

PETROBANK

ENERGY AND RESOURCES LTD.

SECOND QUARTER
2001

HIGHLIGHTS

	Three months ended			Six months ended		
	June 30, 2001	2000	% Change	June 30, 2001	2000	% Change
FINANCIAL (\$ except share amounts)						
Oil and natural gas revenue	18,619,887	9,087,980	105	24,010,148	17,533,797	37
EBITDA ⁽¹⁾	9,928,978	4,869,263	104	13,721,146	9,776,560	40
Funds flow from operations	8,009,038	3,437,023	133	11,472,594	7,949,951	44
Per share (basic)	0.21	0.09	133	0.31	0.22	41
Per share (diluted)	0.16	0.08	100	0.24	0.20	20
Net income attributable to common shareholders	3,224,332	672,642	379	11,292,084	1,832,470	516
Per share (basic)	0.10	0.02	400	0.34	0.05	580
Per share (diluted)	0.08	0.02	300	0.26	0.05	420
Capital expenditures	9,218,124	5,257,701	75	10,585,351	12,138,707	(13)
Working capital	15,226,335	9,506,578	60	15,226,335	9,506,578	60
Total assets	190,450,845	103,876,154	83	190,450,845	103,876,154	83
Debt	26,155,601	28,288,879	(8)	26,155,601	28,288,879	(8)
Shareholders' equity	107,289,352	51,419,905	109	107,289,352	51,419,905	109
Common shares outstanding						
End of period	33,474,832	34,446,232	(3)	33,474,832	34,446,232	(3)
Weighted average - basic	33,474,832	34,445,225	(3)	33,548,765	34,456,951	(3)
OPERATING ⁽²⁾						
Average daily production						
Crude oil and NGL's (Bbls)	3,297	688	379	1,793	699	157
Natural gas (Mcf)	16,198	18,583	(13)	10,920	19,938	(45)
Barrels of oil equivalent (BOE)	4,917	2,547	93	2,885	2,693	7
Average product prices						
Crude oil and NGL's (\$/Bbl)	32.05	30.83	4	32.38	33.30	(3)
Natural gas (\$/Mcf)	6.11	4.23	44	6.83	3.66	87
Barrels of oil equivalent (\$/BOE)	41.61	39.22	6	45.98	35.78	29
Operating netback (\$/BOE)						
Oil and natural gas revenue	41.61	39.22	6	45.98	35.78	29
Royalties	6.41	10.75	(40)	7.59	9.07	(16)
Production expenses	<u>9.40</u>	<u>5.45</u>	72	<u>8.79</u>	<u>5.00</u>	76
Operating netback	<u>25.80</u>	<u>23.02</u>	12	<u>29.60</u>	<u>21.71</u>	36

⁽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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL AND OPERATING RESULTS

In the first quarter of 2001 Petrobank disposed of the majority of its producing properties and at the beginning of the second quarter purchased 97.2% of the common shares of Barrington Petroleum Ltd. for \$55.5 million. As a result, the operating results for the second quarter primarily reflect the operations of Barrington Petroleum Ltd.

Second quarter natural gas production of 16.2 million cubic feet per day (mcf/d) was 13% less than the 18.6 mcf/d produced in the second quarter of 2000. Crude oil and natural gas liquids production during the second quarter of the year averaged 3,297 barrels per day (bbl/d), a 379% increase from the 688 bbl/d produced in the second quarter of 2000. On a barrel of oil equivalent basis, production averaged 4,917 boe/d in the second quarter of the year, a 93% increase from the 2,547 boe/d produced in the second quarter of 2000.

The average natural gas price was \$6.11 per mcf, a 44% increase from the \$4.23 per mcf in the second quarter of 2000. The average liquids selling price was \$32.05 per barrel compared to \$30.83 received in the second quarter of 2000. Amortization on obligations under forward sale and transportation contracts totaling \$3.8 million in the second quarter of 2001 has been included in oil and natural gas revenue.

Production expenses increased to \$4.2 million (\$9.40 per BOE) for the second quarter of 2001 compared with \$1.3 million (\$5.45 per BOE) for the comparable 2000 period. These increases are due to higher production volumes and higher costs of operating the Barrington properties.

Increased production volumes in the second quarter of 2001 due to the Barrington acquisition, have caused depletion, depreciation, and site restoration expense to increase to \$3.8 million from \$1.9 million for the same period in 2000. On a BOE basis the unit rate was \$8.40 compared to \$8.09 for the same period last year.

Interest on long-term debt increased to \$1.3 million in the second quarter of 2001 compared to \$0.5 million in the second quarter of 2000. This increase is primarily attributable to the interest on the Barrington gas linked subordinated notes.

For the second quarter of 2001, funds flow from operations increased to \$8.0 million (\$0.21 per share) from \$3.4 million (\$0.09 per share) for the same period last year. Net income attributable to common shareholders for the second quarter of 2001 was \$3.2 million (\$0.10 per share) as compared to \$0.7 million for the second quarter of 2000 (\$.02 per share).

OUTLOOK

In April 2001, Petrobank acquired a 97.2% interest in Barrington Petroleum Ltd. Since that time, we have been implementing our strategy of rationalizing the asset base and the balance sheet. To date, we have been successful in disposing of non-core properties for proceeds of \$41 million, settling obligations under forward sale and transportation contracts recorded as a liability of \$22.6 million for a cash cost of \$12.2 million, restructuring the Barrington gas

linked subordinated notes and acquiring the remaining common shares of Barrington Petroleum Ltd. for cash of \$0.2 million and issuance of 454,808 Petrobank common shares. The \$50 million of Barrington gas linked subordinated notes, paying interest at 12%, have been exchanged into \$47.5 million of Petrobank subordinated notes with a fixed interest rate of 9%. In addition, the note holders were issued unit purchase warrants that, if fully exercised, would provide the Company with net cash proceeds of \$45 million and would see an additional \$50 million Petrobank notes issued along with 3.0 million common share purchase warrants at an exercise price of \$2.50.

On July 11, 2001, the Company entered into an Arrangement Agreement with Ventus Energy Ltd. which sets out a process for the two companies to merge to form a new company, Orion Canada Energy Inc. The arrangement provides Ventus shareholders the option of receiving \$9.75 cash subject to a maximum cash distribution of \$100 million or one Orion common share for each Ventus common share. Each Petrobank shareholder will receive one Orion common share for every 4.25 Petrobank shares held.

Internationally, Petrobank recently entered into an agreement with PetroEcuador, the state oil company of Ecuador, to evaluate the commercial viability of the large Pungarayacu and Oglan heavy oil pools in Ecuador's Oriente basin. The terms of the confidentiality agreement grant Petrobank access to PetroEcuador's extensive proprietary technical database covering the blocks. The Company will evaluate various development alternatives in order to identify an optimal exploitation strategy for this extensive resource base which is estimated to be in excess of 5 billion barrels in place. Upon completion of the study, if a commercially viable development strategy can be defined, the parties have agreed to use their "best efforts" to negotiate mutually acceptable business terms to see this exploitation strategy implemented.

Petrobank holds a 15% working interest in three exploration blocks comprising 1.4 million acres offshore Guinea-Bissau, West Africa. We recently completed a farm-out agreement with Premier Oil plc of the United Kingdom, whereby Premier has committed to drill an exploration well on the 2A block at Premier's sole cost. If successful, we have identified several similar prospects on trend in the adjacent blocks which have been licensed by Petrobank and Premier.

Petrobank's Western Canadian asset base provides a strong operating and financial platform which will allow us to reduce our cost of capital and achieve potential tax efficiencies with international development projects. It is our opinion that a strong domestic operation combined with an international growth strategy provides the best opportunity to create real value growth for our shareholders.



John D. Wright
President and Chief Executive Officer
August 27, 2001

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

As at	<u>June 30, 2001</u> (unaudited)	<u>December 31, 2000</u>
ASSETS		
Current assets		
Cash	\$ 25,786,539	\$ -
Accounts receivable	17,850,718	11,504,502
Prepaid expenses	<u>1,745,012</u>	<u>957,784</u>
	45,382,269	12,462,286
Capital assets (notes 2 and 3)	<u>145,068,576</u>	<u>99,947,165</u>
	<u>\$ 190,450,845</u>	<u>\$ 112,409,451</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 30,155,934	\$ 14,985,559
Obligations under forward sale and transportation contracts	25,214,000	-
Deferred revenue	-	1,656,612
Long-term debt	19,944,601	20,345,294
Gas linked subordinated notes	6,211,000	-
Future site restoration	315,000	381,261
Future income tax liability	-	16,938,087
Non-controlling interest (note 2)	<u>1,320,958</u>	<u>-</u>
	<u>83,161,493</u>	<u>54,306,813</u>
Shareholders' equity		
Share capital (note 4)		
Preferred shares	12,887,788	12,887,788
Common shares	29,981,370	30,415,233
Gas linked subordinated notes	38,789,000	-
Retained earnings	<u>25,631,194</u>	<u>14,799,617</u>
	<u>107,289,352</u>	<u>58,102,638</u>
	<u>\$ 190,450,845</u>	<u>\$ 112,409,451</u>
Subsequent events (note 3)		
See accompanying notes to the consolidated financial statements		

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

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Revenues				
Oil and natural gas	\$ 18,619,887	\$ 9,087,980	\$ 24,010,148	\$ 17,533,797
Royalties	<u>(2,866,412)</u>	<u>(2,492,382)</u>	<u>(3,964,299)</u>	<u>(4,444,989)</u>
	15,753,475	6,595,598	20,045,849	13,088,808
Other	<u>443,116</u>	<u>1,947</u>	<u>1,145,867</u>	<u>240,184</u>
	<u>16,196,591</u>	<u>6,597,545</u>	<u>21,191,716</u>	<u>13,328,992</u>
Expenses				
Production	4,208,038	1,262,935	4,589,355	2,448,468
General and administrative	2,059,575	465,347	2,881,215	1,103,964
Employment contract termination	-	951,680	-	951,680
Interest on long-term debt	1,303,228	450,377	1,598,840	814,563
Depletion, depreciation and site restoration	<u>3,759,376</u>	<u>1,874,915</u>	<u>4,677,671</u>	<u>4,040,408</u>
	<u>11,330,217</u>	<u>5,005,254</u>	<u>13,747,081</u>	<u>9,359,083</u>
Income from operations	4,866,374	1,592,291	7,444,635	3,969,909
Gain on sale of resource properties	-	-	<u>12,925,707</u>	-
Income before taxes	4,866,374	1,592,291	20,370,342	3,969,909
Income taxes	<u>616,712</u>	<u>919,649</u>	<u>7,861,879</u>	<u>2,137,439</u>
Net income	4,249,662	672,642	12,508,463	1,832,470
Non-controlling interest	<u>(149,158)</u>	-	<u>(149,158)</u>	-
Preferred share dividends	<u>(193,172)</u>	-	<u>(384,221)</u>	-
Interest on equity portion of gas linked subordinated notes	<u>(683,000)</u>	-	<u>(683,000)</u>	-
Net income attributable to common shareholders	3,224,332	672,642	11,292,084	1,832,470
Retained earnings, beginning of period	22,575,656	7,024,603	14,799,617	5,899,147
Purchase of stock options for cancellation	(168,794)	-	(168,794)	-
Repurchase of common shares	<u>-</u>	<u>-</u>	<u>(291,713)</u>	<u>(34,372)</u>
Retained earnings, end of period	\$ 25,631,194	\$ 7,697,245	\$ 25,631,194	\$ 7,697,245
Net income per common share				
Basic	<u>\$ 0.10</u>	<u>\$ 0.02</u>	<u>\$ 0.34</u>	<u>\$ 0.05</u>
Diluted	<u>\$ 0.08</u>	<u>\$ 0.02</u>	<u>\$ 0.26</u>	<u>\$ 0.05</u>

See accompanying notes to the consolidated financial statements

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

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Operating Activities				
Net income	\$ 4,249,662	\$ 672,642	\$ 12,508,463	\$ 1,832,470
Depletion, depreciation and site restoration	3,759,376	1,874,915	4,677,671	4,040,408
Gain on sale of resource properties	-	-	(12,925,707)	-
Future income taxes	-	889,466	7,212,167	2,077,073
Funds flow from operations	8,009,038	3,437,023	11,472,594	7,949,951
Changes in other non-cash items	(1,497,966)	(4,459,349)	5,518,573	(4,875,999)
	<u>6,511,072</u>	<u>(1,022,326)</u>	<u>16,991,167</u>	<u>3,073,952</u>
Financing Activities				
Proceeds from issuance (repurchase) of common shares	(168,794)	12,499	(894,370)	(85,240)
Proceeds from issuance of preferred shares	-	2,895,679	-	12,867,074
Preferred share dividends	(193,172)	-	(384,221)	-
Issuance of short-term indebtedness	-	4,935,039	-	4,935,039
Issuance (repayment) of long-term debt	(16,909,398)	4,650,279	(37,254,692)	7,451,724
Interest on equity portion of gas linked subordinated notes	(683,000)	-	(683,000)	-
Amortization of obligations under forward sale and transportation contracts	(3,786,000)	-	(3,786,000)	-
Changes in other non-cash items	463,171	-	(82,936)	-
	<u>(21,277,193)</u>	<u>12,493,496</u>	<u>(43,085,219)</u>	<u>25,168,597</u>
Investing Activities				
Corporate acquisition (note 2)	(49,692,980)	-	(49,692,980)	-
Expenditures on capital assets	(9,218,124)	(5,257,701)	(10,585,351)	(12,138,707)
Investment in securities	-	(11,168,342)	-	(12,717,842)
Proceeds on disposition of resource properties	16,484,825	-	117,967,794	-
Changes in other non-cash items	21,374,035	(2,381,000)	(5,808,872)	(3,386,000)
	<u>(21,052,244)</u>	<u>(18,807,043)</u>	<u>51,880,591</u>	<u>(28,242,549)</u>
Change in cash	(35,818,365)	(7,335,873)	25,786,539	-
Cash, beginning of period	61,604,904	7,335,873	-	-
Cash, end of period	\$ 25,786,539	\$ -	\$ 25,786,539	\$ -
Funds flow from operations per common share				
Basic	<u>\$0.21</u>	<u>\$ 0.09</u>	<u>\$ 0.31</u>	<u>\$ 0.22</u>
Diluted	<u>\$0.16</u>	<u>\$ 0.08</u>	<u>\$ 0.24</u>	<u>\$ 0.20</u>

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Significant Accounting Policies

These interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries and were prepared in accordance with Canadian generally accepted accounting policies using the same accounting policies and methods of computation as described in the notes to the audited annual consolidated financial statements as at and for the year ended December 31, 2000.

Note 2 – Business Combination

On April 12, 2001, the Company purchased 97.2% of the outstanding common shares of Barrington Petroleum Ltd. (“Barrington”), a publicly traded oil and gas company. The business combination was accounted for using the purchase method of accounting as follows:

Consideration given:	
Cash	\$52,245,508
Transaction costs	3,257,754
Cash acquired	<u>(5,810,282)</u>
	<u>\$49,692,980</u>

Allocation of purchase price:	
Capital assets	\$144,322,079
Future income tax assets	24,150,254
Obligations under forward sale and transportation contracts	(29,000,000)
Non-controlling interest	(1,171,800)
Working capital deficiency	(6,753,554)
Long-term debt	(36,853,999)
Gas linked subordinated notes	<u>(45,000,000)</u>
	<u>\$49,692,980</u>

Note 3 – Subsequent Events

Through a Plan of Arrangement made effective July 18, 2001, Petrobank acquired the 2.8% non-controlling interest in Barrington through the payment of \$0.2 million in cash and the issuance of 454,808 Petrobank common shares. In addition, each holder of \$1,000 principal amount of Barrington gas linked subordinated notes (“Barrington Notes”) received \$950 principal amount of Petrobank 9% subordinated notes due July 31, 2006. Barrington noteholders also received one unit purchase warrant for each \$1,000 principal amount of Barrington Notes. The unit purchase warrants expire on September 17, 2001 and are exercisable at a price of \$915 into \$1,000 principal amount of Petrobank subordinated notes and 60 common share purchase warrants. The common share purchase warrants expire on July 18, 2003 and entitle the holder to purchase one Petrobank common share for \$2.50 per share.

Subsequent to June 30, 2001 the Company settled obligations under forward sale and transportation contracts with a book value of \$22.6 million for a cost of \$12.2 million. The resulting gain will be amortized to income over the life of the original contracts.

During the third quarter of 2001 Petrobank disposed of resource properties for proceeds of \$41 million.

On July 11, 2001, the Company entered into an Arrangement Agreement with Ventus Energy Ltd. ("Ventus") which sets out a process for the two companies to merge to form a new company, Orion Canada Energy Inc. The arrangement provides Ventus shareholders the option of receiving \$9.75 cash subject to a maximum cash distribution of \$100 million or one common share of Orion for each Ventus common share. Each Petrobank shareholder will receive one Orion common share for each 4.25 Petrobank shares held. This arrangement is subject to receipt of approval from both Petrobank and Ventus shareholder groups as well as regulatory approvals.

Note 4 – Share Data

As at June 30, 2001 the Company had outstanding 33,474,832 common shares, 8,609,000 voting preferred shares, 19,218,000 common share purchase warrants (proceeds received on exercise of 8,609,000 of the common share purchase warrants are required to be used to redeem the outstanding voting preferred shares), and 2,359,998 common share options.

Net income per share and funds flow from operations per share have been calculated based on the weighted average number of shares outstanding for the quarter of 33,474,832 (2000 – 34,445,225). Net income per share is based on net income attributable to common shareholders and funds flow from operations per share is based on funds flow from operations before changes in other non-cash items less preferred share dividends and interest on the equity portion of the gas linked subordinated notes. Diluted calculations include 12,358,766 additional shares in the second quarter of 2001 (2000 – 11,341,549) for the potential impact of warrants and stock options. Net income and funds flow from operations for purposes of the diluted calculations have been increased by \$193,172 in the second quarter of 2001 (2000 – \$191,055) related to preferred share dividends.

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