



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE PERIODS ENDED**

**JUNE 30, 2010 AND 2009**



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis (MD&A) of BNK Petroleum Inc.'s (BNK or the Company) operating and financial results for the six and three months ended June 30, 2010, compared to the preceding quarter and the corresponding period in the prior year, as well as information and expectations concerning the Company's outlook based on currently available information. The MD&A should be read in conjunction with the unaudited financial statements for the six months ended June 30, 2010 and the audited financial statements and MD&A for the year ended December 31, 2009. Additional information relating to BNK including its Annual Information Form is filed on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.bnkpetroleum.com](http://www.bnkpetroleum.com).

*All dollar values are expressed in U.S. dollars, unless otherwise indicated.*

The Company's natural gas production is reported in thousand cubic feet or (mcf). The Company also uses the "barrels" (bbls) or "barrels of oil equivalent" (boe) reference in this report to reflect natural gas liquids and oil production and sales. All boe conversions are derived by converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil, representing the approximate energy equivalency.

This report is prepared as of August 12, 2010.

### NON-GAAP MEASURES

Netback per barrel and its components are calculated by dividing revenue, royalties and operating expenses by the Company's sales volume during the period. Netback per barrel is a non-GAAP measure but it is commonly used by oil and gas companies to illustrate the unit contribution of each barrel produced. This is a useful measure for investors to compare the performance of one entity with another.

Net operating income is similarly a non-GAAP measure that represents revenue net of royalties and operating expenses. The Company believes that net operating income is a useful supplemental measure to analyze operating performance and provides an indication of the results generated by the Company's principal business activities prior to the consideration of other income and expenses.

Funds from operations is a non-GAAP measure that represents cash provided by (used in) operating activities, as per the consolidated statements of cash flows, before changes in non-cash working capital. The Company considers this a key measure as it demonstrates its ability to generate the funds necessary for future growth after

taking into account the short-term fluctuations in the collection of accounts receivable and the payment for accounts payable. Reconciliation to the GAAP measure is as follows:

(\$000)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Cash provided by (used) in operating activities	(493)	(1,545)	2,240	1,218
Change in non-cash working capital	(3,185)	1,625	(8,088)	(6,459)
Funds from (used in) operations	(3,678)	80	(5,848)	(5,241)

The non-GAAP measures referred to above do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures used by other companies.

### CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information including estimates of reserves and resources and future revenue associated therewith, expectations of future production, funds flow from operations and the Company's planned work programs in the Tishomingo field in Oklahoma, Black Warrior Basin in Mississippi and Alabama and its investments in Poland and elsewhere in Europe. The use of any of the words "target", "plans", "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such forward-looking information, including but not limited to statements as to production targets, timing of the Company's planned work program and management's belief as to the potential of certain properties, involve known and unknown risks, uncertainties and other factors which may cause the actual results of the Company and its operations to be materially different from estimated costs or results expressed or implied by such forward-looking statements. Forward looking information is based on management's expectations regarding future growth, results of operation, production, future capital and other expenditures (including the amount, nature and sources of funding thereof), plans for and results of drilling activity, environmental matters, business prospects and opportunities. Forward looking information involves significant known and unknown risks and uncertainties, which could cause actual results to differ materially from those anticipated. These risks include, but are not limited to: the risks associated with the oil and gas industry (e.g. operational risks in development, exploration and production; delays or changes in plans with respect to exploration and development projects or capital expenditures; the uncertainty of reserve and resource estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, risks and uncertainties associated with securing the necessary regulatory approvals and financing to proceed with continued development of the Tishomingo field and other shale basins in the United States and elsewhere. Although the Company has attempted to take into account important factors that could cause actual costs or results to differ materially, there may be other factors that cause costs of the Company's program or results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. See the Principal Business Risks section of this MD&A for a further description of these risks. The forward-looking information included in this MD&A is expressly qualified in its entirety by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking information.

## OVERVIEW

Results at a Glance	Three months ended June 30			Six months ended June 30		
	2010	2009	%	2010	2009	%
<b>Financial (US \$000 except as noted)</b>						
Oil and gas revenue	3,855	2,009	92	8,492	4,770	78
Net operating income	1,446	854	128	4,411	2,282	93
Income (loss) for the period	(1,925)	(3,206)	40	(581)	(6,691)	91
Funds from (used in) operations	(3,678)	80	(4,698)	(5,848)	5,241	(262)
Additions to property, plant and equipment	15,426	3,817	304	17,850	7,146	150
Cash and cash equivalents				20,096	3,061	557
Total assets				212,845	168,591	26
Subordinated loan				-	11,842	(100)
Asset retirement obligations				1,511	1,252	21
Bank debt				24,702	27,515	(10)
Shareholders' equity				172,152	112,024	54
<b>Operating</b>						
Average production (Boepd)	1,162	793	47	1,124	928	21
Average price (\$/BOE)	36.46	27.85	31	41.74	25.91	61
Netback (\$/BOE)	18.40	11.84	55	21.68	11.56	88

## HIGHLIGHTS

- On January 26, 2010, the Company was awarded two additional oil and gas concessions totaling approximately 770,000 acres in Thuringia, Germany.
- On March 20, 2010, one of the Company's European subsidiaries, Indiana Investments Sp. z o.o was awarded three oil and gas concessions in the Baltic Basin of Poland. The three concessions, Darlowo, Bytow and Trzebielino total approximately 880,000 acres net to BNK which brought the Company's gross land acquisitions in Europe to 3.0 million gross acres and 2.65 million net acres.
- On May 19, 2010 the Company was awarded a concession in Saxony Anhalt, Germany totaling 840,000 acres bringing the Company's total acreage in Europe to 3.9 gross (3.5 million net) acres in four basins, and in Germany to 2.4 million acres (gross and net) in three basins.
- 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 of the company at CAD \$2.85 per common share for gross proceeds of \$43,859,000.
- On May 19, 2010 the Company repaid all of its subordinate loan and interest thereon to Bankers Petroleum, Ltd. for \$2,749,000
- On May 21, 2010 the company purchased the net profits and overriding royalty interests from its senior lender for \$12,000,000 which follows the company's strategy to improve the value of its properties.

## **OPERATIONS UPDATE**

### **Tishomingo Field, Ardmore Basin, Oklahoma**

During the quarter 20 gross stages from five wells in which the Company holds an interest, were fracture stimulated. In April 2010, six gross stages were fracture stimulated in the Chandler 8-1H well yielding a thirty day average of gross initial production rates of 412 boepd (99 bodpd net to the Company). In May 2010, five gross stages of the Woodruff 15-1H were fracture stimulated yielding a thirty day average of gross initial production rates of 196 boepd (20 boepd net to the Company). In June 2010, two vertical wells, Allison 17-1 and Onella Hartwell 19-1 were fracture stimulated. The Allison 17-1 yielded a 30 day average of gross initial production rates of 52 boepd (22 boepd net) and the Onella Hartwell 19-1 was awaiting artificial lift at the end of the quarter and expecting production at the beginning of next quarter. Also in June 2010, seven gross stages of the Scott 14-1H were fracture stimulated and the well was still cleaning at the end of the quarter but initial results are consistent with the other new fracked out wells. The Company and its partners intend to complete the incremental fracture stimulation program in the Tishomingo field during the balance of 2010 by completing the remaining 86 gross (56 net stages). Subsequent to the quarter end 9 gross stages (2 net) were successfully fracture stimulated in the Barnes 7 well.

### **Black Warrior, Mississippi, Alabama**

The fourth zone in the Hickman Farms 30-15 well produced about 10 mcfpd with no water after it was fracture stimulated and was thus determined to be uneconomic. The well was plugged and abandoned in June 2010. Also in June, the Company spudded the WS Lee 26-12 well again targeting the Pottsville tight gas sands. The well was air drilled and the total depth of 8,011 feet was reached on July 24, 2010. Evaluation of the logs acquired indicate that there are three potential intervals to be tested. Under the Company's farm-in agreement, the Company can earn up to a 50% working interest in about 80,000 acres in the Black Warrior basin by drilling and paying for 100% of the costs for a series of test wells on identified prospects. The Company has currently earned approximately 8,400 net acres out of a possible 40,000 in the project by drilling the first two wells.

### **Poland**

The Company indirectly holds a 26.667% interest in three oil and gas concessions in Poland through its investee corporation, Saponis. The Company's net acreage holdings in the three concessions total approximately 195,000 acres. The original work commitment under these concessions is comprised of additional core analysis, geological work and spudding of one well during the first 18 months from the date of grant on each concession. In addition a second well has to be drilled on each block. Each well is estimated to cost between \$7 and \$8.5 million. As a result of the farm-out agreement entered into with Rohöl-Aufsuchungs Aktiengesellschaft ("RAG") and Sorgenia E&P S.p.A. ("Sorgenia") in October of 2009, the Company is carried for all but 6.667% of its costs on the first \$25 million to be spent on the project.

The partners decided to shoot two 10 KM 2D seismic lines through the planned well locations on each of the three concessions in order to avoid faults so that all targeted intervals will be encountered in the first test well on each concession. The additional work program was proposed in concession amendments and approved by the Polish Ministry of Environment in late June. The concession amendments also included an extension of the spudding deadline on the first well in the Slupsk concession to June 2<sup>nd</sup>, 2011 and on the first well in the Starogard concession to December 2<sup>nd</sup>, 2011 to allow the Company to utilize both the new seismic data and the information gathered on the Wytowno #1 well, on the Slawno Concession where spudding is anticipated by early in the fourth quarter of 2010. The amendments also extended the deadline of drilling the 2<sup>nd</sup> well on the Slupsk concession to December 2012 and on the Starogard concession to June 2013.

It is anticipated that the first well, the Wytowno #1 will be spud late in the third quarter or early in the fourth quarter of 2010 depending on rig availability and the completion of tendering. When the Company looked into

the procedures for drilling a well, it was unclear whether or not tendering was required for all the drilling and completing services. The Company, upon Polish counsel's advice and in full agreement with its partners, decided to take the most conservative approach. This conservative approach was to tender for all services over the threshold amount of \$380,000 and perform RFQ's (Request for Quotes) for the other services for the two wells to be drilled back to back, the Wytowno #1 well and the first well on the Slupsk concession. At the same time the Company, in April 2010, submitted a request for a ruling on whether tendering is mandatory. To date the Company still has not received a ruling on whether or not tendering is necessary. The spudding delay from earlier estimations is due to this Tendering process taking longer than originally anticipated. Final well engineering design for the Slawno #1 well has been completed and the surface agreement has been signed at a location that the 2D seismic confirms should have no faulting.

The Company's wholly owned subsidiary, Indiana Investments Sp. z o.o was awarded three oil and gas concessions in the Baltic Basin of Poland in March 2010. The three concessions, Darlowo, Bytow and Trzebielino total approximately 880,000 acres net to BNK. Core analysis and geological work on these concessions have already begun. In order to hold the acreage, the work commitment requires the drilling of one well on each concession block within the first 18 months from the date of grant on each concession as well as a second well within the first three years of the date of grant.

### Other European Projects

The Company indirectly holds about 2.4 million acres in 3 other basins in a Germany that it acquired in 2009 and 2010. BNK intends to do further geological and geophysical work on these concessions during the balance of the year and in 2011. In addition BNK has made other concession applications in other basins in Europe and currently is awaiting their grant. It is the intention of the Company to apply for further concessions in Europe in 2010 with the goal of having concessions in six or more basins in Europe.

## OPERATING AND FINANCIAL RESULTS

### Production and Revenue

	Three months ended June 30			Six months ended June 30		
	2010	2009	%	2010	2009	%
Average natural gas production (mcf/d)	2,649	1,902	39	2,526	2,515	-
Average NGL production (Boepd)	532	286	86	495	258	92
Average oil production (Bopd)	188	190	(1)	208	251	(17)
Average production (Boepd)	1,162	793	47	1,124	928	21
Average natural gas price (\$/mcf)	3.85	2.82	37	4.45	3.01	48
Average NGL (\$/bbl)	34.01	21.54	58	39.12	21.34	83
Average oil price (\$/bbl)	74.69	55.59	34	78.52	43.75	80
Average price (\$/BOE)	36.46	27.85	31	41.74	25.91	61
Oil and gas revenue (\$000)	3,855	2,009	92	8,492	4,770	78

During the quarter average natural gas production was 2,649 mcfpd compared to 2,401 mcfpd in the preceding quarter ended March 31, 2010, an increase of 10%. Natural gas production for the three months ended June 30, 2009 was 1,902 mcfpd. The increase in natural gas production during the current period over the preceding

quarter reflects the incremental production from the Chandler 1-8 and Nickel Hill 1-36 wells, which were fracture stimulated during the first quarter of 2010 offsetting natural depletion from the field.

NGL production increased to 532 boepd from 458 boepd in the preceding quarter, an increase of 16%. The production increase is related to higher gas production. NGL production for the corresponding period in 2009 was 286 boepd. The increase in NGL production during the period over the preceding quarter is due to the natural gas production increase noted above.

Oil production for the quarter was 188 bopd compared to 227 bopd for the preceding quarter a decrease of 17%. The production decrease is due to natural depletion from the field. Oil production for the same period in 2009 was 190 bopd.

Production on a per boe basis was 1,162 boepd in the current quarter compared to 1,085 boepd for the immediately preceding quarter and 793 boepd for the same period in 2009.

The Company's average gas price dropped to \$3.85 per mcf during the quarter compared to \$5.11 per mcf for the immediately preceding quarter but rose from \$2.82 per mcf for the corresponding period in 2009.

NGL prices decreased during the quarter to \$34.01 per barrel from \$45.12 per barrel in the preceding quarter but increased from \$21.54 per barrel average for the same period in 2009.

Crude oil prices decreased averaging \$74.69 per barrel in the quarter compared to \$81.72 for the preceding quarter and \$55.59 average per barrel for the same period in 2009.

Average price per boe decreased to \$36.46 during the quarter from \$47.49 for the preceding quarter and \$27.85 for the same period in 2009.

The impact of the production and price changes discussed above was that the revenue for the quarter decreased to \$3,855,000 from \$4,637,000 in the first quarter of 2010, a decrease of 17% but increased from \$2,009,000 or by 107% in the corresponding period in 2009.

### Royalties, Operating Expenses and Netbacks

	Three months ended June 30			Six months ended June 30		
	2010	2009	%	2010	2009	%
(\$/BOE)						
Average price	<b>36.46</b>	27.85	31	<b>41.74</b>	25.91	61
Royalties	<b>7.88</b>	5.71	38	<b>8.96</b>	5.07	77
Operating expenses	<b>10.18</b>	10.30	(1)	<b>11.10</b>	9.28	20
Netback	<b>18.40</b>	11.84	55	<b>21.68</b>	11.56	88

Freehold royalties on Tishomingo production now average approximately 18.75%. On May 21, 2010 the company purchased from its senior lender the overriding royalty interest and net profits interest for \$12 million.

Major operating expenses are related to compression, gathering and processing of natural gas and natural gas liquids. Operating expenses averaged \$10.18 per boe during the quarter compared to \$12.11 per boe for the preceding quarter and \$10.12 per boe for the same period in 2009. While total operating expenses were relatively the same during the quarter compared to the previous quarter, operating expenses per boe decreased due to higher production. The Company estimates unit operating expenses to vary between \$9.50 and \$10.00 per boe on a sustained basis.

Operating expenses were \$1,076,000 for the quarter compared to \$1,183,000 for the preceding quarter and \$721,000 for the same period in 2009. Netbacks decreased from 1<sup>st</sup> quarter due to the average price per BOE

received dropping from \$47.49 to \$36.46 caused mainly by an approximate 25% drop in Natural Gas and NGL prices.

### Realized and Unrealized Gains and Losses from Risk Management Contracts

The Company has entered into eight financial derivative transactions with Wells Fargo as part of its risk management strategy to manage commodity price fluctuations and stabilize cash flows for future exploration and development programs. The Company has fair valued its financial derivative contracts. As at June 30, 2010, the estimated fair value of these contracts is an asset of \$269,000 compared with \$167,000 at March 31, 2010. As a result, the Company recorded an unrealized gain of \$102,000 for the three month period ended June 30, 2010. The estimated fair market value was based on natural gas prices of \$3.75/mmbtu and \$5.40/mmbtu being the Center Point East price which has a 6 month average of \$0.16/mmbtu less than the Henry Hub price, oil prices of \$47.95/bbl and \$84.28/bbl and NGL prices of \$46.33 and \$47.43.

The details of the financial derivative contracts are as follows:

Commodity	Period	Total Volume Hedged (MMBTU/BLS)	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	-

During the second quarter, the Company realized a gain of \$136,000 on its financial derivative contracts which was comprised of a \$165,000 gain on the natural gas and NGL contracts and a \$29,000 loss on the oil contracts.

### General and Administrative Expenses

General and administrative expenses (G&A) for the quarter were \$1,811,000 before capitalization compared to \$1,081,000 for the preceding quarter and \$1,342,000 for the same period in 2009. The Company charged \$1,400,000 (2009 - \$1,170,000) of its G&A to earnings during the quarter and capitalized \$411,000 (2009 - \$172,000). The increase in G&A compared to the previous quarter relates primarily to higher salary, recruiting and travel costs.

The stock-based compensation expense decreased to \$323,000 during the quarter compared to \$737,000 in the preceding period as a result of 700,000 new options granted to employees during the first quarter of 2010. The stock-based compensation expense for the same period in 2009 was \$2,000.

### Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expense for three months ended June 30, 2010 were \$1,206,000 compared to \$1,091,000 for the preceding quarter and \$1,471,000 for the same period in 2009. The decline in depletion, depreciation and accretion expense results from the increase in the Company's proved reserves which went up by 198% on a year-over-year basis. Depletion, depreciation and accretion on a per barrel basis was \$9.00 for the period compared to \$11.17 and \$19.97 for the preceding period and for the same period in 2009 respectively.

### Net income (loss) for the period and Funds from Operations

The Company posted net losses of \$1,925,000 (\$0.02 per share) during the quarter compared to earnings of \$1,344,000 (\$0.01 per share) for the preceding quarter and a loss of \$3,206,000 (\$0.05 per share) for the same period in 2009. The improvement in the results compared to the same period last year is due to higher commodity prices and netbacks which increased by 73% over the same period in 2009. The \$3,269,000 change in net profit between the second quarter of 2010 and the first quarter of 2010 was due to a 23% reduction in average price per boe between quarters resulting in a 27% reduction in average netback between quarters and the impact of non-recurring adjustments relating to 2009 totaling \$1,296,000 that increased first quarter 2010 income.

The company used funds from operations for the quarter of \$493,000 compared to \$1,545,000 used for the same period in 2009 and \$2,733,000 provided from operations during the immediately preceding quarter.

### CAPITAL EXPENDITURES

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Additions to oil and gas properties	\$ 15,363	\$ 3,794	\$ 17,706	\$ 7,115
Equipment, furniture and fixtures	63	23	144	31
	<u>\$ 15,426</u>	<u>\$ 3,817</u>	<u>\$ 17,850</u>	<u>\$ 7,146</u>

During the quarter, the Company spent approximately \$15.2 million in the U.S. of which \$2.9 million was incurred on fracture stimulation costs and \$12.1 million on leasing costs, the majority of which was related to purchase of Wells Fargo's override royalty and net profit interests in the Tishomingo field. Wells Fargo had acquired this interest as part of their loan agreement with the company in April of 2009.

During the same period in 2009 the Company incurred \$2.2 million in fracture stimulation and work-over costs, \$205,000 in facilities costs and \$391,000 in lease costs. The company also incurred \$482,000 in costs associated with obtaining land concessions in Europe in the current quarter.

## **LIQUIDITY AND CAPITAL RESOURCES**

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 for gross proceeds of \$43,859,000. In connection with the financing, the Company paid a 5% commission to the underwriters resulting in net proceeds to the Company of \$41,084,000. The Company used \$12,000,000 of the proceeds to purchase the overriding royalty interest and the net profits interest from its bank and long-term debt lender and also used \$2,749,000 of the proceeds to repay its Bankers Petroleum, Ltd. subordinated loan and associated accrued interest. The balance of the proceeds are being used to fund the Company’s exploration and development program in Europe and the United States and for working capital and general corporate purposes.

At June 30, 2010 BNK had a working capital deficiency of approximately \$8.6 million. However excluding deferred credit of \$1.0 million which is non-refundable and \$24.7 million owed to its senior lender which is due in April, 2011 that the Company anticipates it will refinance in 2010, the Company had a positive working capital of \$17.1 million at June 30, 2010.

The Company believes that cash on hand and cash flow from operations will be sufficient to fund its planned exploration activities in the United States and its required exploration activities in Poland and Germany. The Company also believes that expanded exploration activities in Poland and Germany beyond those required and potential exploration activities resulting from the granting of future concessions will be financed through “farm-out” arrangements with other companies that will finance the drilling programs of these projects and/or proceeds of additional equity offerings.

## **COMMITMENTS**

### **Black Warrior, Alabama, Mississippi**

In connection with the sale of its Black Warrior acreage in Mississippi and Alabama in December 2008, the Company has entered into an exploration agreement with a privately owned Delaware company (the “Purchaser”) under which the Company can earn up to a 50% working interest in a portion or all of the Black Warrior acreage by drilling a series of test wells on identified prospects. The exploration program requires BNK to pay for the Purchaser’s share of costs. The first three wells are on a drilling schedule which began on September 30, 2009. Failure to commence any of these wells on scheduled dates could subject BNK to liquidated damages of \$500,000 for each well not drilled. To that end, the Company has drilled the first two wells, the Hickman Farms 30-15 and the W.S. Lee well, which will be undergoing testing in the next few months. The third commitment well is expected to commence drilling late in the fourth quarter 2010 or early in the 1<sup>st</sup> quarter of 2011.

### **Poland**

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. In its Indiana wholly owned subsidiary the company has to drill one well in each of the three concessions in Poland within 18 months of the concession date and a second well on each block within the first three years of the concession grant date. Each

well is estimated to cost between \$7.5 million to \$9 million. Failure to drill these wells may result in the forfeiture of a part or all of the concessions.

## Germany

In the concessions that the Company holds in Germany the Company has to fulfill certain minimum requirements in order to retain its interest. Some of the more significant minimum requirements consist of conducting geological work in the first year, acquiring seismic in the second year, drilling one vertical well in both years three and four, and drilling of one horizontal well in year five within each of the six concession areas.

## QUARTERLY SUMMARY

Below is a summary of the Company's performance over the last eight quarters:

<i>(\$000, except as noted)</i>	<b>2010</b>	<b>2010</b>		<b>2009</b>	
	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>
<b>Daily Production</b>					
Natural gas (mcfpd)	2,649	2,401	2,229	2,040	1,902
NGL's & oil (bpd)	720	685	568	641	476
Average production (boepd)	1,162	1,085	940	981	793

<i>(\$000, except as noted)</i>	<b>2009</b>		<b>2008</b>
	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>
<b>Daily Production</b>			
Natural gas (mcfpd)	3,136	2,755	1,408
NGL's & oil (bpd)	542	398	127
Average production (boepd)	1,065	877	377

<i>(\$000, except as noted)</i>	<b>2010</b>	<b>2010</b>		<b>2009</b>	
	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>
<b>Netback</b>					
Average price (\$/boe)	36.46	47.49	39.32	29.37	26.13
Royalties	7.88	10.13	8.24	6.22	5.39
Operating expenses	10.18	12.11	15.73	8.15	10.12
Netback (\$/boe)	18.40	25.25	15.35	15.00	10.62

<i>(\$000, except as noted)</i>	<b>2009</b>		<b>2008</b>
	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>

**Netback**

Average price (\$/boe)	24.45	35.43	66.40
Royalties	4.59	6.65	12.46
Operating expenses	8.50	7.52	17.68
Netback (\$/boe)	10.92	21.26	36.25

<i>(\$000, except as noted)</i>	<b>2010</b>	<b>2010</b>		<b>2009</b>	
	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>
<b>Net operating income</b>					
Oil and gas revenue	3,855	4,637	3,401	2,651	1,862
Royalties	833	989	713	561	384
Operating expenses	1,076	1,183	1,360	736	721
	1,946	2,465	1,328	1,354	757

<i>(\$000, except as noted)</i>	<b>2009</b>	<b>2008</b>	
	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>
<b>Net operating income</b>			
Oil and gas revenue	2,761	2,793	2,212
Royalties	518	524	415
Operating expenses	815	593	589
	1,428	1,676	1,208

<i>(\$000, except as noted)</i>	<b>2010</b>	<b>2010</b>		<b>2009</b>	
	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>
<b>Net earnings (loss)</b>	(1,925)	1,344	(2,673)	(3,224)	(3,206)
<b>Basic and Fully Diluted Earnings (loss) per share</b>	(0.02)	0.01	(0.03)	(0.04)	(0.05)
<b>Funds from operations</b>	(3,678)	2,733	(677)	(67)	(1,545)
<b>Bank debt</b>	24,702	26,714	28,036	28,518	27,515
<b>Total assets</b>	212,845	178,418	187,987	174,338	168,591

<i>(\$000, except as noted)</i>	<b>2009</b>	<b>2008</b>	
	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>
<b>Net earnings (loss)</b>	(3,485)	(2,506)	(2,442)

<b><i>Basic and Fully Diluted Earnings (loss) per share</i></b>	(0.05)	(0.04)	(0.04)
<b><i>Funds from operations</i></b>	327	652	527
<b><i>Bank debt</i></b>	7,000	7,000	23,000
<b><i>Total assets</i></b>	169,845	180,493	198,849

*Quarterly figures and operating statistics may not agree with the financial statements due to intra period adjustments.*

## **Quarterly Variability**

Fluctuations in quarterly results are due to a number of factors, some of which are not within the Company's control such as seasonality and exchange rates:

- Seasonality of winter operating conditions result in production increases that are typically higher in the second and third quarters. In addition, production levels can be affected by water disposal constraints, mechanical wellbore and isolation failures, increased water production coming from shallower and deeper zones, and a shortage of rig work-over capacity and specialized well servicing equipment.
- The increase in production during the second quarter of 2010 was related to the successful fracture stimulation of some existing wells.
- Oil, gas and NGL prices were higher in the second quarter of 2010 than in the 2<sup>nd</sup> quarter of 2009 due to economic recovery and increasing demand. Netbacks were lower in the 2<sup>nd</sup> quarter than in the 1<sup>st</sup> quarter mainly due to lower natural gas and NGL prices.
- Operating expenses have varied significantly from quarter to quarter due to the formative state of the Company's development; changes in natural gas processing facilities, contracts and rates; and changes in gas gathering fees. Since the Company finalized the major contracts relating to the processing and gathering of its natural gas and natural gas liquids, quarter to quarter variability is expected to subside in future periods.
- Fluctuations in the U.S. dollar against Canadian dollar, Euro and Polish Zlotys result in higher or lower general and administrative expenses in United States dollar terms. The fluctuations also affect the net proceeds in United States dollar terms from equity issuances.
- The changes in G&A from quarter to quarter reflect growth in operations, increase in personnel, and non-recurring charges related to specific transactions or events. The increase in G&A during the second quarter of 2010 compared to the previous quarter is due to increased wages, recruiting fees and travel costs.
- The changes in stock based compensation reflect new options grants and cancellation of existing options.

## **OUTSTANDING SHARE DATA**

There were 105,374,154 common shares outstanding as at June 30, 2010 and August 13, 2010. The Company had 7,465,667 stock options outstanding as of the same dates.

## **PRINCIPAL BUSINESS RISKS**

BNK's business and results of operations are subject to a number of risks and uncertainties, including but not limited to the following:

Exploration, development, production and marketing of oil and natural gas involves a wide variety of risks which include but are not limited to the uncertainty of finding oil and gas in commercial quantities, securing markets for existing reserves, commodity price fluctuations, exchange and interest rate exposure and changes to government regulations, including regulations relating to prices, taxes, royalties and environmental protection. The oil and gas industry is intensely competitive and the Company competes with a large number of companies with greater resources.

BNK's ability to increase its reserves in the future will depend not only on its ability to develop its current properties but also on its ability to acquire new prospects and producing properties. The acquisition, exploration and development of new properties also require that sufficient capital from outside sources will be available to the Company in a timely manner. The availability of equity or debt financing is affected by many factors many of which are beyond the control of the Company.

## **INTERNAL CONTROLS**

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management, as appropriate, to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of June 30, 2010, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to them by others within those entities. During the three months ended June 30, 2010, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the effective date for the requirement to report under International Financial Reporting Standards (IFRS) with comparative 2010 periods converted as well.

The Company is in the process of evaluating the impact of IFRS on its financial statements and expects to record adjustments to property, plant and equipment, asset retirement obligations, stock based compensation expense and possibly additional accounts as a result of its implementation in 2011. As part of the implementation of IFRS the Company will restate the beginning January 1, 2010 balance sheet and restate each quarter's results in 2010 to reflect what the results would have been under IFRS. In 2011 these restated 2010 quarterly results will be required to be disclosed for comparative purposes next to the comparative quarterly results for 2011. The Company presently anticipates that IFRS will result in a significant write-down of its property, plant and equipment directly to accumulated deficit at March 31, 2011.

## **OUTLOOK**

In the United States, the Company, during the remainder of 2010, intends to complete its fracture stimulation program of wells whose well bores were partially fracture stimulated. As of July 1<sup>st</sup> the Company estimates that there are more than 86 gross frac stages remaining in the existing well bores. To date, the wells that have been fracture stimulated incrementally have generated encouraging production gains. In addition the Company intends to drill additional development wells and expects to drill a down-spacing pilot in 2010 which if successful should prove up additional reserves.

BNK's international strategy will be a continuing expansion of its land holdings into additional basins outside of North America. The Company's expert team continues to work on identifying additional European basins that it believes are prospective for shale gas. At present, there are a number of pending applications that the Company hopes will be granted. The concession applications generally take between 6 and 12 months to be awarded. After concessions are awarded BNK anticipates further high-grading the plays over the next 6 to 12 months and then will attempt to address industry partners to fund the exploration phase of each project. BNK generally intends to retain between 100,000 and 500,000 acres in each basin with the farmees providing one hundred percent of the funding of the first test wells in such basins. As the Company already farmed out a portion of its interest in the first Polish project through Saponis, it is now in the process of planning to drill the first set of exploratory wells there in 2010.

## CORPORATE INFORMATION

### DIRECTORS AND OFFICERS

**Ford Nicholson**<sup>2 3</sup>

Director, Chairman of the Board

**Robert Cross**<sup>1 2 3</sup>

Director

**Victor Redekop**<sup>1 2</sup>

Director

**Eric Brown**<sup>1 3</sup>

Director

**General Wesley K. Clark**

Director

**Wolf Regener**

President and Chief Executive Officer, Director

**Warren Nelson**

VP and Chief Financial Officer

*1 Member of the Audit Committee*

*2 Member of the Corporate Governance Committee*

*3 Member of the Compensation Committee*

### STOCK EXCHANGE LISTING

The Toronto Stock Exchange

Trading Symbol: BKX

### LEGAL COUNSEL

Mary Collyer

DuMoulin Black LLP

Vancouver, BC

### AUDITORS

KPMG LLP

Calgary, AB

### BANKERS

Wells Fargo Energy Capital, Inc.

Houston, TX, USA

HSBC Bank Canada

Calgary, AB

### CONSULTING ENGINEERS

MHA Petroleum Consultants Inc.

Lakewood, CO, USA

### TRANSFER AGENT AND REGISTRAR

Computershare Trust Company

Calgary, AB

### HEAD OFFICE

Suite 350, 760 Paseo Camarillo

Camarillo, CA, USA, 93010

Telephone: (805) 484-3613

Facsimile: (805) 484-9649

### CANADIAN OFFICE

10<sup>th</sup> Floor, 595 Howe Street

Vancouver, BC Canada, V6C 2T5

Telephone: (604) 687-1224

Facsimile: (604) 687-3635