



**Q1**  
2010



For the period ending March 31, 2010

The following is management's discussion and analysis (MD&A) of Bankers Petroleum Ltd.'s (Bankers or the Company) operating and financial results for the three months period ended March 31, 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 interim financial statements for the three months period ended March 31, 2010 and the audited financial statements and MD&A for the year ended December 31, 2009. Additional information relating to Bankers, including its Annual Information Form, is on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.bankerspetroleum.com](http://www.bankerspetroleum.com). *All dollar values are expressed in U.S. dollars, unless otherwise indicated, and are prepared in accordance with Canadian generally accepted accounting principles (GAAP).* The Company reports its heavy oil production in barrels.

This report is prepared as of May 13, 2010.

## NON-GAAP MEASURES

Netback per barrel and its components are calculated by dividing revenue, royalties, operating and sales and transportation expenses by the gross production volume during the period. Netback per barrel is a non-GAAP measure and it is commonly used by oil and gas companies to illustrate the unit contribution of each barrel produced.

Net operating income is similarly a non-GAAP measure that represents revenue net of royalties and operating, sales and transportation 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 generated from operations include all cash from operating activities and are calculated before change in non-cash working capital. Reconciliation to the GAAP measure is as follows:

| (\$000s)  | Three months ended<br>March 31 |       |
|---|--------------------------------|-------|
|   | 2010                           | 2009  |
| Cash provided by (used in) operating activities | 12,666                         | (984) |
| Change in non-cash working capital              | 1,153                          | 2,249 |
| Funds generated from operations                 | 13,819                         | 1,265 |

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 offers our assessment of the Company's future plans and operations as of May 13, 2010 and contains forward-looking information. Such information is generally identified by the use of words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Statements relating to "reserves" or "resources" are also forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future. All such statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Management believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date hereof.

In particular, this MD&A contains forward-looking statements pertaining to the following:

- performance characteristics of the Company's oil and natural gas properties;
- crude oil production estimates and targets;
- the size of the oil and natural gas reserves;
- capital expenditure programs and estimates;
- projections of market prices and costs;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; and
- treatment under governmental regulatory regimes and tax laws.

These forward looking statements are based on a number of assumptions, including but not limited to: those set out herein and in the Company's Form 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information* (NI 51-101 Report), availability of funds for capital expenditures, a consistent and improving success rate for well re-completions at Patos-Marinza, increasing production as contemplated by the Plan of Development (PoD), stable costs, availability of equipment and personnel when required, continuing favourable relations with Albanian governmental agencies and continuing strong demand for oil and natural gas.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risks and uncertainties set forth below:

- volatility in market prices for oil and natural gas;
- risks inherent in oil and gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- the Company's ability to hold existing leases through drilling or lease extensions;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- rising costs of labour and equipment;
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry.

## Management's Discussion & Analysis

The Company from time to time updates its forward-looking information based on the events and circumstances that occurred during the period and has adjusted its capital expenditure program accordingly to ensure that capital expenditures are funded by cash provided by operations, cash on hand and its available credit.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

### OVERVIEW & SELECTED QUARTERLY INFORMATION

| Results at a Glance (\$000s, except as noted) | Three months ended       |                          |                             |
|---|--------------------------|--------------------------|-----------------------------|
|   | March 31<br>2010         | March 31<br>2009         | December 31<br>2009         |
| <b>Financial</b>                              |                          |                          |                             |
| Oil revenue                                   | 35,149                   | 13,052                   | 30,014                      |
| Net operating income                          | 15,639                   | 2,628                    | 12,650                      |
| Net income (loss)                             | 470                      | (2,492)                  | 2,313                       |
| Funds generated from operations               | 13,819                   | 1,265                    | 10,788                      |
| Additions to property, plant and equipment    | 26,700                   | 2,835                    | 17,259                      |
| <b>Operating</b>                              |                          |                          |                             |
| Average production (bopd)                     | 8,282                    | 5,864                    | 7,234                       |
| Average price (\$/barrel)                     | 47.16                    | 24.73                    | 45.10                       |
| Netback (\$/barrel)                           | 20.98                    | 4.98                     | 19.01                       |
| Average Brent oil price (\$/barrel)           | 76.36                    | 44.40                    | 74.53                       |
|   | <b>March 31<br/>2010</b> | <b>March 31<br/>2009</b> | <b>December 31<br/>2009</b> |
| Cash and deposits                             | 62,712                   | 14,048                   | 68,270                      |
| Working capital (deficiency)                  | 65,987                   | (10,166)                 | 75,414                      |
| Total assets                                  | 330,371                  | 210,674                  | 304,820                     |
| Bank loans                                    | 26,418                   | 26,948                   | 28,085                      |
| Shareholders' equity                          | 225,548                  | 123,622                  | 213,960                     |

Highlights for the quarter ended March 31, 2010 are:

- Production averaged 8,282 bopd, an increase of 41% compared to the same period in 2009. Production at the end of March 31, 2010 was approximately 9,500 bopd.
- Revenue increased 169% to \$35.1 million (\$47.16/bbl) in the first quarter of 2010 from \$13.1 million (\$24.73/bbl) during the first quarter of 2009.
- Net operating income (netback) increased six-fold to \$15.6 million (\$20.98/bbl) in the first quarter of 2010 from \$2.6 million (\$4.98/bbl) during the first quarter of 2009.
- Funds generated from operations increased ten-fold to \$13.8 million in the first quarter of 2010 from \$1.3 million over the first quarter of 2009.
- The Company continues to maintain a strong balance sheet with cash of \$62.7 million and working capital of \$66.0 million at March 31, 2010 as compared to working capital of \$75.4 million at December 31, 2009 and a working capital deficiency of \$10.2 million at March 31, 2009.

## Management's Discussion & Analysis

### QUARTERLY SUMMARY

Below is a summary of Bankers' performance over the last eight quarters.

| (\$000s, except as noted) | 2009           |        |               |        |                |        | 2010          |        |
|---------------------------|----------------|--------|---------------|--------|----------------|--------|---------------|--------|
|                           | Second Quarter |        | Third Quarter |        | Fourth Quarter |        | First Quarter |        |
|                           |                | \$/bbl |               | \$/bbl |                | \$/bbl |               | \$/bbl |
| Average production (bopd) | 6,383          |        | 6,258         |        | 7,234          |        | 8,282         |        |
| Oil revenue               | 20,107         | 34.63  | 23,441        | 40.71  | 30,014         | 45.10  | 35,149        | 47.16  |
| Royalties                 | 5,389          | 9.28   | 5,368         | 9.32   | 6,225          | 9.35   | 7,190         | 9.65   |
| Sales and transportation  | 2,003          | 3.45   | 2,739         | 4.76   | 3,701          | 5.56   | 4,395         | 5.90   |
| Operating expenses        | 5,748          | 9.90   | 6,083         | 10.56  | 7,438          | 11.18  | 7,925         | 10.63  |
| Net operating income      | 6,967          | 12.00  | 9,251         | 16.07  | 12,650         | 19.01  | 15,639        | 20.98  |

  

| (\$000s, except as noted) | 2008           |        |               |        |                |        | 2009          |        |
|---------------------------|----------------|--------|---------------|--------|----------------|--------|---------------|--------|
|                           | Second Quarter |        | Third Quarter |        | Fourth Quarter |        | First Quarter |        |
|                           |                | \$/bbl |               | \$/bbl |                | \$/bbl |               | \$/bbl |
| Average production (bopd) | 5,826          |        | 5,880         |        | 6,561          |        | 5,864         |        |
| Oil revenue               | 34,157         | 64.36  | 33,543        | 62.08  | 17,877         | 29.63  | 13,052        | 24.73  |
| Royalties                 | 6,601          | 12.43  | 7,790         | 14.40  | 4,163          | 6.69   | 3,486         | 6.61   |
| Sales and transportation  | 1,727          | 3.27   | 1,932         | 3.57   | 2,192          | 3.63   | 1,426         | 2.70   |
| Operating expenses        | 7,693          | 14.03  | 7,503         | 13.32  | 7,843          | 13.54  | 5,512         | 10.44  |
| Net operating income      | 18,136         | 34.63  | 16,318        | 30.79  | 3,679          | 5.77   | 2,628         | 4.98   |

| (\$000s, except as noted)                   | 2009           |               |                |               | 2010    |
|---|----------------|---------------|----------------|---------------|---------|
|   | Second Quarter | Third Quarter | Fourth Quarter | First Quarter |         |
| <b>Financial</b>                            |                |               |                |               |         |
| Funds generated from operations             |                | 5,998         | 7,371          | 10,788        | 13,819  |
| Net income (loss)                           |                | (1,679)       | 1,708          | 2,313         | 470     |
| Basic and diluted earnings (loss) per share |                | (0.009)       | 0.008          | 0.010         | 0.002   |
| General and administrative                  |                | 2,079         | 1,410          | 1,757         | 1,926   |
| Total assets                                |                | 257,689       | 292,212        | 304,820       | 330,371 |
| Capital expenditures                        |                | 6,126         | 12,104         | 17,259        | 26,700  |
| Bank loans                                  |                | 32,651        | 31,355         | 28,085        | 26,418  |

| (\$000s, except as noted)                   | 2008           |               |                |               | 2009    |
|---|----------------|---------------|----------------|---------------|---------|
|   | Second Quarter | Third Quarter | Fourth Quarter | First Quarter |         |
| <b>Financial</b>                            |                |               |                |               |         |
| Funds generated from operations             |                | 17,091        | 14,795         | 339           | 1,265   |
| Net income (loss)                           |                | 1,005         | 4,876          | (8,007)       | (2,492) |
| Basic and diluted earnings (loss) per share |                | 0.006         | 0.027/0.026    | (0.044)       | (0.014) |
| General and administrative                  |                | 2,034         | 2,157          | 1,089         | 1,204   |
| Total assets                                |                | 315,631       | 216,978        | 214,675       | 210,674 |
| Capital expenditures                        |                | 17,101        | 25,502         | 22,011        | 2,835   |
| Bank loans                                  |                | 29,004        | 27,583         | 28,125        | 26,948  |

**DISCUSSION OF OPERATING RESULTS****Production, Revenue and Netback**

|                            | Three months ended March 31 |        |
|----------------------------|-----------------------------|--------|
|                            | 2010                        | 2009   |
| Average production (bopd)  | 8,282                       | 5,864  |
| Oil revenue (\$000)        | 35,149                      | 13,052 |
| <i>Netback (\$/barrel)</i> |                             |        |
| Average price              | 47.16                       | 24.73  |
| Royalties                  | 9.65                        | 6.61   |
| Sales and transportation   | 5.90                        | 2.70   |
| Operating expenses         | 10.63                       | 10.44  |
| Netback                    | 20.98                       | 4.98   |

At the end of March 2010, the Company had 212 active wells, which remained consistent compared to the end of December 2009. The total well counts increased 15% from 575 at the end of December 2009 to 659 in March 2010. Average production increased 41% to 8,282 bopd during the first quarter of 2010 compared to 5,864 bopd during the same period in 2009 and 7,234 bopd for the fourth quarter of 2009.

The Company received an average sale price of \$47.16/bbl (62% of Brent) compared to \$45.10/bbl (61% of Brent) for the fourth quarter of 2009 and \$24.73/bbl (56% of Brent) for the same period in 2009. The benchmark Brent oil prices averaged \$76.36/bbl for the first quarter of 2010, compared to \$74.53/bbl for the preceding quarter of 2009 and \$44.40/bbl for the first quarter of 2009.

Oil revenue increased 17% from \$30.0 million during the previous quarter to \$35.1 million in the first quarter of 2010, primarily as a result of increased production as well as more favourable oil prices. Sales were \$13.1 million for the first quarter of 2009.

The Company's netback (revenue less royalties, operating, sales and transportation expenses) increased 10% to \$20.98/bbl (44% of the average price) compared to \$19.01/bbl (42% of the average price) in the fourth quarter of 2009. The netback for the first quarter of 2009 was \$4.98/bbl (20% of the average price). The changes in netback were primarily due to more favourable average prices received from export sales and the fluctuation in commodity prices.

**Royalties**

Royalties in Albania are calculated pursuant to the Petroleum Agreement with Albpetrol and consist of a royalty based on Albpetrol's pre-existing production (PEP), a 1% gross overriding royalty (ORR) on new production and a 10% royalty tax on net production (RT). Overall royalties for the current quarter represented 20% of oil revenue, as compared to 21% for the preceding quarter and 27% for the first quarter of 2009. As a percent of revenue, the various royalty components currently represent 11% from PEP, 1% for the ORR and 8% for the RT. The average royalty rate declined during the quarter as more oil was produced from new production compared to the previous quarter and the first quarter of 2009. Fluctuations in royalty on a per barrel basis are due to changes in the underlying oil prices.

### **Operating Expenses**

Operating expenses decreased to \$10.63/bbl in the first quarter of 2010 from the preceding quarter of \$11.18/bbl, and increased from \$10.44/bbl in the same period of 2009. On a percentage of revenue basis, operating costs represented 23% of the revenue for the first quarter of 2010, compared to 25% and 42% for the preceding quarter and the same period in 2009, respectively. The improvement was due to the increase in production levels, efficiency in well servicing costs and the significant increase in commodity prices. Of the total operating expenses incurred during the quarter, \$4.42/bbl (42%) related to fixed costs and \$6.21 (58%) related to variable costs.

Sales and transportation costs for the quarter increased to \$5.90/bbl compared to \$5.56/bbl in the preceding quarter and \$2.70/bbl during the same period in 2009 due to increased export sales. Exports accounted for 100% of the total sales in the quarter as compared to 100% in the prior quarter and 45% for the first quarter of 2009. For the current quarter, trucking costs (\$2.11/bbl) were consistent with prior quarters, blending costs (\$2.36/bbl) increased due to seasonality factors and port fees were \$1.43/bbl.

### **General and Administrative Expenses**

General and administrative expenses (G&A) for the quarter were \$1.9 million compared to \$1.8 million in the preceding quarter and \$1.2 million for the same period in 2009. The increase in G&A compared to the same period of 2009 was mainly due to personnel costs and the strong Canadian dollar versus US dollar.

During the quarter, the Company capitalized \$0.8 million of G&A expenses as compared to \$0.5 million for the preceding quarter and \$0.4 million for the same period in 2009. These expenses were directly related to acquisition, exploration and development activities in Albania.

Non-cash stock-based compensation expense pertaining to options vested and/or granted to officers, directors, employees and service providers was \$6.7 million compared to \$2.3 million for the preceding quarter and \$0.7 million for the same period in 2009. Of this amount, \$3.8 million was charged to earnings during this quarter, compared to \$1.5 million and \$0.6 million that were charged to earnings for the preceding period and the period ending March 31, 2009, respectively. The remainder was capitalized.

### **Depletion, Depreciation and Accretion**

Depletion, depreciation and accretion expenses (DD&A) for the quarter ended March 31, 2010 were \$5.0 million (\$6.21/bbl), compared to \$4.4 million (\$6.10/bbl) for the preceding quarter and \$4.0 million (\$6.80/bbl) for the same period in 2009. DD&A expenses correspond to the respective production levels and the impact of capital expenditures relative to the depletable basis. The depletable base at March 31, 2010 includes a provision of \$357.6 million for expected future capital programs, compared to \$382.0 million at December 31, 2009 and \$297.4 million at March 31, 2009. DD&A represented 14% of the total revenue for the first quarter of 2010, compared to 15% for the preceding quarter and 31% for the same period in 2009. The reduction as a percentage of revenue was mainly due to the increase in reserve base, increase in production and commodity price.

### **Income Taxes**

As of March 31, 2010, the Company recorded a \$47.1 million future income tax liability, compared to \$39.4 million at the end of 2009, in relation to the Company's Albanian assets and liabilities. Future income tax expense for the quarter was \$4.8 million compared to \$2.7 million for the preceding quarter and a \$1.1 million recovery for the quarter ended March 31, 2009. The fluctuation in future income taxes was mainly due to the change in net income incurred in the first quarter of 2010 and non-deductible costs, including stock based compensation and interest expenses of the Albania segment.

## ***Management's Discussion & Analysis***

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The cost recovery pool represents deductions for income tax purposes in Albania at a 50% income tax rate. Bankers is presently not required to pay cash taxes in any jurisdiction. In Canada, the benefit of non-capital losses of approximately \$19.3 million as of December 31, 2009 has not been recognized in the financial statements.

### **Net Income and Funds Generated from Operations**

The Company recorded net income of \$0.5 million (\$0.002 per share) during the quarter compared to \$2.3 million (\$0.010 per share) net income for the preceding quarter and a net loss of \$2.5 million (\$0.014 per share) for the same period in 2009.

Funds generated from operations were \$13.8 million for the first quarter, a 28% increase from \$10.8 million in the preceding quarter and \$1.3 million in the same period in 2009.

### **OPERATIONS UPDATE**

#### **Albania**

##### Patos-Marinza Field

During the first quarter the focus remained on execution of our horizontal drilling program and with the activation of a second drilling rig in January, 10 new horizontal wells were drilled. At the end of the quarter there were 17 horizontal wells on production averaging 160 bopd, including several recently completed wells that were still in their cleanup phase and are now ramping up production levels. Two additional wells were completed and have since been brought online, and two others that continue to be shut in as a result of localized water intrusion. A total of 21 horizontal oil wells were drilled as of March 31st. Overall the average production levels from the horizontal wells are in-line with or exceeding forecasts. There are now 6 distinct sandstones within the field that have been tested with at least one horizontal well, including successful first wells into the D2 formation and one of the Marinza sandstones. There are 7 separate Marinza sandstones that are being evaluated in the northern portion of the field for horizontal development. As to the 2 horizontal wells with water intrusion problems, several offsetting old vertical wells have been identified with cross flow problems and remedial completion repairs are being undertaken on these wells to remedy the situation. It is anticipated that these horizontal wells will be returned to production in the near future after the Company has increased its water disposal capacity in the field, which includes an additional disposal well that is currently drilling.

During the quarter, 47 wells were taken over from the state oil company of which 10 are in the process of being reconfigured with progressive cavity pumping systems. An additional 26 inactive wells were acquired in Sector 3, an environmental remediation test area identified by the Company, completing the entire takeover of this area. With all wells in Sector 3 under Bankers' control, the Company is now in a position later this year to continue implementation of its environmental remediation program.

Capital expenditures were \$26.7 million during the quarter, an increase of 55% from the previous quarter spending of \$17.2 million, and significantly higher than the \$2.8 million in expenditures for the first quarter of 2009.

Operating expenditures during the quarter were \$7.9 million (\$10.63/bbl) compared to \$7.4 million (\$11.18/bbl) in the previous quarter and \$5.5 million (\$10.44/bbl) for the same quarter in 2009. Increased production levels are realizing improved efficiencies on a per-unit basis.

##### Kuçova Field

Bankers is waiting for formal approval from Albpetrol and the AKBN (the state regulatory agency) for revisions to the Kuçova Licence and Petroleum Agreements to revise the scope of work to a pressure

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maintenance project and for a 12 month extension of the evaluation period prior to commencement of field activity. Approval in principle was received for the proposed amendments regarding changes to the royalty tax structure, evaluation period and scope of work from Albpetrol. Field work will commence immediately upon receipt of approval.

### CAPITAL EXPENDITURES

| (\$000s)            | Three months ended March 31 |              |
|---------------------|-----------------------------|--------------|
|                     | 2010                        | 2009         |
| Drilling programs   | 14,115                      | 1,294        |
| Well re-activations | 2,052                       | 1,080        |
| Work-over program   | 2,671                       | 279          |
| Base program        | 4,245                       | 446          |
| Inventory change    | 3,617                       | (264)        |
|                     | <u>26,700</u>               | <u>2,835</u> |

Capital expenditures in the first quarter increased to \$26.7 million from \$17.3 million in the preceding quarter and \$2.8 million during the same period in 2009. The increase was a result of favourable commodity prices and Bankers' improved liquidity and capital resources compared to the same period one year ago. During the first quarter of 2010, Bankers spent \$4.7 million on well re-activations and work-over program, compared to \$4.9 million during the preceding quarter and \$1.4 million during the same period in 2009. The Company incurred \$14.1 million on the drilling program, primarily for 10 new wells compared to \$6.7 million during the preceding quarter (5 wells) and \$1.3 million in the first quarter of 2009. The increase in base program during the first quarter of 2010 was mainly due to the increased activities in water control initiative, pipeline/flow system and water disposal system. At March 31, 2010, the Company had a capital inventory of \$21.0 million for utilization in future drilling and reactivation programs.

### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2010, Bankers had working capital of \$66.0 million (including cash, cash equivalents and deposits totalling \$62.7 million) and long-term bank loans of \$21.8 million. At December 31, 2009, the Company had working capital of \$75.4 million and long-term bank loan of \$23.4 million.

Bankers has credit facilities totalling \$139.6 million, of which only \$26.4 million is currently being utilized. The majority represents a reserve-based long-term financing of \$110.0 million from the International Finance Corporation and European Bank for Reconstruction and Development, from which no advances have yet been drawn. The \$29.6 million Raiffeisen facility includes a revolving operating loan of \$20.0 million (due in March 2012) and term loans totalling \$9.6 million. Repayments of \$1.2 million were made on the term loans during this quarter.

The Company's approach to managing liquidity is to ensure a balance between capital expenditure requirements and funds generated from operations, available credit facilities and working capital.

During the three months ended March 31, 2010, the Company received total equity proceeds of \$4.4 million, of which \$2.6 million was from warrant and \$1.8 million from option exercises.

There were 230 million shares and 231 million shares outstanding as at March 31, 2010 and May 13, 2010 respectively. In addition, the Company had approximately 15 million stock options as of March 31, 2010 and May 13, 2010. The outstanding warrants were 5.1 million as of March 31, 2010 and May 13, 2010. Effective March 22, 2010, the shares of Bankers Petroleum Ltd. were added to the S&P/TSX Energy Index after having met the inclusion requirements as determined by Standard & Poor's.

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Directors and officers of the Company represent approximately 8 percent ownership in the Company, on a fully diluted basis, as of March 31, 2010 and May 13, 2010. The strong ownership position of the directors and officers creates an alignment with shareholders and a team that is dedicated to activities that support future value creation.

In Albania, the Company considers any amounts greater than 60 days as past due. Of the total receivables of \$24.7 million in Albania, approximately \$11.8 million is due from one domestic customer. The full amount outstanding was received from this customer subsequent to March 31, 2010.

### Plan of Development

Bankers has no capital expenditure commitment for the Patos-Marinza oilfield under the Petroleum Agreement. Bankers annually submits a work program to AKBN which includes the nature and the amount of capital expenditures to be incurred during that year. Significant deviations in this annual program from the Plan of Development will be subject to AKBN approval. The Petroleum Agreement provides that disagreements between the parties will be referred to an independent expert whose decision will be binding. The Company has the right to relinquish a portion or all of the contract area. If only a portion of the contract area is relinquished then the Company will continue to conduct petroleum operations on the portion it retains and the future capital expenditures will be adjusted accordingly.

### Commitments

The Company has long-term lease commitments in Canada and Albania. The minimum lease payments for the next three years are \$784,000 as follows:

| (\$000s) | Canada     | Albania    | Total      |
|----------|------------|------------|------------|
| 2010     | 175        | 257        | 432        |
| 2011     | 233        | 87         | 320        |
| 2012     | 10         | 22         | 32         |
|          | <u>418</u> | <u>366</u> | <u>784</u> |

The Company has two term loans with a European financial institution, totalling \$9.6 million. The 2006 term loan is repayable in equal monthly instalments of \$0.3 million ending on October 31, 2011. Repayments of principal for the 2009 term loan commenced in November 2009 in monthly instalments of \$74,100 for a 54-month period. Of the amount outstanding, \$4.7 million is classified as current and \$4.9 million as long-term. Principal repayments of the term loan over the next five years are as follows:

| (\$000s) |              |
|----------|--------------|
| 2010     | 3,480        |
| 2011     | 4,014        |
| 2012     | 889          |
| 2013     | 889          |
| 2014     | 296          |
|          | <u>9,568</u> |

### PRINCIPAL BUSINESS RISKS

Bankers' 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.

Bankers' 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.

Bankers has a significant investment in Albania. There are a number of risks associated with conducting foreign operations over which the Company has no control, including political instability, potential and actual civil disturbances, ability to repatriate funds, changes in laws affecting foreign ownership and existing contracts, environmental regulations, oil and gas prices, production regulations, royalty rates, income tax law changes, potential expropriation of property without fair compensation and restriction on exports. Additional risks that may affect the Company and its operations are set out in its AIF filed under the Company's profile on [www.sedar.com](http://www.sedar.com).

### **RELATED PARTY TRANSACTIONS**

The Company has a note receivable from BNK Petroleum Inc. (BKX), a related party, in the amount of \$2.7 million that is considered to be in the normal course of business. Bankers has no further obligation to increase the note, which is due on October 2012 and accrues interest at LIBOR plus 5.5%. At March 31, 2010, no principal or interest amounts were due. The Company is entitled to receive up to 50% of any future equity financing by BKX and 90% of any increase in BKX's borrowing base, as repayment of this note. On April 26, 2010, BKX announced a CAD \$45 million bought-deal equity issue that is scheduled to close on or about May 18, 2010, at which time the note receivable will be settled.

### **NEW ACCOUNTING STANDARDS**

#### **Business combinations**

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

#### **Transition to International Financial Reporting Standards ("IFRS")**

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS, for interim and annual reporting purposes, beginning on or after January 1, 2011. The adoption date for IFRS of January 1, 2011 will require the restatement of Bankers' consolidated

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financial statements, for comparative purposes, for the year ended December 31, 2010 and of the opening balance sheet as at January 1, 2010.

In preparation for the requirement to convert from GAAP to IFRS, management has undertaken a phased approach to conversion with a three step project plan. At a high level the three major steps will include:

Phase One:

- Identification of a project work plan that outlines potential conversion issues unique to the industry. This phase assigns ownership responsibility for each of those issues, estimates the time, duration and costs associated with each major deliverable within the plan, and presents an overall project timeline and in- progress reporting from key deliverable owners and assigned employees.

Phase Two:

- Identification of the significant accounting policies that relate to each of the major conversion items. This phase identifies the changes to the accounting policies that will be required with IFRS, and adjusts the plan identified in Phase One accordingly.

Phase Three:

- Management of dual reporting under GAAP and IFRS as required. This phase determines the mapping between the different accounts identified in our chart of accounts and applies this mapping to generate the IFRS reporting.

To date, management has assigned considerable priority to the conversion project and adopted a structured approach to change management. Executive sponsorship and the assignment of key resources to manage the conversion project internally were also completed. Management has adopted a solution to assist in the development of a project plan specific to our industry, the Energy industry, to identify key steps within the project and to assign key resource responsibility for each of those steps. Hallmarks of the Phase One conversion plan include:

- Primary conversion requirements
- Dependent and subsidiary conversion requirement
- Requirements leaders
- Subtask owners and responsibilities
- Task start and end dates
- Estimates as to effort, duration and costs
- Measurement and presentation of completion status including Gantt Charting

From an organization change management perspective, management has thus far:

- Identified technology changes and tools required to ensure successful project management.
- Identified external resources needed to act in an advisory capacity to management in throughout the project.
- Consulted with business unit leaders and department heads to educate, identify changes required and assign responsibilities within the project.
- Anticipated the phased nature of the conversion required and adopted a tiered approach consistent with the phases.

Key personnel engaged in the conversion project plan include members of the finance and accounting group. Other areas of the Company, as well as external advisors where necessary, are engaged in the IFRS conversion

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project. The Company has also supported staff training programs on IFRS transition. Regular reports on the IFRS transition status will be made to Management and the Audit Committee on a quarterly basis.

Detailed analysis of the differences for certain major elements of our financial statements has been completed and the Company is currently working with representatives from the various operational areas to select accounting policies and assess the impact of the differences on the data requirements, business processes, financial systems and internal controls. At this stage in the project, the full impact of adopting IFRS on the Company's financial position and future results cannot be determined; however, the most significantly impacted areas are expected to be property, plant and equipment.

### **INTERNAL CONTROLS**

The Company's President and Chief Executive Officer (CEO) and Vice President, Finance and Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting as defined in NI 52-109.

Disclosure controls and procedures have been designed to ensure that information to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company's CEO and CFO have evaluated the effectiveness of the disclosure controls and procedures as at March 31, 2010 and have concluded that they provide reasonable assurance that all material information relating to the Company is disclosed in a timely manner.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and compliance with generally accepted accounting principles. The CEO and CFO have evaluated the Company's internal controls over financial reporting as at March 31, 2010 based on the framework in "Internal Control Over Financial Reporting – Guidance for Smaller Public Companies" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and have concluded they are designed and operating effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP. During the quarter ended March 31, 2010, there have been no changes to the Company's internal controls over financial reporting that will, or are reasonably likely to, materially affect the internal controls over financial reporting.

Because of their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable and not absolute assurance that the objectives of the control systems are met.

### **OUTLOOK**

Throughout the remainder of 2010, the Company will remain focused on achieving its priorities and implementing its capital programs in Albania:

- In January 2010, a second drilling rig commenced drilling in the Patos-Marinza oilfield and a third rig has now been contracted to start drilling in July 2010. The Company plans to drill a total of 52 horizontal and 5 vertical wells in 2010. Additionally, the Company plans to drill up to 3 vertical wells in Block F in 2010.
- With the current 10,000 bopd production level and expected production from the remaining horizontal drilling program, Bankers projected 2010 year-end production target is 15,000 bopd.

- Construction of an additional 80,000 barrels of storage capacity at the Vlore export terminal has commenced and is expected to be ready by year-end. To improve its “off-take” capacity, Bankers has initiated a pipeline project that will be implemented in two phases. Phase one, a 14 kilometre oil pipeline connecting the oilfield by rail to the export terminal, is underway and is expected to supplement current truck transport capacity of 15,000 bopd with an additional 9,500 bopd through rail transport by early 2011. Phase two, a 30 kilometre, 70,000 bopd pipeline connecting the oilfield to the export terminal, is planned for construction starting in 2011.
- The full collection in April of the \$11.8 million outstanding payments owing from the Albanian refineries operated by Albanian Refining & Marketing of Oil Sh.A (“ARMO”) has resulted in Bankers resuming oil sales into the domestic market at an equivalent-to-export price.
- The 2009 year-end independent assessment of the 1.2 billion barrels of Contingent and Prospective resources at Patos-Marinza validates the Company’s plans for a thermal pilot proposed for the 2010 capital program. Success of such initiatives may lead to the conversion of significant volumes of these resources to recoverable reserves and the subsequent implementation of a commercial field expansion in 2012 and beyond. A waterflood program is also planned for the Kuçova oilfield in 2010.
- Bankers expects to fund its \$152 million 2010 capital program using funds generated from operations, existing cash resources and a portion of its unutilized \$110 million credit facilities.
- The second quarter 2010 operations update is expected to be released on July 8. The Financial and Operating results for Q2/10 and Q3/10 will be released on August 13, 2010 and November 12, 2010, respectively.