

PETROBANK

ENERGY AND RESOURCES LTD.

THIRD QUARTER
2001

HIGHLIGHTS

	Three months ended September 30,			Nine months ended September 30,		
	2001	2000	% Change	2001	2000	% Change
FINANCIAL (\$ except share amounts)						
Oil and natural gas revenue	12,710,764	12,143,064	5	36,720,912	29,676,861	24
EBITDA ⁽¹⁾	6,161,257	7,556,003	(18)	19,882,403	17,332,563	15
Cash flow from operations ⁽³⁾	5,093,920	7,096,000	(28)	16,566,514	15,997,631	4
Per share (basic) ^{(3)/(4)}	0.12	0.20	(40)	0.42	0.43	(2)
Per share (diluted) ^{(3)/(4)}	0.10	0.16	(38)	0.34	0.36	(6)
Income before unusual items	2,181,320	4,214,099	(48)	9,625,955	9,135,688	5
Net income (loss) attributable to common shareholders	(1,128,055)	4,069,429	(128)	10,164,029	5,901,899	72
Per share (basic)	(0.03)	0.11	(127)	0.30	0.16	88
Per share (diluted)	(0.03)	0.09	(133)	0.24	0.14	71
Expenditures on resource properties	4,418,662	11,633,441	(62)	15,004,013	23,772,148	(37)
Proceeds on disposition of resource properties	40,087,793	-	-	158,055,587	-	-
Working capital (deficit)	28,951,979	(6,038,606)	-	28,951,979	(6,038,606)	-
Long-term debt	-	14,485,821	(100)	-	14,485,821	(100)
Shareholders' equity	124,509,260	55,507,260	124	124,509,260	55,507,260	124
Common shares outstanding						
End of period	33,906,040	34,446,232	(2)	33,906,040	34,446,232	(2)
Weighted average - basic	33,839,065	34,446,232	(2)	33,646,595	34,453,352	(2)
OPERATING ⁽²⁾						
Average daily production						
Crude oil and NGL's (Bbls)	2,978	766	289	2,196	722	204
Natural gas (Mcf)	9,143	20,634	(56)	10,480	20,172	(48)
Barrels of oil equivalent (BOE)	3,892	2,830	38	3,244	2,739	18
Average product prices						
Crude oil and NGL's (\$/Bbl)	32.18	35.96	(11)	32.24	34.24	(6)
Natural gas (\$/Mcf)	4.63	5.06	(8)	6.08	4.14	47
Barrels of oil equivalent (\$/BOE)	35.50	46.64	(24)	41.46	39.54	5
Operating netback (\$/BOE)						
Oil and natural gas revenue	35.50	46.64	(24)	41.46	39.54	5
Royalties	6.60	10.87	(39)	7.14	9.69	(26)
Production expenses	<u>7.38</u>	<u>5.25</u>	41	<u>8.17</u>	<u>5.08</u>	61
Operating netback	<u>21.52</u>	<u>30.52</u>	(29)	<u>26.15</u>	<u>24.77</u>	6

⁽¹⁾ Net revenue less production and general and administrative expenses.

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

⁽³⁾ Excludes impact of unusual gains and losses.

⁽⁴⁾ Cash flow from operations for purposes of the per share calculations has been reduced by the cash interest on subordinated notes.

REPORT TO SHAREHOLDERS

RECENT EVENTS

In July 2001, Petrobank completed the final step in its acquisition of Barrington Petroleum Ltd. Since acquiring Barrington we have re-focused our domestic asset base by disposing of non-core properties, settled obligations under forward sale and transportation contracts, restructured the Barrington gas linked subordinated notes and issued \$13 million of additional subordinated notes. The result is the creation of a new domestic base of operations, currently producing in excess of 4,000 BOEPD underpinned by a strong balance sheet, an excellent undeveloped land position and significant tax pools. The Company is currently producing more than 3,200 BOPD and 9 mmcf/d with approximately 4 mmcf/d currently shut-in due to lack of access to processing facilities. At Wapella, the Company's main producing area in Southeast Saskatchewan, we have drilled and completed 9 new oil wells since acquiring Barrington and have commenced shooting a large 3D seismic program.

At September 30, 2001, Petrobank had access to more than \$45 million in cash, including un-drawn bank facilities. These financial resources provide the Company the flexibility to develop our existing asset base or alternatively, to capitalize on opportunities both domestically and internationally that may emerge during the current downward trend in the commodity price environment.

On September 4, 2001, Petrobank terminated its previously announced arrangement agreement with Ventus Energy Ltd., as a result of due diligence issues that identified discrepancies between actual and projected production declines and water cuts on certain Ventus wells.

DISCUSSION AND ANALYSIS OF FINANCIAL AND OPERATING RESULTS

Crude oil and natural gas liquids production during the third quarter of the year averaged 2,978 BOPD, a 289% increase from the 766 BOPD produced in the third quarter of 2000. Third quarter natural gas production of 9.1 million cubic feet per day (mmcf/d) was 56% less than the 20.6 mmcf/d produced in the third quarter of 2000. On a barrel of oil equivalent basis, production averaged 3,892 BOEPD in the third quarter of the year, a 38% increase from the 2,830 BOEPD produced in the third quarter of 2000.

The average crude oil and natural gas liquids price for the third quarter was \$32.18 per barrel, a decrease of 11% compared to the \$35.96 per barrel received in the third quarter of 2000. The average natural gas price was \$4.63 per mcf, an 8% decrease from the \$5.06 per mcf received in the third quarter of 2000. Natural gas revenue for the third quarter of 2001 includes amortization on obligations under forward sale and transportation contracts totaling \$2.7 million offset by \$1.5 million in payments made on derivative contracts that were terminated by Barrington in 2000. In October 2001, the final \$0.5 million payment was made on these derivative contracts. To help protect against further oil price declines, the Company entered into swap agreements on 1,500 BOPD for 2002 and 1,000 BOPD for 2003 at West Texas Intermediate prices of US\$24.75 and US\$22.70, respectively.

Production expenses increased to \$2.6 million (\$7.38 per BOE) for the third quarter of 2001 compared with \$1.4 million (\$5.25 per BOE) for the comparable 2000 period. These increases are due to higher production volumes and higher costs of operating the Barrington properties acquired in the second quarter.

General and administrative expenses increased to \$1.8 million in the third quarter of 2001 from \$0.5 million in the comparable 2000 period. The increase relates to higher overhead associated with the acquisition of Barrington along with Petrobank's share of deal costs related to the now terminated plan of arrangement with Ventus Energy Ltd., which were expensed entirely in the third quarter.

Depletion, depreciation, and site restoration expense for the third quarter increased to \$3.4 million from \$2.9 million for the same period in 2000 as a result of increased production volumes associated with the Barrington acquisition.

On June 11, 2001 an uncontrolled sour gas flow was detected from the well Cube Shekilie 5-31-116-10 W6M. This was a shut-in and suspended well in which Petrobank acquired a 91% working interest through the Barrington acquisition. Petrobank mounted a major well control effort and the well was successfully "killed" on July 12, 2001. While the large majority of the costs associated with this well control and cleanup operation will be covered by the Company's insurance, a charge for excess control of well costs totaling \$1.5 million was provided for in the third quarter of 2001. The final abandonment will be completed during the winter drilling season of 2001-2002.

Interest on subordinated notes totaled \$1.1 million for the third quarter of 2001. The subordinated notes and the related interest are reflected as equity items as both interest and principal payments due under the note indenture are payable in common shares at Petrobank's option.

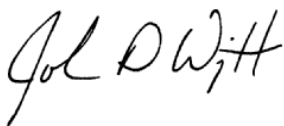
For the third quarter of 2001, cash flow from operations, excluding unusual gains and losses, decreased to \$5.1 million (\$0.12 per share) from \$7.1 million (\$0.20 per share) for the same period last year. Net income attributable to common shareholders decreased from income of \$4.1 million (\$0.11 per share) for the third quarter of 2000 to a loss of \$1.1 million (\$0.03 per share) for the current period. The decrease in earnings relates primarily to lower operating netbacks, \$1.5 million of non-recurring well control costs incurred in the third quarter of 2001 combined with a one-time, \$2.5 million gain that was recorded in the third quarter of 2000.

INTERNATIONAL PROJECTS

Internationally, Petrobank continues to evaluate the commercial viability of developing 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 is evaluating various development alternatives in order to identify an optimal exploitation strategy for this extensive resource base.

Petrobank holds a 15% working interest in three exploration blocks comprising 1.4 million acres offshore Guinea-Bissau, West Africa. Premier Oil plc, the operator, earned an interest in the blocks by committing to drill an exploration well on block 2A at their sole cost. Premier has indicated they currently intend to drill the well in the first quarter of 2002. If successful, we have identified several similar prospects on trend in the adjacent blocks that have been licensed by Petrobank and Premier.

Petrobank continues to build a strong operating and financial platform in Western Canada from which high impact international projects can be executed. The Company has positioned itself financially and technically to capitalize on domestic and international opportunities. It is our opinion that a strong domestic operation, combined with a high impact international growth strategy, provides the best opportunity to create significant value for our shareholders.



John D. Wright
President and Chief Executive Officer
November 14, 2001

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

As at	<u>September 30, 2001</u> (unaudited)	<u>December 31, 2000</u>
ASSETS		
Current assets		
Cash	\$ 24,243,927	\$ -
Accounts receivable	20,318,255	11,504,502
Prepaid expenses	<u>1,399,920</u>	<u>957,784</u>
	45,962,102	12,462,286
Capital assets (note 2)	<u>106,130,845</u>	<u>99,947,165</u>
	<u>\$ 152,092,947</u>	<u>\$ 112,409,451</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 17,010,123	\$ 14,985,559
Obligations under forward sale and transportation contracts	10,125,564	-
Deferred revenue	-	1,656,612
Long-term debt	-	20,345,294
Future site restoration	448,000	381,261
Future income tax liability	-	16,938,087
	<u>27,583,687</u>	<u>54,306,813</u>
Shareholders' equity		
Subordinated notes (note 3)	56,518,640	-
Share capital (note 4)		
Preferred shares	12,887,788	12,887,788
Common shares	30,656,476	30,415,233
Retained earnings	<u>24,446,356</u>	<u>14,799,617</u>
	<u>124,509,260</u>	<u>58,102,638</u>
	<u>\$ 152,092,947</u>	<u>\$ 112,409,451</u>

See accompanying notes to the consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Revenues				
Oil and natural gas	\$ 12,710,764	\$ 12,143,064	\$ 36,720,912	\$ 29,676,861
Royalties	(2,361,362)	(2,829,454)	(6,325,661)	(7,274,443)
	<u>10,349,402</u>	<u>9,313,610</u>	<u>30,395,251</u>	<u>22,402,418</u>
Other	244,560	82,441	1,390,427	322,625
	<u>10,593,962</u>	<u>9,396,051</u>	<u>31,785,678</u>	<u>22,725,043</u>
Expenses				
Production	2,642,452	1,367,163	7,231,807	3,815,631
General and administrative	1,790,253	472,885	4,671,468	1,576,849
Interest on long-term debt	578,337	411,356	2,177,177	1,225,919
Depletion, depreciation and site restoration	3,401,600	2,930,548	8,079,271	6,970,956
	<u>8,412,642</u>	<u>5,181,952</u>	<u>22,159,723</u>	<u>13,589,355</u>
Income before unusual items	2,181,320	4,214,099	9,625,955	9,135,688
Control of well costs	(1,500,000)	-	(1,500,000)	-
Employment contract termination costs	-	-	-	(951,680)
Gain on sale of securities	-	2,452,180	-	2,452,180
Gain on sale of resource properties	-	-	12,925,707	-
Income before taxes	681,320	6,666,279	21,051,662	10,636,188
Income taxes	489,000	2,596,850	8,350,879	4,734,289
Net income	192,320	4,069,429	12,700,783	5,901,899
Non-controlling interest	-	-	(149,158)	-
Preferred share dividends	(199,342)	-	(583,563)	-
Interest on subordinated notes (note 3)	(1,121,033)	-	(1,804,033)	-
Net income (loss) attributable to common shareholders	(1,128,055)	4,069,429	10,164,029	5,901,899
Retained earnings, beginning of period	25,631,194	7,697,245	14,799,617	5,899,147
Purchase of stock options for cancellation	(32,000)	-	(200,794)	-
Repurchase of common shares	(24,783)	-	(316,496)	(34,372)
Retained earnings, end of period	\$ 24,446,356	\$ 11,766,674	\$ 24,446,356	\$ 11,766,674
Net income (loss) per common share (note 5)				
Basic	\$ (0.03)	\$ 0.11	\$ 0.30	\$ 0.16
Diluted	\$ (0.03)	\$ 0.09	\$ 0.24	\$ 0.14

See accompanying notes to the consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Operating Activities				
Net income	\$ 192,320	\$ 4,069,429	\$ 12,700,783	\$ 5,901,899
Depletion, depreciation and site restoration	3,401,600	2,930,548	8,079,271	6,970,956
Gain on sale of resource properties	-	-	(12,925,707)	-
Gain on sale of securities	-	(2,452,180)	-	(2,452,180)
Future income taxes	-	2,548,203	7,212,167	4,625,276
Cash flow from operations	3,593,920	7,096,000	15,066,514	15,045,951
Changes in other non-cash items	(12,064,314)	5,325,261	(6,545,741)	449,262
	<u>(8,470,394)</u>	<u>12,421,261</u>	<u>8,520,773</u>	<u>15,495,213</u>
Financing Activities				
Issuance (repurchase) of common shares, options, and warrants	(63,889)	16,255	(958,259)	(115,410)
Issuance of preferred shares	-	-	-	12,913,499
Preferred share dividends	(199,342)	-	(583,563)	-
Issuance of subordinated notes (note 3)	11,446,096	-	11,446,096	-
Amortization of subordinated note discount	72,544	-	72,544	-
Repayment of short-term indebtedness	-	(4,935,039)	-	-
Repayment of long-term debt	(19,944,601)	(13,803,058)	(57,199,293)	(6,351,334)
Interest on subordinated notes	(1,121,033)	-	(1,804,033)	-
Settlement of obligations under forward sale and transportation contracts	(12,368,436)	-	(12,368,436)	-
Amortization of obligations under forward sale and transportation contracts	(2,720,000)	-	(6,506,000)	-
Changes in other non-cash items	(2,826,558)	-	(2,909,494)	-
	<u>(27,725,219)</u>	<u>(18,721,842)</u>	<u>(70,810,438)</u>	<u>6,446,755</u>
Investing Activities				
Corporate acquisition (note 2)	(638,746)	-	(50,331,726)	-
Expenditures on resource properties	(4,418,662)	(11,633,441)	(15,004,013)	(23,772,148)
Proceeds on disposition of resource properties	40,087,793	-	158,055,587	-
Investment in securities	-	-	-	(12,717,842)
Proceeds on disposition of securities	-	15,170,022	-	15,170,022
Changes in other non-cash items	(377,384)	2,764,000	(6,186,256)	(622,000)
	<u>34,653,001</u>	<u>6,300,581</u>	<u>86,533,592</u>	<u>(21,941,968)</u>
Change in cash	(1,542,612)	-	24,243,927	-
Cash, beginning of period	25,786,539	-	-	-
Cash, end of period	\$ 24,243,927	\$ -	\$ 24,243,927	\$ -

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine month periods ended September 30, 2001

Note 1 – Significant Accounting Policies

The interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2001 should be read in conjunction with the audited annual consolidated financial statements as at and for the year ended December 31, 2000. The notes to these interim consolidated financial statements do not conform in all respects to the note disclosure requirements of generally accepted accounting policies for annual financial statements. These interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in 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>

Through a Plan of Arrangement made effective July 18, 2001, Petrobank acquired the 2.8% non-controlling interest in Barrington through the payment of \$638,746 in cash and the issuance of 454,808 (\$682,212) Petrobank common shares.

Note 3 – Subordinated Notes

Pursuant to Petrobank’s Plan of Arrangement with Barrington, each holder of \$1,000 principal amount of Barrington gas linked subordinated notes (“Barrington Notes”) received Petrobank 9% subordinated notes due July 31, 2006 with a face value of \$950. This resulted in an exchange of \$50,000,000 of Barrington Notes for Petrobank subordinated notes with a face value of \$47,500,000 and a fair value of \$45,000,000. Barrington noteholders also received one unit purchase warrant for each \$1,000 principal amount of Barrington Notes. Holders exercised 12,962 of these unit purchase warrants prior to the expiry date of September 17, 2001 resulting in cash proceeds, net of issue costs, of \$11,460,230 from the issuance of subordinated notes (\$11,446,096) with a principal amount of \$12,962,000 and 777,720 common share purchase warrants

(\$14,134). The common share purchase warrants are exercisable into Petrobank common shares at \$2.50 per share and expire on July 18, 2003. The subordinated notes were recorded at their fair value of \$56,446,096 at the date of issuance. The resulting discount to the \$60,462,000 face value is being amortized to interest on subordinated notes over the term of the notes (three and nine month periods ended September 30, 2001 - \$72,544).

Note 4 – Share Capital

As at September 30, 2001 the Company had outstanding 33,906,040 common shares, 8,609,000 voting preferred shares, 19,995,720 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 2,760,834 common share purchase options.

Common Share Continuity	Number	Amount
Balance at December 31, 2000	33,957,332	\$30,415,233
Purchased pursuant to normal course issuer bid	(506,100)	(455,103)
Issued to acquire Barrington non-controlling interest	454,808	682,212
Issue of common share purchase warrants	-	14,134
Balance at September 30, 2001	33,906,040	\$30,656,476

Note 5 – Share Data

Net income per share has been calculated based on the weighted average number of shares outstanding for the three and nine month periods ended September 30, 2001 of 33,839,065 (2000 – 34,446,232) and 33,646,595 (2000 – 34,453,352), respectively. Net income per share is based on net income attributable to common shareholders less preferred share dividends in arrears for the three and nine month periods ended September 30, 2000 of \$196,000 and \$415,000, respectively. Diluted calculations for the three and nine month periods ended September 30, 2001 include 8,940,779 additional shares (2000 – 10,545,302) and 10,512,014 additional shares (2000 – 7,803,906), respectively for the potential impact of warrants and stock options. Net income attributable to common shareholders for purposes of the diluted calculations for the three and nine month periods ended September 30, 2001 have been increased by \$199,342 and \$583,563, respectively for preferred share dividends.

PETROBANK

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