

PETROBANK

Third Quarter: 2002

ENERGY AND RESOURCES LTD.

HIGHLIGHTS

	Three months ended			Nine months ended		
	September 30, 2002	2001	% Change	September 30, 2002	2001	% Change
FINANCIAL (Thousands of \$, except share amounts)						
Oil and natural gas revenue	12,208	12,711	(4)	37,566	36,721	2
Cash flow from operations	5,806	3,826	52	17,206	15,569	11
Per share (basic) ¹	0.11	0.12	(8)	0.36	0.42	(14)
Per share (diluted) ¹	0.11	0.10	10	0.31	0.34	(9)
Net income	1,573	424	271	4,815	13,203	(64)
Net income (loss) attributable to common shareholders	(9)	(1,128)		(259)	10,165	
Per share (basic)	–	(0.03)		(0.01)	0.30	
Per share (diluted)	–	(0.03)		(0.01)	0.24	
Expenditures on capital assets	5,813	4,419	32	17,608	15,004	17
Proceeds on disposition of resource properties	–	40,088	(100)	3,443	158,056	(98)
Working capital	19,559	28,952	(32)	19,559	28,952	(32)
Subordinated notes	57,168	56,519	1	57,168	56,519	1
Shareholders' equity excluding subordinated notes	55,423	67,991	(18)	55,423	67,991	(18)
Common shares outstanding (thousands)						
End of period	45,095	33,906	33	45,095	33,906	33
Weighted average – basic	38,413	33,839	14	35,384	33,647	5
OPERATING						
Average daily production						
Crude oil and NGLs (Bbls)	2,596	2,978	(13)	2,613	2,196	19
Natural gas (Mcf)	13,134	9,143	44	15,652	10,480	49
Barrels of oil equivalent (BOE: 10 mcf = 1 BOE)	3,909	3,892	–	4,178	3,244	29
Barrels of oil equivalent (BOE: 6 mcf = 1 BOE)	4,785	4,502	6	5,222	3,943	32
Average product prices						
Crude oil and NGLs after hedging (\$/Bbl)	32.74	32.18	2	31.06	32.24	(4)
Natural gas (\$/Mcf)	3.63	4.63	(22)	3.61	6.08	(41)
Operating netback (\$/BOE: 10 mcf = 1 BOE)						
Oil and natural gas revenue	33.95	35.50	(4)	32.93	41.46	(21)
Royalties	7.31	6.60	11	6.95	7.14	(3)
Production expenses	8.02	7.38	9	7.95	8.17	(3)
Operating netback	18.62	21.52	(13)	18.03	26.15	(31)
Operating netback (\$/BOE: 6 mcf = 1 BOE)						
Oil and natural gas revenue	27.73	30.69	(10)	26.35	34.11	(23)
Royalties	5.97	5.70	5	5.56	5.88	(5)
Production expenses	6.55	6.38	3	6.36	6.72	(5)
Operating netback	15.21	18.61	(18)	14.43	21.51	(33)

¹ Cash flow per share is calculated based on cash flow from operations excluding unusual items less preferred share dividends and interest paid on subordinated notes on a similar basis to earnings per share which are GAAP prescribed.

REPORT TO SHAREHOLDERS

The third quarter of 2002 was a period of transition for the Company. Early in the quarter, we completed the majority of our exploration program in Southeast Saskatchewan, with nominal success, drilling four new oil discoveries out of nine exploratory attempts. In early August, we received notification that the President of Colombia had signed a Presidential Decree, granting an "umbrella" approval for environmental management plans covering development activities within existing producing fields. This decree has allowed us to fast track a number of our development plans for the Orito and Neiva fields, and therefore, a decision was made to delay further development of our oil discoveries in Southeast Saskatchewan and re-direct our capital program to accelerate our activity in Colombia.

COLOMBIAN PROGRAM

We are focusing our capital expenditures in Colombia on development activities that can create immediate cash flow and generate further opportunities to expand our production and reserve base. In Orito, we have commenced a three well development drilling program which will provide us with technical information to maximize the impact of our next phase of drilling that will see at least 11 additional wells drilled in 2003. These initial three wells will test three different technical concepts in the highly productive Caballos zone as well as delineate the areal extent of the shallower Pepino interval. We are currently completing a development plan for the Pepino zone that has the potential to significantly expand the Company's drilling inventory. Additionally, we are planning to re-complete five wells and run high volume electrical submersible pumps (ESPs) to determine what kind of productivity enhancement may be achieved with this technology. Petrobank's management team has had success in applying ESP technology to an older producing field nearby in northern Ecuador. In Neiva, we currently have plans to drill five infill wells and re-complete ten wells to provide an assessment of the development potential of this field.

CANADIAN PROGRAM

In Canada, Petrobank is gearing up for a 30 well drilling program which should take us into the new year with an enhanced production base. At Jumpbush, we intend to commence drilling a number of shallow gas wells complimented with infill drilling on our Glauconite oil pool. In western Saskatchewan, we have identified a number of development drilling locations on our lands and expect to drill ten of these locations by the end of 2002. In the Rainbow/Zama region we are finalizing our winter program and intend to drill a number of wells targeting Slave Point and Sulfur Point gas. Development of our Bluesky gas play at Larne is contingent on the approval of a third party pipeline into the area.

DISCUSSION OF OPERATING RESULTS

During the third quarter of 2001 Petrobank completed the non-core property rationalization process initiated following the acquisition of Barrington Petroleum Ltd. ("Barrington") in the second quarter of 2001. The full impact of these dispositions was not reflected until the fourth quarter of 2001. For the purpose of this analysis, gas volumes have been converted to barrels of oil equivalent ("BOE") on a 10 mcf equals 1 BOE basis.

Crude oil and natural gas liquids production during the third quarter averaged 2,596 barrels per day (BPD), a 13% decrease from the 2,978 BPD produced in the third quarter of 2001 primarily due to property dispositions occurring in the intervening period and a lack of strong drilling results in Southeast Saskatchewan. Natural gas production increased 44% to 13.1 million cubic feet per day (mmcf/d) from 9.1 mmcf/d in the third quarter of 2001 primarily as a result of previously shut in gas being put back on stream in the fourth quarter of 2001. On a barrel of oil equivalent basis, production averaged 3,909 BOEPD in the third quarter of this year, a slight increase from the 3,892 BOEPD produced in the same period of 2001.

The realized average crude oil and natural gas liquids price increased slightly from the \$32.18 per barrel in the third quarter of 2001 to \$32.74 per barrel, despite current period hedging losses of \$3.20 per barrel. During the third quarter of 2002 the Company's crude oil and natural gas liquids price before financial hedging was \$35.94 per barrel representing a U.S.\$5.23 per barrel discount to the average WTI price during the period of U.S.\$28.27 per barrel. The average natural gas price in the third quarter, including \$0.31 per mcf of hedging gains, was \$3.63 per mcf, a 22% decrease from the \$4.63 per mcf received in the third quarter of 2001. The Company's natural gas price before financial hedging was \$3.32 per mcf during the current period compared to the average AECO daily price for the period of \$3.16 per mcf. This difference is attributable to the Company's physical forward sale contracts along with the premium received for our high heat natural gas production.

Royalties in the third quarter of 2002 totaled \$2.6 million, an 11% increase from the \$2.4 million in the corresponding period in 2001. Excluding the impacts of financial hedging and amortization of obligations under gas hedging contracts, royalties as a percentage of oil and natural gas revenues remained constant at 21%.

Production expenses increased to \$2.9 million (\$8.02 per BOE) for the third quarter of 2002 compared with \$2.6 million (\$7.38 per BOE) for the comparable 2001 period. These increases are a result of higher cost natural gas production in Northwest Alberta, and largely fixed costs associated with our oil production being spread over lower production volumes.

General and administrative expenses decreased to \$0.9 million in the third quarter of 2002 from \$1.8 million in the comparable 2001 period. The decrease reflects costs associated with staff and office consolidation initiatives along with non-recurring expenses incurred in the third quarter of 2001.

Depletion, depreciation, and site restoration expense for the third quarter was \$4.2 million or \$11.77/BOE compared to \$11.34/BOE in the second quarter of 2002. The increase is a result of modest drilling results year to date in Southeast Saskatchewan.

Interest on long-term debt and subordinated notes totaled \$1.5 million for the third quarter of 2002 compared to \$1.7 million in the comparable 2001 period. The decrease is primarily due to the elimination of long-term debt balances with proceeds from property dispositions.

For the third quarter of 2002, cash flow from operations increased to \$5.8 million from \$3.8 million for the same period last year. Net income increased from \$0.4 million for the third quarter of 2001 to \$1.6 million for the current period. These increases resulted despite declining operating netbacks due largely to general and administrative expense savings and non-recurring unusual expenses related to well control efforts in the third quarter of 2001.

The Company has access to \$60.0 million of cash, including working capital and an undrawn \$40.0 million credit facility. The Company anticipates spending approximately \$90.0 million on its development projects in Colombia by the end of 2003. This program is to be funded from existing financial resources, Colombian cash flows and expected incremental borrowing base attributable to our Colombian assets. Based on recent successes in Alberta and Saskatchewan, the Company currently plans to reinvest the majority of its Canadian cash flows to grow its Canadian asset base.

OUTLOOK

There have been a number of new developments in recent days which will have future impact on the Company's direction. With the specific allocation of portions of our capital budget to distinct project areas within the Company, we have decided to implement a "business unit" based management structure, which will initially see a Canadian Business Unit and a Latin American Business Unit reporting to the executive management team. We have also commenced the creation of a Heavy Oil Business Unit to develop our Christina Lake heavy oil resource and test certain technologies, to which the Company has access. We have accepted the resignation of Ken McCagherty from his position as Senior Vice President and Chief Operating Officer effective November 15, 2002. Ken will be staying on with the Company in his capacity as Director, and we wish him great success in all his future endeavours. Finally, at a recent BC Crown Land Sale, we were successful in acquiring the coal bed methane and conventional oil and gas rights in approximately 33,000 acres of land. Petrobank is the operator of this project with a 60% working interest. Prior to the land sale, we drilled three mining boreholes on the property which confirmed the presence of methane in the coals. This project will initially be managed under the Canadian Business Unit with plans to shoot up to 100 kilometers of 2D seismic and execute a four well coal bed methane pilot project.

Petrobank is a dynamic, evolving industry player and this is an exciting and high-energy time for the Company. We look forward to providing future updates on our activities, including our first development well in Colombia, as soon as we have concrete results. Further information about the Company, our plans and operations, including pictures of our current drilling operations in Colombia can be found on our website: www.petrobank.com.



John D. Wright

President and Chief Executive Officer
November 12, 2002

Certain statements herein may contain forward-looking statements including management's assessment of future plans and operations including expectations of future production and capital expenditures. Information concerning reserves may also be deemed to be forward-looking statements as such estimates involve the implied assessment that the resources described can be economically produced. These statements are based on current expectations that involve numerous risks and uncertainties, which will cause actual results to differ from those anticipated. These risks include, but are not limited to: the risks of the oil and gas industry (e.g.: operational risks in exploration, development and production; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), and price fluctuation. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

CONSOLIDATED BALANCE SHEETS

(Thousands of Canadian dollars)

As at	September 30, 2002 <i>(unaudited)</i>	December 31, 2001
ASSETS		
Current assets		
Cash and cash equivalents	\$ 25,922	\$ 25,311
Accounts receivable	10,370	18,746
Prepaid expenses	509	2,049
Temporary investment	–	1,000
	<u>36,801</u>	<u>47,106</u>
Capital assets	102,018	99,231
	<u>\$ 138,819</u>	<u>\$ 146,337</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 17,242	\$ 21,696
Obligations under gas hedging contracts (note 3)	8,299	9,410
Future site restoration	687	764
	<u>\$ 26,228</u>	<u>\$ 31,870</u>
Shareholders' equity		
Subordinated notes (note 4)	57,168	56,676
Share capital (note 2)		
Preferred shares	–	12,888
Common shares	47,629	30,341
Retained earnings	7,794	14,562
	<u>112,591</u>	<u>114,467</u>
	<u>\$ 138,819</u>	<u>\$ 146,337</u>

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Unaudited, thousands of Canadian dollars, except per share amounts)

	Three months ended		Nine months ended	
	Sept. 30,		Sept. 30,	
	2002	2001	2002	2001
Revenues				
Oil and natural gas	\$ 12,208	\$ 12,711	\$ 37,566	\$ 36,721
Royalties	(2,629)	(2,361)	(7,928)	(6,325)
	9,579	10,350	29,638	30,396
Other	315	244	362	1,390
	9,894	10,594	30,000	31,786
Expenses				
Production	2,885	2,643	9,069	7,232
General and administrative	946	1,790	2,892	4,671
Interest on long-term debt	–	578	–	2,177
Depletion, depreciation and site restoration	4,233	3,402	13,045	8,080
	8,064	8,413	25,006	22,160
Income before unusual items and taxes	1,830	2,181	4,994	9,626
Unusual items	–	(1,500)	654	11,426
Income before taxes	1,830	681	5,648	21,052
Capital and income taxes	257	257	833	7,849
Net income	1,573	424	4,815	13,203
Non-controlling interest	–	–	–	(149)
Interest on subordinated notes	(1,541)	(1,121)	(4,560)	(1,804)
Preferred share dividends and related taxes	(41)	(431)	(514)	(1,085)
Net income (loss) attributable to common shareholders	(9)	(1,128)	(259)	10,165
Retained earnings, beginning of period	14,312	25,632	14,562	14,800
Repurchase of securities (note 2)	(6,509)	(57)	(6,509)	(518)
Retained earnings, end of period	\$ 7,794	\$ 24,447	\$ 7,794	\$ 24,447
Net income (loss) per common share (note 2)				
Basic	\$ –	\$ (0.03)	\$ (0.01)	\$ 0.30
Diluted	\$ –	\$ (0.03)	\$ (0.01)	\$ 0.24

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, thousands of Canadian dollars)

	Three months ended		Nine months ended	
	Sept. 30,		Sept. 30,	
	2002	2001	2002	2001
OPERATING ACTIVITIES				
Net income	\$ 1,573	\$ 424	\$ 4,815	\$ 13,203
Depletion, depreciation and site restoration	4,233	3,402	13,045	8,080
Unusual items	-	-	(654)	(12,926)
Future income taxes	-	-	-	7,212
Cash flow from operations	5,806	3,826	17,206	15,569
Change in related working capital balances	(4,697)	(12,064)	5,048	(6,545)
	1,109	(8,238)	22,254	9,024
FINANCING ACTIVITIES				
Issuance of common shares (note 2)	3,391	14	4,013	14
Repurchase of securities (note 2)	(6,509)	(78)	(6,509)	(973)
Issuance of subordinated notes	-	11,446	-	11,446
Repayment of long-term debt	-	(19,945)	-	(57,200)
Interest on subordinated notes	(1,371)	(1,049)	(4,068)	(1,732)
Preferred share dividends and related taxes	(41)	(431)	(514)	(1,085)
Settlement of obligations under gas hedging contracts (note 3)	(894)	(12,368)	(894)	(12,368)
Amortization of obligations under gas hedging contracts	-	(2,720)	(217)	(6,506)
Change in related working capital balances	(544)	(2,827)	(878)	(2,910)
	(5,968)	(27,958)	(9,067)	(71,314)
INVESTING ACTIVITIES				
Expenditures on capital assets	(5,813)	(4,419)	(17,608)	(15,004)
Site restoration expenditures	(406)	-	(705)	-
Proceeds on disposition of resource properties	-	40,088	3,443	158,056
Corporate acquisitions	-	(639)	(42)	(50,332)
Proceeds on disposition of temporary investment	-	-	1,654	-
Change in related working capital balances	(1,580)	(377)	682	(6,186)
	(7,799)	34,653	(12,576)	86,534
Increase (decrease) in cash position	(12,658)	(1,543)	611	24,244
Cash position, beginning of period	38,580	25,787	25,311	-
Cash position, end of period	\$ 25,922	\$ 24,244	\$ 25,922	\$ 24,244

See accompanying notes to these consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All tabular amounts are expressed in thousands of Canadian dollars, except share amounts)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2002 should be read in conjunction with the audited annual consolidated financial statements as at and for the year ended December 31, 2001 and the unaudited interim consolidated financial statements as at and for the periods ended March 31, 2002 and June 30, 2002. 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, 2001. The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants related to stock-based compensation and has elected to continue to follow the intrinsic value method and disclose pro forma results using the fair value method as described in note 2 below.

NOTE 2 – SHARE CAPITAL

On August 26, 2002, the Company announced that an independent committee of the Board of Directors reached agreement to repurchase certain outstanding securities held by management and directors. This agreement resulted in the repurchase of the Company's 8.6 million preferred shares and cancellation of an equivalent number of common share purchase warrants in exchange for 8.6 million common shares and a \$1.0 million cash payment in lieu of \$1.9 million in future dividend entitlements. In addition, the Company paid \$5.5 million to repurchase 8,475,667 outstanding common share purchase warrants with holders agreeing to exercise 2,133,333 outstanding common share purchase warrants for total proceeds of \$3.2 million. The net effect of these transactions was to save the Company \$0.9 million in future dividends, and decrease the potential number of common shares outstanding by 8.5 million at a net cost of \$3.3 million. Payments relating to the repurchase of common share purchase warrants and future dividends totaling \$6.5 million have been reflected as a reduction of retained earnings.

As at September 30, 2002, the Company had 45,094,722 common shares outstanding, 777,720 common share purchase warrants, and 4,246,734 common share purchase options. The remaining common share purchase warrants were issued to third parties as part of the Company's debt replacement in 2001. These warrants are exercisable at \$2.50 and expire in July 2003.

Common Share Continuity	Number	Amount
Balance at December 31, 2001	33,557,140	\$30,341
Issued pursuant to corporate acquisition	250,000	387
Exercise of stock options	400,249	622
Balance at June 30, 2002	34,207,389	31,350
Exercise of warrants	2,133,333	3,200
Issued pursuant to repurchase of securities	8,609,000	12,888
Exercise of stock options	145,000	191
Balance at September 30, 2002	45,094,722	\$47,629

Stock Based Compensation

The Company accounts for its stock based compensation plan using the intrinsic value method whereby no costs are recognized in the statements of operations for stock options granted to employees and directors. The Company's net income (loss) per common share on a diluted basis reflects the impact of the potential dilution arising from the future exercise of outstanding stock options. Had compensation costs for the Company's stock option plan been recognized using the fair value method for option grants after January 1, 2002, the Company's pro forma net income attributable to common shareholders for the three and nine month periods ended September 30, 2002 would have been reduced by \$72,000 and \$111,000 respectively, and net income per share would approximate the reported amounts.

The fair value of stock options granted is estimated on the grant date using the Black Scholes option-pricing model using the following assumptions:

Risk free interest rate	4%
Expected life (years)	4.0
Expected volatility	20%

Per Share Data

Net income (loss) per common share has been calculated based on the weighted average number of shares outstanding for the three months ended September 30, 2002 of 38,413,000 (2001 – 33,839,065). Net income (loss) per common share is based on net income (loss) attributable to common shareholders.

NOTE 3 – OBLIGATIONS UNDER GAS HEDGING CONTRACTS

In July 2002, Petrobank settled a portion of its obligations under gas hedging contracts for \$0.9 million. Pursuant to those obligations, the Company was committed to natural gas deliveries of up to 3,530 GJ per day and 2,130 GJ per day until October 31, 2002 and 2005, respectively. The Company had been receiving a pool price less fixed transportation charges.

NOTE 4 – SUBORDINATED NOTES AND LONG-TERM DEBT

The Company's outstanding subordinated notes have a face value of \$60.4 million, pay interest at 9% and mature July 31, 2006. The subordinated notes were recorded at their fair value of \$56.4 million at the date of issue with the discount to face value amortized to interest on subordinated notes over the term of the notes. The Company has the option of issuing common shares to settle quarterly interest payments as well as the principal amount, and in certain circumstances, the Company has the right to repay the notes before their maturity date. The notes are subordinate to bank debt and any other senior debt that may be issued at a future date. The Company's borrowing base under its currently undrawn secured credit facility is \$40.0 million.

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