

PETROBANK

ENERGY AND RESOURCES LTD.

THIRD QUARTER

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HIGHLIGHTS

	Three months ended September 30,		Change %	Nine months ended September 30,		Change %
	2000	1999		2000	1999	
FINANCIAL (\$ except share amounts)						
Oil and natural gas revenue	12,143,064	5,146,483	136	29,676,861	14,000,001	112
EBITDA ⁽¹⁾	7,556,003	3,260,373	132	17,332,563	8,565,573	102
Cash flow from operations	7,096,000	2,969,069	139	15,045,951	7,725,363	95
Per share (basic)	0.21	0.08	163	0.44	0.23	91
Per share (fully diluted)	0.13	0.07	86	0.31	0.22	41
Net income	4,069,429	791,578	414	5,901,899	2,117,962	179
Per share (basic)	0.11	0.02	450	0.16	0.06	167
Per share (fully diluted)	0.08	0.02	300	0.13	0.06	117
Net capital expenditures	11,633,441	6,449,473	80	23,772,148	21,518,692	10
Working capital (deficiency)	(6,038,606)	(2,627,095)	-	(6,038,606)	(2,627,095)	-
Total assets	100,343,146	65,053,808	54	100,343,146	65,053,808	54
Long-term debt	14,485,821	17,425,825	(17)	14,485,821	17,425,825	(17)
Shareholders' equity	55,507,260	36,418,008	52	55,507,260	36,418,008	52
Common shares outstanding						
End of period	34,446,232	34,509,099	-	34,446,232	34,509,099	-
Weighted average	34,446,232	34,428,663	-	34,453,352	33,091,333	4
Fully diluted	56,069,232	35,746,333	57	56,069,232	35,746,333	57
OPERATING ⁽²⁾						
Average daily production						
Crude oil and NGL's (Bbls)	766	389	97	722	395	83
Natural gas (Mcf)	20,634	17,116	21	20,172	18,158	11
Barrels of oil equivalent (BOE)	2,830	2,101	35	2,739	2,211	24
Average product prices						
Crude oil and NGL's (\$/Bbl)	35.96	26.18	37	34.24	19.80	73
Natural gas (\$/Mcf)	5.06	2.67	90	4.14	2.39	73
Barrels of oil equivalent (\$/BOE)	46.64	26.62	75	39.54	23.20	70
Operating netback (\$/BOE)						
Oil and natural gas revenue	46.64	26.62	75	39.54	23.20	70
Royalties	10.87	4.24	156	9.69	3.30	194
Production exp expenses	5.25	5.05	4	5.08	4.36	17
Operating netback	30.52	17.33	76	24.77	15.54	59

(1) Oil and natural gas revenue less royalties plus other revenue less production and general and administrative expenses.

(2) 10 Mcf of natural gas is equivalent to 1 barrel of oil equivalent (BOE)

REPORT TO SHAREHOLDERS

The third quarter of 2000 reflected continuing improvements in natural gas prices along with increased production associated with the recommencement of the Company's drilling program in Alder Flats and Cynthia. Production grew to 2,830 BOEPD in the third quarter of 2000 compared to 2,101 BOEPD in the third quarter of 1999.

On November 28, 2000 the Company finalized a formal agreement to sell its interests in the Alder Flats and Cynthia areas of Alberta for \$85.6 million, subject to adjustment. The sale is effective August 1, 2000 and is expected to close in January 2001 pending receipt of shareholder approval. Following the completion of the sale, the Corporation will have net working capital of approximately \$64 million after settlement of long-term debt. Management intends to use the available funds to pursue oil and gas projects in western Canada and internationally.

Strategically, we believe that the international arena provides the best opportunity to obtain the highest return for our shareholders. Our management team has hands-on experience in developing properties outside of Canada and we believe we can mitigate the risk associated with such investments sufficiently to provide an attractive return relative to assumed risk.

Operations Activity

Natural gas production increased 21% from 17.1 million cubic feet per day in the third quarter of 1999 to 20.6 million cubic feet per day. Crude oil and natural gas liquids production during the third quarter of the year averaged 766 barrels per day, a 97% increase from the 389 barrels per day produced in the third quarter of 1999. As anticipated, production increased from the second quarter of 2000 as field activity that was suspended due to unseasonably heavy spring rains recommenced late in June.

For the nine months ended September 30, 2000, the Company drilled 31 wells (16.2 net) with a success rate of 92%. Of these wells, 16 (5.1 net) were drilled in the Blood Magrath area of Southern Alberta where Petrobank, along with the field operator, continues to develop the Barons oil pool and new Bow Island and Basal Colorado gas pools. The Company also completed its sour gas development in the Alder Flats area.

Financial Results

Petrobank's oil and natural gas revenue for the third quarter of 2000 increased to \$12.1 million compared to \$5.1 million for the same period last year (a 136% increase) due to both increased production and commodity prices. The average natural gas selling price was \$5.06 per mcf in the third quarter compared to \$2.67 per mcf for the comparable period in 1999, an increase of 90%. The average liquids selling price was \$35.96 per barrel, an increase of 37% from \$26.18 per barrel in 1999. Petrobank remains exposed to gas market fundamentals and commodity prices as 80% of gas production is sold into the spot market along with 100% of liquids production.

Royalty expense increased to \$2.8 million (\$10.87 per BOE) for the third quarter of 2000 compared to \$0.8 million (\$4.24 per BOE) in the comparable 1999 period. The increase is a result of increased production and higher royalty rates associated with higher commodity prices.

Petrobank's investment in Ranger Oil Limited was liquidated during the third quarter resulting in a \$2.5 million gain.

Production expenses increased to \$1.4 million (\$5.25 per BOE) for the third quarter of 2000 compared with \$1.0 million (\$5.05 per BOE) for the comparable 1999 period. This increase is due to increased production and additional costs associated with processing sour gas. General and administrative expenses increased to \$0.5 million for the third quarter of 2000 compared to \$0.3 million last year.

Interest and financing costs increased to \$0.4 million during the third quarter of 2000 compared with the prior year figure of \$0.3 million due to higher debt levels resulting from increased capital spending.

Depletion, depreciation, and site restoration for the third quarter of 2000 increased to \$2.9 million from \$1.7 million for the same period last year. This increase is due to higher production as well as an adjustment to capital assets on adoption of the liability method of accounting for income taxes (see note 2 to the financial statements).

For the third quarter of 2000, cash flow from operations increased 139% to \$7.1 million (\$0.21 per share) compared with \$3.0 million (\$0.08 per share) last year. Petrobank reported third quarter 2000 net income of \$4.1 million (\$0.11 per share) compared to \$0.8 million (\$0.02 per share) for the comparable 1999 period. The increase in net income was primarily a result of higher production and commodity prices along with the \$2.5 million gain realized on the disposition of the investment in Ranger Oil Limited.

Results from operations in the Alder Flats and Cynthia areas will continue to be reported until closing of the proposed sale which is expected to occur in January 2001. Production for the three and nine month periods ended September 30, 2000 from these properties was 2,509 BOEPD and 2,443 BOEPD respectively with operating income (revenues less royalties and production expenses) of \$6.8 million and \$16.2 million respectively.

Capital expenditures in the third quarter of \$11.6 million related primarily to drilling and completions (\$5.9 million) and facilities (\$5.2 million).

Outlook

The proceeds to be received on the sale of the Company's properties in Alder Flats and Cynthia will enhance the Company's financial resources available to execute new opportunities. We are evaluating projects both in Western Canada and internationally. Preferred projects have a high working interest for Petrobank, operatorship and an existing production and reserve base with exploitation and exploration upside. The Company believes that it has positioned itself technically and financially to capitalize on those opportunities that can deliver superior results to our shareholders.



John D. Wright
President and Chief Executive Officer
November 29, 2000

**PETROBANK ENERGY AND RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS**

As at	September 30, 2000	December 31, 1999
	<u>(unaudited)</u>	<u></u>
ASSETS		
Current assets		
Accounts receivable	\$ 7,582,034	\$ 4,399,803
Prepaid expenses	1,094,629	898,375
	<u>8,676,663</u>	<u>5,298,178</u>
Capital assets (Notes 2 and 4)	<u>91,666,483</u>	<u>68,757,356</u>
	<u>\$ 100,343,146</u>	<u>\$ 74,055,534</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 14,715,269	\$ 11,164,282
Long-term debt	14,485,821	20,837,155
Deferred revenue	1,754,172	2,099,412
Future site restoration	370,261	269,261
Future income tax liability (Note 2)	13,510,363	3,033,866
	<u>44,835,886</u>	<u>37,403,976</u>
Shareholders' equity		
Share capital (Note 3)		
Preferred shares	12,887,788	-
Common shares	30,852,798	30,819,116
Retained earnings	11,766,674	5,832,442
	<u>55,507,260</u>	<u>36,651,558</u>
	<u>\$ 100,343,146</u>	<u>\$ 74,055,534</u>

PETROBANK ENERGY AND RESOURCES LTD.
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2000	1999	2000	1999
Revenues				
Oil and natural gas	\$ 12,143,064	\$ 5,146,483	\$ 29,676,861	\$ 14,000,001
Royalties	(2,829,454)	(819,390)	(7,274,443)	(1,992,914)
	<u>9,313,610</u>	<u>4,327,093</u>	<u>22,402,418</u>	<u>12,007,087</u>
Gain on sale of securities	2,452,180	-	2,452,180	-
Other	82,442	203,484	322,626	424,939
	<u>11,848,232</u>	<u>4,530,577</u>	<u>25,177,224</u>	<u>12,432,026</u>
Expenses				
Production	1,367,163	976,429	3,815,631	2,630,895
General and administrative	472,886	293,775	1,576,850	1,235,558
Employment contract termination	-	-	951,680	-
Interest on long-term debt	411,356	273,304	1,225,919	787,281
Depletion, depreciation and site restoration	2,930,548	1,697,491	6,970,956	4,291,401
	<u>5,181,953</u>	<u>3,240,999</u>	<u>14,541,036</u>	<u>8,945,135</u>
Income before taxes	6,666,279	1,289,578	10,636,188	3,486,891
Income taxes	2,596,850	498,000	4,734,289	1,368,929
Net income	4,069,429	791,578	5,901,899	2,117,962
Retained earnings, beginning of period, as previously stated	7,697,245	4,804,758	5,832,442	3,555,160
Adoption of new accounting policy (Note 2)	-	-	66,705	-
Retained earnings, beginning of period, restated	7,697,245	4,804,758	5,899,147	3,555,160
Repurchase of common shares	-	-	(34,372)	(76,786)
Retained earnings, end of period	\$ 11,766,674	\$ 5,596,336	\$ 11,766,674	\$ 5,596,336
Net income per common share				
Basic	\$0.11	\$0.02	\$0.16	\$0.06
Fully diluted	\$0.08	\$0.02	\$0.13	\$0.06

**PETROBANK ENERGY AND RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

	Three months ended September 30,		Nine months ended September 30,	
	2000	1999	2000	1999
Operating Activities				
Net income for the period	\$ 4,069,429	\$ 791,578	\$ 5,901,899	\$ 2,117,962
Add non-cash items:				
Depletion, depreciation and site restoration	2,930,548	1,697,491	6,970,956	4,291,401
Gain on sale of securities	(2,452,180)	-	(2,452,180)	-
Future income taxes	2,548,203	480,000	4,625,276	1,316,000
Cash flow from operations	<u>7,096,000</u>	<u>2,969,069</u>	<u>15,045,951</u>	<u>7,725,363</u>
Changes in other non-cash items	5,325,261	3,615,127	449,262	(2,149,113)
	<u>12,421,261</u>	<u>6,584,196</u>	<u>15,495,213</u>	<u>5,576,250</u>
Financial Activities				
Proceeds from issuance of common shares	16,255	1,216,752	28,754	5,505,839
Proceeds from issuance of preferred shares	-	-	12,867,074	-
Repurchase of common shares	-	-	(97,739)	(134,492)
Repayment of short-term indebtedness	(4,935,039)	-	-	-
Issuance (repayment) of long-term debt	(13,803,058)	(666,475)	(6,351,334)	10,049,095
	<u>(18,721,842)</u>	<u>550,277</u>	<u>6,446,755</u>	<u>15,420,442</u>
Investing Activities				
Expenditures on capital assets	(11,633,441)	(6,449,473)	(23,772,148)	(21,518,692)
Investment in securities	-	-	(12,717,842)	-
Proceeds on disposition of securities	15,170,022	-	15,170,022	-
Changes in other non-cash items	2,764,000	(685,000)	(622,000)	522,000
	<u>6,300,581</u>	<u>(7,134,473)</u>	<u>(21,941,968)</u>	<u>(20,996,692)</u>
Change in cash	-	-	-	-
Cash at beginning and end of period	\$ -	\$ -	\$ -	\$ -
Cash flow from operations per common share				
Basic	<u>\$0.21</u>	<u>\$0.08</u>	<u>\$0.44</u>	<u>\$0.23</u>
Fully Diluted	<u>\$0.13</u>	<u>\$0.07</u>	<u>\$0.31</u>	<u>\$0.22</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

These consolidated financial statements are unaudited but, in the opinion of the company, all normal recurring adjustments considered necessary for fair presentation of the results of operations for the interim period have been made.

Note 2 – Change in Accounting Policy

Effective January 1, 2000, the Company adopted the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants (“CICA”). Under the liability method, the Company will record future income taxes for the effect of any difference between the accounting and income tax bases of an asset or liability. This change was adopted retroactively without restatement of prior period financial statements. The effect of the change was to increase retained earnings at January 1, 2000 by \$66,705, as well as increase capital assets by \$6,006,935, future income taxes by \$5,873,606, and share capital by \$66,624. The additions to capital assets and future income taxes will be amortized to income over future periods.

Note 3 – Outstanding Share Data

As at September 30, 2000, the Company had outstanding 34,446,232 common shares, 8,609,000 non-convertible voting preferred shares, 19,218,000 common share purchase warrants, and 2,405,000 common share options. Proceeds of \$12.9 million to be received on exercising 8,609,000 of the common share purchase warrants are required to be used to redeem the outstanding preferred shares. Dividends in arrears at September 30, 2000 of \$415,000 (\$196,000 for the 3 months ended September 30, 2000) have been applied to reduce net income for purposes of calculating net income per common share.

Note 4 – Subsequent Event

Subsequent to September 30, 2000, the Company finalized a formal agreement to sell its interests in the Alder Flats and Cynthia areas of Alberta for \$85.6 million, subject to adjustment. The sale is effective August 1, 2000 and is expected to close in January 2001 pending receipt of shareholder approval.

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