ENTERRA ENERGY CORP
Form 20-F
June 03, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

[ ] Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934.

or

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the fiscal year ended December 31, 2001.

or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from ______________ to ______________ .

Commission file number 333-

ENTERRA ENERGY CORP.
(Exact Name of Registrant as Specified in Its Charter)

ALBERTA, CANADA
(Jurisdiction of Incorporation or Organization)

2600, 500-4TH AVENUE S.W.
CALGARY, ALBERTA, CANADA
T2P 2V6
(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Shares	Canadian Venture Exchange NASDAQ

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares, without par value at December 31, 2001: 9,150,622

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 [ ] Item 18 [X]

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes [ ] No [ ]

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[ENTERRA ENERGY CORP. LOGO]

2001

ANNUAL REPORT

[PICTURE OF EXECUTIVE OFFICERS]

(L-R) TREVOR SPAGRUD VICE PRESIDENT OPERATIONS, THOMAS J. JACOBSEN CHIEF OPERATING OFFICER, REG J. GREENSLADE PRESIDENT AND CHIEF EXECUTIVE OFFICER, DON ALMOND VICE PRESIDENT PRODUCTION, LUC CHARTRAND, C.A. CHIEF FINANCIAL OFFICER.

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CORPORATE PROFILE

ENTERRA ENERGY CORP. IS AN OIL AND GAS COMPANY BASED IN CALGARY, ALBERTA. THE COMPANY'S FOCUS IS THE EXPLORATION AND DEVELOPMENT OF PETROLEUM AND NATURAL GAS RESERVES IN ALBERTA AND SASKATCHEWAN. ENTERRA SHARES ARE LISTED FOR TRADING ON THE NASDAQ (SYMBOL: EENC) AND ON THE TSX VENTURE EXCHANGE (SYMBOL: ENT).

REPORT TO THE SHAREHOLDERS

Enterra Energy is pleased to present its Annual Report for the year ended December 31, 2001. The Company achieved new highs in production, revenue and cash flow in 2001, setting the stage for an even stronger 2002.

The acquisition of Big Horn Resources Ltd., effective August 1, resulted in a complete restructuring of Enterra by providing the company with a substantial inventory of prospects, along with a proven, full cycle management team.

Enterra's focus changed from an acquisition driven strategy to one of increasing production and reducing both operating and general and administrative costs. Significant gains have already been made in these areas. Operating costs in 2001 were lowered to $8.38/boe as compared to $9.58/boe a year earlier. More significantly, operating costs were reduced from $12.37/boe in the first quarter of 2001 to $6.22/boe in the fourth quarter of 2001. In addition, general and administrative expenses were reduced from $3.31/boe in 2001 to $0.81/boe in 2002. These synergies will continue in 2002 as the Company will remain focused on reducing both operating and administrative costs.

Enterra's average annual production rate increased 66% in 2001 to 1,906 boe/day from 1,149 boe/day. The Company's exit rate increased 123% to 2,675 boe/day in 2001 from 1,197 boe/day in 2000. Commodity prices, however, did not follow the same pattern: average commodity prices decreased, by $10.58/boe during 2001. Despite this erosion in pricing, especially in the latter part of the year, the Company's netbacks per boe decreased by only $2.46/boe, from $16.98/boe to $14.52/boe. By aggressively reducing its operating and administrative costs, Enterra was able to minimize the impact of declining oil and gas prices in 2001.

During 2001, Enterra drilled 20 wells (10.59 net) resulting in 9 oil wells (5.0 net) and 8 gas wells (3.8 net) for a success ratio of 85%. Enterra's current production consists of 77% oil and 23% natural gas. Reserves in 2001 increased 181% to over 8.1 million boe from 2.9 million boe in 2000. Over 70% of these reserves are in the proven category.

The Company's overall finding costs for its proved and probable reserves in 2001 was $8.09 per boe, resulting in a recycle ratio of 2 (based on operating netbacks of $16.18 per boe). However, Enterra's finding costs for its drilling program alone (i.e. excluding property and corporate acquisitions) were $4.14 in 2001, for a recycle ratio of 3.9.

Enterra strengthened its balance sheet in the first quarter of 2002 by purchasing 6,123,870 of its Series 1 preferred shares for $2.3 million. These shares had a redemption value of $5.2 million, resulting in savings of $2.9 million. The Company also sold its Grand Forks property for $5.3 million. Proceeds from this sale were used to reduce our debt and to provide working capital.

2002 OUTLOOK

Enterra exited 2001 a much bigger and stronger company than it was one year ago.

Our production exceeded 2,500 boe/day at the end of 2001, providing a strong cash flow base from which to expand and accelerate our growth. We have a full cycle, experienced management team with a shared desire to rapidly build Enterra

[PHOTO]

into a significant player in the Canadian oil and gas sector. The fuel for our growth will come from our substantial inventory of prospects which will be prioritized and developed based on each prospect's potential impact on the Company's 2002 production.

Our recent growth has also caused a corresponding increase in our average trading volumes, especially on Nasdaq (symbol: EENC), providing our shareholders with better liquidity. The Company has 9.2 million shares currently outstanding. Both management and the Board of Directors of Enterra are committed to growing the Company with minimal dilution. The per share results are the critical numbers by which we gauge Enterra's progress.

In closing, we look forward to accelerated growth in 2002, along with a further reduction in both operating and administrative expenses.

Enterra is fortunate to have a group of very capable and dedicated employees. They are the driving force behind the growth of our company. Their efforts, in conjunction with the guidance and commitment of our experienced Board of Directors, are greatly appreciated.

[SIGNATURE]

Reg Greenslade, P.Eng.
President and Chief Executive Officer

2001 SUMMARY YEAR ENDED DECEMBER 31

	YEAR ENDED DEC 31/01	YEAR ENDED DEC 31/00

FINANCIAL

Production revenue	$ 20,264,396	$ 16,700,151
Cash flow from operations	$ 9,810,268	$ 5,875,500
Per Common Share	$ 1.40	$ 1.33
Net earnings	$ 1,617,052	$ 2,453,119
Per Common Share	$ 0.23	$ 0.55
Total assets	$ 80,062,558	$ 22,101,468
Long-term debt	$ 18,408,904	$ 8,403,000
Working capital (deficiency)	$ (2,229,431)	$ (3,164,681)
Share capital	$ 29,568,263	$ 5,031,846
Average number of shares outstanding during year	6,992,393	4,421,844
Number of shares outstanding at the end of year	9,150,622	4,595,139

PRODUCTION

AVERAGE DAILY PRODUCTION		
Oil (bbls/day)	1,595	1,120
Gas (mcf/day)	1,863	172
Total (boe/day)	1,906	1,149
EXIT PRODUCTION		
Oil (bbls/day)	2,065	1,164
Gas (mcf/day)	3,660	202
Total (boe/day)	2,675	1,197
AVERAGE FIELD PRICES DURING YEAR		
Oil ($/bbl)	$ 30.53	$ 39.79
Gas ($/mcf)	$ 3.66	$ 6.15

PER BOE INFORMATION

Revenue	$ 29.14	$ 39.72
Operating expenses	$ 8.38	$ 9.58
Royalties, net of ARTC	$ 4.58	$ 7.87
OPERATING NETBACKS	$ 16.18	$ 22.27
General and administrative	$ 0.81	$ 3.31
Interest	$ 0.85	$ 1.98
CORPORATE NETBACKS	$ 14.52	$ 16.98
Restructuring charges	$ 1.34	--
Income taxes	$ 0.98	$ 4.10
Depletion and depreciation	$ 9.88	$ 7.04
NET EARNINGS	$ 2.32	$ 5.84

2001 HIGHLIGHTS

o INCREASED EXIT PRODUCTION RATE BY 123% FROM 1,197 BOE/DAY IN 2000 TO 2,675 BOE/DAY IN 2001

- INCREASED AVERAGE ANNUAL PRODUCTION BY 66% FROM 1,149 BOE/DAY IN 2000 TO 1,906 BOE/DAY IN 2001
- IMPROVED CASH FLOW BY 67% FROM $5.88 MILLION IN 2000 TO $9.81 MILLION IN 2001
- REDUCED OPERATING COSTS PER BOE BY 13% TO $8.38 PER BOE IN 2001 FROM $9.58 PER BOE IN 2000
- REDUCED G&A COSTS PER BOE BY 76% TO $0.81 PER BOE IN 2001 FROM $3.31 PER BOE IN 2000
- INCREASED REVENUE BY 21% FROM $16.7 MILLION IN 2000 TO $20.3 MILLION IN 2001
- IMPROVED CASH FLOW PER SHARE BY 5% FROM $1.33 IN 2000 TO $1.40 IN 2001

[BAR CHART]	[BAR CHART]	[BAR CHART]
2001 PRODUCTION	2001 RESERVES	1998-2001 PRODUCTION

[BAR CHART]	[BAR CHART]	[BAR CHART]
REVENUE: 1998-2001 (CDN $)	CASH FLOWS 1998-2001 (CDN $)	CASH FLOW PER SHARE: 1998-2001 (CDN $)

OPERATIONS REVIEW

The acquisition of Big Horn in August of 2001 was the critical event which changed Enterra from an acquisition driven entity into one focused on the exploitation of its current properties and the development of its prospects.

Big Horn's core areas included the Peace River Arch area of Alberta, West Central Alberta and South West Saskatchewan. These areas are also home to Enterra's core fields of Mitsue, Sylvan Lake and the Altares, B.C. exploration prospect. Enterra's current focus is to grow production in these areas while reducing our operating expenses in order to maximize our internal cash flows in 2002.

Enterra has a substantial inventory of prospects, the development of which has the potential to double the size of the Company's existing production and reserve base.

The following represents a sampling of Enterra's activity in 2001 and early 2002:

NORTHWEST ALBERTA & BC

ALTARES

Enterra has a 10,000 acre exploration farmin in Northeast BC. The Altares prospect sits adjacent to the 200+ Bcf Kobes Creek gas field. There are six zones of production in the area, the Cretaceous Bluesky, Cadomin, Triassic Baldonnel, Charlie Lake / Halfway and Debolt. Each zone has potential deliverability of 1 to 5 mmcf/day and reserves of 2 to 5 Bcf of gas. Enterra also purchased 5,000 acres of crown land to completely secure the prospect. Enterra drilled the first test well during Q3, 2001 encountering gas in the Cadomin and Charlie Lake / Halfway intervals. The Cadomin, which initially appeared very prolific, flowed 4 mmcf/day equivalent on a drill stem test and then proved to be marginal after extensive testing determined that reservoir quality deteriorated significantly away from the wellbore. Enterra has committed to drill an additional well on the farmin lands in 2002 that will test the prolific Debolt formation. Enterra's working interest in the Altares farmin lands is 22.15% and in the Crown lands is 40%.

WORSLEY

A new Montney oil pool was discovered in Northwest Alberta in 1998. The Monte reservoir consists of light oil trapped above water. Enterra plans to develop this pool in 2002 utilizing horizontal drilling technology. There is potential for at least four wells on Company lands with each well capable of producing 100 bbls/day and reserves of 200 mbbls. Solution gas will also be tied into existing gathering systems and processed at a nearby gas plant. The Company has a 50% working interest in this play. An analogous pool has been developed in the area resulting in the first horizontal well going on production in late 2000 at 300 bbls/day and has produced in excess of 75 mbbls of reserves to date.

GORDONDALE

Enterra acquired interests ranging from 30% to 100% in five contiguous sections of land in the Gordondale area of Northwest Alberta. This exploration area is gas prone in up to eight formations ranging from the Doe Creek at depths of less than 200 m to the Debolt formation at a depth of 2,450 m. Enterra shot a 3-D seismic program over the area in 2001 and identified several locations with multi zone potential. In early 2002, the first well was drilled, encountering gas potential in the Kiskatinaw, Taylor Flats, Montney and Halfway formations. The Company completed the Kiskatinaw formation which had an initial production rate of approximately 2 mmcf/day. Enterra has plans to drill several more development and exploration wells at Gordondale and estimates net deliverability from the area could exceed 500 boe/day.

ROLLA

A significant Dunvegan gas pool was discovered in Northwest Alberta in late 2000. Two wells were drilled in 2001 that are each capable of producing over 1 mmcf/day. Engineering data and further geology determined that the pool could contain more than 10 Bcf of recoverable gas reserves. The gas was tied into a nearby plant in early 2002. The two wells are currently flowing a combined rate 1 mmcf/day net to Enterra. The Company has also identified other locations on its lands that will be drilled in 2002. Enterra has a 50% working interest at Rolla.

CENTRAL ALBERTA

SOUNDING LAKE

Sounding Lake continues to be Enterra's largest area in terms of production, representing approximately 25% of the Company's 2001 production. Enterra's focus on the area will remain strong through 2002 with an aggressive drilling schedule combined with additional reduction in operating costs. The majority of production and future activity in the area will target Dina and Cummings oil. A highlight at Sounding Lake in 2001 was the discovery of a new Belly River gas pool.

[MAP]

Two wells are now producing from this pool at facility restricted rates of 1.5 mmcf/day net to the Company. Reserves are estimated at 2 Bcf of gas. Enterra also structured a unique farmout arrangement to construct a central facility, optimize and infill drill the Sounding Lake North oil pool. This farmout arrangement will maximize value to Enterra by eliminating required 2002 capital expenditures and reducing operating expenses.

Enterra will also continue development of the Sounding Lake East, Rex oil discovery. The Company will shoot a 3-D seismic survey in mid 2002 to substantiate four geologically defined locations. The discovery well, drilled in 1997, has produced 65 mbbls of oil and is still producing 50 bbls/day.

SYLVAN LAKE

Enterra continues to be excited about the Pekisko infill development potential at Sylvan Lake. Geological mapping and petrophysics suggest that there are at least six infill drilling locations. Defined by their proximity to an area of the reservoir that has undergone dolomitization. This process increases the porosity and permeability of the predominately limestone reservoir. Although the best producer at Sylvan Lake is capable of producing in excess of 100 bbls/day, Enterra is targeting production from the six infill wells to be 75 bbls/day of oil per well.

Enterra also successfully recompleted a suspended well at Sylvan Lake to a Viking gas producer. This well is expected to be tied in and on stream by June 2002 at an initial rate of 1 mmcf/day.

SOUTHWEST SASKATCHEWAN

SUPERB

Enterra acquired a shut in Waseca oil pool in Southwest Saskatchewan for $2.8 million in June of 2001. The Company equipped and reactivated four existing producers. Combined gross production from these wells is 250 bbls/day. Late in 2001, Enterra added four Waseca infill oil wells.

NEW PROSPECTS

One of Enterra's most valuable asset is its inventory of future projects. The development of these prospects has the potential to double the size of the Company's existing production and reserve base. New prospects are constantly added to our inventory in order to maintain our growth from year to year. The Company's strategy is to maintain a balanced inventory of exploration and development prospects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Company included in this Annual Report. All amounts are stated in Canadian dollars except where otherwise indicated. Natural gas volumes have been converted to a crude oil equivalent using a ratio of 6 mcf to 1 bbl of oil.

OVERVIEW

Enterra achieved significant gains in 2001 in terms of production, revenue and cash flow. Effective August 1, 2001 Enterra completed its takeover of Big Horn Resources Ltd., resulting in a doubling of its reserve base, a large inventory of drilling prospects, a substantial land position and a new management team. The Company's focus changed from an acquisition driven strategy to one based on exploitation of current properties along with selective high impact exploration plays. Both production and cash flow increased by more than 60% in 2001, an impressive achievement given the rapid erosion of product prices in the second half of the year. There were immediate synergies achieved by merging Big Horn's operations with Enterra, as evidenced by a 13% reduction in operating costs per boe and a 75% reduction in general and administrative costs per boe.

SUMMARIZED FINANCIAL AND OPERATIONAL DATA
(in Thousand's except for volumes and per share amounts)

	YEAR 2001
Exit production rate (boe per day)	2,675
Annual production revenue	$ 20,264
Average annual production volumes (boe per day)	1,906
Cash flow from operations for the year	$ 9,810
Cash flow per share for the year	$ 1.40
Earnings (including $929,000 of one-time restructuring charges in 2001)	$ 1,617
Earnings per share for the year	$ 0.23
Average number of shares outstanding during year	6,992,393
Average price per bbl of oil during year	$ 30.53
Average price per mcf of natural gas during year	$ 3.66
Operating costs per boe during year	$ 8.38
General and administrative expenses per boe during year	$ 0.81

PRODUCTION REVENUE

Production revenue increased by 21% in 2001 mainly due to volume increases from the acquisition of the Grand Forks property in Q1 and the Big Horn acquisition in Q3. Higher commodity prices were also in effect, especially for gas, in the first half of 2001. Average oil prices received in 2001 were $30.53 per bbl compared with $39.79 per bbl in 2000, a 23% decrease. Average gas prices received in 2001 were $3.66 per mcf compared to $6.15 per mcf in 2000, a 40% decrease.

The Company drilled 20 wells (10.59 net) in 2001, resulting in 9 oil wells (4.97 net) and 8 gas wells (3.78 net) for a success ratio of 85%. Enterra's production in 2001 averaged 1,906 boe/day, consisting of 1,595 bbls/day of oil and 1,863 mcf/day of natural gas, for a mix of 84% oil and 16% natural gas.

The Company exited 2001 at a rate of 2,675 boe/day, consisting of 2,065 bbls/day of oil and 3,660 mcf/day of natural gas, for a mix of 77% oil and 23% natural gas. This represents a 123% increase over the 2000 exit rate of 1,197 boe/day.

[BAR CHART]

REVENUE: 1998-2001 (CDN $)

PRODUCTION REVENUE
(in Thousand's except for volumes and pricing)

	YEAR 2001	YEAR 2000	CHA
Crude oil and natural gas liquids	$ 7,773	$ 6,312	+
Natural gas	2,491	388	+5
Total production revenue	$ 20,264	$ 16,700	+
VOLUMES			
Average oil production during year (in bbls/day)	1,595	1,120	+
Average gas production during year (in mcf/day)	1,863	172	+9
Average total production during year (in boe/day)	1,906	1,149	+
Exit oil production (in bbls/day)	2,065	1,164	+
Exit gas production (in mcf/day)	3,660	202	+17
Exit total production (in boe/day)	2,675	1,197	+1
PRICING			
Average price received per bbl of oil during year	$ 30.53	$ 39.79	-
Average price received per mcf of natural gas during year	$ 3.66	$ 6.15	-

PRODUCTION EXPENSES

Production expenses increased by 45% in 2001 as a result of the higher production levels generated during the year. Enterra was able to reduce its operating costs on a per boe basis by 13% as a result of the early synergies from the Big Horn acquisition. Production expenses per boe in Q4, 2001 were $6.22, the lowest level ever achieved by Enterra. These improvements will continue throughout 2002.

PRODUCTION EXPENSES
(in Thousand's except for percentages and per boe amounts)

	YEAR 2001	YEAR 2000	CHANGE
Production expenses	$ 5,830	$ 4,030	+45%
As a percentage of production revenue	29%	24%	+21%
Production expenses per boe	$ 8.38	$ 9.58	-13%

ROYALTIES

Royalties, which include Crown, freehold and overriding royalties, decreased by 4% in 2001 as a result of the lower commodity prices in effect during 2001, especially the lower gas prices in the latter half of the year.

ROYALTIES
(in Thousand's except for percentages and per boe amounts)

	YEAR 2001	YEAR 2000	CHANGE
Royalties, net of Alberta Royalty Tax Credit	$ 3,182	$ 3,310	-4%
As a percentage of production revenue	16%	20%	-20%
Royalties per boe	$ 4.57	$ 7.87	-42%

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses decreased by 59% in 2001 as a result of the substantial synergies generated by the merger of the Big Horn operations with Enterra. Overhead recovery costs, which are a recovery of overhead costs related to capital expenditures, also contributed to reduce the general and administrative costs in 2001.

GENERAL AND ADMINISTRATIVE EXPENSES
(in Thousand's except for percentages and per boe amounts)

	YEAR 2001	YEAR 2000	CHANGE
General and administrative expenses	$ 565	$ 1,391	-59%
As a percentage of production revenue	3%	8%	-63%
General and administrative expenses per boe	$ 0.81	$ 3.31	-76%

INTEREST EXPENSE

Interest expense decreased in 2001 by 29% mainly due to the lower interest rates in effect during 2001 and to a lower average outstanding loan balance during the first half of 2001.

INTEREST EXPENSE
(in Thousand's except for percentages and per boe amounts)

	YEAR 2001	YEAR 2000	CHANGE
Interest expense	$ 589	$ 833	-29%
As a percentage of production revenue	3%	5%	-40%
Interest expense per boe	$ 0.85	$ 1.98	-57%

DEPLETION AND DEPRECIATION

Depletion and depreciation expense increased significantly in 2001, both in total value (up 132%) and as a percentage of revenue (up 89%). The increase is due to a higher production rate and to a higher depletable base as a result of the Big Horn merger.

DEPLETION AND DEPRECIATION
(in Thousand's except for percentages and per boe amounts)

	YEAR 2001	YEAR 2000	CHANGE
Depletion and depreciation expense	$6,870	$2,960	+ 132%
As a percentage of production revenue	34%	18%	+ 89%
Depletion and depreciation expense per boe	$ 9.88	$ 7.04	+ 40%

RESTRUCTURING CHARGES

Enterra incurred $929,037 in restructuring charges during 2001 in conjunction with the acquisition of Big Horn. These charges are made up of severance and termination payments paid to former officers, employees and consultants of Enterra Energy Corp.

INCOME AND CAPITAL TAXES

Income taxes decreased by 60% in 2001 as a result of the reduced earnings. Current income taxes were substantially reduced as a result of the Big Horn acquisition, which provided the basis for a more effective tax structure within the Enterra group.

INCOME AND CAPITAL TAXES

(in Thousand's except for percentages and per boe amounts)

	YEAR 2001	YEAR 2000	CHANGE
Income tax expense	$ 682	$ 1,722	- 60%
As a percentage of production revenue	3%	10%	- 70%
Income tax expense per boe	$ 0.98	$ 4.10	- 76%
ESTIMATED TAX POOLS			
Canadian oil and gas property expense (COGPE)	$16,832	$ 7,654	
Canadian exploration expense (CEE)	1,606	--	
Canadian development expense (CDE)	6,250	2,666	
Undepreciated capital cost (UCC)	18,462	6,680	
Other	2,152	2,560	
	$45,302	$19,560	+132%

EARNINGS

Net earnings for the year came to $1,617,055 which is a 34% decrease from 2000 ($2,453,119). Despite the increased production in 2001 the Company was subject to a pricing environment which was, on average, 27% lower in 2001 than the previous year. Enterra's earnings were also reduced by one-time restructuring charges of almost $1 million. And since the depletion and depreciation expense is not affected by pricing, i.e. a decrease in commodity prices does not result in a corresponding decrease in depletion and depreciation expense, the 2001 depletion and depreciation expense was substantially higher in 2001 than 2000.

The average number of shares outstanding in 2001 also increased by 58% which contributed to the decline in earnings per share in 2001 to $0.23 per share, a 58% decrease from 2000.

EARNINGS
(in Thousand's except for number of shares and per share amounts)

	YEAR 2001	YEAR 2000	CHANGE
Earnings from operations	$ 3,228	$ 4,175	- 23%
Less restructuring charges	(929)	--	
Less income taxes	(682)	(1,722)	
Net earnings	$ 1,617	$ 2,453	- 34%
Net earnings per share	$ 0.23	$ 0.55	- 58%
Average number of shares outstanding during year	6,992,393	4,421,844	+ 58%

CASH FLOW

Cash flow from operations grew by 67% in 2001 to $9,810,268. This amount included a $761,302 net gain from the settlement of a hedging contract in the first quarter of 2001. Cash flow per share in 2001 was $1.40 per share, a 5% increase from 2000.

CASH FLOW
(in Thousand's except for number of shares and per share amounts)

	YEAR 2001	YEAR 2000	CHANGE
Net earnings	$ 1,617	$ 2,453	- 34%
Add back depletion and depreciation	6,870	2,960	
Add back future income taxes	562	406	
Add back deferred gain on hedge, net of amortization	761	--	
Add back non-cash interest expense	--	56	
Cash flow from operations	$ 9,810	$ 5,875	+ 67%
Cash flow per share	$ 1.40	$ 1.33	+ 5%
Average number of shares outstanding during year	6,992,393	4,421,844	+ 58%

(BAR CHART)

CASH FLOWS 1998-2001 (CDN $)

CAPITAL EXPENDITURES

Capital expenditures for 2001 were $49,309,000 (excluding $1.7 million received in proceeds from minor dispositions and $11.3 million related to the tax effect of the Big Horn acquisition). These expenditures include the acquisition of the Grand Forks property in Q1 ($5.5 million), the Big Horn corporate acquisition in Q3 ($35.6 million) and the Company's regular 2001 drilling program ($8.2 million). Enterra's finding costs for 2001 were broken down among these three groups in order to show the different costs as they relate to the assets acquired through the Grand Forks property acquisition, the Big Horn corporate acquisition and the "drill bit".

The finding costs for corporate acquisitions are typically more expensive than either property acquisition or in-house drilling expenditures because the assets being acquired include undeveloped land, inventory of prospects and, in the case of the Big Horn acquisition, a full cycle management team.

FINDING COSTS PER BOE***
(capital expenditures are in thousand's)

GRAND FORKS PROPERTY ACQUISITION	BIG HORN CORPORATE ACQUISITION	2001 DRILLING PROGRAM

Proved reserves	$ 7.10	$ 15.12	$ 6.00
Proved and 1/2 probable reserves	$ 6.82	$ 12.65	$ 4.90
Proved and probable reserves	$ 6.57	$ 10.87	$ 4.14
Capital expenditures	$ 5,500	$ 35,600	$ 8,200

*** Reserve information based on January 1, 2002 reserve report prepared by McDaniel & Associates Consultants Ltd. of Calgary, AB

RESERVE INFORMATION

Enterra increased its reserve base by 181% in 2001. The Company had proved reserves of 5,887 mboe and probable reserves of 2,266.5 mboe, for a total of 8,153.5 mboe.

SUMMARIZED RESERVE INFORMATION***

	OIL RESERVES (MBBLS)	GAS RESERVES (MMCF)	TOTAL RESERVES (MBOE)
Proved reserves	4,103.3	10,702.0	5,887.0
Probable reserves	1,231.9	6,207.8	2,266.5
Total proved and probable	5,335.2	16,909.8	8,153.5

*** Based on January 1, 2002 reserve report prepared by McDaniel & Associates Consultants Ltd. of Calgary, AB

TOTAL PROVED AND PROBABLE RESERVES (PER SHARE)

	YEAR 2001	YEAR 2000	CHANGE
Total proved and probable reserves (mboe, based on escalating prices)	8,153.5	2,904.9	+ 181%
Total number of shares outstanding at year-end	9,150,622	4,595,139	+ 99%
Total proved and probable reserves on a per share basis	0.89	0.63	+ 41%

SUMMARIZED PRESENT WORTH VALUES***
(before income taxes, in `000s)

	@ 0.0%	@ 10.0%
Proved reserves	$ 93,130.4	$65,767.
Probable reserves	$ 36,963.5	$20,984.
Total proved and probable	$130,093.9	$86,751.
Total proved and probable per share (based on 9,150,622 shares)	$ 14.22	$ 9.4

*** BASED ON JANUARY 1, 2002 RESERVE REPORT PREPARED BY MCDANIEL USING CONSTANT PRICES

	@ 0.0%	@ 10.0%
Proved reserves	$ 73,929.5	$50,785.
Probable reserves	$ 31,829.1	$17,587.
Total proved and probable	$105,758.6	$68,373.
Total proved and probable per share (based on 9,150,622 shares)	$ 11.56	$ 7.4

*** BASED ON JANUARY 1, 2002 RESERVE REPORT PREPARED BY MCDANIEL USING ESCALATING PRICES

LIQUIDITY AND CAPITAL RESOURCES

The Company completed a public offering in the United States in January of 2001, consisting of 1,000,000 units of one common share and one share purchase warrant for US$4.55 per unit. The share purchase warrants will expire on May 17, 2002 and are exercisable at US$3.50 per share.

Effective August 1, 2001, Enterra acquired 100% of Big Horn for cash of $2.2 million (not including acquisition costs) and the issuance of 3,496,436 common shares and 7,418,336 preferred shares. Enterra has also repurchased, through its previously announced share buyback program, 232,500 of its common shares during 2001. The Company currently has 9,150,622 common shares outstanding.

The Company's total debt, including working capital deficiency and preferred shares, at December 31, 2001 was $26.9 million.

RESERVE CONTINUITY OIL AND GAS (MBOE)

	PROVED	PROBABLE	TOTAL
DECEMBER 31, 2000	2,261.4	643.5	2,904.9
Discoveries and extensions	1,224.8	615.2	1,840.0
Purchases	3,277.1	981.7	4,258.8
Dispositions	(113.1)	(30.0)	(143.1)
Production	(695.5)	-	(695.5)
Revision of prior estimates	(67.7)	56.1	(11.6)
DECEMBER 31, 2001	5,887.0	2,236.7	8,153.5

Subsequent to December 31, 2001, the Company took several steps to strengthen its balance sheet and its working capital position:

(a) The Company sold its Grand Forks property for $5.3 million in April 2002. Proceeds from the sale were applied to debt reduction and working capital.

(b) The Company repurchased 6,123,870 of its Series 1 preferred shares for $2.3 million in March of 2002, resulting in a gain on redemption of $2,905,290. The remaining 1,294,466 preferred shares are redeemable for $0.85 per share at any time by Enterra. Subsequent to August 16, 2002 they are retractable at the option of the holder for $0.85 per share.

SUMMARIZED BALANCE SHEET INFORMATION
(in Thousand's except per share amounts)

	YEAR 2001	YEAR 2000	CHANGE
Working capital (deficiency)	$ (2,229)	$ (3,165)	- 30%
Bank loan	$ 18,409	$ 8,403	+ 119%
Series 1 preferred shares	$ 6,306	$ --	N/A
Shareholders' equity	$ 33,524	$ 7,371	+ 355%
Shareholders' equity on a per share basis	$ 3.66	$ 1.60	+ 129%

(PIE CHART)

DEVELOPED ACRES	
GROSS	41,605
NET (54%)	22,646
UNDEVELOPED ACRES	
GROSS	89,296
NET (66%)	58,590
TOTAL ACRES	
GROSS	130,901
NET (62%)	81,236

Because of the volatility in crude oil pricing in the second half of 2001, Enterra implemented a six-month costless collar on 500 bbls/day of oil production which started on November 1, 2001 and will expire on April 30, 2002. The costless collar has a floor of $20.00 US/bbl with a ceiling of $24.00 US/bbl.

The Company is poised for substantial growth in 2002.

Enterra's inventory of prospects will be prioritized and developed based on each prospect's potential impact on the Company's 2002 production. The focus will be on prospects which can add immediate value to the Company.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

Management is responsible for the preparation of the financial statements and the consistent presentation of all other financial information in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles, and the other financial information appearing throughout the annual report is presented on a basis consistent with the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced in a timely manner.

External auditors, appointed by the shareholders, have examined the financial statements. Their report is presented below. The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

/s/ John McGrain	/s/ Reg Greenslade
John McGrain	Reg Greenslade, P.Eng.
Chairman	President and Chief Executive Officer

AUDITOR'S REPORT

To the Shareholders

We have audited the consolidated balance sheets of Enterra Energy Corp. as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

We also audited the adjustments described in note 2(e) to the consolidated financial statements that were applied to restate the consolidated financial statements for the year ended December 31, 1999. In our opinion, such adjustments are appropriate and have been properly applied. The 1999 financial statements, prior to such adjustments, were audited by other auditors who expressed an opinion without reservation on these statements in their report dated March 31, 2000.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years in the three-year period ended December 31, 2001 and shareholders' equity as at December 31, 2001 and 2000 to the extent summarized in note 13 to the consolidated financial statements.

Chartered Accountants

(Signature) KPMG LLP
Calgary, Canada
March 6, 2002, except as to note 12,
which is as of April 12, 2002

CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)

	DECEMBER 31 2001	DECEMBER 31 2000 (RESTATED - NOTE 2(
ASSETS		
CURRENT ASSETS		
Cash	$ 43,364	$ 1,443
Accounts receivable	6,296,639	2,413,054
Prepaid expenses and deposits	583,058	91,942
	6,923,061	2,506,439
PROPERTY AND EQUIPMENT (NOTE 4)	73,139,497	18,335,474
INVESTMENTS (NOTE 5)	--	422,000
DEFERRED SHARE ISSUE COSTS	--	837,555
	$80,062,558	$22,101,468
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 8,989,389	$ 4,354,949
Income taxes payable	163,103	1,316,171
	9,152,492	5,671,120
BANK INDEBTEDNESS (NOTE 6)	18,408,904	8,403,000
Provision for future abandonment and site restoration costs	751,088	250,847
Future income tax liability (note 7)	11,159,101	405,888

Deferred gain (note 10)	761,302	--
Series 1 preferred shares (note 9)	6,305,586	--
	46,538,473	14,730,855
Shareholders' Equity		
Share capital (note 8)	29,568,263	5,031,846
Retained earnings	3,955,822	2,338,767
	33,524,085	7,370,613
Commitments (note 11)		
Subsequent events (note 12)		
	$80,062,558	$22,101,468

Approved on behalf of the Board:

/s/ Reg Greenslade

Reg Greenslade, P.Eng.
Director

/s/ John McGrain

John McGrain
Director

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS AND
RETAINED EARNINGS
Year Ended December 31 (Expressed in Canadian Dollars)

	2001	2000 (RESTATED - NOTE 2(
REVENUE		
Oil and gas	$ 20,264,396	$ 16,700,151
EXPENSES		
Royalties, net of ARTC	3,182,340	3,310,138
Production	5,829,613	4,029,703
General and administrative	565,270	1,391,297
Interest on long-term debt	589,169	833,342
Depletion, depreciation and future site restoration	6,869,912	2,960,493
	17,036,304	12,524,973
EARNINGS (LOSS) BEFORE THE FOLLOWING	3,228,092	4,175,178
Restructuring charges	(929,037)	--

Gain on sale of investments	--	--
EARNINGS (LOSS) BEFORE INCOME TAXES	2,299,055	4,175,178
Income taxes (note 7):		
Current	120,000	1,316,171
Future	562,000	405,888
	682,000	1,722,059
NET EARNINGS (LOSS)	1,617,055	2,453,119
RETAINED EARNINGS (DEFICIT):		
BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	2,645,504	314,304
Adjustment for change in accounting policy (note 2(e))	(306,737)	(428,656)
BEGINNING OF YEAR, AS RESTATED	2,338,767	(114,352)
END OF YEAR	$ 3,955,822	$ 2,338,767
EARNINGS (LOSS) PER SHARE:		
Basic	$ 0.23	$ 0.55
Diluted	$ 0.23	$ 0.53

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	2001	2000 (RESTATED - NOTE 2(E))
CASH PROVIDED BY (USED IN):		
OPERATIONS		
Net earnings (loss)	$ 1,617,055	$ 2,453,119
Add non-cash items:		
Depletion and depreciation	6,869,912	2,960,493
Future income taxes	562,000	405,888
Deferred gain	1,680,031	--
Amortization of deferred gain	(918,729)	--
Gain on sale of investments		
Non-cash interest expense	--	56,000
Funds from operations	9,810,269	5,875,500
Net change in non-cash working capital items:		
Accounts receivable	(1,371,654)	(1,728,267)
Prepaid expenses	(161,941)	(91,942)
Accounts payable and accrued liabilities	2,205,753	3,667,907
Income taxes payable	(1,153,068)	1,316,171

	9,329,359	9,039,369
FINANCING		
Bank indebtedness	1,055,904	5,803,000
Issue of common shares, net of issue costs	5,457,625	1,312,517
Repurchase of shares	(753,300)	--
Deferred share issue costs	--	(837,555)
	5,760,229	6,277,962
INVESTING		
Capital assets additions	(14,958,086)	(20,853,515)
Acquisition of Big Horn Resources Ltd.	(2,190,048)	--
Acquisition of subsidiaries, net of cash		
Proceeds on disposal of property and equipment	1,700,500	5,764,570
Investments	422,000	(250,000)
Future abandonment and site restoration costs	(22,033)	(19,231)
	(15,047,667)	(15,358,176)
Increase (decrease) in cash	41,921	(40,845)
Cash, beginning of year	1,443	42,288
Cash, end of year	$ 43,364	$ 1,443
Funds from operations per share:		
Basic	$ 1.40	$ 1.33
Diluted	$ 1.40	$ 1.23

During 2001, the Company paid $589,169 (2000 - $815,742 and 1999 - $131,872) of interest on long-term debt.

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2001 and 2000

1. CORPORATE HISTORY

Enterra Energy Corp. (formerly Westlinks Resources Ltd.)("Enterra") was formed on June 30, 1998 by the amalgamation of Temba Resources Ltd. ("Temba") and PTR Resources Ltd. ("PTR") in a share-for-share exchange. The combination was recorded using the purchase method of accounting with Temba being identified as the acquirer.

Effective August 1, 2001 Enterra acquired 100% of the common shares of Big Horn Resources Ltd. ("Big Horn"), a junior oil and gas company listed on the Toronto Stock Exchange, by the way of a plan of arrangement. Consideration consisted of cash of $2,205,447 (not including acquisition costs) and the issuance of 3,496,436 common shares and 7,418,332 preferred shares. The terms of the Series 1 preferred shares are described in note 9. In addition, approximately 460,915 Enterra options were issued in exchange for Big Horn options.

Effective December 10, 2001 Westlinks Resources Ltd. changed its name to Enterra Energy Corp. A new stock option plan was also adopted at that time.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. Substantially all of the exploration and production activities of the Company are conducted jointly with others and these financial statements reflect only the Company's proportionate interest in such activities. The consolidated financial statements include the accounts of Big Horn effective from August 1, 2001.

(a) Petroleum and natural gas properties

The Company follows the "full cost" method of accounting for petroleum and natural gas properties. All costs related to the exploration for and the development of oil and gas reserves are capitalized into a single cost centre representing the Company's activity which is undertaken exclusively in Canada. Costs capitalized include land acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties and costs of drilling productive and non-productive wells. Proceeds from the disposal of properties are applied as a reduction of cost without recognition of a gain or loss except where such disposals would result in a major change in the depletion rate.

Capitalized costs are depleted and depreciated using the unit-of-production method based on the estimated gross proven oil and natural gas reserves before royalties as determined by independent engineers. Units of natural gas are converted into barrels of equivalents on a relative energy content basis.

Capitalized costs, net of accumulated depletion and depreciation, are limited to estimated future net revenues from proven reserves, based on year-end prices, undiscounted, less estimated future abandonment and site restoration costs, general and administrative expenses, financing costs and income taxes.

Estimated future abandonment and site restoration costs are provided for over the life of proven reserves on a unit-of-production basis. The annual charge is included in depletion and depreciation expense and actual abandonment and site restoration costs are charged to the provision as incurred. The amounts recorded for depletion and depreciation and the provision for future abandonment and site restoration costs are based on estimates of proven reserves and future costs. The recoverable value of capital assets is based on a number of factors including the estimated proven reserves and future costs. By their nature, these estimates are subject to measurement uncertainty and the impact on financial statements of future periods could be material.

(b) Income taxes

The Company follows the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences"

(differences between the accounting basis and the tax basis of the assets and liabilities) and are measured using the currently enacted, or substantially enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

(c) Financial instruments

(i) Fair value of financial instruments:

The Company's financial instruments consist of cash, accounts receivable, bank indebtedness, accounts payable, accrued liabilities and preferred shares. The fair values of all of the Company's financial instruments approximate their carrying values.

(ii) Foreign currency exchange risk:

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices received are referenced to U.S. dollar denominated prices.

(iii) Credit risk:

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Company's natural gas, crude oil and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

(d) Estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

(e) Change in accounting policy

The Company has changed its method of accounting for petroleum and natural gas properties from the "successful efforts" method to the "full cost" method, as set out in note 2(a).

Prior to this change of policy, the Company followed the "successful efforts" method whereby the costs to acquire proven and unproven properties and costs to drill development wells and successful exploratory wells were capitalized. Costs of unsuccessful exploratory wells, geological and geophysical activities and lease rentals were expensed. The carrying value of the petroleum and natural gas properties was assessed periodically on a property-by-property basis by comparing the discounted future cash flow and the carrying amount of the petroleum and natural gas properties. When assets were sold, retired or otherwise disposed of, the applicable costs and accumulated depletion and depreciation were removed from the accounts and the resulting gain or loss was recognized.

The "full cost" method has been adopted retroactively and prior financial statements have been restated. The impact of these changes on the December 31, 2000 and 1999 consolidated financial statements was as follows:

	2000	1999
BALANCE SHEET:		
Capital assets, decrease	$ 532,276	$ 726,449
Future income tax liability, decrease	225,539	297,793
Retained earnings, decrease	306,737	428,656
STATEMENTS OF OPERATIONS AND CASH FLOWS:		
Operating costs, decrease	--	2,655
Depletion, depreciation and site restoration, decrease	1,532,730	136,600
Gain on sale of oil and gas properties, decrease	1,338,557	91,402
Future income taxes, increase	72,254	--
Future income tax recovery, decrease	--	246,884
Net earnings (loss), increase	121,919	(199,031)
Funds from operations, increase	--	2,655
Earnings (loss) per share, increase	0.03	(0.08)
Funds from operations per share, increase	--	--

The effect of this change on the December 31, 2001 consolidated financial statements is not significant.

(f) Per share amounts

The Canadian Institute of Chartered Accountants has approved a new standard for the computation, presentation and disclosure of per share amounts. The Corporation has retroactively adopted the new standard. The new standard has been applied retroactively with no effect on prior period per share calculations. Under the new standard, the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the diluted calculations.

The weighted average number of common shares outstanding during the years ended December 31, 2001 and 2000 were 6,992,393 and 4,421,844, respectively. In computing diluted earnings per share 5,114 shares

(2000 - 6,849 shares and 1999 - nil shares) were added to the weighted average number of common shares outstanding during the year as a result of the dilutive effect of stock options. No adjustments were required to reported earnings or funds from operations in computing diluted per share amounts.

(g) Stock-based compensation

The Company has a stock option plan which is described in note 8. No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of consideration paid over the carrying amount of the stock or stock option cancelled is charged to contributed surplus.

(h) Comparative figures

The presentation of certain figures of the previous year has been changed to conform with the presentation adopted for the current year.

(i) Revenue recognition

Revenue from the sale of oil and gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

3. BUSINESS COMBINATION

Effective August 1, 2001 Enterra acquired 100% of the issued and outstanding shares of Big Horn Resources Ltd. Details of the acquisition are as follows:

Assets acquired:	
Current assets, excluding cash	$ 2,841,106
Property and equipment	46,874,349
	49,715,455
Liabilities assumed:	
Current liabilities	2,428,687
Bank indebtedness	8,950,000
Provision for future abandonment and site restoration costs	280,274
Future income tax liability	11,309,464
	22,968,425

Net non-cash assets acquired	26,747,030
Cash acquired	37,599
	$26,784,629
Consideration:	
Cash	$ 2,227,647
Preferred shares (7,418,336 issued)	6,305,586
Common shares (3,496,436 issued)	18,251,396
	$26,784,629

The consideration value attributed to the common shares contemplates an element related to the former stock options of Big Horn that were exchanged for stock options of the Company. However, this element was not considered significant for separate reporting.

4. PROPERTY AND EQUIPMENT

	December 3	
	COST	ACCUMULA DEPLETIO DEPRECIA
Petroleum and natural gas properties	$ 82,574,219	$ 9,939
Office furniture and equipment	843,464	338
	$ 83,417,683	$ 10,278

	December 3	
	COST	ACCUMULA DEPLETIO DEPRECIA
Petroleum and natural gas properties	$ 21,858,219	$ 3,638
Office furniture and equipment	156,295	40
	$ 22,014,514	$ 3,679

In conducting its ceiling test evaluation the Company followed generally accepted accounting principles which provide for a two-year exemption from write-down where the purchase price of reserves had been determined on a basis which provided a higher amount than the ceiling test value, and where the excess was not considered to represent a permanent impairment in the ultimate recoverable amount. If the two-year exemption had not been used, the Company would have taken a write-down of $8.1 million based on prices at December 31, 2001 of $22.05 per bbl of oil and $3.42 per mcf of gas.

Enterra qualified for the exemption in connection of its acquisition of Big Horn in August 2001.

At December 31, 2001 costs of undeveloped land of $8,053,000 (2000 - $60,253) were excluded from the calculation of depletion expense.

5. INVESTMENTS

Investments in Red Raven Resources Inc. and Raptor Capital Corporation were disposed of during 2001 as part of the severance amounts paid to former directors and officers of the Company.

6. BANK INDEBTEDNESS

Bank indebtedness represents the outstanding balance under a line of credit of $21,500,000 with the Alberta Treasury Branches. Drawings bear interest at 0.25% above the bank's prime lending rate. Security is provided by a first charge over all of the Company's assets. The balance is repayable on demand.

While the loan is due on demand, the company is not subject to scheduled repayments. The lender has advised the Company that, subject to annual review of the borrowing base and the Company continuing to comply with the terms of the loan agreement, no payments will be required in 2002.

7. INCOME TAXES

The income tax provision is calculated by applying Canadian federal and provincial statutory tax rates to pretax income with adjustments as set out in the following table:

	2001	2000
Earnings before income taxes	$ 2,299,055	$ 4,175,178
Combined federal and provincial income tax rate	42.6%	44.6%
Computed income tax provision	979,397	1,862,964
Increase (decrease) resulting from:		
Resource allowance	(1,211,828)	(942,523)
Non-deductible Crown royalties, net of ARTC	781,332	864,085
Capital loss carryforward not previously recognized	--	--
Non-taxable portion of capital gain	--	--
Capital taxes	120,000	--
Other	13,099	(62,467)
Change in valuation allowance	--	--

	$ 682,000	$ 1,722,059

The components of the net future income tax liability at December 31, 2001 were as follows:

Future income tax assets:	
Share issue costs	$ 916,709
Future abandonment and site restoration	239,973
Deferred gain	243,236
	1,399,918
Future income tax liabilities:	
Property, plant and equipment	12,559,019
Net future income tax liability	$11,159,101

At December 31, 2001 the Company had approximately $43,152,000 (2000 - $17,001,000) of tax pools available to reduce future taxable income.

8. SHARE CAPITAL

(a) Authorized:

Unlimited number of voting common shares without nominal or par value.

Unlimited number of preferred shares issuable in one or more series.

(b) Issued:

	NUMBER OF COMMON SHARES	
Balance, December 31, 1999	4,042,639	$
Issued on exercise of options	402,500	
Issued on conversion of warrants	150,000	
Balance, December 31, 2000	4,595,139	

Issued for cash on exercise of options	43,500
Issued for cash pursuant to public offerings	1,035,000
Issued on acquisition of property and equipment	213,047
Issued on acquisition of Big Horn Resources Ltd.	3,496,436
Shares repurchased	(232,500)
Issue costs incurred, net of income tax benefit of $1,118,251	--
Balance, December 31, 2001	9,150,622

(c) Options:

	NUMBER OF OPTIONS	EX
Outstanding at January 1, 2000	260,000	
Options granted	573,000	
Options exercised	(402,500)	
Outstanding at December 31, 2000	430,500	
Options granted	990,000	
Options exercised	(43,500)	
Options cancelled	(577,000)	
Outstanding at December 31, 2001	800,000	
Options exercisable at December 31, 2001	174,223	

There were 800,000 options outstanding at December 31, 2001. These options are exercisable at $4.00 and expire on November 2, 2005.

(d) Warrants:

	NUMBER OF WARRANTS
Balance, December 31, 1999	302,000
Issued pursuant to bridge financing	150,000
Expired during year	(302,000)
Converted to common shares	(150,000)
Balance, December 31, 2000	--
Issued pursuant to public offering	1,000,000
Issued pursuant to underwriters agreement	100,000
Balance, December 31, 2001	1,100,000

On January 17, 2001, the Company completed a public offering in the United States. The offering consisted of 1,000,000 units of one common share and one share purchase warrant for US$4.55 per unit. The share purchase warrants are exercisable until April 17, 2002 at US$3.50 per share. The 100,000 share purchase warrants related to the underwriters agreement are exercisable at US$5.40 per share starting January 16, 2002 and may be exercised for a four year period thereafter. See note 12(c).

9. SERIES 1 PREFERRED SHARES:

At December 31, 2001 there were 7,418,336 Series 1 preferred shares outstanding. These shares are nonvoting. They are transferable. Holders of these shares are not entitled to receive any dividends until the first anniversary of the date of issue, which was August 16, 2001. Subsequent to August 16, 2002 holders of these shares are entitled to receive a fixed cumulative dividend of $0.085 per share per annum, payable quarterly. These shares are redeemable at any time by the Company for $0.85 per share. Holders of these shares may require the Company to redeem all or any of these shares, at $0.85 per share, at any time following August 16, 2002. There is no market for these shares and none is expected to develop. See note 12(a).

10. FINANCIAL INSTRUMENTS

Effective January 31, 2001, the Company settled a fixed price contract eliminating the requirement to deliver set physical quantities of oil at fixed prices. Upon the cancellation of the contract the Company received approximately $1,680,000, which will be recognized over the term of the contract. At December 31, 2001 the remaining deferred gain related to this settlement was $761,302.

11. COMMITMENTS

The Company entered into a zero cost collar arrangement during 2001 which provides a floor price of US$20 per barrel and a ceiling price of US$24 per barrel for 500 barrels of oil per day. The contract is effective from November 1, 2001 through April 30, 2002.

12. SUBSEQUENT EVENTS

(a) On March 26, 2002 the Company purchased 6,123,870 of its Series 1 preferred shares for $2.3 million, resulting in a gain on redemption of $2,905,290.

(b) On March 28, 2002 the Company agreed to issue 400,000 warrants to an arm's length U.S.-based consulting firm in connection with a potential debt financing in the United States. The warrants are to have a two-year term and are subject to different pricing (100,000 warrants at US$2.60, 100,000 at US$3.30 and 200,000 at US$4.00). The US$2.60 warrants are to vest upon the execution of a nonbinding letter of intent relating to the proposed financing. The US$3.30 and US$4.00 warrants are to vest only on the successful closing and funding of the proposed financing.

(C) On April 12, 2002 the Company was granted a 30-day extension for the 1,000,000 share purchase warrants which were exercisable until April 17, 2002. The expiry date was extended to May 17, 2002.

13. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING

The Company's consolidated financial statements have been prepared in Canadian Dollars and in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"), which differ in some respects from those in the United States ("U.S. GAAP"). Any differences in accounting principles as they pertain to the accompanying consolidated financial statements were insignificant except as described below:

(a) Property and equipment:

The Company performs a cost recovery ceiling test which limits net capitalized costs to the undiscounted estimated future net revenue from proven oil and gas reserves plus the cost of unproven properties less impairment, using year-end prices or average prices in that year, if appropriate. In addition, the value is further limited by including financing costs, administration expenses, future abandonment and site restoration costs and income taxes. Under U.S. GAAP, companies using the "full cost" method of accounting for oil and gas producing activities perform a ceiling test using discounted estimated future net revenue from proven oil and gas reserves using a discount factor of 10%. Prices used in the U.S. GAAP ceiling tests performed for this reconciliation were those in effect at the applicable year-end. Financing and administration costs are excluded from the calculation under U.S. GAAP. At December 31, 2001 the Company would have realized a U.S. GAAP ceiling test write-down of $17.5 million (after tax).

(b) Provision for future abandonment and site restoration:

Under U.S. GAAP, the provision for future abandonment and site restoration costs is recorded as a reduction of property and equipment.

(C) Investments:

Under U.S. GAAP, the Company's investments would be classified as "Available-For-Sale" in accordance with definitions per SFAS 117 and the securities be recorded at fair market value. Unrealized gains and losses net of related income taxes are included in comprehensive income and reported as a separate component of shareholders' equity.

(d) Long-term debt:

U.S. GAAP requires that demand loans be classified as a current liability unless the Company intends to refinance on a long-term basis and the intent is supported by the ability to refinance. At December 31, 2000, the Company had supported its ability to refinance this demand facility.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2001 and 2000

(e) Financial instruments:

Effective January 1, 2001, the Company adopted, for U.S. GAAP, the provisions of SFAS 133 which established new accounting and reporting standards for derivative instruments and for hedging activities. This statement requires an entity to establish, at the inception of a hedge, the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk. At December 31, 2001, under Canadian GAAP, the Company had a deferred gain resulting from the settlement of a fixed price contract, which is being amortized over the term of the contract. Under U.S. GAAP, this gain, net of related income taxes, would be included in income as it did not qualify for hedge accounting under SFAS 133.

(f) Comprehensive income:

Under U.S. GAAP, SFAS 130 requires the reporting of comprehensive income in addition to net earnings. Comprehensive income includes net income plus other comprehensive income; specifically, all changes in equity of a company during a period arising from non-owner sources.

(g) Stock-based compensation:

Under U.S. GAAP, SFAS 123 establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. During 2001, the Company granted 119,500 stock options to non-employees. Had compensation cost for these stock options been determined based on their fair market value at the grant dates of the awards, the Company's pre-tax income for the year would have decreased by $90,294. The weighted average fair market value of options granted to non-employees in 2001 was $0.76 per option. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: risk-free interest rate of 5%, volatility of 30% and expected life of five years. During 2001, all of the options outstanding were repriced. As all options were "out of the money" at December 31, 2001, no compensation expense would have been recorded under U.S. GAAP.

(h) Balance sheets:

The adjustments using U.S. GAAP would result in the following changes to the consolidated balance sheets of the Company:

	2001	
	CANADIAN	U.S.

	GAAP	GAAP
Assets		
Current assets	$ 6,923,061	$ 6,923,061
Capital assets (a)(b)	73,139,497	43,692,704
Investments (c)	--	--
Deferred share issue costs	--	--
	$ 80,062,558	$ 50,615,765
Liabilities		
Current liabilities (d)	$ 9,152,492	$ 27,651,690
Long-term debt (d)	18,408,904	--
Future income taxes (a,c,e,g)	11,159,101	285,850
Provision for future site restoration (b)	751,088	--
Deferred gain (e)	761,302	--
Series 1 preferred shares	6,305,586	6,305,586
	46,538,473	34,243,126
Shareholders' equity:		
Share capital	29,568,263	29,568,263
Comprehensive income (c, f)	--	--
Retained earnings (deficit)	3,955,822	(13,195,624)
	33,524,085	16,372,639
	$ 80,062,558	$ 50,615,765

(i) Income statements:

The adjustments using U.S. GAAP would result in the following changes to the consolidated financial statements of the Company:

	2001
Net earnings (loss) under Canadian GAAP	$ 1,617,05
Adjustments:	

Full cost accounting (a)	(28,695,70
Related income taxes	11,159,10
Hedging gain (e)	761,30
Related income taxes	(324,31
Stock-based compensation (g)	(90,29
Related income taxes	38,46
Net earnings (loss) under U.S. GAAP	(15,534,39
Other comprehensive income:	
Unrealized (realized) gain on investments, net of income tax effect (c)	--
Comprehensive income (loss)	$(15,534,39
Earnings (loss) per share:	
Basic	$ (2.2
Diluted	$ (2.2

MESSAGE FROM THE CHAIRMAN

There has been a great deal of discussion recently about financial disclosure and accounting principles, especially in light of the collapse of Enron Corp. and the resulting shockwaves it sent throughout the accounting profession.

(PHOTO OF JOHN P. McGRAIN)

The Board of Directors of Enterra is committed to the concept of full and fair disclosure of all of the Company's operations, assets and liabilities. This is especially important for our shareholders because Enterra, being a small company, does not have the benefit of multiple research coverage from various brokerage houses. By and large, our shareholders are not large institutional investors which generally have a better grasp of the various accounting principles governing the presentation and disclosure of our Company's earnings and cash flow.

As your chairman there are several ways I evaluate Enterra's progress and report that progress to you. I believe that the critical component to any oil and gas company's success is its cash flow. Without strong cash flows Enterra cannot sustain and expand its production from year to year.

While GAAP earnings are important as a factor in evaluating Enterra's growth, I apply a stronger focus on the Company's cash flow behavior because I believe it is more representative of the Company's performance. While GAAP earnings are an important component of our reported results, I believe that cash flow is a better measure of performance because it is unaffected by one-time gains or losses from the sale of an asset or by non-cash expenses like depletion.

Both GAAP numbers and cash numbers are necessary in order to get a complete picture of the Company's financial results. It is my view that cash flow is a more representative measure of our success. I believe that the market has accepted this view and that our shareholders, along with analysts and other stakeholders, support the reporting of cash earnings along with GAAP earnings.

Our stock's performance is usually rated more as a multiple of cash flow than earnings.

Our cash flow growth since 1998, as shown in the chart below, is a good barometer of our growth. We fully expect to continue this pattern in the years to come.

/s/ John P. McGrain

John, P. McGrain
Chairman

(CASH FLOWS CHART)

CORPORATE INFORMATION

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AUDITORS

KPMG LLP
Chartered Accountants
Calgary, AB

SOLICITORS

Donahue & Partners
Calgary, AB

BANKERS

Alberta Treasury Branches
Calgary, AB

TRANSFER AGENT

Olympia Trust Company
Calgary, AB

STOCK EXCHANGE LISTINGS

Nasdaq (symbol: EENC)
TSX Venture (symbol: ENT)

ABBREVIATIONS

bopd	barrels of oil per day
mcf/day	thousands of cubic feet per day
boe/day	barrels of oil equivalent per day (6 mcf equivalent to 1 bbl)
boe	barrels of oil equivalent (6 mcf equivalent to 1 bbl)
mboe	thousands of barrels of oil equivalent
mmcf/day	millions of cubic feet per day

DIRECTORS

Walter A. Dawson*
Reg J. Greenslade
H.S. (Scobey) Hartley*
Thomas J. Jacobsen
John P. McGrain*

OFFICERS

John P. McGrain
Chairman

Reg J. Greenslade
President and Chief Executive Officer

Thomas J. Jacobsen
Chief Operating Officer

Luc Chartrand, C.A.
Chief Financial Officer

Trevor Spagrud
Vice President Operations

Don Almond
Vice President Production

Rick McHardy
Corporate Secretary

*Member, Audit Committee

ANNUAL GENERAL MEETING

THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS WILL BE HELD ON FRIDAY JUNE 7, 2002 AT 10:00 AM AT THE 400 CLUB, 710 - 4TH AVENUE S.W., CALGARY, ALBERTA.

SHAREHOLDERS ARE ENCOURAGED TO ATTEND AND THOSE UNABLE TO DO SO ARE REQUESTED TO COMPLETE AND RETURN THE PROXY FORM TO THE COMPANY'S REGISTRAR AND TRANSFER AGENT, OLYMPIA TRUST COMPANY.

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AUDITORS' REPORT

To the Shareholders

We have audited the consolidated balance sheets of Enterra Energy Corp. as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

We also audited the adjustments described in note 2(e) to the consolidated financial statements that were applied to restate the consolidated financial statements for the year ended December 31, 1999. In our opinion, such adjustments are appropriate and have been properly applied. The 1999 financial statements, prior to such adjustments, were audited by other auditors who expressed an opinion without reservation on these statements in their report dated March 31, 2000.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years in the three-year period ended December 31, 2001 and shareholders' equity as at December 31, 2001 and 2000 to the extent summarized in note 13 to the consolidated financial statements.

(Signed) KPMG LLP

Chartered Accountants

Calgary, Canada

March 6, 2002, except as to note 12,
which is as of April 12, 2002

AUDITORS' REPORT

To the Shareholders

We have audited the consolidated balance sheets of Enterra Energy Corp. as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

We also audited the adjustments described in note 2(e) to the consolidated financial statements that were applied to restate the consolidated financial statements for the year ended December 31, 1999. In our opinion, such adjustments are appropriate and have been properly applied.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years in the three-year period ended December 31, 2001 and shareholders' equity as at December 31, 2001 and 2000 to the extent summarized in note 13 to the consolidated financial statements.

(Signed) KPMG LLP

Chartered Accountants

Calgary, Canada
March 6, 2002, except as to note 12,
which is as of April 12, 2002

[LETTERHEAD - COLLINS BARROWS]

COLLINS BARROW CALGARY LLP
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AUDITORS' REPORT

To the Shareholders
Westlinks Resources Ltd.
(now Enterra Energy Corp.)

We have audited the consolidated balance sheets of WestLinks Resources Ltd. (now Enterra Energy Corp.) as at December 31, 1999 and 1998 and the consolidated statements of income (loss) and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We performed our audit of the consolidated financial statements under the successful efforts basis of accounting for property and equipment. We have not audited the adjustments described in note 2(e) to the consolidated financial statements to restate the consolidated financial statements from successful efforts to the full cost basis of accounting for property and equipment.

In our opinion, except for the adjustments to restate the accounting basis from successful efforts to full cost, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended.

/s/ Collins Barrow Calgary LLP
CHARTERED ACCOUNTANTS

Calgary, Alberta
March 31, 2000