CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED

DECEMBER 31, 2011 AND 2010

Management's Report

The accompanying consolidated financial statements and related financial information are the responsibility of management, and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They include certain amounts that are based on estimates and judgments relating to matters not concluded by year-end. Financial information presented elsewhere in this document is consistent with that contained in the consolidated financial statements.

In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies adopted by management. If alternate accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. Management has established systems of accounting and internal controls that provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and produce reliable accounting records for the preparation of financial information. Policies and procedures are maintained to support the accounting and internal control systems.

The Company retains independent petroleum consultants, MHA Petroleum Consultants LLC to conduct independent evaluations of the Company's oil, natural gas and natural reserves. The independent external auditors, KPMG LLP, have conducted an examination of the consolidated financial statements on behalf of shareholders. The auditors have unrestricted access to the Company and the Audit Committee.

The Board of Directors, currently composed of five independent directors and one officer/director, carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of three members, all of whom are independent directors. This committee reviews the consolidated financial statements with management and the auditors, as well as recommends to the Board of Directors the external auditors to be appointed by the shareholders at each annual meeting. The audit committee meets at least quarterly to review and approve financial statements prior to their release, and recommend their approval to the Board of Directors.

"Wolf Regener"

Wolf Regener
President & Chief Executive Officer

"Warren Nelson"

Warren Nelson
Vice President & Chief Financial Officer

March 15, 2012

KPMG LLP
Chartered Accountants
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To the Shareholders of BNK Petroleum Inc.

We have audited the accompanying consolidated financial statements of BNK Petroleum Inc., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of BNK Petroleum Inc. as at a December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Chartered Accountants

Calgary, Canada
March 15, 2012

BNK PETROLEUM INC.

CONSOLIDATED BALANCE SHEETS

(Expressed in Thousands of United States Dollars)

		December 31, 2011		December 31, 2010		January 1, 2010
Assets						
Cash and cash equivalents (Note 5)	$	**40,496**	$	62,062	$	8,378
Trade and other receivables		**11,509**		18,398		12,118
Deposits, prepaids and other		**2,309**		757		1,639
Fair value of commodity contracts (Note 5)		**738**		322		-
		55,052		81,539		22,135
Non-current assets						
Long-term receivables (Note 3)		**1,928**		-		-
Fair value of commodity contracts (Note 5)		**311**		-		-
Property, plant and equipment (Note 9)		**150,313**		132,413		108,346
Exploration and evaluation assets (Note 10)		**14,911**		2,345		650
		167,463		134,758		108,996
Total assets	$	**222,515**	$	216,297	$	131,131
Liabilities						
Trade and other payables	$	**15,355**	**$**	18,036	$	23,088
Deferred credit		**-**		-		2,500
Current portion of long-term debt		**-**		-		10,351
		15,355		18,036		35,939
Non-current liabilities						
Loans and borrowings (Note 14)		**23,353**		19,486		20,434
Asset retirement obligations (Note 16)		**1,769**		1,730		1,663
Warrants (Note 19)		**262**		205		-
		25,384		21,421		22,097
Equity						
Share capital (Note 12)		**247,207**		246,240		141,819
Contributed surplus		**14,775**		11,511		8,510
Deficit		**(80,206)**		(80,911)		(77,234)
		181,776		176,840		73,095
Total equity and liabilities	$	**222,515**	$	216,297	$	131,131

See accompanying notes to consolidated financial statements.

Approved by:

"Ford Nicholson" *"Eric Brown"*

Ford Nicholson
Director

Eric Brown
Director

BNK PETROLEUM INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31
(Expressed in Thousands of United States Dollars, except per share amounts)

		2011		2010
Revenue				
Oil and natural gas revenues, net of royalties (Note 6)	**$**	**22,179**	$	14,690
Gathering income		**1,811**		2,870
Other income (Note 6)		**4,409**		202
		28,399		17,762
Expenses				
Exploration and evaluation expenditures (Note 18)		**2,145**		5,071
Production and operating expenses		**5,916**		3,766
Depletion and depreciation		**6,605**		4,051
General and administrative expenses		**11,661**		5,776
Stock based compensation (Note 15)		**2,154**		2,559
Legal restructuring expenses (Note 22)		**1,170**		-
		29,651		21,223
Finance income				
Unrealized gain on warrant revaluation (Note 19)		**1,283**		-
Realized gain on financial commodity contracts (Note 5)		**410**		348
Unrealized gain on financial commodity contracts (Note 5)		**727**		610
Foreign exchange gain		**545**		631
Interest and other		**116**		42
		3,081		1,631
Finance expense				
Interest on loans and borrowings		**1,058**		1,750
Accretion of asset retirement obligation (Note 16)		**66**		67
Unrealized loss on warrant revaluation		**-**		30
		1,124		1,847
Net finance income (expense)		**1,957**		(216)
Net income (loss) and comprehensive income (loss)	**$**	**705**	$	(3,677)
Basic and diluted net income (loss) per share (Note 13)	**$**	**0.00**	$	(0.03)

See accompanying notes to consolidated financial statements.

BNK PETROLEUM INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Audited, Expressed in Thousands of United States Dollars, except number of common shares)

	Number of common shares	Share capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2010	101,400,379	$141,819	$8,510	$(77,234)	$73,095
Prospectus issue	41,800,000	108,713			108,713
Stock based compensation	-	-	3,229	-	3,229
Options exercised (Note 15)	399,100	496	(228)	-	268
Share issuance costs	-	(4,788)		-	(4,788)
Net loss for the year	-	-	-	(3,677)	(3,677)
Balance at December 31, 2010	143,599,479	$246,240	$11,511	$(80,911)	$176,840
Balance at January 1, 2011	143,599,479	$246,240	$11,511	$(80,911)	$176,840
Stock based compensation (Note 15)	-	-	3,606	-	3,606
Options exercised (Note 15)	603,665	804	(342)	-	462
Warrants exercised (Note 19)	54,707	163	-	-	163
Net income for the year	-	-	-	705	705
Balance at December 31, 2011	144,257,851	$247,207	$14,775	$(80,206)	$181,776

See accompanying notes to consolidated financial statements.

BNK PETROLEUM INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31
(Expressed in Thousands of United States Dollars)

		2011		2010
Cash flows from operating activities				
Net income (loss)	**$**	**705**	$	(3,677)
Adjustments for:				
Depletion and depreciation	**$**	**6,605**	$	4,051
Unrealized gains on financial commodity contracts and warrants		**(2,010)**		(610)
Finance expense		**1,124**		1,847
Interest paid		**(655)**		(1,750)
Stock based compensation (Note 15)		**2,154**		2,559
Unrealized foreign exchange gain (Note 5)		**(909)**		(613)
Gain from asset disposal (Note 6)		**(229)**		-
Asset retirement expenditures (Note 16)		**(71)**		-
Changes in long-term receivables		**(1,928)**		-
Impairment of exploration and evaluation assets		**-**		4,481
Changes in non-cash working capital (Note 8)		**(2,468)**		(13,123)
Net cash from (used in) operating activities		**2,318**		(6,835)
Cash flows from investing activities				
Property, plant and equipment expenditures		**(22,780)**		(26,105)
Exploration and evaluation expenditures (Note 10)		**(9,759)**		(6,176)
Change in non-cash working capital (Note 8)		**4,462**		(901)
Net cash used in investing activities		**(28,077)**		(33,182)
Cash flows from financing activities				
Proceeds from loans and borrowings		**3,800**		19,486
Proceeds from exercise of stock options and warrants		**625**		268
Issue of equity instruments, net of issue costs		**-**		104,101
Repayment of loans and borrowings		**-**		(30,785)
Net cash from financing activities		**4,425**		93,070
Foreign exchange effect on cash and cash equivalents		**(232)**		631
Change in cash and cash equivalents		**(21,566)**		53,684
Cash and cash equivalents, beginning of year		**62,062**		8,378
Cash and cash equivalents, end of year	**$**	**40,496**	$	62,062

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS

BNK Petroleum Inc. (the "Company"), was incorporated under the Business Corporations Act (British Columbia) on May 6, 2008. BNK Petroleum Inc. is an international energy company focusing on the acquisition, exploration, and production of oil and gas reserves with a strategic focus on Europe. In the United States, BNK has producing properties concentrated in Oklahoma. The head office of the Company is located at Suite 350, 760 Paseo Camarillo, Camarillo, CA USA 93010. The common shares of the Company are publicly traded on the Toronto Stock Exchange under the symbol "BKX".

These consolidated financial statements were authorized for issuance by the Board of Directors on March 14, 2012.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Company's first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1, "First-time Adoption of International Financial Reporting Standards". The impact of the new standards, including reconciliations presenting the change from Canadian Generally Accepted Accounting Principles, ("previous GAAP") to IFRS as at January 1, 2010, as at and for the year ended December 31, 2010, is presented in note 23.

BNK's significant accounting policies under IFRS are presented in note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value; and
- held for trading financial assets are measured at fair value with changes in fair value recorded in earnings.

The methods used to measure fair values are discussed in note 4.

Functional and presentation currency

These consolidated financial statements are presented in US dollars, which is the Company's functional and reporting currency.

Management estimates and judgments

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities, the disclosures of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are as follows:

Oil and gas assets

Development and production assets are assessed for recoverability at a cash generating unit ("CGU") level. The determination of CGUs is subject to management judgements. Recoverability is assessed by comparing the carrying value of the asset to its recoverable amount, which is based on the fair value of the assets less the cost to sell. The key estimates used in the determination of the fair value include the following:

- Reserves – Assumptions that are valid at the time of reserve estimation may change significantly when additional information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in a restatement of reserves.

- Oil and gas prices – Forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather and economic and political factors.

- Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an industry peer group weighted average cost of capital. Changes in the economic environment could result in significant changes to this estimate.

Depletion of oil and gas assets

Depletion of oil and gas assets is determined based on total proved and probable reserve values as well as future development costs as estimated by the Company's external reserve evaluator. See above for estimates and assumptions included in reserve values. Amounts recorded for depletion and depreciation are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Asset retirement obligations

The provisions for site restoration and abandonment is based on current legal requirements, technology, price levels and expected plans and are based on significant assumptions such as inflation rate and discount rate. Actual costs and cash outflows can differ from estimates because of changes in laws or regulations, market conditions and changes in technology.

Derivative instruments

The estimated fair value of derivative financial instruments resulting in financial assets and liabilities, by their very nature is subject to estimation, due to the use of future oil and natural gas prices and the volatility in these prices.

Compensation costs

Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as Black-Scholes model which is based on significant assumptions such as volatility, forfeiture rate, interest rate and expected term. Several compensation plans are also performance based and are subject to management's judgment as to whether or not performance criteria will be met.

Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Company has the following wholly owned subsidiaries:

Name of company	Percentage	Country of operation
BNK Petroleum (US) Inc.	100%	United States
Indiana Investments Sp. z o.o.	100%	Poland
BNK Polska Sp. z o.o.	100%	Poland
BNK Deutschland GmbH	100%	Germany
Trofagas Hidrocarburos S.L.	100%	Spain
BNK Canada Holdings, Inc.	100%	Canada
BNK Petroleum (Europe) Cooperatief U.A.	100%	Netherlands
BNK Petroleum Investments B.V.	100%	Netherlands

Jointly controlled operations and jointly controlled assets

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

Jointly controlled entity

The Company has the following jointly controlled entity:

Name of company	Percentage	Country of operation
Saponis Investments Sp. z o.o.	26.69%	Poland

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency

Transactions in foreign currencies are translated to United States dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to United States dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in finance income or expense in the statement of operations.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, term deposits with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management, whereby management has the ability and intent to net bank overdrafts against cash, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial assets at fair value through profit or loss

The Company has the option to record financial instruments at fair value and recognize the change in fair value subsequent to initial recognition into the statement of operations. This option must be designated at the time that the financial asset is initially recognized by the Company. The Company only makes this designation if it has a documented risk management and investment strategy that it uses to make purchase and sale decisions regarding the financial assets. If the Company chooses this option, attributable transaction costs related to the financial instruments are recognized in the statement of operations when incurred. The Company has designated cash and cash equivalents at fair value.

Other

Other non-derivative financial instruments, such as trade and other receivables, loans and borrowings, and trade and other payables, are measured at amortized cost using the effective interest method, less any impairment losses.

Long-term receivables

Long-term receivables comprise the long-term portion of production taxes that will be refunded to the Company by the state of Oklahoma.

Derivative financial instruments

The Company has entered into certain financial derivative contracts in order to reduce its exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as accounting hedges, and thus has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in profit or loss when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Property, plant and equipment and intangible exploration assets

Recognition and measurement

Exploration and evaluation expenditures

Pre-license costs are recognized in the statement of operations as incurred. Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exist to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to a level which is not larger than an operating segment.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within tangible assets referred to as oil and natural gas interests.

Development and production costs

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment write-offs. Development and production assets are grouped into CGUs for impairment testing. The Company has grouped its development and production assets into CGUs. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net in the statement of operations.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depletion and depreciation

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

For other assets, depreciation is recognized in the statement of operations on a declining balance basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for other assets for the current and comparative years are as follows:

- Office equipment - 3 years
- Furniture and fixtures - 3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment

<u>Financial Assets</u>

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of operations.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of operations.

<u>Non-Financial Assets</u>

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, development and production assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGUs). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. At December 31, 2011, the Company has only one producing CGU, the Tishomingo field in Oklahoma.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses, if any, are recognized on the statement of operations.

Impairment losses, other than those related to goodwill, recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Share based payments

The grant date fair value of options granted to employees is recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. When share options are exercised, the previously recognized value in contributed surplus is recorded as an increase to share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Warrants that are issued by the Company to purchase common shares are considered derivative financial liabilities and are recognized at fair value with changes subsequent to initial recognition charged to the statement of operations.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Asset Retirement Obligations (ARO)

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Asset retirement obligations are measured at the present value, using a risk free rate, of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs in the statement of operations whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline. Revenue is measured net of discounts, customs duties and royalties.

Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on ARO and unrealized losses on financial assets. Finance income comprises interest income, realized and unrealized gains on financial assets and foreign exchange gains.

Interest income is recognized as it accrues in the statement of operations, using the effective interest method.

Foreign currency gains and losses, change in the value of financial commodity contracts and warrants reported under finance income and expenses, are reported on a net basis.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

Future accounting changes

As of January 1, 2013, the Company will be required to adopt the following standards as issued by the IASB (“International Accounting Standards Board”). The Company is evaluating the impact that these standards may have on our results of operations and financial position.

IFRS 10, “Consolidated Financial Statements” – In May 2011, the IASB issued IFRS 10 which is the IASB’s project to replace Standing Interpretations Committee 12, “Consolidation – Special Purpose Entities” and the consolidation requirements of IAS 27, “Consolidated and Separate Financial Statements”. The new standard eliminates the current risk and rewards approach and established control as the single basis for determining the consolidation of an entity.

IFRS 11, “Joint Arrangements” – In May 2011, the IASB issued IFRS 11 to replace IAS 131, “Interest in Joint Ventures”. The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated while joint ventures will be accounted for under the equity method. Under IAS 31, joint ventures could be proportionately accounted.

IFRS 12, “Disclosure of Interests in Other Entities” – In May 2011, the IASB issued IFRS 12 which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity’s interests in subsidiaries and joint arrangements.

IFRS 13, “Fair Value Measurement” – In May 2011, the IASB issued IFRS 13 which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

As of January 1, 2015, the Company will be required to adopt IFRS 9, "Financial Instruments". The IASB issued IFRS 9, which is the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial asset and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of the standard remain in development and the full impact of the standard on the Company's consolidated financial statements will not be known until the project is complete.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, Plant and Equipment and Intangible Exploration Assets

The fair value of property, plant and equipment recognized in a business combination, is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property, plant and equipment) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

Cash and Cash Equivalents, Trade and Other Receivable and Loans and borrowings

The fair value of cash and cash equivalents, trade and other receivables and trade and other payables and loans and borrowings is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of these balances approximate their carrying value due to their short term to maturity or in the case of loans and borrowings, the fair value approximates its carrying value as it bears interest at floating rates and the premium charged was indicative of the Company's current credit premium.

Derivatives

The fair value of forward contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

(Audited, expressed in Thousands of United States dollars)

Stock Options and Warrants

The fair value of stock options and warrants is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), forfeiture rate, weighted average expected life of the instruments (based on historical experience and general option holder behavior) and the risk-free interest rate (based on government bonds).

The following tables provide fair value measurement information for financial assets and liabilities as of December 31, 2011 and 2010.

December 31, 2011	Carrying Amount	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	$ 40,496	$ 40,496	$ 40,496	$ -	$ -
Fair value of commodity contracts	$ 1,049	$ 1,049	$ -	$ 1,049	$ -
Financial Liabilities					
Loans and borrowings	$ 23,353	$ 23,353	$ -	$ -	$ -

December 31, 2010	Carrying Amount	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	$ 62,062	$ 62,062	$ 62,062	$ -	$ -
Fair value of commodity contracts	$ 322	$ 322	$ -	$ 322	$ -
Financial Liabilities					
Loans and borrowings	$ 19,486	$ 19,486	$ -	$ -	$ -

Level 1 Fair Value Measurements

Level 1 fair value measurements are based on unadjusted quoted market prices.

Level 2 Fair Value Measurements

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

Level 3 Fair Value Measurements

Level 3 fair value measurements are based on unobservable information. The level 3 fair value measurements pertain to the fair value assigned to property and equipment, intangible exploration assets and other intangible assets acquired in business combinations.

5. FINANCIAL RISK MANAGEMENT

Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit Risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing to numerous purchasers under normal industry sale and payment terms. The Company routinely assesses the financial strength of its customers.

The Company is exposed to certain losses in the event of non-performance by counterparties to commodity price contracts. The Company mitigates this risk by entering into transactions with highly rated financial institutions. At December 31, 2011, financial assets on the statement of financial position are comprised of cash and cash equivalents and accounts receivable.

The maximum credit exposure at December 31, 2011 is the carrying amount of cash and accounts receivable of $52.0 million. The cash and cash equivalents are held by major international and US based financial institutions. As is common in the petroleum and natural gas industry in the United States, receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. The Company markets its production to customers with investment grade credit ratings, if available in the area of production. Of the $11.5 million in accounts receivable outstanding at December 31, 2011, $4.2 million has been subsequently collected. The largest amount owed from any one customer at December 31, 2011 was $0.6 million. The accounts receivable balance includes $5.6 million from joint interest partners relating to their interest in operating costs and capital spent. As the operator of properties, BNK has the ability to not allocate production to joint interest partners who are in default of amounts owing. At December 31, 2011 and 2010, BNK did not have an allowance for doubtful accounts.

(Audited, expressed in Thousands of United States dollars)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a one-year period, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditure. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month. In addition, the Company maintains a $32.0 million credit facility to provide capital when needed, of which $8.2 million was available to be borrowed at the end of the year.

The following are the contractual maturities of financial assets and liabilities, including estimated interest payments and excluding the impact of netting agreements at December 31, 2011:

	Carrying amount	2012	2013
Fair value of commodity contracts	$ 1,049	$ 738	$ 311
Loans and borrowings (a)	(23,353)	-	(23,353)
Trade and other payables	(15,355)	(15,355)	-
	$ (37,659)	$ (14,617)	$ (23,042)

(a) Loans and Borrowings includes interest expense at 3.75 % which was the applicable interest rate at December 31, 2011 and are net of loan acquisition costs of $0.4 million.

Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(Audited, expressed in Thousands of United States dollars)

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

The following financial instruments were denominated in U.S. dollars:

	December 31, 2011				
	USD	CAD	Polish Zloty	Euros	Total USD
Cash and cash equivalents	$ 16,129	$ 15,383	$ 1,069	$ 7,915	$ 40,496
Trade and other receivables	10,214	49	1,125	121	11,509
Deposits and prepaids	298	116	159	1,736	2,309
Trade and other payables	(11,390)	(339)	(3,105)	(521)	(15,355)
	$ 15,251	$ 15,209	$ (752)	$ 9,251	$ 38,959

	December 31, 2010				
	USD	CAD	Polish Zloty	Euros	Total USD
Cash and cash equivalents	$ 6,286	$ 54,159	$ 1,328	$ 289	$ 62,062
Trade and other receivables	17,967	46	351	34	18,398
Deposits and prepaids	381	118	27	231	757
Trade and other payables	(16,840)	(392)	(800)	(4)	(18,036)
	$ 7,794	$ 53,931	$ 906	$ 550	$ 63,181

The average exchange rate during the year was 1 Canadian equals $ 1.011 USD (2010 - 1 Canadian: $ 0.9716 USD) and the exchange rate at December 31, 2011 was 1 Canadian equals $0.9833 USD (2010 - 1 Canadian: $1.005 USD).

A 1 percent change in the Canadian dollar against the USD at December 31, 2011 would have changed net income by $152 (2010 - $539). This analysis assumes that all other variables remain constant.

The average exchange rate during the year was 1 Polish Zloty equals $0.3372 USD (2010 - 1 Polish Zloty: $0.3316 USD) and the exchange rate at December 31, 2011 was 1 Polish Zloty equals 0.2909 USD (2010 - 1 Polish Zloty: equals 0.3388 USD).

A 1 percent change in the Polish Zlotys against the USD at December 31, 2011 would have changed net income by $8 (2010 - $9). This analysis assumes that all other variables remain constant.

The average exchange rate during the year was 1 Euro equals $1.3921 USD (2010 - 1 Euro: $1.3274 USD) and the exchange rate at December 31, 2011 was 1 Euro equals $1.2972 USD (2010 - 1 Euro:

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equals $1.33 USD).

A 1 percent change in the Euro against the USD at December 31, 2011 would have changed net income by $93 (2010 - $6). This analysis assumes that all other variables remain constant.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand.

It is the Company's policy to economically hedge some oil and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts. The Company does not apply hedge accounting for these contracts. The Company's production is usually sold using "spot" or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts. The Company does not enter into commodity contracts other than to meet the Company's expected sale requirements.

At December 31, 2011 the following financial commodity contracts were outstanding and recorded at estimated fair value:

Commodity	Period	Total Volume Hedged (MMBTU/BBLS)	Daily Volume	Floor Price ($/MMBTU/$/BBL)
Gas	December 1, 2010 to March 31, 2013	840,000	1000 MMBTU/D	$5.24
Oil – WTI - NYMEX	April 1, 2011 to December 31, 2012	32,050	50 BOPD	$93.25
Oil – WTI - NYMEX	January 1, 2012 to December 31, 2012	21,960	60 BOPD	$101.74
Oil – WTI - NYMEX	January 1, 2013 to December 31, 2013	29,200	80 BOPD	$101.74

The estimated fair value of the financial oil and natural gas contracts has been determined based on the prospective amounts subsequent to December 31, 2011 that the Company would receive or pay to terminate the contracts at year end. In January 2012, the Company hedged an additional 100 BOPD throughout 2012 at a floor price of $102.37. In February 2012, the Company hedged an additional 85 BOPD throughout 2013 at a floor price of $101.35.

(Audited, expressed in Thousands of United States dollars)

The fair value of the financial commodity risk management contracts have been allocated to current and non-current assets and liabilities on a contract by contract basis as follows:

	December 31, 2011	December 31, 2010
Assets		
Current	$ 738	$ 322
Long-term	$ 311	$ -
	$ 1,049	$ 322

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include shareholders' equity, loans and borrowings and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares, enter into farm-out agreements and adjust its capital spending to manage current and projected debt levels. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

There were no changes in the Company's approach to capital management during the year.

The credit facilities are subject to an annual review of the borrowing base which is directly impacted by the value of the oil and natural gas reserves.

6. REVENUES AND OTHER INCOME

The components of oil and natural gas revenues and other income are as follows:

	December 31, 2011	December 31, 2010
Revenues:		
Oil and natural gas revenues	$ 27,297	$ 18,378
Less: Royalties	(5,118)	(3,688)
Oil and natural gas revenues, net of royalties	$ 22,179	$ 14,690
Other income:		
Management fees (a)	$ 3,004	$ 202
Seismic data sale	1,176	-
Gain from asset disposal	229	-
Other income	$ 4,409	$ 202

(Audited, expressed in Thousands of United States dollars)

(a) Management fees are earned from technical and administrative services provided to Saponis Investments Sp z o.o. ("Saponis"), a corporation in which the Company owns a 26.69% interest. These fees were earned for services provided by the US subsidiary of the Company to Saponis from its inception. Due to the uncertainty over the agreed amount of these services a receivable of only $202 was recorded at December 31, 2010. Saponis is considered a related party as the Company has the ability to exercise significant influence over the key financial and operating policy decisions of Saponis. This related party transaction is carried out in the normal course of business and is measured at exchange amounts, which is the amount agreed to by both the parties.

7. JOINT VENTURE

In 2008, the Company through its Polish joint venture, Saponis, applied for three concessions in Poland that were awarded in June 2009. The three concessions, Starogard, Slupsk and Slawno are located in Northern Poland and total about 730,000 acres. The Company initially owned an 80% interest in these concessions and in October 2009 it farmed out part of its interest in the concessions to Rohol-Aufsuchungs Aktiengellshaft (RAG) and Sorgenia E&P S.p.A. (Sorgenia). Under the farm-out agreement RAG/Sorgenia paid $3 million to BNK in 2009 and agreed to pay $5 million of the Company's share of expenditures in the first $25 million of capital expenditures held by Saponis in Poland reducing the Company's interest in Saponis to 26.69%. The Company incurred costs of $436 to complete the farm-out agreement. The Company has to spud two wells in each of the three concessions held by Saponis and one well has been drilled for each of the three concessions. The concessions require the drilling and testing of a second exploratory well on each concession by June 2014. Failure to spud these wells may result in partial or total forfeiture of the concessions (see Note 18 – Commitments). The Company's net interest in Saponis is accounted for on a proportionate consolidation basis.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash flow working capital is comprised of:

		2011		2010
Trade and other receivables	$	6,889	$	(6,280)
Deposits and prepaid expenses		(1,552)		(463)
Trade and other payables		(3,065)		(4,763)
Deferred credit		-		(2,500)
Foreign currency		(278)		(18)
	$	1,994	$	(14,024)
Related to operating activities	$	(2,468)	$	(13,123)
Related to investing activities	$	4,462	$	(901)

(Audited, expressed in Thousands of United States dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Oil and Natural Gas Interests	Processing and Other Equipment	Total
Cost or deemed cost			
Balance at January 1, 2010	$ 108,218	$ 321	$ 108,539
Additions – property, plant & equipment	27,889	229	28,118
Balance at December 31, 2010	136,107	550	136,657
Additions – property, plant & equipment	24,029	476	24,505
Balance at December 31, 2011	$ 160,136	$ 1,026	$ 161,162
Accumulated depletion and depreciation			
Balance at January 1, 2010	$ -	$ 193	$ 193
Depletion and depreciation for the year	3,946	105	4,051
Balance at December 31, 2010	3,946	298	4,244
Depletion and depreciation for the year	6,239	366	6,605
Balance at December 31, 2011	$ 10,185	$ 664	$ 10,849
Carrying amounts			
At January 1, 2010	$ 108,218	$ 128	$ 108,346
At December 31, 2010	$ 132,161	$ 252	$ 132,413
At December 31, 2011	$ 149,951	$ 362	$ 150,313

(a) Includes non-cash additions of $1,452 from capitalized stock-based compensation and $273 from assets related to ARO liabilities.

10. EXPLORATION AND EVALUATION ASSETS

	Oil and Natural Gas Interests
Balance at January 1, 2010	$ 650
Additions	6,205
Impairment	(4,481)
Foreign currency	(29)
Balance at December 31, 2010	2,345
Additions (a)	11,147
Foreign currency	1,419
Balance at December 31, 2011	$ 14,911

(a) Includes non-cash additions of $1,388 from warrants issued in connection with exploration concessions awarded in Spain. See Note 19.

(Audited, expressed in Thousands of United States dollars)

11. 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 net income (loss) before tax provision due to the following:

		2011		2010
Net income (loss)	$	**705**	$	(3,677)
Statutory tax rate		**38%**		38%
		268		(1,397)
Add (deduct):				
Stock-based compensation		**832**		981
Foreign exchange		**25**		(523)
Effect of tax rates in jurisdictions outside the US		**1,103**		1,085
Other		**(151)**		915
Change in unrecognized tax benefit		**(2,077)**		(1,061)
Income tax expense	$	**-**	$	-

Deferred tax liabilities and assets are attributable to the following:

		2011		2010
Deferred income tax liabilities:				
Property, plant and equipment/exploration and evaluation assets	**$**	**(40,804)**	$	(24,807)
Commodity contracts		**(399)**		(122)
Deferred tax assets:				
Inventory		**472**		472
Asset retirement obligations		**672**		657
Loss carry-forward		**40,059**		23,800
	$	**-**	$	-

Unrecognized deferred tax assets

Deferred tax assets have not been recognized for the following deductible temporary differences:

		2011		2010
Property, plant and equipment/exploration and evaluation assets	**$**	**1,616**		856
Share issuance costs		**3,728**		5,961
Loss carry-forward		**67,102**	$	68,940
Other		**651**		1,223
	$	**73,097**	$	76,980

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which they can be utilized.

(Audited, expressed in Thousands of United States dollars)

The Company incurs non-operating losses in all jurisdictions. The Company has total non-operating losses carried forward of approximately $172.5 million which may be available to offset future income for income tax purposes expiring over the periods 2015 to 2031. The Company has non-operating losses of approximately $158.3 million in the US, $3.5 million in the Netherlands, $9.0 million in Canada, and $1.7 million in Poland.

The Company has temporary differences associated with its investments in its foreign subsidiaries. The Company has no deferred tax liabilities in respect of these temporary differences.

12. SHARE CAPITAL

At December 31, 2011 and 2010, the Company was authorized to issue an unlimited number of common shares. The holders of common shares are entitled to receive dividends if they are declared by the Company and are entitled to one vote per share at meetings of the Company.

13. EARNINGS PER SHARE

Basic earnings per share

	2011	2010
Net income (loss)	$ 705	$ (3,677)
Weighted average number of common shares – basic	144,127	115,657
Net earnings (loss) per share - basic	$ 0.00	$ (0.03)

Diluted earnings per share

	2011	2010
Net income (loss)	$ 705	$ (3,677)
Effect of dilutive outstanding options and warrants	7,094	(a)
Weighted average number of common shares – diluted	151,221	115,657
Net earnings (loss) per share - diluted	$ 0.00	$ (0.03)

(a) For the year ended December 31, 2010, all the options and warrants were anti-dilutive as the Company recorded a net loss.

14. LOANS AND BORROWINGS

The Company's loans and borrowings are governed by two loan facilities ("facilities"). The facilities have identical terms and are secured by the Tishomingo Field, in Oklahoma. The facilities expire and are payable on October 27, 2013. At December 31, 2011 borrowings under the facilities totalled $23.8 million with additional borrowing capacity available under the facilities totalling $8.2 million. Loans and borrowings under the facilities bear interest at LIBOR or Base Rate Pricing plus an applicable margin subject to an all-in interest floor of 3.75% and loans and borrowings can only be used to finance US operations. Primary debt covenants of the facilities require the Company to maintain a positive working capital balance and insure the ratio of EBITDA (defined as net income (loss) plus depletion and depreciation, stock based compensation expense and interest on borrowings plus losses or minus gains on financial commitment contracts) to net loans and borrowings be no greater than 3.5 to 1 at any quarter end. At December 31, 2011 this ratio was 1.5 to 1 and the Company was in compliance with all the covenants. At December 31, 2011 loans and borrowings of $23.8 million (2010: $20.0 million) are presented net of loan acquisition costs of $0.4 million (2010: $0.5 million).

(Audited, expressed in Thousands of United States dollars)

15. STOCK OPTIONS

The Company has an option program that entitles officers, directors, employees and certain service providers to purchase common shares in the Company. Options are granted at the market price of the shares at the date of grant, have a five year term and vest over two years.

The number and weighted average exercise prices of share options are as follows:

	December 31, 2011			December 31, 2010		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding at January 1	9,160,900	$	1.21	6,930,000	$	0.63
Exercised during the year	(603,665)		0.74	(399,100)		0.71
Granted during the year	1,940,000		3.63	2,630,000		2.59
Outstanding at December 31	10,497,235	$	1.68	9,160,900	$	1.21
Exercisable at December 31	8,410,563	$	1.31	5,082,571	$	1.21
Weighted average share price on date of exercise	603,665	$	4.80	399,100	$	2.26

The range of exercise prices of the outstanding stock options is as follows:

Range of exercise prices	Number of outstanding stock options		Weighted average exercise price	Weighted average contractual life (years)
$5.01 to $5.50	595,000	$	5.17	4.4
$4.01 to $4.50	265,000		4.36	4.5
$2.51 to $3.00	2,778,333		2.78	4.1
$2.01 to $2.50	575,000		2.13	4.3
$1.51 to $2.00	280,000		1.77	3.2
$1.01 to $1.50	81,733		1.41	4.1
$0.50 to $1.00	5,922,169		0.63	2.5
	10,497,235	$	1.67	3.2

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The fair value of the stock options was estimated using Black Scholes model with the following weighted average inputs:

	2011	2010
Fair value at grant date (per option)	$ 1.95	$ 1.20
Share price	$ 1.55	$ 3.40
Exercise price	$ 3.63	$ 2.59
Volatility (%)	64	144
Forfeiture rate (%)	5%	5%
Option life (years)	5	5
Risk-free interest rate (%)	1.81	2.58

Stock based compensation was recorded as follows:

	December 31 2011	December 31 2010
Expensed	$ 2,154	$ 2,559
Capitalized	$ 1,452	$ 670

16. ASSET RETIREMENT OBLIGATIONS

	December 31, 2011	December 31, 2010
Balance, beginning of year	$ 1,730	$ 1,663
Revisions	250	-
Liabilities incurred	23	-
Liabilities settled	(71)	-
Liabilities disposed	(229)	
Accretion expense	66	67
Balance, end of year	$ 1,769	$ 1,730

The Company’s asset retirement obligation (ARO) results from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total future site restoration obligation is estimated based on the Company’s net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of ARO to be $1,769 as at December 31, 2011 (2010 - $1,730) based on an undiscounted total future liability of $2,402 (2010 - $2,010). These payments are expected to be made over the next 15 years with the majority of costs to be incurred between 2013 and 2020. The discount factor, being the risk-free rate related to the liability is 2.55% (2010: 4 %).

(Audited, expressed in Thousands of United States dollars)

17. OPERATING LEASES

Non-cancellable operating lease rentals for office space are payable as follows:

2012	$	179
2013	$	184
2014	$	94

18. COMMITMENTS

Black Warrior

In March 2011, due to limited success in the Black Warrior Basin, the Company paid $500 in liquidated damages pursuant to its decision to not drill the third well in the Black Warrior acreage, and recorded this amount in the statement of operations as exploration and evaluation expenditures.

Poland

In Poland, the Company has recently received approval to extend its concession commitments on all 6 of its concessions. The three Saponis concessions (Slupsk, Slawno and Starogard) must have their second well drilled, completed and tested by June 2014. The Company must now commence operations for drilling the first wells on each Indiana concession (Bytow, Trzebielino and Darlowo) by September 2012 and drill and complete the 2nd well on each concession by March 2015. The Company does not have a minimum capital expenditure requirement for these concessions but it could lose these concessions if the required work programs were not completed as agreed.

Germany

In Germany, BNK has certain requirements that must be fulfilled for each concession block 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 the drilling of one horizontal well in year five within each concession area. The Company does not have a minimum capital expenditure requirement for these concessions but it could lose these concessions if the required work programs were not completed as agreed.

Spain

In Spain, the Company, through its wholly owned subsidiary Trofagas Hidrocarburos, S.L., was awarded the Urraca oil and gas concession totaling 234,292 acres, the Arquetu oil and gas concession in the Autonomous Community of Cantabria, Spain totaling approximately 61,470 acres and the Sedano oil and gas concession in the Autonomous Community of Castile and Leon totaling approximately 99,000 acres. The Arquetu concession contains certain minimum requirements, which must be fulfilled by BNK to retain its interest. Some of the more significant minimum requirements consist of conducting geological work in the first year, drilling one vertical well each in year two, four, five and six. The Urraca concession requires geological work be performed in year one with drilling of the first and second wells in year two, drilling of the third, fourth and fifth wells in year three, drilling of the sixth and seventh wells in year four and drilling of the eighth and ninth wells in year five. The Sedano concession also requires geological work be performed in year one, the drilling of the first and second wells in year two, the drilling of the third, fourth and fifth wells in year three, the drilling of the sixth and seventh wells in year four and the drilling of the eighth and ninth wells in year five. All of the drilling requirements are subject to the government's timely approval of the Company's drilling permits. The Company does not have a minimum capital expenditure requirement for these concessions but it could lose these concessions if the required work programs were not completed as agreed.

(Audited, expressed in Thousands of United States dollars)

19. WARRANTS

On May 18, 2010, the Company issued broker warrants which entitle the holder to purchase one share of the Company's common stock for CAD $2.85 for a period of two years. In addition, the Company has an agreement to issue up to 1 million warrants for work performed by a consultant to obtain concessions in Spain. In 2011, the Company was awarded three Spanish concessions and the consultant was granted 700,000 warrants which entitle the holder to purchase one share of the Company's common stock for CAD $2.85. These warrants expire in December 2013. The fair value of the warrants at the grant dates amounted to $1,388 and was capitalized as exploration and evaluation assets. The consultant could be granted up to 300,000 additional warrants in the future if more concessions are granted to the Company in Spain. Changes in the fair value of all warrants subsequent to the date of grant were recorded in the statement of operations as unrealized gains on warrant revaluation.

Under Canadian GAAP the Company classified warrants denominated in Canadian dollars to purchase common shares as equity instruments. Under IFRS, warrants issued by the Company to purchase common shares, for a fixed price stated in a currency other than the Company's functional currency and not offered pro rata to all existing shareholders of the same class at the time of issuance, are considered derivative financial liabilities. Such warrants are required to be measured and recognized at fair value with changes subsequent to initial recognition charged to income. The Company has determined fair value using the Black-Scholes option pricing model. Accordingly, the Company recorded a liability for warrants of $0.3 million at December 31, 2011 (2010: $0.2 million)

The number and weighted average exercise prices of warrants are as follows:

	December 31, 2011			December 31, 2010		
	Number of warrants		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding at January 1	158,000	$	2.85	-	$	-
Exercised during the year	(54,707)		2.85	-		-
Granted during the year	700,000		2.85	158,000		2.85
Outstanding at December 31	803,293	$	2.85	158,000	$	2.85
Exercisable at December 31	803,293	$	2.85	158,000	$	2.85

20. COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel includes the Board of Directors, executive officers and vice presidents of the Company. Key management personnel compensation is comprised of the following:

(Audited, expressed in Thousands of United States dollars)

	Year Ended December 31, 2011	2010
Short-term employee benefits	$ 1,747	$ 1,110
Share-based payments	1,422	3,063
	$ 3,169	$ 4,173

21. EXPENSE CLASSIFICATION

The Company's consolidated statements of operations is prepared primarily by nature of expense with the exception of employee compensation costs, which are included in both production and operating expenses and general and administrative expenses. The compensation costs include employees salary and benefit costs.

The following table details the amount of total compensation costs included in production and operating expenses and general and administrative expenses on the statements of operations:

	Year Ended December 31, 2011	2010
Production and operating expenses	$ 159	$ -
General and administrative expenses	3,121	1,638
Total employee compensation costs:	$ 3,280	$ 1,638

22. LEGAL RESTRUCTURING

For the year ended December 31, 2011, the Company incurred legal restructuring expenses of $1,170 (2010 - $0) related to the reorganization of the Company's European operations.

23. TRANSITION TO IFRS

The Company's accounting policies under IFRS differ from those followed under previous GAAP as described in note 3. These accounting policies have been applied for the years ended December 31, 2011, as well as to the opening statement of financial position on the transition date, January 1, 2010, and the comparative information for the year ended December 31, 2010.

The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date and on transactions prior to that date, were recognized as an adjustment to the Company's opening deficit on the statement of financial position when appropriate.

On transition to IFRS on January 1, 2010 the Company used certain exemptions allowed under IFRS 1 "First Time Adoption of International Reporting Standards". The exemptions used were:

Full Cost Accounting – IFRS 1 allows an entity that used full cost accounting under its previous GAAP to elect, at the time of adoption to IFRS, to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. The

Company has used reserve values as at January 1, 2010 to allocate the cost of development and production assets to cash generating units, (CGUs).

Share based compensation – IFRS 1 allows an entity an exemption on IFRS 2, “Share-Based Payments” to equity instruments which vested before the Company’s transition date to IFRS.

Decommissioning Obligation – As the Company elected to use the oil and gas exemption, a decommissioning obligation exemption was also used that allows for the remeasurement of decommissioning obligations on IFRS transition to be offset to retained earnings/deficit.

(Audited, expressed in Thousands of United States dollars)

Reconciliation of statement of financial position from GAAP to IFRS

At the date of IFRS transition – January 1, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Current assets				
Cash and cash equivalents		$ 8,378	$ -	$ 8,378
Trade and other receivables		12,118	-	12,118
Deposits, prepaids and other		1,639	-	1,639
Total current assets		22,135	-	22,135
Non-current assets				
Property, plant and equipment	(a, c)	165,895	(57,549)	108,346
Exploration & evaluation assets	(b)	-	650	650
Total non- current assets		165,895	(56,899)	108,996
Total assets		$ 188,030	$ (56,899)	$ 131,131
Current liabilities				
Trade and other payables		$ 23,088	$ -	$ 23,088
Deferred credit		2,500	-	2,500
Current portion of long term debt		10,351	-	10,351
Total current liabilities		35,939	-	35,939
Non-current liabilities				
Loans and borrowings		20,434	-	20,434
Asset retirement obligations	(d)	1,471	192	1,663
Total non-current liabilities		21,905	192	22,097
Equity				
Share capital		141,819	-	141,819
Contributed surplus	(e)	8,300	210	8,510
Deficit		(19,933)	(57,301)	(77,234)
Total equity		130,186	(57,091)	73,095
Total equity and liabilities		$ 188,030	$ (56,899)	$ 131,131

(Audited, expressed in Thousands of United States dollars)

Reconciliation of statement of financial position from GAAP to IFRS

At the end of the last reporting year under Canadian GAAP – December 31, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Current assets				
Cash and cash equivalents		$ 62,062	$ -	$ 62,062
Trade and other receivables		18,398	-	18,398
Deposits, prepaids and other		757	-	757
Fair value commodity contracts		322	-	322
Total current assets		81,539	-	81,539
Non-current assets				
Property, plant and equipment	(a, b, c, f)	195,593	(63,180)	132,413
Exploration & evaluation assets		-	2,345	2,345
Total non- current assets		195,593	(60,835)	134,758
Total assets		$ 277,132	$ (60,835)	$ 216,297
Current liabilities				
Trade and other payables		$ 18,036	$ -	$ 18,036
Non-current liabilities				
Loans and borrowings		19,486	-	19,486
Asset retirement obligations	(d)	1,551	179	1,730
Warrants	(g)	-	205	205
Total non-current liabilities		21,037	384	21,421
Equity				
Share capital		246,240	-	246,240
Contributed surplus	(e)	11,453	58	11,511
Deficit		(19,634)	(61,277)	(80,911)
Total equity		238,059	(61,219)	176,840
Total equity and liabilities		$ 277,132	$ (60,835)	$ 216,297

(Audited, expressed in Thousands of United States dollars)

Reconciliation of consolidated income statement for the year ended December 31, 2010

		Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue				
Oil and natural gas revenue (net of royalties)		$ 14,690	$ -	$ 14,690
Gathering income		2,870	-	2,870
Other income		202	-	202
		17,762	-	17,762
Expenses				
Exploration and evaluation expenditures	(b,c)	-	5,071	5,071
Production and operating expenses		3,766	-	3,766
Depletion and depreciation	(f)	5,260	(1, 209)	4,051
General and administrative expenses	(e)	5,776	-	5,776
Stock based compensation		2,542	17	2,559
		17,344	3,879	21,223
Finance income		1,631	-	1,631
Finance expense		(1,750)	(97)	(1,847)
Net finance income		(119)	(97)	(216)
Net income (loss) for the year		$ 299	$ (3,976)	$ (3,677)

(a) *Property, Plant and Equipment (PP&E)* - On transition to IFRS, the Company reclassified all E&E assets that were included in the PP&E balance on the consolidated balance sheet. These amounts consisted of the book value of undeveloped land that relates to exploration properties. On transition to IFRS it was determined that E&E assets in the amount of $52 million were impaired and accordingly were written off to accumulated deficit. Also on transition to IFRS an impairment test of PP&E must be performed at the CGU level as opposed to the entire PP&E balance which is required under Canadian GAAP through its full cost ceiling test. Impairment calculations were performed using discounted proved plus probable reserve values for the impairment tests of PP&E. Accordingly $4.6 million of costs were written off to accumulated deficit upon transition to IFRS representing the costs of unsuccessful wells in Oklahoma.

(b) *Exploration and Evaluation Expense*- In 2010 the Company determined to abandon the Company's properties in the Black Warrior Basin in Alabama in the amount of $4.5 million and accordingly these costs were written off to exploration and evaluation expense.

(c) *Pre-Exploration Costs* – Under IFRS costs cannot be capitalized before a company has the legal right to drill. Accordingly $0.3 million in costs were written off to accumulated deficit upon transition to IFRS and $0.6 million in costs have been expensed in 2010 to exploration and evaluation expense.

(d) *Asset Retirement Obligations (ARO)* - Under Canadian GAAP a credit adjusted risk free rate was used to measure the decommissioning obligation. Under IFRS the Company used a risk free rate and as a result of using a lower discount rate an increase to the obligation on transition in the amount of $0.2 million was recorded against accumulated deficit.

(e) *Stock Based Compensation* - The major differences from Canadian GAAP are the treatment of graded vesting awards as multiple separate awards with different lives and estimating forfeiture rates in advance as opposed to recognizing the impact when the forfeiture occurs. Accordingly a $0.2 million increase in accumulated deficit was recorded upon transition to IFRS.

(f) *Depletion and Depreciation Expense* - Under IFRS the Company elected to base the depletion calculation using proved plus probable reserves. This resulted in a decrease to depletion and depreciation expense in 2010 as compared to the previous GAAP in the amount of $1.1 million for the year ended December 31, 2010.

(g) *Warrants* – Under Canadian GAAP the Company classified warrants denominated in Canadian dollars to purchase common shares as equity instruments. Under IFRS, warrants issued by the Company to purchase common shares, for a fixed price stated in a currency other than the Company’s functional currency and not offered pro rata to all existing shareholders of the same class at the time of issuance, are considered derivative financial liabilities. Such warrants are required to be measured and recognized at fair value with changes subsequent to initial recognition charged to income. The Company has determined fair value using the Black-Scholes option pricing model. Accordingly, the Company recorded a liability for warrants of $0.2 million at December 31, 2010.

(Audited, expressed in Thousands of United States dollars)

24. SEGMENTED INFORMATION

The Company defines its reportable segments based on the countries where it conducts business. The countries included in Other are Spain, Germany, France and the Netherlands.

	Year ended December 31, 2011				
	United States	Canada	Poland	Other	Total
Oil and natural gas revenues, net of royalties	$ 22,179	$ -	$ -	$ -	$ 22,179
Gathering income	1,811	-	-	-	1,811
Other income	4,409	-	-	-	4,409
	28,399	-	-	-	28,399
Exploration and evaluation expenditures	1,091	93	-	961	2,145
Production and operating expenses	5,916	-	-	-	5,916
Depletion and depreciation	6,325	-	279	1	6,605
General and administrative expenses	6,541	1,622	1,385	2,113	11,661
Stock based compensation	1,597	448	53	56	2,154
Legal restructuring expenses	-	-	-	1,170	1,170
	21,678	2,163	1,717	4,093	29,651
Finance income	1,139	1,109	1,276	(443)	3,081
Finance expense	(1,124)	-	-	-	(1,124)
Net finance income (expense)	15	1,109	1,276	(443)	1,957
Net earnings (loss)	$ 6,736	$ (1,054)	$ (441)	$ (4,536)	$ 705
Assets	$ 177,845	$ 16,943	$ 19,948	$ 7,779	$ 222,515
Capital expenditures	$ 22,602	$ -	$ 9,087	$ 850	$ 32,539

(Audited, expressed in Thousands of United States dollars)

SEGMENTED INFORMATION continued

	Year ended December 31, 2010				
	United States	**Canada**	**Europe**	**Other**	**Total**
Oil and natural gas revenues, net of royalties	$ 14,690	$ -	$ -	$ -	$ 14,690
Gathering income	2,870	-	-	-	2,870
Other income	202	-	-	-	202
	17,762	-	-	-	17,762
Exploration and evaluation expenditures	4,481	-	-	590	5,071
Production and operating expenses	3,766	-	-	-	3,766
Depletion and depreciation	4,051	-	-	-	4,051
General and administrative expenses	3,994	1,126	163	493	5,776
Stock-based compensation	1,600	959	-	-	2,559
	17,892	2,085	163	1,083	21,223
Finance income	1,666	36	(63)	(8)	1,631
Finance expense	(1,758)	(89)	-	-	(1,847)
Net finance income (expense)	(92)	(53)	(63)	(8)	(216)
Net earnings (loss)	$ (222)	$ (2,138)	$ (226)	$ (1,091)	$ (3,677)
Assets	$ 157,493	$ 54,330	$ 3,530	$ 944	$ 216,297
Capital expenditures	$ 30,586	$ -	$ 1,332	$ 363	$ 32,281