 1,850	\$ 3,050	\$ 3,170	16,970	\$ 27,350



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