



# **CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**BNK PETROLEUM INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(Unaudited, expressed in Thousands of United States dollars)*

<b>ASSETS</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 20,096	\$ 8,372
Accounts receivable	6,950	12,114
Inventory	1,349	1,345
Deposits and prepaid expenses	2,147	294
	<b>30,542</b>	<b>22,125</b>
<b>Investments (Note 3)</b>	<b>1,075</b>	<b>512</b>
<b>Property, plant and equipment (Note 4)</b>	<b>181,228</b>	<b>165,350</b>
	<b>\$ 212,845</b>	<b>\$ 187,987</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 13,480	\$ 23,045
Deferred credit (Note 5)	1,000	2,500
Current portion of long-term debt (Note 6)	24,702	10,351
	<b>39,182</b>	<b>35,896</b>
<b>Bank and long-term debt (Note 6)</b>	-	17,685
<b>Subordinated loan (Note 7)</b>	-	2,749
<b>Asset retirement obligations (Note 8)</b>	<b>1,511</b>	<b>1,471</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	182,945	141,819
Contributed surplus (Note 9)	9,721	8,300
Deficit	(20,514)	(19,933)
	<b>172,152</b>	<b>130,186</b>
	<b>\$ 212,845</b>	<b>\$ 187,987</b>

**Commitments (Note 12)**

*See accompanying notes to consolidated financial statements.*

**BNK PETROLEUM INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND DEFICIT**  
*(Unaudited, expressed in Thousands of United States dollars, except per share amounts)*

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>Revenue</b>				
Oil and gas	\$ 3,855	\$ 2,009	\$ 8,492	\$ 4,770
Royalties	(833)	(412)	(1,822)	(930)
Realized gain on risk management contracts (Note 11)	135	12	116	12
Unrealized gain (loss) on risk management contracts (Note 11)	102	(188)	557	(188)
Gathering	412	266	1,942	507
Equity loss on investment (Note 3)	(5)	-	(21)	-
Interest and other	12	1	12	5
	<u>3,678</u>	<u>1,688</u>	<u>9,276</u>	<u>4,176</u>
<b>Expenses</b>				
Operating	1,076	743	2,259	1,558
General and administrative	1,400	1,170	2,269	1,931
Interest on long-term debt	453	1,299	907	1,653
Interest on subordinated debt	20	177	59	388
Foreign exchange loss	1,125	32	1,006	52
Stock-based compensation (Note 9)	323	2	1,060	1,844
Depletion, depreciation and accretion	1,206	1,471	2,297	3,441
	<u>5,603</u>	<u>4,894</u>	<u>9,857</u>	<u>10,867</u>
<b>Net loss and Comprehensive loss for the period</b>	<b>(1,925)</b>	<b>(3,206)</b>	<b>(581)</b>	<b>(6,691)</b>
Deficit, beginning of period	<u>(18,589)</u>	<u>(10,830)</u>	<u>(19,933)</u>	<u>(7,345)</u>
<b>Deficit, end of period</b>	<b>\$ <u>(20,514)</u></b>	<b>\$ <u>(14,036)</u></b>	<b>\$ <u>(20,514)</u></b>	<b>\$ <u>(14,036)</u></b>
<b>Basic and fully diluted loss per share (Note 9)</b>	<b>\$ <u>(0.02)</u></b>	<b>\$ <u>(0.05)</u></b>	<b>\$ <u>(0.01)</u></b>	<b>\$ <u>(0.10)</u></b>

*See accompanying notes to consolidated financial statements.*

**BNK PETROLEUM INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
*(Unaudited, expressed in Thousands of United States dollars)*

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<i>Cash provided by (used in):</i>				
<i>Operating activities</i>				
Net loss and Comprehensive loss	\$ (1,925)	\$ (3,206)	\$ (581)	\$ (6,691)
Items not involving cash:				
Depletion, depreciation and accretion	1,206	1,471	2,297	3,441
Unrealized (gain) loss on risk management contracts	(102)	188	(557)	188
Equity loss on investment	5	-	21	-
Stock-based compensation	323	2	1,060	1,844
	(493)	(1,545)	2,240	(1,218)
Change in non-cash working capital (Note 14)	(3,185)	1,625	(8,088)	6,459
	(3,678)	80	(5,848)	5,241
<i>Investing activities</i>				
Additions to property, plant and equipment	(15,426)	(3,817)	(17,850)	(7,146)
Advances to and investments in affiliates	(393)	-	(584)	-
Change in non-cash working capital (Note 14)	(571)	(15,331)	888	(23,289)
	(16,390)	(19,148)	(17,546)	(30,435)
<i>Financing activities</i>				
Issue of equity instruments, net of share issue expenses	41,084	27,515	41,084	27,515
Cash proceeds of stock options exercised	9	-	117	-
Repayment of long-term debt	(2,012)	(7,000)	(3,334)	(7,000)
Promissory notes	-	1,087	-	1,087
Repayment of subordinated loan	(2,749)	(1,823)	(2,749)	(1,612)
	36,332	19,779	35,118	19,990
<i>Increase (decrease) in cash and cash equivalents</i>	16,264	711	11,724	(5,204)
Cash and cash equivalents, beginning of period	3,832	2,350	8,372	8,265
<i>Cash and cash equivalents, end of period (Note 14)</i>	\$ 20,096	\$ 3,061	\$ 20,096	\$ 3,061

*See accompanying notes to consolidated financial statements.*

**BNK Petroleum Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited, expressed in Thousands of United States dollars)**

**1. INCORPORATION AND PLAN OF ARRANGEMENT**

BNK Petroleum Inc. (the “Company”), was incorporated under the Business Corporations Act (British Columbia) on May 6, 2008. Pursuant to shareholders’ approval of Bankers Petroleum Ltd. (“Bankers”), at the Annual and Special General Meeting held on June 27, 2008, Bankers completed its plan of arrangement in July 2008 by which all of Bankers’ U.S. operations and assets were transferred into BNK Petroleum Inc. Shareholders of Bankers received one common share of the Company for every ten (10) common shares held in Bankers. This transaction was accounted for using continuity of interests accounting whereby the assets, liabilities and equity of the U.S. operations were transferred to BNK Petroleum Inc. as of July 1, 2008 at their book values, with no gain or loss recorded.

The unaudited consolidated financial statements of the Company have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”), using the same accounting policies as those set out in note 3 to the consolidated financial statements for the year ended December 31, 2009. The consolidated financial statements for the three and six months ended June 30, 2010, should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2009. Certain amounts have been reclassified to conform with the current year’s presentation. All tabular amounts are in thousands, except per share amounts, unless otherwise stated.

**2. FUTURE ACCOUNTING CHANGES**

**Business Combinations, Consolidated Financial Statements and Non-controlling Interests**

The CICA Handbook Section 1582 “Business Combinations” is effective for business combinations with an acquisition date after January 1, 2011. This standard was amended to require additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure. Adopting the standard is expected to have a material effect on the way the Company accounts for future business combinations. Entities adopting Section 1582 will also be required to adopt CICA Handbook Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling Interests”. These standards will require non-controlling interests to be presented as part of Shareholders’ Equity on the balance sheet. In addition, the income statement of the controlling parent will include 100 per cent of the subsidiary’s results and present the allocation between the controlling and non-controlling interests. These standards will be effective January 1, 2011, with early adoption permitted. The changes resulting from adopting Section 1582 will be applied retrospectively. The Company is currently assessing the impact of this standard on its financial position and future results.

**3. INVESTMENT**

In October 2009, the Company entered into a farm-out agreement with two European companies (the “Farmees”) under which the Company agreed to reduce its 80% ownership in Saponi Investments Sp. z.o.o., (“Saponis”) its Polish subsidiary, to 26.667% in exchange for the Farmees paying \$5 million of the Company’s share of expenditures on the first \$25 million of capital

**BNK Petroleum Inc.**  
**Notes to Consolidated Financial Statements**  
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**3. INVESTMENT (cont'd)**

expenditures in Poland. As a result of this transaction, the Company now accounts for its investment in Saponis using the equity method of accounting. As at June 30, 2010 the investment in Saponis was \$1,075 and the Company's share of Saponis' loss for the six month period ended June 30, 2010 was \$21.

**4. PROPERTY, PLANT AND EQUIPMENT**

The following tables summarize the Company's property, plant and equipment as at June 30, 2010 and December 31, 2009:

	2010			2009
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Oil and gas properties	\$ 194,024	\$ 13,028	\$ 180,996	\$ 165,222
Equipment, furniture and fixtures	465	233	232	128
	\$ 194,489	\$ 13,261	\$ 181,228	\$ 165,350

Depletable assets for the depletion calculation for the three months ended June 30, 2010, included \$164,457 (2009 - \$37,481) for estimated future development costs associated with proved undeveloped reserves.

The Company capitalized general and administrative expenses and stock-based compensation of \$480 and \$908 during the three and six month periods ended June 30, 2010 respectively (\$172 and \$669 for the corresponding periods in 2009) that were directly related to exploration and development activities.

On May 21, 2010 the company purchased the overriding royalty interest and NPI (see note 6) from its lender for \$12 million and accounted for the transaction as an addition to oil and gas properties.

**5. DEFERRED CREDIT**

In connection with the farm-out agreement (Note 6), the Company entered into a Technical Services Agreement with Farmees. Under this agreement, the Farmees paid the Company a non-refundable fee of \$3 million for technical consulting services the Company will provide in three oil and gas concessions in Poland. The Company earns this fee ratably over a twelve month period ended October 31, 2010 and accounts for it as an offset against capitalized general and administrative expenses. If the first well location is identified in one of the concessions during this twelve-month

**BNK Petroleum Inc.**  
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**5. DEFERRED CREDIT (cont'd)**

term, then the unamortized balance will be immediately recognized and offset against the capitalized general and administrative expenses.

**6. BANK AND LONG-TERM DEBT**

In July 2009, the Company arranged a \$50 million reserve based credit facility ("Facility") with a U.S. financial institution (the "Lender"). The proceeds from this Facility were partially used to pay the Company's existing bank debt of \$7 million. The Facility has an initial borrowing base (the "Borrowing Base") of \$29.5 million and is secured by the Company's properties in the Tishomingo Field, Oklahoma. As at June 30, 2010, \$24.7 million of the Borrowing Base was drawn down. The Facility matures in April 2011 and bears interest at US base rate plus 3%. In addition, the Company had assigned an overriding royalty interest of 3% in favour of the Lender in the initial forty wells (the "initial wells") which reduces to 2% for subsequent wells. The Lender was also assigned a net profits interest ("NPI"). The NPI was equal to 20% of the Company's net operating income from the initial wells and 10% from the subsequent wells. On May 21, 2010 the Company purchased the overriding royalty interest and the NPI from the lender for \$12 million which was recorded as an increase to Property, Plant and Equipment.

**7. SUBORDINATED LOAN**

In July 2008, the Company entered into a subordinated loan agreement (the "Subordinated Loan") for \$23 million with Bankers in order to provide security for its initial credit facilities. Subordinated Loan bore interest at LIBOR plus 5.5% and was secured by a floating charge debenture and a general security agreement. On May 19, 2010 the subordinated loan and interest totaling \$2,749 thereon was repaid in full.

Bankers is considered a related party as Bankers and the Company have three common directors. The above transaction is considered to be in the normal course of business and has been measured at the exchange amount being the amounts agreed to by both the parties.

**8. ASSET RETIREMENT OBLIGATIONS**

The Company estimated the total undiscounted amount required to settle the asset retirement obligations as \$2,010 (2009 - \$1,781). These obligations are expected to be settled over 12 years. The liability has been discounted using a credit-adjusted risk-free interest rate ranging from 5.5% to 7.0% (2009 - 7.0%) and an inflation rate of 2.5% (2009 - 2.5%).

**BNK Petroleum Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited, expressed in Thousands of United States dollars)**

**8. ASSET RETIREMENT OBLIGATIONS (cont'd)**

	<b>June 30, 2010</b>	December 31, 2009
Asset retirement obligations, opening balance	\$ 1,471	\$ 1,219
Liabilities incurred during the period	-	161
Accretion	<u>40</u>	<u>91</u>
<b>Asset retirement obligations, closing balance</b>	<b><u>\$ 1,511</u></b>	<b><u>\$ 1,471</u></b>

**9. SHAREHOLDERS' EQUITY**

**(a) Share Capital**

**Authorized**

An unlimited number of common shares with no par value.

**Issued**

	Number of Common Shares	Amount	Contributed Surplus
Balance, December 31, 2008	68,350,379	\$ 119,590	\$ 4,301
Private placement	17,000,000	4,556	-
Prospectus issue	16,000,000	19,034	-
Stock options exercised	50,000	64	(34)
Share issuance costs	-	(1,425)	-
Stock-based compensation	<u>-</u>	<u>-</u>	<u>4,033</u>
Balance, December 31, 2009	101,400,379	141,819	8,300
Prospectus issue	15,800,000	43,593	-
Stock options exercised	164,333	218	(101)
Share issuance costs	-	(2,685)	-
Warrants	-	-	176
Stock-based compensation	<u>-</u>	<u>-</u>	<u>1,346</u>
<b>Balance, June 30, 2010</b>	<b><u>117,364,712</u></b>	<b><u>\$ 182,945</u></b>	<b><u>\$ 9,721</u></b>

**BNK Petroleum Inc.**  
**Notes to the Consolidated Financial Statements**  
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**9. SHAREHOLDERS' EQUITY (cont'd)**

On May 18, 2010 the Company closed a bought deal equity financing with a syndicate of underwriters (the "underwriters") pursuant to which the underwriters purchased for resale to the public 15,800,000 common shares ("common shares") of the Company at CAD \$2.85 per common share for gross proceeds of \$43,593,000 USD. In connection with the financing, the Company paid a 5% commission to the underwriters and issued brokers warrants that are equal to 1% of the common shares issued under the financing. Each broker warrant entitles the holder to purchase one share of the Company for CAD \$2.85 for a period of two years from the date of closing. The Company calculated the fair value of the warrants at \$176 using the Black Scholes model. The assumptions used to determine the value of the warrants using the Black Scholes model was fair value of \$1.15, risk free interest rate of 1.78%, average volatility of 89% and expected life of two years.

**Basic and Fully Diluted Loss per Share**

Basic and diluted loss per share were calculated using the weighted average number of outstanding common shares of 105,374,154 (2009 - 68,350,379) for the six months ended June 30, 2010 and 110,698,842 (2009 - 68,350,379) for the 3 months ended June 30, 2010.

**(b) Stock options**

A summary of the changes in stock options is presented below:

	Number of Options	Weighted Average Exercise Price (CAD\$)
Balance, December 31, 2008	4,905,000	2.00
Options granted	6,975,000	0.63
Options exercised	(50,000)	(0.65)
Options cancelled	(4,900,000)	(2.00)
Balance, December 31, 2009	6,930,000	0.63
Options granted	700,000	2.01
Options exercised	(164,333)	(0.72)
Balance, June 30, 2010	7,465,667	0.77

Stock options vest as to one third on the date of grant and as to one third in each of the first and second anniversaries.

**BNK Petroleum Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited, expressed in Thousands of United States dollars)**

**9. SHAREHOLDERS' EQUITY (cont'd)**

The following table summarizes the outstanding and exercisable options at June 30:

Range of Exercise Price (CAD\$)	2010			2009		
	Outstanding	Exercisable	Weighted Average Remaining Contractual Life	Outstanding	Exercisable	Weighted Average Remaining Contractual Life
2.01-2.50	500,000	166,667	4.7	-	-	-
1.51-2.00	200,000	66,667	4.6	-	-	-
1.01-1.50	43,333	21,667	4.3	-	-	-
0.50-1.00	6,720,667	2,306,167	4.0	-	-	-
1.01-2.01	1,667	1,667	3.0	5,000	1,667	4.0
	7,465,667					

Stock options vest as to one-third on the date of grant and one-third each on the first and second anniversary dates.

In February 2009, the Company cancelled 4,900,000 stock options issued to its directors, employees and service providers pursuant to a stock voluntary option cancellation program. As a result of this cancellation the Company incurred stock based compensation expense of \$1,799 of which \$1,529 was charged to earnings and \$270 was capitalized.

**(c) Stock-based compensation**

Using the fair value method for stock-based compensation, the Company calculated stock-based compensation expense for the three and six month periods ended June 30, 2010 as \$392 and \$1,345 respectively (\$2 and \$2,169 for the same periods in 2009) for the stock options vested and/or granted to officers, directors, employees and service providers. Of these amounts, \$323 and \$1,060 (\$2 and \$1,844 for the same periods in 2009) was charged to earnings and \$69 and \$285 (\$nil and \$325 for the same periods in 2009) was capitalized. The Company determined these amounts using the Black-Scholes option pricing model assuming no dividends were paid. The weighted average fair market value per option granted in the three and six month periods ended June 30, 2010 and 2009 and the assumptions used in their determination were as follows:

**BNK Petroleum Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited, expressed in Thousands of United States dollars)**

**9. SHAREHOLDERS' EQUITY (cont'd)**

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Weighted average fair value per option (\$)	<b>0.98</b>	0.15	<b>1.32</b>	1.10
Risk-free interest rate (%)	<b>2.69</b>	2.11	<b>2.70</b>	3.40
Average volatility (%)	<b>186</b>	182	<b>164</b>	74
Expected life (years)	<b>5</b>	5	<b>5</b>	5

**10. FUTURE INCOME TAXES**

The provision for income taxes reported differs from the amounts computed by applying the cumulative US federal and state income tax rates to the loss before tax provision due to the following:

	Three Months ended June 30		Six Months ended June 30	
	2010	2009	2010	2009
Net loss for the period	\$ (1,925)	\$ (3,206)	\$ (581)	\$ (6,691)
Statutory tax rate	<b>39%</b>	39%	<b>39%</b>	39%
	(751)	(1,250)	(227)	(2,609)
Stock-based compensation	<b>153</b>	1	<b>525</b>	846
Foreign exchange and US versus Canadian tax rate differences	<b>493</b>	177	<b>511</b>	212
Valuation allowance	<b>105</b>	1,072	<b>(809)</b>	1,551
Future income tax expense	\$ -	\$ -	\$ -	\$ -

The significant components of the Company's future income tax assets are as follows:

	June 30, 2010	December 31, 2009
<b>Future income tax assets</b>		
Losses carry-forward	\$ 1,516	\$ 1,222
Unrealized (gain) loss on risk management contracts	(105)	112
Property, plant and equipment	1,250	2,014
Inventory	484	484
Asset retirement obligations	589	574
Share issue costs	1,011	521
Less: valuation allowance	(4,745)	(4,927)
<b>Future income tax assets</b>	\$ -	\$ -

**BNK Petroleum Inc.**  
**Notes to Consolidated Financial Statements**  
(Unaudited, expressed in Thousands of United States dollars)

**11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**(a) Financial Instruments**

The Company's financial instruments recognized in the consolidated balance sheets consist of cash and cash equivalents, accounts receivable, risk management contracts, accounts payable and accrued liabilities, subordinated loan and long-term debt. Except for risk management contracts carrying values reflect the current fair value of the Company's financial instruments due to their short term maturities and for subordinated loan and long-term debt due to market rates of interest paid by the Company in relation to similar instruments. Risk management contracts are recognized at fair value on the consolidated balance sheets. The estimated fair values of recognized financial instruments have been determined based on the Company's assessment of available market information and appropriate methodologies, through comparisons to similar instruments, or third party quotes.

**(b) Credit risk**

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk with respect to its accounts receivables. Most of the Company's accounts receivable arises from transactions with joint interest partners and oil and natural gas sales with petroleum and natural gas marketers. The Company mitigates credit risk with marketers by maintaining marketing relationships with established purchasers with strong credit ratings.

As at June 30, 2010, the accounts receivable balance was \$7.0 million of which \$1.2 million of accounts receivable were past due. The Company considers all amounts greater than 90 days past due. These past due accounts receivable are considered to be collectible as they are owed by joint interest partners. The Company does not have an allowance for doubtful accounts at June 30, 2010.

**(c) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity through continuous monitoring of cash flows from operating activities, review of actual capital expenditure program, and managing maturity profiles of financial assets and financial liabilities. These activities ensure that the Company has sufficient funds to meet its financial obligations as they come due.

The timing of cash flows relating to financial liabilities as at June 30, 2010, is as follows:

	2010	2011	2012	2013	2014	Thereafter
Accounts payable and accrued liabilities	\$ 13,480	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt	-	24,702	-	-	-	-
Total financial liabilities	\$ 13,480	\$ 24,702	\$ -	\$ -	\$ -	\$ -

**BNK Petroleum Inc.**  
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(Unaudited, expressed in Thousands of United States dollars)

**11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

**(d) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in commodity price risk, currency risk, and interest rate risk. The objective of market risk management is to manage the Company's exposure to these risks within acceptable parameters, while optimizing returns.

**(e) Commodity price risk**

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil, natural gas and natural gas liquids are impacted by world economic events that dictate the levels of supply and demand.

The Company's revenues are generated from the sale of oil, natural gas and natural gas liquids in the United States. For the six months ended June 30, 2010, a \$1 change in the barrel price of oil and NGL's with all other variables held constant, would affect before tax net income for the year by \$27 (2009 - \$5). Similarly a \$0.10 per mcf change in the natural gas price with all other variables held constant would affect before tax net income for the year by \$46 (2009 - \$10).

The Company has entered into various financial commodity contracts to manage its commodity risk in the normal course of its operations. The following contracts were outstanding as at June 30, 2010:

Commodity	Period	Total Volume Hedged (MMBTU/BBLs)	Daily Volume	Floor Price (\$/MMBTU/\$/BBL)	Counter-party participation above Floor Price
Gas	June 1, 2009 to March 31, 2011	365,000	500-667 MMBTU/D	\$3.75	25%
Gas	November 1, 2009 to November 30, 2010	390,000	1000 MMBTU/D	\$5.40	-
Gas	December 1, 2010 to March 31, 2013	840,000	1000 MMBTU/D	\$5.24	-
Oil - WTI - NYMEX	June 1, 2009 to March 31, 2011	24,000	17-50 BOPD	\$47.95	25%
Oil - WTI - NYMEX	January 1, 2010 to December 31, 2010	14,600	40 BOPD	\$80.00	-
Oil - WTI - NYMEX	January 1, 2011 to December 31, 2011	10,950	30 BOPD	\$84.28	-
Propane	April 1, 2010 to March 31, 2011	15,512.5	42.5 BOPD	\$46.33	-
Propane	April 1, 2010 to March 31, 2011	2,737.5	7.5 BOPD	\$47.43	-

**BNK Petroleum Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited, expressed in Thousands of United States dollars)**

**11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

The Company has fair valued its financial commodity contracts using quoted market prices at June 30, 2010. As at June 30, 2010, the estimated fair value of these contracts is a net asset of \$269 which is included in accounts receivable and an unrealized gain of \$557 has been recognized in revenues for the period ended June 30, 2010.

During the period, the Company realized a net gain of \$116 on its financial commodity contracts.

**(f) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company's functional currency is United States dollar. All of its revenues, field operating expenses and majority of its general and administrative expenses as well as a substantial portion of its capital expenditures are transacted in US dollars. The Company is exposed to currency risk on its Canadian head office overheads of approximately CAD \$556 (2009 - CAD \$433) and every one cent fluctuation in Canadian dollar against the US dollar has a \$5 impact on the Company's earnings (2009 - \$4).

**(g) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank loan which bears a floating rate of interest. Each one percent change in interest rate on the bank debt has a \$247 impact on the Company's interest expense (2009 - \$393). The Company had no interest rate swap or financial contracts in place as at or during the three months ended June 30, 2010 to mitigate interest risk.

**12. COMMITMENTS**

(a) The Company leases office premises with a term expiring on April 30, 2013. Total lease payments during the lease term will be paid as follows:

2010 - \$	60
2011 - \$	135
2012 - \$	138
2013 - \$	47

**BNK Petroleum Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited, expressed in Thousands of United States dollars)**

**12. COMMITMENTS (cont'd)**

- (b) The Company has a three well drilling commitment commencing September 30, 2009 pursuant to an exploration agreement under which the Company will pay 100% of the cost of drilling and completing the wells to earn a 50% interest in a portion of the Black Warrior basin in Mississippi and Alabama. Failure to drill these wells on schedule could subject the Company to liquidated damages of \$500 for each well. To that end, the Company spudded its first well prior to September 30, 2009. This well was determined to be uneconomic and was plugged and abandoned in June 2010. The second commitment well was spudded in June 2010, air drilled in July 2010 and the Company is evaluating the logs acquired to determine the future course of action.
  
- (c) In Poland the Company has to spud two wells in each of three concessions (Slawno, Slupsk and Starogard). Spudding of the first well in the Slawno concession should occur in the third quarter or early in the fourth quarter of the 2010. The first well on the Slupsk concession must be spudded by June 2, 2011 and the first well on the Starogard concession must be spudded by December 2, 2011. A second well in the Slawno, Slupsk and Starogard concessions must be drilled by June 2012, December 2012 and June 2013 respectively. Failure to spud these wells may result in partial or total forfeiture of the concessions. Each of the six wells is estimated to cost between \$7 million and \$8.5 million and the Company's net share of the first \$25 million of these costs is capped at \$1.667 million.

**BNK Petroleum Inc.**  
**Notes to Consolidated Financial Statements**  
(Unaudited, expressed in Thousands of United States dollars)

**13. SEGMENTED INFORMATION**

The Company defined its reportable segments based on geographic locations.

	<b>Six months ended June 30, 2010</b>			
	<u>United States</u>	<u>Canada</u>	<u>Poland</u>	<u>Total</u>
<b><i>Revenue</i></b>				
Oil and gas revenue net of royalties	\$ 6,670	\$ -	\$ -	\$ 6,670
Gathering revenue	1,942	-	-	1,942
Realized gains on risk management contracts	116	-	-	116
Unrealized gain on risk management contracts	557	-	-	557
Equity loss on investment	-	-	(21)	(21)
Interest and other	-	12	-	12
	<u>9,285</u>	<u>12</u>	<u>(21)</u>	<u>9,276</u>
<b><i>Expenses</i></b>				
Operating	2,259	-	-	2,259
General and administrative	1,630	538	101	2,269
Interest on long-term debt	907	-	-	907
Interest on subordinated debt	-	59	-	59
Foreign exchange	-	967	39	1,006
Stock-based compensation	690	370	-	1,060
Depletion, depreciation and accretion	2,297	-	-	2,297
	<u>7,783</u>	<u>1,934</u>	<u>140</u>	<u>9,857</u>
Net Income (loss)	<u>1,502</u>	<u>(1,922)</u>	<u>(161)</u>	<u>(581)</u>
Assets	\$ <u>192,232</u>	\$ <u>18,427</u>	\$ <u>2,186</u>	\$ <u>212,845</u>
Additions to property, plant and equipment	\$ <u>17,204</u>	\$ <u>(283)</u>	\$ <u>929</u>	\$ <u>17,850</u>

**BNK Petroleum Inc.**  
**Notes to Consolidated Financial Statements**  
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**13. SEGMENTED INFORMATION (cont'd)**

	<b>Three months ended June 30, 2010</b>			
	<u>United States</u>	<u>Canada</u>	<u>Poland</u>	<u>Total</u>
<b><i>Revenue</i></b>				
Oil and gas revenue net of royalties	\$ 3,022	\$ -	\$ -	\$ 3,022
Gathering revenue	412	-	-	412
Realized gains on risk management contracts	135	-	-	135
Unrealized gain on risk management contracts	102	-	-	102
Equity loss on investment	-	-	(5)	(5)
Interest and other	-	12	-	12
	<u>3,671</u>	<u>12</u>	<u>(5)</u>	<u>3,678</u>
<b><i>Expenses</i></b>				
Operating	1,076	-	-	1,076
General and administrative	1,148	181	71	1,400
Interest on long-term debt	453	-	-	453
Interest on subordinated debt	-	20	-	20
Foreign exchange	-	1,090	35	1,125
Stock-based compensation	167	156	-	323
Depletion, depreciation and accretion	1,206	-	-	1,206
	<u>4,050</u>	<u>1,447</u>	<u>106</u>	<u>5,603</u>
Net loss	<u>(379)</u>	<u>(1,435)</u>	<u>(111)</u>	<u>(1,925)</u>
Assets	\$ <u>192,232</u>	\$ <u>18,427</u>	\$ <u>2,186</u>	\$ <u>212,845</u>
Additions to property, plant and equipment	\$ <u>15,339</u>	\$ <u>-</u>	\$ <u>87</u>	\$ <u>15,426</u>

**BNK Petroleum Inc.**  
**Notes to Consolidated Financial Statements**  
(Unaudited, expressed in Thousands of United States dollars)

**13. SEGMENTED INFORMATION (cont'd)**

	Six months ended June 30, 2009			
	United States	Canada	Poland	Total
<b>Revenue</b>				
Oil and gas revenue net of royalties	\$ 3,840	\$ -	\$ -	\$ 3,840
Gathering revenue	507	-	-	507
Realized gains on risk management contracts	12	-	-	12
Unrealized loss on risk management contracts	(188)	-	-	(188)
Interest and other	5	-	-	5
	<u>4,176</u>	<u>-</u>	<u>-</u>	<u>4,176</u>
<b>Expenses</b>				
Operating	1,558	-	-	1,558
General and administrative	1,555	359	17	1,931
Interest on long-term debt	1,653	-	-	1,653
Interest on subordinated debt	-	388	-	388
Foreign exchange	-	48	4	52
Stock-based compensation	656	1,188	-	1,844
Depletion, depreciation and accretion	3,441	-	-	3,441
	<u>8,863</u>	<u>1,983</u>	<u>21</u>	<u>10,867</u>
Loss for the period	<u>(4,687)</u>	<u>(1,983)</u>	<u>(21)</u>	<u>(6,691)</u>
Assets	\$ <u>167,675</u>	\$ <u>346</u>	\$ <u>570</u>	\$ <u>168,591</u>
Additions to property, plant and equipment	\$ <u>6,664</u>	\$ <u>33</u>	\$ <u>449</u>	\$ <u>7,146</u>

**BNK Petroleum Inc.**  
**Notes to Consolidated Financial Statements**  
(Unaudited, expressed in Thousands of United States dollars)

**13. SEGMENTED INFORMATION (cont'd)**

	Three months ended June 30, 2009			
	United States	Canada	Poland	Total
<b>Revenue</b>				
Oil and gas revenue net of royalties	\$ 1,597	\$ -	\$ -	\$ 1,597
Gathering revenue	262	-	-	262
Realized gains on risk management contracts	12	-	-	12
Unrealized loss on risk management contracts	(188)	-	-	(188)
Interest and other	5	-	-	5
	<u>1,688</u>	<u>-</u>	<u>-</u>	<u>1,688</u>
<b>Expenses</b>				
Operating	743	-	-	743
General and administrative	979	184	7	1,170
Interest on long-term debt	1,299	-	-	1,299
Interest on subordinated debt	-	177	-	177
Foreign exchange	-	29	3	32
Stock-based compensation	1	1	-	2
Depletion, depreciation and accretion	1,471	-	-	1,471
	<u>4,493</u>	<u>391</u>	<u>10</u>	<u>4,894</u>
Loss for the period	<u>(2,805)</u>	<u>(391)</u>	<u>(10)</u>	<u>(3,206)</u>
Assets	\$ <u>167,675</u>	\$ <u>346</u>	\$ <u>570</u>	\$ <u>168,591</u>
Additions to property, plant and equipment	\$ <u>3,361</u>	\$ <u>33</u>	\$ <u>423</u>	\$ <u>3,817</u>

**BNK Petroleum Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited, expressed in Thousands of United States dollars)**

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

	Three months ended June 30		Six months ended June 30	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b><i>Operating activities</i></b>				
(Increase) decrease in current assets				
Accounts receivable	\$ (904)	\$ (2,181)	\$ 2,097	\$ (4,037)
Deposit and prepaid expenses	(1,881)	(13)	(1,853)	(30)
Inventory	(4)	-	(4)	-
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	<u>(396)</u>	<u>(569)</u>	<u>(8,328)</u>	<u>2,392</u>
	<u>\$ (3,185)</u>	<u>\$ (2,763)</u>	<u>\$ (8,088)</u>	<u>\$ (1,675)</u>
<b><i>Investing activities</i></b>				
(Increase) decrease in current assets				
Accounts receivable	(671)	2,133	3,067	(6,694)
Decrease in current liabilities				
Accounts payable and accrued liabilities	<u>100</u>	<u>(17,464)</u>	<u>(2,179)</u>	<u>(29,983)</u>
	<u>\$ (571)</u>	<u>\$ (15,331)</u>	<u>\$ 888</u>	<u>\$ (36,677)</u>
<b><i>Interest paid</i></b>	<u>\$ 528</u>	<u>\$ 1,826</u>	<u>\$ 834</u>	<u>\$ 2,180</u>