



November 25, 2011

For the quarter ended  
September 30, 2011

TSX-V BNX.A

## Management's Discussion and Analysis of the September 30, 2011 Financial Results

*This Management's Discussion and Analysis ("MD&A") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of BNP Resources Inc. ("BNP" or the "Corporation") for the period ended September 30, 2011, and for the year ended December 31, 2010. This MD&A has been prepared by management in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the interim condensed financial statements as at and for the three and nine month period ended September 30, 2011. The reporting currency is the Canadian dollar.*

*Petroleum and natural gas reserves and volumes are converted to a common unit of measure, barrels of oil equivalent (boe), on a basis of six thousand cubic feet (mcf) of gas to one barrel (bbl) of oil. Boe's may be misleading, particularly if used in isolation. The boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*

### **Advisory Regarding Forward-Looking Statements**

*Statements throughout this MD&A that are not historical facts may be considered "forward-looking statements". These forward-looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe BNP's objectives, goals, or future, including management's assessment of future plans and operations, production estimates and expected production rates, timing of tie-ins and the effect of delays in tying-in wells and the effects of compressor issues and other infrastructure issues, levels of decline rates and the effects thereof, expected royalty rates, expected general and administrative expenses and other expenses, effects of the results of successful wells, expected level of capital expenditures and the method of funding them, the ability to incur qualifying expenditures renounceable to purchasers of flow-through shares and the expected levels of activities and results of operations of BNP may constitute forward-looking information under securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision in reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence BNP's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or, if any of them do so, what benefits BNP will derive there from. Readers are cautioned that the foregoing list of factors is not exhaustive.*

*Additional information relating to BNP may be found on the SEDAR website [www.sedar.com](http://www.sedar.com) or BNP's website [www.bnpresources.com](http://www.bnpresources.com). Furthermore, the forward-looking statements contained herein are made as at the date hereof and BNP does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

*This MD&A is based on information available as of, and is dated, November 25, 2011.*

## **Non-IFRS Measurements**

The MD&A contains terms commonly used in the oil and gas industry, such as funds from operations, funds from operations per share, and operating netback. These terms are not defined by IFRS and should not be considered an alternative to, or more meaningful than, cash provided by operating activities or Statement of Loss, Comprehensive Loss as determined in accordance with IFRS as an indicator of BNP's performance. Management believes that in addition to Loss, Comprehensive Loss, funds from operations is a useful financial measurement, which assists in demonstrating BNP's ability to fund capital expenditures necessary for future growth. BNP's determination of funds from operations may not be comparable to that reported by other companies. All references to funds from operations throughout this report are based on cash flow from operating activities before changes in non-cash working capital. BNP calculates funds from operations per share by dividing funds from operations by the weighted average number of Class A shares outstanding.

### **2011 Third Quarter Highlights:**

In the Third Quarter of 2011, BNP continued to reorganize the Corporation's debt and expenses. The reorganization included further payable reductions where possible and the initialization of a non-brokered private placement.

Specifically, BNP has:

- Funds used in operations were \$(6) and \$139,710 for the three and nine month periods ended September 30, 2011, a decrease in the use of funds from \$132,934 and \$307,698 for the three and nine month periods ended September 30, 2010, reflecting the decrease in operating, general and administrative activities.
- Net loss and comprehensive loss for the three and nine months ended September 30, 2011 and 2010, was \$25,971 and \$533,128 (\$0.00 and \$0.01 per basic share) compared to the periods ended September 30, 2010 of \$295,708 and \$836,915 (\$0.01 and \$0.02 per basic share), reflecting primarily the accretion on the convertible Class B liability, of \$nil and \$309,449 (2010 - \$145,814 and \$437,443) respectively. BNP has not provided the diluted per share amounts as they would be anti-dilutive in both periods.
- An average Third Quarter 2011 daily production rate of approximately 10 BOEP/D.
- Exited the Third Quarter 2011 without any bank debt.
- BNP continues to investigate strategic alternatives going forward that include joint ventures, debt and equity financings, merger opportunities and asset dispositions during these difficult and volatile times
- On July 13, 2011, BNP announced a completed share for debt deal with one (1) creditor totaling approximately \$96,797. The debt obligation relates to a "Privco" investor electing to convert his pre-earned interest at Jensen and various equipment on site on BNP interest lands in the Jensen area to shares. Under the shares for debt settlement BNP will issue approximately 1,613,276 Class A shares to the creditor at a price of \$0.06 per Class A share. The settlement constitutes full satisfaction of the \$96,796.57 debt obligation owed by BNP to the creditor. Upon

issuance of the Class A shares to the creditor, the debt owed the creditor and obligations of BNP related to the debt deal will be fully extinguished. The shares upon issuance are subject to a 4 month hold period.

- On July 18, 2011, 250,000 stock options priced at \$0.35 per share expired unexercised.
- On July 18, 2011, BNP announced a non-brokered private placement offering of up to 8,333,333 Class A shares at a price of \$0.06 cents per share for gross proceeds of up to \$500,000 (the "Offering"). The offering will be conducted on a best efforts basis and expected to close within 30 days. The offering is subject to the receipt of all the necessary regulatory and TSX-Venture Exchange approvals. It is expected that up to 7,500,000 Class A shares at \$0.06 per share for gross proceeds of \$450,000 will be subscribed to by Mr. James Doody, subject to the TSX-Venture Exchange approval. The share purchase by Mr. Doody would create a control person.
- On July 23, 2011 and August 10, 2011 a further 2,200,000 outstanding warrants expired unexercised. Each full warrant entitled the holder to acquire one Class A share at a price of \$0.10 cents per share. As a result of the warrant expiry BNP has no active outstanding warrants.
- On August 18, 2011, BNP announced the first tranche and final closing of the non-brokered private placement. The combined gross proceeds from both tranches was \$500,000 and represented the issuance of 8,333,333 Class A shares. All the necessary TSX-Venture Exchange and regulatory approvals have been received. Mr. Doody subscribed for \$464,000 represented by approximately 7,733,333 Class A shares. The shares are subject to a 4 month hold period. Mr. Doody currently controls 15,779,233 Class A shares or approximately 30.4% of the outstanding Class A shares of the Corporation.
- Following the closing of the private placement, BNP issued a certified cheque for approximately \$350,000 to meet the refundable LMR security deposit required by the ERCB.
- On September 30, 2011, BNP granted stock options to three officers and/or directors to each acquire 750,000 BNP (bnx.a) shares at a price of \$0.10 per share over a 5 (five) year term. The options vest over three (3) years (1/3<sup>rd</sup> on each of the first, second and third anniversary of the grant date). The options were approved by the TSX-V Exchange.

***Subsequent to September 30, 2011, BNP:***

- On October 24, 2011 BNP received a letter from the ERCB rescinding the closure and abandonment orders associated with BNP's previous LMR imbalance. BNP can now proceed with field operations on its shut-in wells. The Company intends to turn on two of its shut-in Jensen wells to evaluate productivity of these wells. Results will determine the next step in the development of the Jensen property.
- On October 28, 2011 BNP provided an industry operational update of the general Jensen area. Crown landsale activity has dropped off compared to the Company's last operational update of May 12, 2011. This is primarily due to the fact that industry has acquired most of the available Crown lands in the area on previous Crown

landsales. Industry drilling activity remains strong with 15 new wells either licensed and/or drilled within the area Township 1-4 Ranges 18-23 W4M. BNP has 4 vertical wellbores on portions of sections 4, 5 and 8 3-20 W4M. Three of the BNP wells are Madison depth wells and one is a Precambrian test which drilled through the Bakken(Exshaw) zone. BNP is extremely encouraged by the recent drilling activity and available results to date and continues to pursue joint ventures, mergers and/or equity issues that will allow the Company to finish evaluating its wells and further develop the Jensen property.

- BNP turned two of its Jensen wells on production in November, primarily to continue the associated Madison freehold mineral rights and determine the potential productivity of these wells. The 16-5 Madison well produced 7-10 m3/d of fluid with a 10% oil cut and the 5-4 well produced 14-19 m3/d of fluid with a less than 1% oil cut each over a period of two weeks. The two wells were turned on without any new downhole work attempted. BNP has engaged the services of a consulting production engineer to review and evaluate the possible potential of these wells and determine a course of action. A Connaught Madison horizontal well located at 6-7-1-21 W4M produced 4,593 bbls of oil in 593 hours during the production month of August 2011.

## **Outlook**

Uncertainty in the North American debt and equity markets has had a substantial impact on the valuation of BNP. The recent dramatic declines in and lower prices for gas, and volatility of commodity prices combined with volatility in currency exchange rates has had an impact on cash flow in the energy sector during the fourth quarter of 2008 and into 2009 and 2010. Economic volatility continues into 2011 as the USA and Europe try to sort out their economic issues. BNP will continue to make prudent financial and capital spending decisions in this environment in order to preserve long term value.

As of September 30, 2011, BNP has prepared locations at Jensen, Saskatchewan and identified uphole completion opportunities on BNP's lands and existing wells to increase BNP's production as well as a water disposal plan for the existing wells at Jensen. The progression of these opportunities depends on BNP's success in raising equity or securing a joint venture partner(s).

BNP's independent committee continues to evaluate strategic alternatives.

## **Results of Operations**

For the three and nine month periods ended September 30, 2011 and 2010, BNP had a Net and Comprehensive Loss of \$25,971 and \$533,128 (2010 - \$295,708 and \$836,915), respectively.

BNP had cash from (used) in operating activities for the three and nine month period ended September 30, 2011 and 2010 of \$15,098 and \$(145,118) (2010 - \$71,244 and \$36,022), respectively. Funds from (used) in operations before changes in non-cash working capital were \$6 and \$(139,710) (2010 - \$(132,934) and \$(307,698)), respectively, for the same periods.

## Oil and Natural Gas Revenue

BNP commenced production at varying periods during the latter part of the third and fourth quarters of 2007, and the reader should be aware that these results may not be indicative of future period results from oil and gas production.

For the periods ended September 30,	Three months ended		Nine months ended	
	2011	2010	2011	2010
<b>Oil and gas revenue</b>				
Oil revenue	\$ 35,283	\$ 24,229	\$ 101,266	\$ 76,730
Natural gas	7,532	7,684	20,251	30,396
Natural gas liquids	967	1,088	4,244	3,605
Royalties	(14,466)	(10,796)	(41,999)	(33,265)
Net oil and gas revenue	29,316	22,205	83,762	76,466
Operating expenses	901	(52,558)	(34,302)	(99,215)
Net operating income (loss)	\$ 30,217	\$ (30,353)	\$ 49,460	\$ (22,749)
<b>Oil and gas volumes</b>				
Oil (bbls/d)	4	4	4	4
Natural gas (mcf/d)	38	38	33	57
Total boe/d (6:1)	10	10	9.5	13
<b>Realized prices</b>				
Oil (\$/bbl)	89.11	78.57	88.69	75.50
Natural gas (\$/mcf)	3.46	3.79	3.59	4.64

The oil revenue was mainly from the well 4-1-27-13W4M located in Stanmore/Sunnynook area. The gas revenue was mainly from one well in Stanmore/Sunnynook area and one well in Medicine River. The Jensen area remained shutin during the third quarter of 2011. Details of operating performance are shown in the table below.

Royalty rates were as expected due to the nature of our land acquisition program, a mix of Crown and freehold lands. Royalty rates are expected to be stable going forward.

Current commodity prices are a function of product transportation to third party facilities. These facilities are not always connected to a sales pipeline that yields the highest possible price. Expected production will be realized once additional projects are completed, tied in and equipped when sufficient funding is available.

## Performance by Property

Area	Three months ended September 30, 2011			Nine months ended September 30, 2011		
	Production boepd	%	Operating netbacks (loss) \$/boe sold	Production boepd	%	Operating netbacks (loss) \$/boe sold
Jensen	-	-	-	-	-	-
Stanmore/Sunnynook	7	70	30	7	73	31
Medicine River	3	30	1.50	2.5	27	2.25
Totals	10	100	31.50	9.5	100	33.25

Area	Three months ended September 30, 2010			Nine months ended September 30, 2010		
	Production boepd	%	Operating netbacks (loss) \$/boe sold	Production boepd	%	Operating netbacks (loss) \$/boe sold
Jensen	0	0	(0)	0.5	5	(91.25)
Stanmore/Sunnynook	6	60	4	6	57	22
Medicine River	4	40	2	4	38	5
Totals	10	100	6	10.5	100	(64)

The Jensen well 16-5-3-20W4M was shut in for the first 9 months of 2011. At the third quarter 2011 end, the Jensen project awaits the implementation of an onsite water disposal well and associated water disposal facilities which is contingent on available funds.

The Stanmore/Sunnynook well has produced a total of 630 BOE during the third quarter 2011. As of the end of September 2011 one well in this area is producing an average of 7 boepd.

Medicine River production is as expected. This is a multi-zone Edmonton sand gas well and is expected to have a low decline rate. The 6-5 well has a cumulative gas production of approximately 100 MMCF.

Operating netbacks (losses) are a function of the high operating costs associated with workovers, equipment rentals, propane fuel costs, high trucking costs and water disposal costs. As of September 30, 2011, BNP has returned all equipment rentals for all of its wells in order to minimize the operating costs.

## Royalties

Area	Three months ended September 30, 2011			Nine months ended September 30, 2010		
	Royalty \$	% of revenue	% of royalties	Royalty \$	% of revenue	% of royalties
Crown	433	1	3	1,857	1	4
Freehold	14,033	32	97	40,142	32	96
Totals	14,666	33	100	41,999	33	100

Area	Three months ended September 30, 2010			Nine months ended September 30, 2010		
	Royalty \$	% of revenue	% of royalties	Royalty \$	% of revenue	% of royalties
Crown	757	2	7	(2,105)	(6)	(15)
Freehold	10,039	30	93	16,135	42	115
Totals	10,796	32	100	14,030	36	100

BNP's lands are earned through drilling, royalties are paid to partners, and/or Crown and freehold lessors as the individual agreement dictates. The Jensen property is on freehold lands. Only freehold lessor royalties apply at Jensen.

## Operating Costs

Area	Three months ended September 30, 2011			Nine months ended September 30, 2011		
	Production	Operating	Operating	Production	Operating	Operating
	%	% of total cost	cost/ total boe sold \$	%	% of total cost	cost/ total boe sold \$
Jensen	-	-	-	-	-	-
Stanmore/Sunnynook	70	57	12	73	75	13.5
Medicine River	30	43	1	27	25	1.50
<b>Totals</b>	<b>100</b>	<b>100</b>	<b>13</b>	<b>100</b>	<b>100</b>	<b>15.00</b>

Area	Three months ended September 30, 2010			Nine months ended September 30, 2010		
	Production	Operating	Operating	Production	Operating	Operating
	%	% of total cost	cost/ total boe sold \$	%	% of total cost	cost/ total boe sold \$
Jensen	0	3	0	1	40	165
Stanmore/Sunnynook	60	95	28	63	54	21
Medicine River	40	2	5	36	6	5
<b>Totals</b>	<b>100</b>	<b>100</b>	<b>33</b>	<b>100</b>	<b>100</b>	<b>191</b>

Jensen remained shut-in during the third quarter of 2011. BNP is looking into various scenarios for on site water disposal which will reduce trucking and water disposal costs. Note that four wells (two wells are waiting on completion) in the Jensen area and two wells in the Stanmore/Sunnynook area were shut-in during the third quarter 2011. In the second quarter 2011 BNP sold two shut-in wells bringing the total shut-in wells sold to five in South Central Alberta. The ERCB approval of the license transfers will further reduce the ERCB LMR ratio imbalance. During the first quarter of 2009, rental equipment was returned where possible in order to reduce the rental expense component of the operating costs. Further evaluation and financing is required to determine when production of these wells will commence.

## Depletion and depreciation expense

BNP recorded its depletion and depreciation expense based on the unit of production. BNP has recorded a depletion of \$11,519 and \$29,723 or \$22.1 and \$20.3 per boe (2010 – \$4,643 and \$16,549 or \$13.0 and \$12.4 per boe) for the three and nine month periods ended September 30, 2011 and 2010. The increase in depletion expense is also a result of the increase in petroleum and natural gas properties additions during the year and the decrease in reserves assigned to the producing properties as of December 31, 2010.

## Impairment of oil and natural gas properties

BNP performed its annual ceiling test using benchmark reference prices at December 31, 2010, for the years 2011 through 2016, and adjusted commodity differentials specific to the Corporation. Beyond 2016, the price escalates on average 2% per year. A foreign exchange rate of \$0.98 US to \$1.00 CDN was used. BNP also performed this test on January 1, 2010, the transition date to IFRS. As a result of the impairment test, no additional impairment on the exploration and evaluation assets and property and equipment was recorded. As of September 30, 2011, there were no indicators of impairment that warranted performing the test as of that date.

## General and administrative costs

Gross general and administrative ("G&A") costs were \$30,307 and \$195,776 (2010 – \$102,589 and \$290,683) for the three and nine month periods ended September 30, 2011 and 2010, respectively. The decrease in gross G&A costs for the periods ended September 30, 2011, compared to 2010 was because of the increase in professional fees in Q2, decrease in insurance, outside consulting services, salaries and benefits and other day to day cost reductions as well as recovery on accounts payable of \$26,572. The details of the general and administrative costs are as follows:

For the periods ended September 30,	Three months ended		Nine months ended	
	2011	2010	2011	2010
Salaries and benefits	\$ 30,000	\$ 60,000	\$ 90,000	\$ 179,424
Office rent and taxes	486	7,287	(4,363)	13,585
Professional fees	6,721	18,808	86,623	3,963
Software costs	1,050	1,050	3,285	3,150
Outside services and consulting	(10,435)	10,952	25,158	65,178
Insurance	-	-	-	4,518
Office supplies and other	351	4,492	9,283	20,865
Travel and entertainment	383	-	763	-
Dues and subscriptions	-	-	6,488	-
Telephone and internet	1,751	-	5,111	-
Recovery of accounts payable	-	-	(26,572)	-
Total G&A Costs	\$ 30,307	\$ 102,589	\$ 195,776	\$ 290,683

## Stock-Based Compensation Expense

Stock-based compensation was a non-cash expense of \$10,840, and \$32,520 (2010 - \$7,309 and \$56,495) for the three and nine month periods ended September 30, 2011 and 2010, respectively. The decrease in 2011 was due to the increased time since the last stock option grants as under the graded vested recording of expense more expense is recorded in the time period initially after grant which gets reduced over the vesting period. As calculated by the Black-Scholes Option Pricing Model, all other factors being equal, an increase in the number of options and an increase in volatility of BNP's share price results in a higher option fair value in the periods that options are originally granted. During the nine month period ended September 30, 2011, 2,250,000 stock options were granted on September 30, 2011, and 250,000 options were forfeited during the period. As at September 30, 2011, 4,330,000 stock options were outstanding at a weighted average exercise price of \$0.21. As at September 30, 2011, BNP had 861,932 Class A share options available to be granted.

## Finance expense

Under IFRS, finance expense is to be presented separately and include such items as accretion on decommissioning obligations and accretion on the convertible Class B liability. The convertible Class B liability matured June 30, 2011, at which point the Class B shares converted into Class A shares on a 10 Class A shares to 1 Class B share basis. For the three and nine month period ended September 30, 2011, BNP recorded accretion on decommissioning obligations of \$3,618 and \$15,254 and accretion on the Class B liability of \$nil and \$309,449 (2010 - \$5,008 and \$18,730 and \$145,814 and \$437,443) respectively. Accretion on the decommissioning obligations has decreased due to the three wellbores that were sold in Q4 of 2010 with another two wellbores sold during the latter part of Q2 2011.

As of June 30, 2011, the 922,500 Class B shares were automatically converted into 9,225,000 Class A shares of the Corporation.

## Liquidity and Capital Resources

### Cash and working capital

As of September 30, 2011, BNP had cash of \$10,408 (December 31, 2010 - \$7,469) and had negative working capital of \$(816,447) (December 31, 2010 - \$(989,907)).

BNP funded its capital and operating activities in 2010 and 2009, primarily through the issuance of Class A shares for cash and settlement of accounts payable and through various dispositions of property and equipment. In Q2 of 2011, BNP completed a Class A private placement for gross proceeds of \$163,500 and completed another non-brokered private placement in Q3 that was used to place the required deposit with the ERCB, and to further reduce payables outstanding.

### Funding of capital program during the year

As BNP looks forward to the 2011 year to find solutions to meet its obligations, to fund the on-going operating activities, and to support the development of its properties in Jensen and South Central Alberta area, BNP has determined that additional financing, internally generated cash flow, and possibly farm-outs, the sale of assets and the use of debt will be required to operate as a going concern. As of September 30, 2011, BNP had approximately \$844,000 of liabilities to settle. BNP will seek alternatives to settle its liabilities. A special committee was set up in February 2009, which is comprised of independent board members, to review strategic alternatives. The management of BNP is also looking for alternatives to minimize its operating and G&A costs on an on-going basis which was realized significantly in 2010 and 2009 with the general and administrative costs when compared to 2008.

### Working capital components

	September 30, 2011	December 31, 2010
Cash	\$ 10,408	\$ (7,469)
Receivables	14,297	12,946
Prepaid expenses	3,242	3,242
Accounts payable and accrued liabilities	(844,394)	(998,626)
	<u>\$ (816,447)</u>	<u>\$ (989,907)</u>

Receivables and prepaid expenses remaining relatively consistent in fiscal 2011 compared to fiscal 2010 given the consistent levels of operations for the period ended September 30, 2011 and year ended December 31, 2010.

Accounts payable and accrued liabilities have decreased by \$154,232 to \$844,394 as at September 30, 2011, from \$998,626 as at December 31, 2010. This decrease is due to the private placement completed in the quarter, while factoring in the ongoing costs of maintaining a public company with no increase in operations, the decrease in drilling, completion, equipping expenses as a result of lower costs, the decrease in general and administrative expenses and the settlement of payables through the disposition of equipment for approximately \$53,000 and the shares issued for accounts payable for approximately \$97,000. The decrease in drilling, completion and equipping accruals was a result of no activities for much of 2010 and 2011.

### **Going concern**

Operating losses, negative cash flows over the past four fiscal years along with negative working capital over the past three fiscal years, combined with uncertainty regarding its ability to obtain financing in a timely manner, have created significant challenges to the Corporation's ability to continue as a going concern. In addition, the Corporation's proved plus probable reserves base requires a significant capital investment in 2011 that the Corporation may be unable to make.

Based on the foregoing, the Corporation has not been able to generate sufficient cash and/or to raise enough capital to fund operations so it can continue as a going concern. Management plans to explore all alternatives possible for securing its financial viability, including joint ventures, debt and equity financings, merger opportunities, and asset dispositions; however, there can be no assurance that the Corporation will be sufficiently funded after these initiatives are executed.

These circumstances create material uncertainty as to the ability of the Corporation to meet its obligations as they come due and accordingly, there is significant doubt as to the appropriateness of the use of accounting principles applicable to a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Corporation be unable to continue in existence. Such adjustments could be material. Please refer to Note 1 of the Consolidated Interim Financial Statements as of September 30, 2011.

### **Property and equipment**

BNP had exploration and evaluation assets of \$1,449,086 as at September 30, 2011 (December 31, 2010 - \$1,451,912). The Corporation's property and equipment balance as of September 30, 2011 was \$199,414 (December 31, 2010 - \$191,516).

The Corporation spent \$192,976 on exploration and evaluation and \$12,667 on property and equipment during the nine month period ended September 30, 2011. In prior periods the exploration and evaluation assets were reduced as a result of equipment dispositions associated with equipment for debt reduction deals and the disposition of property interests and the associated decommissioning obligations. BNP did not drill or participate in the drilling of any wells in 2009, 2010 or 2011.

## Decommissioning Obligation

BNP's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. BNP estimated the total undiscounted cash flows required to settle its decommissioning obligations at approximately \$760,000 which will be incurred over the next 8 years. A risk free rate of 2.23% and an inflation rate of 3% were used to calculate the fair value of the decommissioning obligation as of September 30, 2011.

Accretion expense of \$3,618 and \$15,254 was recognized for the three and nine month periods ended September 30, 2011, (2010 - \$5,008 and \$18,730). The decrease during the periods was related to a lower decommissioning obligation balance during 2011 compared to 2010. As part of the disposition of oil and gas interests during the prior year, BNP was able to dispose of three wells during the year and remove any future obligation requirements on those wells. As a result, a reduction on settlement of decommissioning obligations was recorded against exploration and evaluation assets of \$200,783 during 2010. During the latter part of Q2 2011, BNP was able to dispose of two wells during the year and remove any future obligation requirements on those wells. As a result, a reduction on settlement of decommissioning obligations was recorded against exploration and evaluation assets of \$135,952 during 2011.

## Share Information

The following table summarizes the outstanding shares of BNP as at September 30, 2011 and December 31, 2010 for the respective years:

	September 30, 2011	December 31, 2010
Class A shares outstanding		
Basic	51,919,320	29,424,179
Diluted <sup>(1)</sup>	56,249,320	31,754,179
Class B shares outstanding	-	922,500
Class A shares issuable on conversion of Class B shares <sup>(2)</sup>		9,225,000

<sup>(1)</sup> Includes outstanding options of 4,330,000 (December 31, 2010 – 2,330,000).

<sup>(2)</sup> The actual conversion rate varies based on a formula related to the trading price of the Class A shares, provided that the trading price exceeds \$1.00 per share, otherwise the conversion rate is fixed 10 Class A for 1 Class B share outstanding.

At September 30, 2011, the market value of BNP's shares was approximately \$5,191,932. As at November 25, 2011, the number of Class A shares and options outstanding was 51,919,320 and 4,330,000, respectively.

## Per Share Amounts

Per share amounts have been calculated on the weighted average number of shares outstanding after giving effect to the conversion of Class B shares into Class A shares at a conversion ratio of 10:1 and giving effect to the conversion of the Subsidiary Class A shares to the parent Corporation's Class A shares on a 1:1 ratio. The average number of Class A shares outstanding was not increased for outstanding stock options as the effect would be anti-dilutive. This results in 47,201,673 and 37,920,291 (September 30, 2010 – 37,920,291 and 37,098,105) outstanding Class A shares for the three and nine month periods ended September 30, 2011 and 2010.

## **Capital Management**

The Corporation's total capital resources as at September 30, 2011, were \$539,410 (December 31, 2010 - \$(89,581)) with this amount comprised entirely of shareholders' deficiency plus convertible Class B shares. Consistent with prior periods, the Corporation's goal is to maintain a strong capital base to meet its objectives of ensuring financial flexibility while optimizing the cost of capital, maintaining the Corporation's ability to fulfill its financial obligations and financing internally generated growth and potential acquisitions. The Corporation is experiencing difficulties in reaching this goal.

The Corporation manages its capital structure and makes adjustments to it in response to changes in general industry conditions and its petroleum and natural gas assets. The Corporation may choose to issue equity or debt, revise its capital expenditure program and sell assets. Access to equity markets is currently very limited due to recent weakening of the global economy and low natural gas prices. Financing decisions for the foreseeable future will be governed largely by the goal to reduce debt, based on the extent and timing of expected operating cash flows and capital outlays.

The Corporation's capital management objectives, evaluation measures and targets have remained unchanged over the periods presented. Net working capital was still negative as of September 30, 2011 as a result of large capital expenditures incurred during prior fiscal years. With the drop in commodity prices the Corporation's oil and natural gas revenues declined, decreasing its cash flow from operations available to meet financial obligations.

## **Internal Control**

During the nine month period ended September 30, 2011, BNP did not make any changes to its internal controls over financial reporting that would have materially affected, or would likely materially affect, such controls. Due to the small scale of operations, internal control may be weak due to the lack of segregation of duties.

## **Related Party Transactions**

The Corporation incurred \$nil and \$nil (2010 - \$nil and \$11,954) for the three and nine month periods ended September 30, 2011 for legal services to the law firm in which a director of the Corporation is a Partner. During fiscal 2010, the Corporation issued 728,888 shares to the related party at a deemed price of \$0.10 in full satisfaction of the amount owing of \$72,888 which has been recorded as an increase to share capital. During the first 9 months of 2011 the Corporation has been invoiced by a law firm in which the Corporate Secretary is a Partner for approximately \$5,500.00.

## **Commitments**

BNP has no current flow-through share obligations. BNP moved into new office space in September, 2010 and does not have an office lease agreement at this time.

## Summary of Quarterly Results – (Unaudited) – IFRS

2011	Q4	Q3	Q2	Q1
<b>Financial (\$)</b>				
Revenues, oil, natural gas		43,782	44,723	37,256
Royalties		(14,466)	(14,666)	(12,867)
Operating costs		901	(11,248)	(23,955)
Net oil and gas income (loss)		30,217	18,809	434
Other revenue		96	25	13
General and administrative expenses, net		(30,307)	(124,587)	(34,410)
<b>Funds from (used in) operations</b>		6	(105,753)	(33,963)
<b>Funds from (used in) operations (\$)</b>				
Per share, basic <sup>(1)</sup>		0.000	(0.003)	(0.001)
<b>Loss and comprehensive loss (\$)</b>				
Per share, basic <sup>(1)</sup>		(0.001)	(0.007)	(0.006)
<b>Total assets (\$)</b>		2,031,162	1,513,962	1,662,796
Weighted average shares o/s <sup>(2)</sup>		47,201,673	40,610,211	38,649,179

(1) Fully diluted per share have not been provided as they would be anti-dilutive.

(2) See Note 10 to the financial statements for the weighted average share calculation methodology.

## Summary of Quarterly Results – (Unaudited) – IFRS

2010	Q4	Q3	Q2	Q1
<b>Financial (\$)</b>				
Revenues, oil, natural gas	43,846	33,001	34,353	43,377
Royalties	(14,556)	(10,796)	(10,045)	(12,424)
Operating costs	(24,912)	(52,558)	(29,364)	(17,293)
Net oil and gas income (loss)	4,378	(30,353)	(5,056)	13,660
Other revenue	27	8	(29)	4,755
General and administrative expenses, net	(181,614)	(102,588)	(87,788)	(100,307)
<b>Funds from (used in) operations</b>	(177,209)	(132,933)	(92,873)	(81,892)
<b>Funds from (used in) operations (\$)</b>				
Per share, basic <sup>(1)</sup>	(0.005)	(0.004)	(0.003)	(0.003)
<b>Loss and comprehensive loss (\$)</b>				
Per share, basic <sup>(1)</sup>	(0.008)	(0.008)	(0.007)	(0.008)
<b>Total assets (\$)</b>	1,659,616	1,866,468	1,844,946	1,821,970
Weighted average shares o/s <sup>(2)</sup>	37,353,268	37,920,291	36,953,667	32,110,664

(1) Fully diluted per share have not been provided as they would be anti-dilutive.

(2) See Note 10 to the financial statements for the weighted average share calculation methodology.

During the fourth quarter of 2009, oil and natural gas revenue decreased as compared to the second and third quarters of 2009 because of commodity price changes. The fourth quarter G&A expense was increased compared to the previous second and third quarters of 2009 due to salary accruals and other year end costs. BNP believes that the operating and G&A costs will remain low. Effective April 1, 2009, BNP has reduced office rent, parking, salaries and benefits, and non-essential rental equipment costs totaling approximately \$55,000 per month. BNP continues to further reduce costs where possible.

Looking forward to the remainder of 2011, BNP continues to minimize operating and G&A costs and to seek ways to raise capital to fund operations and growth.

**Summary of Quarterly Results – (Unaudited) – Canadian GAAP  
2009**

	Q4	Q3	Q2	Q1
<b>Financial (\$)</b>				
Revenues, oil, natural gas	26,309	38,051	37,304	75,883
Royalties	37	(13,950)	(3,831)	(14,081)
Operating costs	(16,605)	(115,632)	(9,782)	(152,508)
Net oil and gas revenue (loss)	9,741	(91,531)	23,691	(90,706)
Other revenue	2	4	38	6,798
Asset retirement obligation paid	-	-	-	(14,988)
General & administrative expenses, net	(228,743)	(92,073)	(106,092)	(201,349)
<b>Funds from (used in) operations</b>	<b>(39,000)</b>	<b>(183,600)</b>	<b>(82,363)</b>	<b>(300,245)</b>
<b>Funds from (used in) operations (\$)</b>				
Per share, basic <sup>(1)</sup>	(0.001)	(0.005)	(0.003)	(0.011)
<b>Loss and comprehensive loss(\$)</b>				
Per share, basic <sup>(1)</sup>	(0.052)	(0.006)	(0.008)	(0.017)
<b>Total Assets (\$)</b>	<b>1,940,660</b>	<b>3,582,581</b>	<b>3,706,514</b>	<b>3,725,466</b>
Weighted average shares o/s <sup>(2)</sup>	32,110,664	35,288,474	28,816,969	27,804,101

**Critical Accounting Estimates**

There are a number of critical estimates underlying the accounting policies employed in preparing the Financial Statements:

**Measurement uncertainty**

The timely preparation of the financial statements requires that management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ materially from estimated amounts as future confirming events occur.

Estimates of the stage of completion of capital projects at the financial statement date affect the calculation of additions to property, plant and equipment and the related accrued liability.

The amounts recorded for depletion, decommissioning costs and obligations, impairment calculations, and amounts used in the determination of deferred taxes are based on petroleum and natural gas reserves and future costs required to develop those reserves. By their nature, these estimates of reserves, including the estimates of future prices and costs and the related future cash flows are subject to measurement uncertainty, and the impact in the financial statements of future periods could be material.

Amounts recorded for decommissioning obligations are based on management's best estimate of expenditures required to settle the present obligation as well as changes in the discount rate. Accordingly, those amounts are subject to measurement uncertainty.

Amounts recorded for share-based compensation expense are based on the historical volatility of the Corporation's share price and those of similar publicly listed enterprises, which may not be indicative of future volatility. Accordingly, those amounts are subject to measurement uncertainty.

Deferred income tax expense is calculated using tax rates based on the estimated timing of reversal of temporary differences between accounting and tax values of assets and liabilities and involves forecasting the amount of the deferred income tax asset that will be realized.

The estimated fair value of the Corporation's financial assets and liabilities, are by their very nature, subject to measurement uncertainty.

## **Business Risks**

BNP is engaged in the exploration, development and production of crude oil and natural gas. The oil and gas business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Operational risks include competition, reservoir performance uncertainties, environmental factors, federal and provincial government fiscal policy, and regulatory and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, world financial markets, interest rates, currency exchange rates and the cost of goods and services.

BNP employs highly qualified people, uses sound operating and business practices and evaluates all potential wells using the latest applicable technology. BNP complies with government regulations and has in place an up to date emergency response plan. Environment and safety policies and standards are adhered to. Asset retirement obligations are recognized upon acquisition, construction, development and/or normal use of the assets. BNP maintains property and liability insurance coverage. The coverage provides a reasonable amount of protection from risk of loss; however, not all risks are foreseeable or insurable.

BNP does not have a commodity hedging program as it has no plans at this time to hedge any production it generates.

## **Financial Instruments**

### *Fair values*

BNP's financial instruments recognized on the balance sheet include cash, accounts receivable, and accounts payable and accrued liabilities. The carrying values of cash and accounts receivable approximated their fair values due to their short term nature. The fair value of accounts payable and accrued liabilities may be significantly less than the carrying value due to the credit risk of BNP.

### *Risk management*

BNP is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk, credit risk and liquidity risk.

#### (i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. In the normal course of operations, BNP is exposed to market risks resulting from fluctuations in commodity prices, foreign currency exchange rates and interest rates

#### *Commodity price risk*

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian and US dollar as well as world economic events dictating the levels of supply and demand. BNP did not have any

financial instruments in place to manage commodity prices during the period ended September 30, 2011.

#### *Foreign currency exchange rate risk*

Foreign currency exchange rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. Although all of BNP's revenues are denominated in Canadian dollars, realized petroleum and, to a certain extent, natural gas prices are based upon reference prices denominated in US dollars and are therefore impacted by changes in the exchange rate between the Canadian and US dollar. A strengthening of the Canadian dollar in comparison to the US dollar will decrease revenues received by BNP from the sale of its production. Correspondingly, a decrease in the value of the Canadian dollar relative to the US dollar will increase the revenues received. The impact of such exchange rate fluctuations cannot be accurately quantified. BNP did not have any forward exchange rate contracts in place during the period ended September 30, 2011 to reduce its exposure to foreign currency fluctuations.

#### (ii) Credit risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in a financial loss to BNP. A significant portion of BNP's accounts receivable are due from customers in the petroleum and natural gas sector and are subject to normal industry credit risk.

As is common in the petroleum and natural gas industry in Western Canada, receivables relating to the sale of petroleum and natural gas are received on or about the 25<sup>th</sup> day of the following month. BNP sells the majority of its production to two petroleum and natural gas marketers and is therefore subject to concentration risk. BNP attempts to mitigate credit risk associated with these balances by establishing marketing relationships with large purchasers. No collection issues have been incurred to date with BNP's petroleum and natural gas marketers.

#### (iii) Liquidity risk

Liquidity risk is the risk that BNP will not be able to meet its financial obligations as they are due. BNP regularly monitors liquidity related to obligations by evaluating forecasted cash flows, capital spending activity, working capital requirements and other potential cash expenditures. To manage differences in the timing of cash receipts and disbursement, BNP maintains adequate bank credit facilities to provide liquidity. This continual financial assessment process further enables BNP to mitigate liquidity risk.

With the drop in commodity prices in the second half of 2008 through much of 2009 and 2010, BNP's oil and natural gas revenues declined, decreasing its cash flow from operations available to meet financial obligations. As a result, BNP expects some of its liabilities to be paid later than when they are required to be paid. Suppliers may elect to charge interest expense, refuse to provide future services or pursue legal action as a result. As mentioned in the going concern discussions above, there is no assurance that BNP can meet all its obligations.

### **Financial Disclosures**

On November 23, 2007, the ASC and the securities commissions in the other jurisdictions in which BNP is registered exempted Venture Issuers from certifying disclosure controls and procedures as well as Internal Controls over Financial Reporting as of December 31, 2007, and thereafter. Since BNP is a Venture Issuer, it is now required to file "basic certificates", which it has put into effect with the years ended December 31, 2007 and 2008.

However, BNP's certifying officers and the remaining officers and Directors of the Corporation take seriously the impact that good internal controls have with regard to the quality, reliability, transparency and timeliness of interim and annual filings. BNP will continue to do its best to ensure proper due diligence continues within BNP, in order to meet the high standards that it set for itself when it commenced operations in 2006.

### **International Financial Reporting Standards (IFRS)**

During 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting purposes. The required changeover date is for fiscal years beginning on or after January 1, 2011.

BNP has fully adopted IFRS for the three and nine month periods ended September 30, 2011 with a transition date of January 1, 2010 and have presented its first set of financial statements for the period then ended. Please refer to note 17 of the interim financial statements for the period ended September 30, 2011 for detailed discussion on the effects of transitioning from Canadian GAAP to IFRS, a summary of the significant changes are as follows:

- On transition date of January 1, 2010, the Corporation has elected to record its exploration and evaluation assets and property and equipment at the deemed cost as recorded under Canadian GAAP, with the property and equipment measured using a pro rata basis using reserve values as of that date.
- IAS 2 – Share-based payments was not retroactively applied to instruments that were granted prior to January 1, 2010 and had fully vested.
- The Corporation has measured its decommissioning obligations using the risk free interest rate as opposed to a credit adjusted risk free interest rate. This has resulted in an increase to the obligation as of January 1, 2010, with the difference recorded in full in the deficit of the Corporation.
- Corporation has recalculated depletion and depreciation only on its property and equipment using a proved plus probable base of reserves as opposed to just proved under Canadian GAAP.
- Flow through shares under IFRS require the price that the share is sold for if in excess of the trading price to be recorded as a liability and reversed when the amount of money is spent and tax benefits are renounced to the shareholder. This is in comparison to Canadian GAAP which reduces the proceeds that received on issuance of flow through shares by the future tax benefit renounced to the shareholders. This has resulted in an increase to share capital and deficit on transition.
- Class B shares under Canadian GAAP are presented as equity. Under IFRS, the shares must be presented as a liability due to the number of Class A shares issued on conversion based on the conversion formula not being certain until conversion occurs. As such, the Class B shares that were issued in the Corporation's Initial Public Offering were discounted back using an interest rate of 7% such that on conversion of June 30, 2011, the face value would be \$9,225,000, the value the shares were issued for. A deferred tax liability was recorded on issuance as well as a put premium recognizing the lower limit of the conversion formula.