Q2 14

PetrusResources

SECOND QUARTER REPORT

For the three and six months ended June 30, 2014

HIGHLIGHTS

- Production averaged 4,959 boe per day in the quarter, up from 2,990 boe per day in the second quarter of 2013, an increase of 71% per debt-adjusted share. The operating netback was $32.55 per boe in the second quarter of 2014, compared to $31.94 per boe in the same period a year earlier.

- Production growth and strong netbacks drove growth in funds flow from operations per share. Petrus generated $13.3 million in funds flow from operations during the second quarter, more than one-and-a-half times the $8.1 million generated in the same period a year ago. On a debt-adjusted per share basis, second quarter year-over-year funds flow growth was 67%.

- Operating expenses decreased from $10.12 per boe to $9.29 per boe year over year. The decrease can partly be attributed to significant production growth in the Montney oil plays of Tangent and Berwyn and the activation of new water disposal facilities which reduced trucking costs.

- Over the three month period ended June 30, 2014, Petrus invested $9.3 million in exploration and acquisition activity, down from $13.7 million in the same period of 2013. At quarter end, Petrus had 169,646 net acres of undeveloped land, with a large inventory of oil and gas drilling locations in each of its core operating areas.

- During the quarter, Petrus closed a private placement of common shares in which 9,240,000 common shares were issued by way of a brokered private placement and 6,016,000 common shares and 115,000 flow-through shares were issued by way of a concurrent non-brokered private placement. Aggregate gross proceeds of $50,030,500 from the Offering were initially used to temporarily repay bank indebtedness and will subsequently be used to fund a portion of the Company's ongoing capital expenditures and for general corporate purposes.

- Petrus had 101.7 million common shares outstanding at June 30, 2014 and access to an undrawn $90.0 million credit facility. The Company ended the quarter with positive working capital. Subsequent to June 30, 2014 Petrus syndicated its credit facility and increased the total facility to $100 million.

- On July 21, 2014 Petrus entered into a pre-acquisition agreement pursuant to which Petrus will make an all-cash offer to acquire 100% of the issued and outstanding common shares of Arriva Energy Inc. Concurrent with the closing of the acquisition of Arriva, the Company's total credit facility, inclusive of the $20 million operating facility, will increase to $140 million.

- On July 31, 2014 Petrus entered into an agreement with an industry partner to acquire petroleum and natural gas assets in the Ferrier/Strachan area of Alberta. Petrus expects to close the acquisition during the third quarter.

June 30, 2014

SELECTED FINANCIAL INFORMATION

(000s) except per boe amounts	Three months ended Jun. 30, 2014	Three months ended Jun. 30, 2013	Three months ended Mar. 31, 2014	Three months ended Dec. 31, 2013	Three months ended Sep. 30, 2013
OPERATIONS					
Average Production					
Natural gas (mcf/d)	16,800	9,681	12,864	10,848	10,405
Oil (bbl/d)	2,012	1,300	2,134	1,778	1,373
NGLs (bbl/d)	147	76	95	72	54
Total (boe/d)	**4,959**	**2,990**	**4,373**	**3,658**	**3,162**
Total (boe)	**451,269**	**272,090**	**393,601**	**336,539**	**290,877**
Natural gas sales weighting	***56%***	***54%***	***49%***	***49%***	***55%***
Exit production (boe/d)	***4,836***	***3,065***	***4,641***	***4,052***	***3,235***
Exit natural gas sales weighting	***55%***	***53%***	***57%***	***54%***	***53%***
Realized Sales Prices					
Natural gas ($/mcf)	5.21	3.60	6.03	3.78	2.54
Oil ($/bbl)	100.20	88.13	94.13	77.83	93.93
NGLs ($/bbl)	37.60	45.37	60.91	65.17	67.20
Total ($/boe)	59.42	51.14	64.99	50.33	50.31
Hedging gain (loss) ($/boe)	(3.32)	(0.55)	(3.64)	(1.21)	(1.46)
Operating Netback ($/boe)					
Effective price	56.10	50.59	61.35	49.12	48.85
Royalty revenue (1)	0.67	0.57	0.73	0.46	0.56
Royalty expense (1)	(12.76)	(7.39)	(13.69)	(7.05)	(8.02)
Operating expense	(9.29)	(10.12)	(9.47)	(9.88)	(8.46)
Transportation expense	(2.17)	(1.71)	(2.21)	(1.61)	(2.19)
Operating netback (3) ($/boe)	**32.55**	**31.94**	**36.71**	**31.04**	**30.74**
G & A expense	(1.77)	(1.57)	(1.61)	(1.73)	(1.96)
Net interest expense (2)	(1.36)	(0.79)	(0.85)	(0.75)	(0.74)
Corporate netback (3) ($/boe)	**29.42**	**29.58**	**34.25**	**28.56**	**28.04**
FINANCIAL ($000s except per share)					
Oil and natural gas revenue (1)	26,815	14,093	25,581	17,094	14,741
Funds flow from operations (3)	13,278	8,048	13,482	9,320	8,157
Funds flow from operations per share (3)	0.15	0.09	0.16	0.11	0.09
Net income	5,505	4,010	2,208	2,086	2,171
Net income per share	0.06	0.05	0.03	0.02	0.03
Capital expenditures	9,275	15,416	23,930	9,736	14,166
Net acquisitions (dispositions)	—	(1,701)	19,113	—	—
Common shares outstanding	101,748	86,362	86,377	86,377	86,377
Weighted average shares	91,106	86,349	86,377	86,377	86,369
As at quarter end ($000s)					
Working capital (deficit)	415	(15,756)	(51,638)	(22,288)	(21,558)
Bank debt outstanding	—	20,968	51,901	23,380	17,966
Bank debt available(4)	90,000	39,032	38,099	36,620	42,034
Shareholder's equity	213,508	151,034	158,655	156,002	153,857
Total assets	259,110	199,508	257,245	211,952	201,208

(1) The Company re-classified gross overriding royalty expense from oil and natural gas revenue to royalty expenses in the Statement of Net Income and Comprehensive Income. The comparative information has been re-classified to conform to current presentation.
(2) Interest expense is presented net of interest income.
(3) Non-IFRS measures defined on pages 4 and 5 of the MD&A for the period ended June 30, 2014.
(4)Subsequent to June 30, 2014 the Company's bank debt available increased to $100 million.

OPERATIONS UPDATE

Foothills

In the Company's foothills operating area, second quarter production was lower than expected as a result of spring weather conditions and facility turnaround activities. In Cordel, certain production facilities were down one week for facility maintenance and in Tower Creek, a significant third party facility was down for the month of June in order to conduct plant turnaround operations. The shut in production is currently back on stream and no further operational restrictions are anticipated.

Three wells (0.7 net) were drilled in the Cordel area during the second quarter of 2014. Each well had test production rates in line with expectations. The first well drilled during the second quarter (28% working interest) targeted Cardium oil and tested at a three week stabilized flow of approximately 70 bbl per day of light oil, which will be tied into production facilities in the third quarter. The second well drilled during the quarter (20% working interest) is the first of a multi-well pad and targeted Cardium oil. Initial flow rates over a 48 hour period exceeded 600 boe per day (99% light oil); the well is awaiting pipeline construction which will commence once drilling on the multi-well pad is complete. The third well drilled during the second quarter (18% working interest) was a horizontal natural gas well targeting the Mannville channel. It flow tested over a 48 hour period at a rate of 12 mmcf per day with 190 bbl per day of condensate and came on production in late June at 1,000 boe per day (90% natural gas) due to facility constraints.

The Mannville project was considered a highly successful demonstration of concept. Petrus operates and is a majority working interest owner in a similar Mannville structure throughout its entire Foothills acreage and is encouraged by the information obtained from this result. In addition, Petrus recently committed to a farm in opportunity on adjoining acreage to further add to its upside potential in this prospective play.

Petrus is currently participating in two Cardium oil drilling locations (0.3 net) in Cordel. The results will be determined later in the third quarter.

In Brown Creek Petrus has initiated drilling of the first Cardium oil well of a two well farm-in with an industry partner. A summer drilling program operated by Petrus will drill a total of two to three wells in Brown Creek and two to five wells on other foothills land owned by Petrus. The program will target Cardium oil as well as Cardium, Notikewin, Belly River and Mannville gas zones.

Peace River

In the Company's Peace River operating area, one of the Company's unitized facilities underwent a plant turnaround which resulted in production downtime for one week. Certain Tangent production was shut in during the quarter as a result of flooded road conditions which restricted access.

Two oil batteries with water disposal capabilities are now fully operational at Tangent and Berwyn contributing to reduced operating costs and increased runtime. Petrus is evaluating the economics of a pilot waterflood in each of Tangent and Berwyn and has commenced water injection operations in Berwyn. The Company believes the waterflood will ultimately improve Montney oil recoveries, based on offset pools in the area.

Petrus has kicked off a seven to ten well summer drilling program in Peace River targeting Montney oil. Initial test rates for the first three wells have exceeded expectation and Petrus expects to tie in the incremental production during the third quarter.

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is management's discussion and analysis ("MD&A") of the financial and operating results of the Company as at and for the three and six month periods ended June 30, 2014. This report is dated August 11, 2014 and should be read in conjunction with the June 30, 2014 interim condensed financial statements as well as the December 31, 2013 annual financial statements. Readers are directed to the advisories at the end of this report regarding forward-looking statements, BOE presentation and non-IFRS measures.

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Three months ended Jun. 30, 2014	Three months ended Jun. 30, 2013	Three months ended Mar. 31, 2014	Three months ended Dec. 31, 2013	Three months ended Sept. 30, 2013
Quarterly average production					
Natural gas (mcf/d)	16,800	9,681	12,864	10,848	10,405
Oil (bbl/d)	2,012	1,300	2,134	1,778	1,373
NGLs (bbl/d)	147	76	95	72	54
Total (boe/d)	**4,959**	**2,990**	**4,373**	**3,658**	**3,162**
Total (boe)	451,269	272,090	393,601	336,539	290,877
Exit production (boe/d)	***4,836***	3,065	4,641	4,052	3,235
Exit gas weighting	***50%***	53%	57%	54%	53%
Revenue (000s)					
Natural Gas	7,966	3,174	6,980	3,775	2,431
Oil	18,346	10,426	18,081	12,734	11,866
NGLs	503	315	521	430	336
Commodity revenue	26,815	13,915	25,581	16,939	14,634
Royalty revenue (1)	303	154	288	155	107
Oil and natural gas revenue (1)	27,118	14,069	25,869	17,094	14,741
Average realized prices					
Natural gas ($/mcf)	5.21	3.60	6.03	3.78	2.54
Oil ($/bbl)	100.20	88.13	94.13	77.83	93.93
NGLs ($/bbl)	37.60	45.37	60.91	65.17	67.20
Total ($/boe)	59.42	51.14	64.99	50.33	50.31
Hedging gain (loss)	(3.32)	(0.55)	(3.64)	(1.21)	(1.46)
Total realized ($/boe)	56.10	50.59	61.35	49.12	48.85
Average benchmark prices	**Three months ended Jun. 30, 2014**	**Three months ended Jun. 30, 2013**	**Three months ended Mar. 31, 2014**	**Three months ended Dec. 31, 2013**	**Three months ended Sep. 30, 2013**
Natural gas					
AECO (C$/mcf)	4.68	3.35	6.00	3.53	2.43
Crude Oil					
Edm Lt. (C$/ bbl)	104.48	92.90	100.18	86.70	105.05
Foreign Exchange					
US$/C$	0.92	0.98	0.91	0.94	0.96

(1) *The Company re-classified gross overriding royalty expense from oil and natural gas revenue to royalty expenses in the Statement of Net Income and Comprehensive Income. The comparative information has been re-classified to conform to current presentation.*

OIL AND NATURAL GAS REVENUE

Average production for the second quarter of 2014 was 4,959 boe per day (55% natural gas), compared to 2,990 boe per day (54% natural gas) for the second quarter of the prior year. Total commodity revenue increased from $14.1 million in the second quarter of 2013 to $26.8 million in the comparative period of 2014. Average production for the first six months of 2014 was 4,668 boe per day (53% natural gas), compared to 2,999 boe per day (56% natural gas) for the prior year comparative period. Total commodity revenue increased from $25.9 million in the first six months of 2013 to $52.4 million in the comparative period of 2014.

Natural gas

During the three months ended June 30, 2014, the benchmark natural gas price in Canada (set at the AECO hub) increased by 40% from the prior year (average price of $4.68 per mcf in the second quarter compared to $3.35 per mcf in the second quarter of the prior year). The Company's average realized gas price during the second quarter of 2014 was $5.21 per mcf compared to $3.60 per mcf in the second quarter of the prior year, which represents a 45% increase. Natural gas revenue for the second quarter of 2014 was $8.0 million and production of 1,528,800 mcf accounted for approximately 56% of first quarter production volume and 30% of commodity revenue (compared to revenue of $3.2 million and production of 880,991 mcf for 54% of production volume and 23% of commodity revenue in the second quarter of the prior year).

Crude oil and condensate

Edmonton Light Sweet ("Edmonton") crude oil prices increased 13% from the second quarter of 2013 to the second quarter of 2014 ($104.48 per bbl for the second quarter of 2014 compared to an average price of $92.90 per bbl for the prior period). The average realized price of Petrus' crude oil and condensate was $100.20 per bbl for the second quarter of 2014 compared to $88.13 per bbl for the same period in the prior year. Oil and condensate revenue for the second quarter of 2014 was $18.4 million and production of 183,092 bbl accounted for approximately 41% of total production volume and 68% of commodity revenue (compared to revenue of $10.4 million and production of 118,300 bbl for 43% of total production volume and 75% of commodity revenue in the second quarter of the prior year).

Natural gas liquids (NGLs)

Petrus' NGL production mix consists of ethane, propane, butane, pentane and sulphur. The pricing received for Petrus' NGL production is based on the product mix, the fractionation process required and the demand for fractionation facilities. In the second quarter of 2014, Petrus' overall realized NGL price averaged $37.85 per bbl compared to $45.37 per bbl in the prior year. Petrus realized the sale of significant sulphur volume during the quarter, which contributed to the lower realized price for its NGL production on a per barrel basis. NGL revenue for the second quarter of 2014 was $503,000 and production of 13,377 bbl accounted for approximately 3% of the Company's production volume and 2% of commodity revenue in the second quarter (compared to revenue of $315,000 and production of 6,948 bbl for 3% of total production and 2% of commodity revenue for the second quarter of the prior year).

Royalty Revenue

Petrus records gross overriding royalty revenue for production related to land or mineral rights owned. The revenue is included in "Oil and Natural Gas Revenue" on the Company's Statement of Net Income and Comprehensive Income. Royalty revenue earned in the second quarter was $303,000 compared to $154,000 in the comparative quarter of the prior year. Royalty revenue earned in the six month period ended June 30, 2014 was $591,000 compared to $359,000 in the comparative period of the prior year. As noted the Company re-classified gross overriding royalty expense from petroleum and natural gas revenue to royalty expenses. The comparative information has been re-classified to conform to current presentation.

NON-IFRS MEASURES

Petrus uses key performance indicators and industry benchmarks such as "funds flow from operations," "funds flow from operations per share," "funds flow from operations per debt-adjusted share," and "net debt" to analyze financial and operating performance. These indicators are not defined by IFRS and therefore may not be comparative to performance measures presented by other companies. Management believes that in addition to net income, the aforementioned non-IFRS measurements are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage and liquidity. Investors should be cautioned, however, that these measures should not be construed as an alternative to both net income and net cash from operating activities, which are determined in accordance with IFRS, as indicators of the Company's performance.

Funds Flow from Operations

Funds flow from operations represents cash flow from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations. Petrus evaluates its financial performance primarily on funds flow from operations and considers it a key performance indicator as it demonstrates the Company's ability to generate sufficient cash flow to fund capital investment and repay debt. The reconciliation between funds flow from operations and cash flow from operating activities, as defined by IFRS, is as follows:

($000s)	**Six months ended Jun. 30, 2014**	Six months ended Jun. 30, 2013	**Three months ended Jun. 30, 2014**	Three months ended Jun. 30, 2013
Cash flow from operating activities	25,248	10,384	14,328	656
Changes in non-cash working capital	1,171	3,230	(1,383)	7,392
Settlement of decommissioning obligations	349	—	333	—
Funds flow from operations	26,768	13,614	13,278	8,048

Net Debt

Working capital (net debt) is a non-IFRS measure and is calculated as current assets (excluding financial derivative assets) less current liabilities (excluding financial derivative liabilities) and bank debt. Petrus uses net debt as a key indicator of its leverage and strength of its balance sheet. The reconciliation of net debt, as defined, is as follows:

($000s)	**As at Jun. 30, 2014**	As at Jun. 30, 2013
Current assets (excluding financial derivative assets)	11,052	15,306
Less: current liabilities (excluding financial derivative liabilities)	(10,637)	(10,094)
Less: bank debt	—	(20,968)
Working capital (net debt)	**415**	**(15,756)**

Debt-adjusted shares

Debt-adjusted shares are calculated by adding the shares outstanding for the relevant period to the share equivalent of the Company's net debt at end of period. The calculation assumes the debt is extinguished with a share issuance. Petrus is a privately held company with no public market pricing data. In order to determine the price to convert the Company's debt to shares, Petrus uses a six times debt-adjusted cash flow multiple on trailing quarter annualized cash flow. This multiple does not, in any way, indicate a fair value for Petrus' shares and the sole purpose is to show a comparative metric. Weighted average shares are used for the average quarterly and annual production metrics as well as for cash flow growth; end-of-period shares outstanding are used for exit production and reserves growth performance metrics. The table below reconciles the debt-adjusted shares for the average year-over-year cash flow growth performance metric.

($000s, except per share amounts)	**Three months ended Jun. 30, 2014**	Three months ended Jun. 30, 2013
Weighted average shares outstanding	91,106	86,349
Annualized cash flow from operations before interest	55,568	33,056
Share price to extinguish debt [(1)]	3.43	2.17
Ending net debt	415	(15,756)
Share equivalent on ending net debt	(121)	7,247
Debt-adjusted shares	**90,985**	**93,522**

[(1)] *Six times debt-adjusted cash flow multiple.*

FUNDS FLOW FROM OPERATIONS AND EARNINGS

Petrus generated funds flow from operations of $13.3 million during the quarter ended June 30, 2014 ($8.1 million during the second quarter of 2013). On a six month basis, funds flow from operations was $26.8 million compared to $13.3 million in the prior year. Funds flow growth was fuelled by production growth as well as strengthened commodity prices (natural gas in particular) from the prior year.

Net income increased to $5.3 million in the second quarter of 2014 (compared to net income of $4.0 million in the second quarter of the prior year). On a six month basis, net income was $4.1 million in 2013 and increased to $8.3 million in 2014. The following table provides detail on the Company's funds flow from operations on a barrel of oil equivalent ("boe") basis.

	Six months Ended Jun. 30, 2014		Six months ended Jun. 30, 2013		**Three months Ended Jun. 30, 2014**		Three months ended Jun. 30, 2013	
	$000s	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**
Oil and natural gas revenue	52,396	62.02	25,863	47.65	26,815	59.42	13,915	51.14
Transportation	(1,850)	(2.19)	(957)	(1.76)	(979)	(2.17)	(466)	(1.71)
Net revenue	50,546	59.83	24,906	45.89	25,836	57.25	13,449	49.43
Royalty expense (1)	(11,148)	(13.20)	(4,316)	(7.95)	(5,760)	(12.76)	(2,034)	(7.48)
Royalty revenue (1)	591	0.70	358	0.66	303	0.67	179	0.66
Net oil and natural gas revenue	**39,989**	**47.33**	**20,948**	**38.60**	**20,379**	**45.16**	**11,594**	**42.61**
Operating expense (2)	(7,920)	(9.38)	(5,834)	(10.75)	(4,194)	(9.29)	(2,753)	(10.12)
Hedging gain (loss)	(2,932)	(3.47)	(477)	(0.88)	(1,496)	(3.32)	(150)	(0.55)
General & administrative	(1,430)	(1.69)	(703)	(1.30)	(797)	(1.77)	(427)	(1.57)
Interest expense (3)	(946)	(1.12)	(320)	(0.59)	(614)	(1.35)	(216)	(0.79)
Funds flow from operations	**26,761**	**31.67**	**13,614**	**25.08**	**13,278**	**29.44**	**8,048**	**29.58**

(1) The Company re-classified gross overriding royalty expense from oil and natural gas revenue to royalty expenses in the Statement of Net Income and Comprehensive Income. The comparative information has been re-classified to conform to current presentation.
(2) Operating expenses are presented net of processing income and overhead recoveries.
(3) Interest expense is presented net of interest income.

(000s except per share)	**Six months Ended Jun. 30, 2014**	Six months ended Jun. 30, 2013	**Three months Ended Jun. 30, 2014**	Three months ended Jun. 30, 2013
Funds flow from operations	**26,761**	13,614	**13,278**	8,048
Funds flow from operations/share	**0.30**	0.15	**0.15**	0.09
Net Income (loss)	**8,287**	4,057	**5,505**	4,010
Net income (loss)/share	**0.09**	0.06	**0.06**	0.05
Common shares	**101,748**	86,362	**101,748**	86,362
Weighted average shares	**88,754**	86,349	**91,106**	86,349

Performance Metrics

Petrus uses certain performance metrics as key indicators to demonstrate the Company's ability to generate shareholder value. On a debt-adjusted per share basis, Petrus doubled funds flow from operations year-over-year for the six month period ending June 30th. The same metric for the second quarter-over-second quarter was an increase of 67%. Petrus increased exit production on a per debt-adjusted thousand share basis 45% from the prior year as shown in the table below:

	Six months ended Jun. 30, 2014	Six months ended Jun. 30, 2013	**% Change**	**Three months ended Jun. 30, 2014**	Three months ended Jun. 30, 2013	**% Change**
Funds flow from operations per debt-adjusted share(1) ($)	**0.30**	0.15	**103%**	**0.15**	0.09	**67%**
Exit production per debt-adjusted thousand shares (boe per day)	**17.37**	11.94	**45%**	–	–	–

(1) Funds flow from operations per debt-adjusted share is a non-IFRS measure and is reconciled to the nearest IFRS measure on page 4 in the section heading "Non-IFRS" Measures.

RESULTS OF OPERATIONS

Royalty Expenses

Royalties are paid to the Government of Alberta and to gross overriding royalty owners. The following table shows the Company's quarterly royalty expenses by product category, based upon the primary product produced at the well.

Royalty Expenses ($000s)	**Six months ended Jun. 30, 2014**	Six months ended Jun. 30, 2013	**Three months ended Jun. 30, 2014**	Three months ended Jun. 30, 2013
Oil and NGLs ($000s)	**9,291**	4,642	**4,290**	2,543
% of production revenue	**25%**	24%	**23%**	24%
Natural gas (000s)	**2,124**	1,115	**1,411**	493
% of production revenue	**14%**	18%	**18%**	16%
Gas cost (allowance) (000s)	**(857)**	(1,497)	**(232)**	(1,026)
Gross overriding[(1)]	**589**	57	**290**	25
Total (000s)	**11,147**	4,317	**5,759**	2,035

[(1)] *The Company re-classified gross overriding royalty expense from oil and natural gas revenue to royalty expenses in the Statement of Net Income and Comprehensive Income.*

The increase in total royalties from the second quarter of 2013 ($2.0 million) to the second quarter of 2014 ($5.8 million) is the result of new production and an increased oil royalty rate paid for certain foothills production.

Financial Instruments

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus has outstanding as at June 30, 2014:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD $/GJ)
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	1,500 GJ	$3.44/GJ
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	2,500 GJ	$3.61/GJ
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	1,000 GJ	$3.64/GJ
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	1,500 GJ	$3.65/GJ
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	1,000 GJ	$3.99/GJ
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	500 GJ	$4.07/GJ
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	1,000 GJ	$4.32/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	2,000 GJ	$3.75/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	2,000 GJ	$3.81/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	$3.84/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	$4.04/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	$4.10/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	500 GJ	$4.18/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	$4.43/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	$4.83/GJ

Crude Oil Period Hedged	Type	Daily Volume	Price ($/Bbl)
Jul. 1, 2014 to Dec. 31, 2014	Put Option	200 Bbl	WTI $85.00/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI $89.00/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	100 Bbl	WTI $92.00/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	200 Bbl	WTI $93.80/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI $CAD105.20/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI $92.10/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	200 Bbl	WTI $94.05/Bbl
Aug. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI $CAD103.05/Bbl
Jan. 1, 2015 to Dec. 31, 2015	Fixed price	200 Bbl	WTI $CAD100.00/Bbl
Jan. 1, 2015 to Dec. 31,2015	Fixed Price	100 Bbl	WTI $CAD 95.50/Bbl

Electric Power Period Hedged	Type	Annual Volume	Price (CAD)
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	12,264 MW	$57.75/MWH
Jan. 1, 2015 to Dec. 31, 2015	Fixed price	12,264 MW	$50.00/MWH

The impact of the contracts which were outstanding during the reporting periods are recorded as realized hedging gains (losses) and affect the Company's realized commodity price. The unrealized gain (loss) is recorded to demonstrate the impact of the outstanding contracts had they settled on the relative financial reporting period date. The contracts entered had the following impact on net income:

Other Income ($000s)	**Six months ended Jun. 30, 2014**	Six months ended Jun. 30, 2013	**Three months Ended Jun. 30, 2014**	Three months ended Jun. 30, 2013
Realized hedging gain (loss)	**(2,928)**	(478)	**(1,496)**	(150)
Unrealized hedging gain (loss)	**(3,266)**	1,639	**1,094**	164
Total gain (loss) on derivatives	**(6,194)**	1,161	**(402)**	14

Strong commodity prices resulted in a second quarter realized hedging loss of $1.5 million, compared to a $150,000 loss realized in the comparative quarter of the prior year. The second quarter realized loss decreased the Company's realized price by $3.32 per boe, compared to a decrease in the prior year comparative period of $0.55 per boe. On a six month basis the Company recorded a total hedging loss (realized and unrealized) of $6.2 million in 2014 relative to a $1.2 million gain in 2013.

Operating Expenses

The following table shows the Company's operating expenses for the reporting periods which are shown net of processing income and overhead recoveries:

Operating Expenses ($000s)	**Six months Ended Jun. 30, 2014**	Six months Ended Jun. 30, 2013	**Three months Ended Jun. 30, 2014**	Three months ended Jun. 30, 2013
Operating expense, net [(1)]	**7,920**	5,833	**4,194**	2,753
Operating expense, net ($ per boe)	**9.38**	10.75	**9.29**	10.12

[(1)] Operating expenses are presented net of processing income and overhead recoveries

Operating expenses totaled $4.2 million for the second quarter of 2014, a 52% increase from $2.8 million recorded in the second quarter of the prior year. On a per boe basis, operating expenses declined from $10.12 to $9.29 year over year. On a six month basis operating expenses totaled $7.9 million in 2014 ($9.38 per boe) and $5.8 million ($10.75 per boe) in 2013. The reduction on a per boe basis is attributed, in part, to lower water hauling and disposal fees in Berwyn and Tangent. Production in these Peace River operating areas is now tied in to newly constructed water disposal facilities. The cost reductions attributed to new facilities were offset by higher operating costs incurred which related to spring break up conditions and facility turnaround expenditures.

Transportation Expenses

The following table shows transportation expenses paid in the reporting periods:

Transportation Expenses ($000s)	**Six months ended Jun. 30, 2014**	Six months Ended Jun. 30, 2013	**Three months ended Jun. 30, 2014**	Three months Ended Jun. 30, 2013
Transportation expense	**1,850**	957	**979**	466
Transportation expense ($ per boe)	**2.19**	1.76	**2.17**	1.71

Petrus pays commodity and demand charges for transporting its gas on various pipeline systems. The Company also incurs trucking costs on the portion of its oil and natural gas liquids production that is not pipeline connected. Transportation expenses totaled $979,000 or $2.17 per boe in the second quarter of 2014 ($466,000 or $1.71 per boe for the comparative period of the prior year). On a six month basis transportation expenses totaled $1.9 million in 2014 ($2.19 per boe) and $957,000 ($1.76 per boe) in 2013. The increase in transportation costs are due to the higher reliance on trucking to deliver liquids production to sales points. Production volume increased and trucking costs on a per unit basis increased (attributed to spring road ban surcharges incurred).

General and Administrative Expenses

The following table illustrates the Company's general and administrative expenses which are shown net of capitalized costs directly related to exploration and development activities:

General and Administrative Expenses ($000s)	**Six months ended Jun. 30, 2014**	Six months ended Jun. 30, 2013	**Three months ended Jun. 30, 2014**	Three months ended Jun. 30, 2013
Gross general and administrative expense	**2,559**	1,840	**1,479**	1,096
Capitalized general and administrative	**(1,128)**	(1,136)	**(683)**	(669)
Net general and administrative expense	**1,431**	703	**797**	427
Share based compensation expense	**646**	1,156	**358**	571
Capitalized share based compensation	**(323)**	(578)	**(179)**	(285)
Total general and administrative expense, net	**1,754**	1,281	**976**	713
Total ($ per boe)	**1.69**	2.31	**1.77**	2.62

Second quarter 2014 net general and administration expenses (excluding non-cash share based compensation), totaled $797,000 or $1.77 per boe (compared to $427,000 or $1.57 per boe for the second quarter of 2013). On a six month basis net general and administrative expenses totaled $1.8 million ($1.69 per boe) in 2014 and $1.3 million ($2.31 per boe) in 2013. The significant reduction on a per boe basis is attributed to the Company's strong production growth with limited growth in its general and administrative cost burden. Petrus capitalizes and reclassifies those general and administrative expenses which are directly attributable to the acquisition, exploration and development activities of the Company.

Depletion and Depreciation

The following table compares depletion and depreciation expenses recorded in the reporting periods:

Depletion and Depreciation ($000s)	**Six months ended Jun. 30, 2014**	Six months ended Jun. 30, 2013	**Three months ended Jun. 30, 2014**	Three months ended Jun. 30, 2013
Depletion	**11,340**	7,114	**6,117**	3,622
Depreciation	**16**	161	**10**	56
Total	**11,356**	7,275	**6,127**	3,678
Depletion ($ per boe)	**13.42**	13.11	**13.56**	13.31
Depreciation ($ per boe)	**0.02**	0.30	**0.02**	0.21
Total ($ per boe)	**14.31**	13.41	**14.11**	13.52

Depletion and depreciation expense is calculated on a unit-of-production basis. This fluctuates period to period primarily as a result of changes in the underlying proved plus probable reserve base and in the amount of costs subject to depletion and depreciation, including future development costs. Such costs are segregated and depleted on an area by area basis relative to the respective underlying proved plus probable reserve base.

Petrus recorded depletion expense in the second quarter of 2014 of $6.1 million or $14.59 per boe, compared to the second quarter of 2013, when $3.6 million or $13.31 per boe was recorded. For the quarter ended June 30, 2014, depreciation expense totaled $10,000, compared to $56,000 in the comparative quarter of the prior year. On a six month basis total DD&A costs were $11.4 million ($14.38 per boe) in 2014 and $7.3 million ($13.41 per boe) in 2013. The Company's depletion expense has increased from prior year due to the increased production and reserves base while depreciation expense has decreased from prior year as various classes of depreciable assets were fully depreciated in the prior year.

SHARE CAPITAL

The authorized share capital consists of an unlimited number of common voting shares without par value. The following table details the number of issued and outstanding instruments for the financial periods shown:

(000s)	**Six months ended Jun. 30, 2014**	Six months ended Jun. 30, 2013	**Three months Ended Jun. 30, 2014**	Three months ended Jun. 30, 2013
Weighted average outstanding common shares				
Basic	**88,754**	86,313	**91,106**	86,350
Diluted	**91,591**	86,313	**93,943**	86,350
Outstanding instruments				
Common shares	**101,748**	86,362	**101,748**	86,362
Stock options	**5,050**	4,104	**5,050**	4,104
Warrants	**6,408**	6,422	**6,408**	6,422

As at June 30, 2014 the Company had 5,050,000 and 6,407,603 stock options and performance warrants outstanding, respectively. Subsequent to June 30, 2014 the Company issued 690,000 stock options.

On June 2, 2014 the Company closed a private placement of common shares; 9,240,000 common shares were issued by way of a brokered private placement and 6,016,000 common shares and 115,000 flow-through shares were issued by way of a concurrent non-brokered private placement. Aggregate gross proceeds of $50,030,500 from the Offering were initially used to temporarily repay outstanding bank indebtedness and will subsequently be used to fund a portion of the Company's ongoing capital program and for general corporate purposes. At June 30, 2014 Petrus had 101,747,598 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2014 the Company had a credit facility of $90 million with a major Canadian lender. The credit facility consisted of an $80 million demand revolver and a $10 million development line. The credit facility provides that advances may be made by way of direct Canadian advances (at an interest rate equal to the Bank of Canada prime rate plus 0.75% per annum), U.S. dollar advances (at an interest rate equal to the U.S. Base Rate plus 0.75% per annum), or bankers' acceptances (at a stamping fee calculated on the face amount of the banker's acceptance at a rate equal to 175 basis points per annum). At June 30, 2014, the Company has no outstanding letters of credit against the facility (December 31, 2013; Nil) and has not drawn against the facility (December 31, 2013; $23.4 million). The credit facility was available until July 31, 2014 at which time a semi-annual review was completed.

On July 31, 2014 the Company syndicated its existing credit facility to five institutions and structured a $100 million, committed, secured 364-day revolving plus one year term-out facility. It is comprised of a $20 million operating facility, as well as an $80 million syndicated facility. The facilities bear interest at Canadian bank prime, or at the Company's option, Canadian bankers' acceptances, plus applicable margin and stamping fee. The stamping fees range, depending on Petrus' debt to cash flow ratio, between 100 bps and 250 bps on Canadian bank prime borrowings and between 200 bps and 350 bps on Canadian dollar bankers' acceptances. The undrawn portion of the facilities, are subject to a standby fee in the range of 50 bps to 87.50 bps.

The amount of the credit facility is subject to a borrowing base test performed on a semi-annual review by the lender, based primarily on reserves and using commodity prices estimated by the lender as well as other factors. The Company has provided collateral by way of a $600 million debenture over all of the present and after acquired property of the Company. A decrease in the borrowing base could result in a reduction to the available credit facility. The next scheduled review will take place October 31, 2014. The facilities carry a financial covenant which limits the Company's ability to borrow amounts greater than the facility limit. At June 30, 2014 the Company was in compliance with all related covenants.

The Petrus Board of Directors approved a base capital budget of $74 million (before acquisitions) for 2014. The capital budget provides for the drilling of 36 gross (24 net) wells, with approximately $45 million directed at foothills development and $29 million directed toward the Peace River area. Concurrent with closing of the acquisition of foothills assets on February 28, 2014 the capital budget increased to $100 million. The capital budget will be funded through cash flow and credit facilities.

The Company's general capital management policy is to maintain a sufficient capital base in order to manage its business to enable the Company to increase the value of its assets and therefore its underlying share value. The Company's objectives when managing capital are

(i) to manage financial flexibility in order to preserve the Company's ability to meet financial obligations; (ii) maintain a capital structure that allows Petrus the ability to finance its growth using internally generated cash flow, and (iii) to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk level and provides an optimal return to equity holders.

In the management of capital, Petrus includes share capital and total net debt, which is made up of debt and working capital (current assets less current liabilities). Petrus manages its capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Petrus may issue new equity, increase or decrease debt, adjust capital expenditures and acquire or dispose of assets. Petrus anticipates that it will have adequate liquidity to fund future working capital and forecasted capital expenditures in 2014 through a combination of cash flow, current working capital and use of its credit facility. Petrus is able to modify its capital program in response to changes in commodity prices and cash flows. Should the Company choose to expand its capital program, actual funding alternatives will be influenced by the then current market environment and the ability to access capital on reasonable terms, balanced with the investment opportunities presented.

CAPITAL EXPENDITURES

Petrus invested $9.3 million in total capital expenditures in the second quarter of 2014 (compared to $13.7 million in the second quarter of the prior year). During the quarter Petrus drilled 3 wells (0.7 net). The investments were funded by cash flow from operations and the Company's credit facility. The Company's expenditures were invested in drilling and completions, workovers and tie-ins.

During the six month period ended June 30, 2014 Petrus invested $52.2 million (inclusive of acquisitions of $19.1 million). In the six month period ended June 30, 2013, $33.3 million was invested. The following table shows capital expenditures for the reporting periods indicated. All capital is presented before decommissioning obligations and settlements:

($000s)	**Six months Ended Jun. 30, 2014**	Six months ended Jun. 30, 2013	**Three months ended Jun. 30, 2014**	Three months Ended Jun. 30, 2013
Drill and complete	**18,850**	29,179	**4,609**	13,768
Oil and gas equipment	**11,925**	3,792	**3,666**	1,134
Geological	**39**	4	**(19)**	2
Land and lease	**621**	701	**10**	28
Office	**204**	29	**147**	1
Capitalized general and administrative	**1,451**	1,243	**862**	483
Total	**33,090**	34,949	**9,275**	15,416
Acquisitions/(dispositions)	**19,119**	(1,701)	**—**	(1,701)
Total capital	**52,209**	33,247	**9,275**	13,714
Gross (net) wells spud	**13 (7.7)**	9 (4.0)	**3 (0.7)**	4 (1.3)

SUMMARY OF QUARTERLY RESULTS

	Three months ended							
($000s) except per share amounts	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sep. 30, 2013	Jun. 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sep 30, 2012
Average Production								
Natural gas (mcf/d)	16,800	12,864	10,848	10,405	9,681	10,315	9,128	9,189
Oil (bbl/d)	2,012	2,134	1,778	1,373	1,300	1,212	1,139	991
NGLs (bbl/d)	147	95	72	54	76	76	75	48
Total (boe/d)	**4,959**	**4,373**	**3,658**	**3,162**	**2,990**	**3,007**	**2,735**	**2,571**
Average Realized Prices								
Natural gas ($/mcf)	5.21	6.03	3.78	2.54	3.60	3.29	3.49	2.38
Oil ($/bbl)	100.20	94.13	77.83	93.93	88.13	77.02	76.31	80.55
NGLs ($/bbl)	37.60	60.91	65.17	67.20	45.37	71.55	64.08	64.30
Total ($/boe)	**59.42**	**64.99**	**50.33**	**50.31**	**51.14**	**44.15**	**45.19**	**40.76**
Average Benchmark Prices								
Natural gas - AECO ($/mcf)	4.68	6.00	3.53	2.43	3.35	3.26	3.05	2.14
Oil – Edmonton light ($/bbl)	104.48	100.18	86.70	105.05	92.90	88.54	82.85	84.79
Foreign exchange – US$/C$	0.92	0.91	0.94	0.96	0.98	1.00	1.01	1.01
Oil and natural gas revenue	**26,815**	**25,581**	**16,939**	**14,634**	**13,915**	**11,948**	**11,372**	**9,637**
Transportation	(979)	(872)	(543)	(636)	(466)	(491)	(277)	(303)
Net revenue	**25,836**	**24,709**	**16,396**	**13,998**	**13,449**	**11,457**	**11,095**	**9,334**
Royalty expense [(1)]	(5,760)	(5,387)	(2,372)	(2,276)	(2.034)	(2,282)	(1,856)	(1,630)
Royalty income	303	288	155	107	179	180	134	111
Net oil and natural gas revenue	**20,379**	**19,610**	**14,179**	**11,829**	**11,594**	**9,355**	**9,374**	**7,815**
Operating expense	(4,194)	(3,727)	(3,716)	(2,460)	(2,753)	(3,080)	(1,998)	(3,236)
Hedging gain (loss)	(1,496)	(1,432)	(409)	(425)	(150)	(328)	(142)	270
General and administrative expense	(797)	(634)	(582)	(571)	(427)	(276)	(546)	(379)
Interest expense	(614)	(335)	(252)	(216)	(216)	(5)	(71)	32
Funds flow from operations	**13,278**	**13,482**	**9,320**	**8,157**	**8,048**	**5,566**	**6,616**	**4,502**
Per share – basic	0.15	0.16	0.11	0.09	0.09	0.06	0.08	0.05
Net income (loss)	**5,505**	**2,208**	**2,086**	**2,171**	**4,010**	**47**	**(706)**	**1,738**
Per share – basic	0.06	0.03	0.02	0.03	0.05	0.01	(0.01)	0.02
Common shares (000s)	**101,748**	**86,377**	**86,377**	**86,377**	**86,362**	**86,276**	**86,276**	**86,276**
Weighted average shares (000s)	91,106	86,377	86,377	86,369	86,349	86,276	86,276	86,124
Total assets	259,110	257,245	211,952	201,208	199,507	184,139	181,976	167,438
Net working capital (net debt)	**415**	**(51,638)**	**(22,288)**	**(21,558)**	**(15,756)**	**(10,551)**	**2,826**	**17,285**

[(1)] The Company re-classified gross overriding royalty expense from oil and natural gas revenue to royalty expenses in the Statement of Net Income and Comprehensive Income.

CRITICAL ACCOUNTING ESTIMATES

The timely preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of the financial statements are outlined below.

Depletion and reserve estimates

Petroleum and natural gas assets are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). The calculation incorporates the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reservoir engineering reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Reserves estimates, although not reported as part of the Company's financial statements, can have a significant effect on net income (loss), assets and liabilities as a result of their impact on depletion and depreciation, decommissioning liabilities, deferred taxes, asset impairments and business combinations. Independent reservoir engineers perform evaluations of the Company's petroleum and natural gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgment. Estimates of economically recoverable petroleum and natural gas reserves are based upon a number of variables and assumptions such as geoscientific interpretation, production forecasts, commodity prices, costs and related future cash flows, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available or as economic conditions change.

Impairment indicators and cash-generating units

For purposes of impairment testing, petroleum and natural gas assets are aggregated into cash-generating units ("CGU's"), based on separately identifiable and largely independent cash inflows. The determination of the Company's CGU's is subject to judgment.

The recoverable amounts of CGU's and individual assets have been determined based on the higher of the value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions, including the discount rate, future petroleum and natural gas prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available and changes in economic conditions take place. Changes may impact the estimated life of the field and economical reserves recoverable and may require a material adjustment to the carrying value of petroleum and natural gas assets. The Company monitors internal and external indicators of impairment relating to its tangible assets.

Technical feasibility and commercial viability of exploration and evaluation assets

The determination of technical feasibility and commercial viability, based on the presence of proved and probable reserves, results in the transfer of assets from exploration and evaluation assets to property, plant and equipment. As discussed above, the estimate of proved and probable reserves is inherently complex and requires significant judgment. Thus any material change to reserve estimates could affect the technical feasibility and commercial viability of the underlying assets.

Decommissioning obligation

At the end of the operating life of the Company's facilities and properties and upon retirement of its petroleum and natural gas assets, decommissioning costs will be incurred by the Company. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and discount rates to determine the present value of these cash flows.

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable income available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in income or loss in the period in which the change occurs. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Measurement of share-based compensation

Share-based compensation recorded pursuant to share-based compensation plans are subject to estimated fair values, forfeiture rates and the future attainment of performance criteria.

Business combinations
Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and petroleum and natural gas assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

ACCOUNTING POLICIES AND NEW STANDARDS

Significant accounting policies
The Company's significant accounting policies can be read in note 3 to the Company's audited financial statements as at and for the year ended December 31, 2013.

New standards and interpretations

On January 1, 2014, the Company adopted the following new standards and amendments which became effective for periods on or after January 1, 2014:

Effective January 1, 2014, the Company adopted amendments to IAS 32, "Financial Instruments: Presentation". The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. IAS 32 does not impact the Company's financial statements.

In 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduces the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are to be adopted retrospectively for fiscal years beginning January 1, 2014. Petrus will adopt these amendments effective January 1, 2014. The adoption will impact disclosures in the notes to the financial statements only in periods when an impairment loss or impairment reversal is recognized.

Effective January 1, 2014 the Company adopted IFRIC 21, which clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The adoption of IFRIC 21 did not result in any changes to the accounting for levies by the Company.

IFRS 9 *Financial Instruments* – In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard was expanded in October 2010 and will be published in three phases, of which two phases have been published. The first phase replaces the current approach to classification and measurement of financial assets and liabilities and uses a model of only two classification categories: fair value or amortized cost. The second phase, amended in 2013 by the IASB, incorporates a new general hedge accounting model which will allow reporting entities more opportunities to apply hedge accounting. The third phase clarifies the use of a single impairment method when evaluating financial instruments. A mandatory effective date for IFRS 9 in its entirety will be announced when the project is closer to completion. Early adoption of phases one and two is permitted only if adopted in their entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the financial statements.

In May, 2014 the IASB published IFRS 15, "Revenue from Contracts with Customers" (IFRS 15") replacing IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of adopting IFRS 15 on the financial statements.

ADVISORIES

Basis of Presentation
Financial data presented below have largely been derived from the Company's financial statement, prepared in accordance with International Financial Reporting Standards ("IFRS"). Accounting policies adopted by the Company are set out in the notes to the audited financial statements as at and for the twelve months ended December 31, 2013. The reporting and the measurement currency is the Canadian dollar. All financial information is expressed in Canadian dollars, unless otherwise stated.

Forward Looking Statements
Certain information regarding Petrus set forth in this document, including management's assessment of the Company's future plans and operations, contains forward-looking statements WITHIN THE MEANING OF APPLICABLE SECURITIES LAW, that involve substantial known and unknown risks and

uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such statements represent Petrus' internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment, anticipated future debt, production, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Petrus believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause Petrus' actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Petrus.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to: the size of, and future net revenues from, crude oil, NGL (natural gas liquids) and natural gas reserves; future prospects; the focus of and timing of capital expenditures; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; access to debt and equity markets; projections of market prices and costs; the performance characteristics of the Company's crude oil, NGL and natural gas properties; crude oil, NGL and natural gas production levels and product mix; Petrus' future operating and financial results; capital investment programs; supply and demand for crude oil, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; future land expiries; dispositions and joint venture arrangements; amount of operating, transportation and general and administrative expenses; treatment under governmental regulatory regimes and tax laws; estimated tax pool balances and anticipated IFRS elections and the impact of the conversion to IFRS. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

These forward-looking statements are subject to numerous risks and uncertainties, most of which are beyond the Company's control, including the impact of general economic conditions; volatility in market prices for crude oil, NGL and natural gas; industry conditions; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition; the lack of availability of qualified personnel or management; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; ability to access sufficient capital from internal and external sources; completion of the financing on the timing planned and the receipt of applicable approvals; and the other risks. With respect to forward-looking statements contained in this MD&A, Petrus has made assumptions regarding: future commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; future exchange rates; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment and services; effects of regulation by governmental agencies; and future operating costs. Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders with a more complete perspective on Petrus' future operations and such information may not be appropriate for other purposes. Petrus' actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive therefrom. Readers are cautioned that the foregoing lists of factors are not exhaustive.

These forward-looking statements are made as of the date of this MD&A and the Company disclaims any intent or obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

BOE Presentation

The oil and natural gas industry commonly expresses production volumes and reserves on a barrel of oil equivalent ("BOE") basis whereby natural gas volumes are converted at the ratio of nine thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved measurement of results and comparisons with other industry participants. Petrus uses the 6:1 BOE measure which is the approximate energy equivalency of the two commodities at the burner tip. However, BOE's do not represent an economic value equivalency at the wellhead and therefore may be a misleading measure if used in isolation.

Abbreviations

000's	*thousand dollars*	*mmbbls*	*million barrels*
bbl	*barrel*	*mmboe*	*millions of barrels of oil equivalent*
bbl/d	*barrels per day*	*mmcf*	*million cubic feet*
bcf	*billion cubic feet*	*NGLs*	*natural gas liquids*
CAD	*Canadian dollar*	*USD*	*United States dollar*
GJ	*gigajoule*	*WTI*	*West Texas Intermediate*
GJ/d	*gigajoules per day*		
mbbls	*thousand barrels*		
mboe	*thousand barrels of oil equivalent*		
mcf	*thousand cubic feet*		

Cover page photo credit: Alain Sleigher Photography

BALANCE SHEETS
(UNAUDITED)

(Expressed in Canadian dollars)

As at	June 30, 2014	December 31, 2013
ASSETS		
Current		
Cash	619,203	—
Deposits and prepaid expenses	366,390	303,101
Accounts receivable	10,066,097	10,880,771
Risk management asset *(note 8)*	—	26,418
	11,051,690	**11,210,290**
Non-current		
Exploration and evaluation assets *(notes 3 and 4)*	57,258,504	50,528,518
Property, plant and equipment *(notes 3 and 5)*	190,800,186	150,212,756
	248,058,691	200,741,274
	259,110,379	**211,951,564**
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Bank indebtedness *(note 6)*	—	23,379,651
Accounts payable and accrued liabilities	10,637,351	10,092,329
Risk management liability *(note 8)*	5,525,873	2,286,940
	16,163,224	**35,758,920**
Non-Current		
Decommissioning obligation *(note 7)*	21,899,792	15,546,813
Deferred income tax liability	7,539,473	4,644,065
	45,602,489	**55,949,798**
Shareholders' Equity		
Share capital *(note 9)*	192,911,996	144,339,234
Contributed surplus	4,608,181	3,961,972
Retained earnings	15,987,712	7,700,560
	213,507,889	**156,001,766**
	259,110,379	**211,951,564**

See accompanying notes to the financial statements

STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(Expressed in Canadian dollars, except for share information)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
REVENUE				
Oil and natural gas revenue	27,118,191	14,093,292	52,987,130	26,220,931
Royalty expense	5,760,322	2,034,208	11,147,556	4,316,240
Oil and natural gas revenue, net of royalties	**21,357,869**	**12,059,084**	**41,839,574**	**21,904,691**
Other income	7,854	—	7,853	—
Gain (loss) on financial derivatives *(note 8)*	(401,931)	1,489,539	(6,193,781)	(313,703)
	20,963,792	**13,548,623**	**35,653,646**	**21,590,988**
EXPENSES				
Operating *(note 11)*	4,193,465	2,753,401	7,920,303	5,833,038
Transportation expenses	978,750	465,980	1,850,288	957,211
General and administrative	797,013	427,106	1,430,423	703,197
Share-based compensation *(note 9)*	178,881	285,404	323,105	578,122
Finance	756,978	277,369	1,204,860	444,009
Depletion and depreciation *(note 5)*	6,126,518	3,677,597	11,355,859	7,274,416
	13,031,604	**7,886,857**	**24,084,838**	**15,789,993**
NET INCOME BEFORE INCOME TAXES	**7,932,188**	**5,661,766**	**11,568,808**	**5,800,995**
Current tax expense	—	—	—	—
Deferred income tax expense	2,426,864	1,651,453	3,281,656	1,744,300
	2,426,864	1,651,453	3,281,656	1,744,300
TOTAL NET INCOME AND COMPREHENSIVE INCOME	**5,505,324**	**4,010,313**	**8,287,152**	**4,056,695**
Net income per common share *(note 10)*				
Basic	**0.06**	**0.05**	**0.09**	**0.05**
Diluted	**0.06**	**0.05**	**0.09**	**0.05**

See accompanying notes to the financial statements

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

(Expressed in Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total
Balance, December 31, 2012	**144,119,128**	**2,103,466**	**(440,254)**	**145,782,340**
Net income	—	—	8,140,814	8,140,814
Issuance of common shares *(note 9)*	215,540	—	—	215,540
Premium liability of flow-through shares	(13,610)	—	—	(13,610)
Share-based compensation	—	1,858,506	—	1,858,506
Tax effect of share issue costs	18,176	—	—	18,176
Balance, December 31, 2013	**144,339,234**	**3,961,972**	**7,700,560**	**156,001,766**
Net income	—	—	8,287,152	8,287,152
Issuance of common shares *(note 9)*	50,030,500	—	—	50,030,500
Premium liability of flow-through shares	(74,750)	—	—	(74,750)
Share-based compensation	—	646,209	—	646,209
Share issue costs	(1,843,985)	—	—	(1,843,985)
Tax effect of share issue costs	460,997	—	—	460,997
Balance, June 30, 2014	**192,911,996**	**4,608,181**	**15,987,712**	**213,507,889**

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS (UNAUDITED)

(Expressed in Canadian dollars)

Funds generated by (used in):	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
OPERATING ACTIVITIES				
Net income (loss)	**5,505,324**	**4,010,313**	**8,287,152**	**4,056,695**
Adjust items not affecting cash:				
Share-based compensation	178,881	285,404	323,105	578,122
Unrealized hedging (gains) losses *(note 8)*	(1,094,430)	(1,639,232)	3,265,351	(163,890)
Finance expenses	134,309	61,852	254,703	123,830
Depletion and depreciation *(note 5)*	6,126,518	3,677,597	11,355,859	7,274,416
Deferred income tax expense	2,426,864	1,651,453	3,281,656	1,744,299
Decommissioning expenditures	(332,498)	—	(348,938)	—
Funds generated by operations	**12,944,968**	**8,047,387**	**26,418,888**	**13,613,472**
Change in operating non-cash working capital	1,382,487	(7,391,371)	(1,171,244)	(3,229,905)
Cash flow from operating activities	**14,327,455**	**656,016**	**25,247,644**	**10,383,567**
FINANCING ACTIVITIES				
Issuance of common shares *(note 9)*	50,030,500	186,968	50,030,500	186,968
Share issue costs *(note 9)*	(1,843,985)	—	(1,843,985)	—
Increase (decrease) in bank indebtedness	(51,900,907)	9,663,536	(23,379,651)	20,967,708
Cash (used in) generated by financing activities	**(3,714,392)**	**9,850,504**	**24,806,864**	**21,154,676**
INVESTING ACTIVITIES				
Property and equipment (acquisitions) dispositions *(note 3)*	—	1,701,319	(19,113,194)	1,701,319
Exploration and evaluation asset expenditures *(note 4)*	3,332,807	—	(1,122,385)	(12,618,280)
Petroleum and natural gas property expenditures *(note 5)*	(12,273,146)	(12,650,140)	(31,463,687)	(21,270,014)
Other capital expenditures	(147,185)	(15,413)	(203,691)	(32,202)
Change in investing non-cash working capital	(906,336)	457,714	2,467,652	(10,908,099)
Cash used in investing activities	**(9,993,860)**	**(10,506,520)**	**(49,435,305)**	**(43,127,276)**
Increase (decrease) in cash	619,203	—	619,203	(11,589,033)
Cash, beginning of period	—	—	—	11,589,033
Cash, end of period	**619,203**	**—**	**619,203**	**—**
Cash interest paid	409,645	213,684	695,699	268,271
Cash taxes paid	—	—	—	—

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF THE ORGANIZATION

Petrus Resources Ltd. ("Petrus" or the "Company") is a privately held entity which was incorporated under the laws of the Province of Alberta on December 13, 2010. The Company's head office is located at 2400, 240 – 4th Avenue SW, Calgary, Alberta Canada.

The principal undertaking of Petrus is the investment in energy business-related assets. The operations of the Company consist of the acquisition, development, exploration and exploitation of these assets. It conducts many of its activities jointly with others. These financial statements reflect only the Company's share of these jointly controlled assets and its proportionate share of the relevant revenue and related costs. These financial statements report the financial position and the results of operations for the three and six months ended June 30, 2014 and were approved by the Company's Audit Committee August 11, 2014.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These condensed interim financial statements have been prepared by management on a historical basis, except for certain financial instruments that have been measured at fair value. These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting." Certain information and disclosures normally included in the notes to the annual financial statements have been condensed. Accordingly, these condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which were prepared in accordance with international financial reporting standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The preparation of these condensed interim financial statements requires the use of certain critical accounting estimates and also requires management to exercise judgment in applying the Company's accounting policies. In preparing these condensed interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended December 31, 2013. The condensed interim financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2013 except as noted in note 2(b) to these financial statements. These financial statements are presented in Canadian dollars, except where otherwise noted.

(b) New standards and interpretations

On January 1, 2014, the Company adopted the following new standards and amendments which became effective for periods on or after January 1, 2014:

Effective January 1, 2014, the Company adopted amendments to IAS 32, "Financial Instruments: Presentation". The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. IAS 32 does not impact the Company's financial statements.

In 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduces the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are to be adopted retrospectively for fiscal years beginning January 1, 2014. Petrus adopted these amendments effective January 1, 2014. The adoption will impact disclosures in the notes to the financial statements only in periods when an impairment loss or impairment reversal is recognized.

Effective January 1, 2014 the Company adopted IFRIC 21, which clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The adoption of IFRIC 21 did not result in any changes to the accounting for levies by the Company.

Future accounting standards and interpretations

IFRS 9 *Financial Instruments* – In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard was expanded in October 2010 and will be published in three phases, of which two phases have been published. The first phase replaces the current approach to classification and measurement of financial assets and liabilities and uses a model of only two classification categories: fair value or amortized cost. The second phase, amended in 2013 by the IASB, incorporates a new general hedge accounting model which will allow reporting entities more opportunities to apply hedge accounting. The third phase clarifies the use of a single impairment method when evaluating financial instruments. A mandatory effective date for IFRS 9 in its entirety will be announced when the project is closer to completion. Early adoption of phases one and two is permitted only if adopted in their entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the financial statements.

In May, 2014 the IASB published IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") replacing IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of adopting IFRS 15 on the financial statements.

3. ACQUISITIONS

Business combination

On February 28, 2014 Petrus closed an acquisition of petroleum and natural gas assets in the central Alberta foothills, for total cash consideration of $19.1 million, net of adjustments. The transaction was accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value. The acquisition was financed by way of the Company's revolving credit facility. Acquisition related costs, which relate to professional fees, are charged to finance expenses in the Statement of Net Income and Comprehensive Income.

The following table summarizes the net assets acquired pursuant to the acquisition:

Fair value of net assets acquired	
Exploration and evaluation assets	5,446,050
Petroleum and natural gas properties and equipment	17,058,504
Decommissioning obligations	(3,391,360)
Total net assets acquired	**19,113,194**

From the date of acquisition to June 30, 2014, the assets contributed $3.2 million of revenue and $1.8 million of operating income. If the acquisition had taken place at January 1, 2014, the incremental revenue and operating income of the Company for the six months ended June 30, 2014 would have been $5.1 million and $3.2 million, respectively.

4. EXPLORATION AND EVALUATION ASSETS

The components of the Company's Exploration and Evaluation assets are as follows:

Balance, December 31, 2012	**45,790,854**
Additions	4,441,890
Capitalized G&A and share-based compensation	1,220,230
Transfers to property, plant and equipment	(924,456)
Balance, December 31, 2013	**50,528,518**
Additions	558,274
Acquisitions (dispositions) *(note 3)*	5,446,050
Capitalized G&A and share-based compensation	725,662
Balance, June 30, 2014	**57,258,504**

Exploration and evaluation assets consist of Petrus' undeveloped land and exploration and development projects which are pending the determination of technical feasibility. Additions represent the Company's share of costs incurred on these assets during the period. Exploration and evaluation assets are not subject to depletion. For the three and six month periods ended June 30, 2014 the Company did not incur exploration and evaluation expense in the Statement of Net Income (Loss) and Comprehensive Income (Loss) (2013 - $Nil).

During the three and six months ended June 30, 2014 the Company capitalized $430,882 and $725,662, respectively, of general & administrative expenses ("G&A") directly attributable to exploration activities (three and six months ended June 30, 2013 - $476,969 and $857,030). Included in this amount is non-cash share-based compensation for the three and six months ended June 30, 2014 of $89,440 and $161,552, respectively (three and six months ended June 30, 2013 $142,701 and $289,060, respectively).

5. PROPERTY, PLANT AND EQUIPMENT

$	Cost	Accumulated DD&A	Net book value
Balance, December 31, 2012	**120,700,567**	**(8,715,422)**	**111,985,145**
Additions	52,168,855	—	52,168,855
Acquisitions (dispositions)	(1,901,319)	200,000	(1,701,319)
Capitalized G&A and share-based compensation	1,220,232	—	1,220,232
Transfers from exploration and evaluation assets	924,456	—	924,456
Depletion & depreciation	—	(17,162,735)	(17,162,735)
Change in decommissioning provision	2,778,122	—	2,778,122
Balance, December 31, 2013	**175,890,913**	**(25,678,157)**	**150,212,756**
Additions	31,103,269	—	31,103,269
Acquisitions (dispositions)*(note 3)*	13,667,144	—	13,667,144
Capitalized G&A and share-based compensation	725,662	—	725,662
Depletion & depreciation	—	(11,355,859)	(11,355,859)
Change in decommissioning provision	6,447,214	—	6,447,214
Balance, June 30, 2014	**227,834,202**	**(37,034,016)**	**190,800,186**

Estimated future development costs of $58.8 million (December 31, 2013 - $58.8 million) associated with the development of the Company's proved plus probable undeveloped reserves were included with the costs subject to depletion. During the three and six month periods ended June 30, 2014 the Company capitalized $430,882 and $725,662, respectively (three and six months periods ended June 30, 2013 $476,969 and $857,030, respectively) of general & administrative expenses ("G&A") directly attributable to development activities. Included in this amount is non-cash share-based compensation for the three and six months ended June 30, 2014 of $89,441 and $161,553, respectively (three and six months ended June 30, 2013 $142,701 and $289,060, respectively).

6. REVOLVING CREDIT FACILITY

At June 30, 2014 the Company had a credit facility of $90 million with a major Canadian lender. At quarter end the credit facility consists of an $80 million demand revolver and a $10 million development line. It provides that advances may be made by way of direct Canadian advances (at an interest rate equal to the Bank of Canada prime rate plus 0.75% per annum), U.S. dollar advances (at an interest rate equal to the U.S. Base Rate plus 0.75% per annum), or bankers' acceptances (at a stamping fee calculated on the face amount of the banker's acceptance at a rate equal to 175 basis points per annum). At June 30, 2014, the Company has no outstanding letters of credit against the facility (December 31, 2013; Nil) and had not drawn against the facility (December 31, 2013; $23.4 million).

On July 31, 2014 the Company syndicated its existing credit facility to five institutions and structured a $100 million, committed, secured 364-day revolving plus one year term-out facility. It is comprised of a $20 million operating facility, as well as an $80 million syndicated facility. The facilities bear interest at Canadian bank prime, or at the Company's option, Canadian bankers' acceptances, plus applicable margin and stamping fee. The stamping fees range, depending on Petrus' debt to cash flow ratio, between 100 bps and 250 bps on Canadian bank prime borrowings and between 200 bps and 350 bps on Canadian dollar bankers' acceptances. The undrawn portion of the facilities, are subject to a standby fee in the range of 50 bps to 87.50 bps (see Note 13).

The amount of the credit facility is subject to a borrowing base test performed on a semi-annual review by the lender, based primarily on reserves and using commodity prices estimated by the lender as well as other factors. The Company has provided collateral by way of a $600 million debenture over all of the present and after acquired property of the Company. A decrease in the borrowing base could result in a reduction to the available credit facility. The next scheduled review will take place October 31, 2014. The facilities carry a financial covenant which limits the Company's ability to borrow amounts greater than the facility limit. At June 30, 2014 the Company was in compliance with all related covenants.

7. DECOMMISSIONING OBLIGATION

The decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The estimated future cash flows have been discounted using an average risk free rate of three percent and an inflation rate of two percent (December 31, 2013; three percent and two percent, respectively). Changes in estimates are due to changes in the Company's net ownership interest in wells and facilities as well as changes in well status and the associated costs to abandon. The Company has estimated the net present value of the decommissioning obligations to be $21.9 million as at June 30, 2014 ($15.6 million at December 31, 2013). The undiscounted, uninflated total future liability at June 30, 2014 is $27.8 million ($19.7 million at December 31, 2013). The payments are expected to be incurred over the operating lives of the assets. The following table reconciles the decommissioning liability:

Balance, December 31, 2012	**12,395,714**
Dispositions	(80,000)
Liabilities incurred	749,308
Change in estimates	2,108,814
Accretion expense	372,977
Balance, December 31, 2013	**15,546,813**
Acquisitions	3,391,360
Liabilities incurred	2,931,899
Liabilities settled	(348,938)
Change in estimates	123,955
Accretion expense	254,703
Balance, June 30, 2014	**21,899,792**

8. FINANCIAL RISK MANAGEMENT

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus has outstanding as at June 30, 2014:

Natural Gas **Contract Period**	**Type**	**Daily Volume**	**Price (CAD$/GJ)**
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	1,500 GJ	$3.44/GJ
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	2,500 GJ	$3.61/GJ
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	1,000 GJ	$3.64/GJ
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	1,500 GJ	$3.65/GJ
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	1,000 GJ	$3.99/GJ
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	500 GJ	$4.07/GJ
Jul. 1, 2014 to Oct. 31, 2014	Fixed price	1,000 GJ	$4.32/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	2,000 GJ	$3.75/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	2,000 GJ	$3.81/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	$3.84/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	$4.04/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	$4.10/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	500 GJ	$4.18/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	$4.43/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	$4.83/GJ

Crude Oil **Contract Period**	**Type**	**Daily Volume**	**Price ($/Bbl)**
Jul. 1, 2014 to Dec. 31, 2014	Put Option	200 Bbl	WTI $85.00/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI $89.00/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	100 Bbl	WTI $92.00/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	200 Bbl	WTI $93.80/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI $CAD105.20/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI $92.10/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	200 Bbl	WTI $94.05/Bbl
Aug. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI $CAD103.05/Bbl
Jan. 1, 2015 to Dec. 31, 2015	Fixed price	200 Bbl	WTI $CAD100.00/Bbl
Jan. 1, 2015 to Dec. 31,2015	Fixed Price	100 Bbl	WTI $CAD 95.50/Bbl

Electric Power Contract Period	Type	Annual Volume	Price (CAD)
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	12,264 MW	$57.75/MWH
Jan. 1, 2015 to Dec. 31, 2015	Fixed price	12,264 MW	$50.00/MWH

Risk Management Asset and Liability

At December 31, 2013	Current Asset	Current Liability
Commodity derivatives	26,418	2,286,940
	26,418	**2,286,940**

At June 30, 2014	Current Asset	Current Liability
Commodity derivatives	—	5,525,873
	—	**5,525,873**

Earnings Impact of Realized and Unrealized Gains (Losses) on Commodity Financial Instruments

($)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Realized gain (loss)	(1,496,361)	(149,693)	(2,928,430)	(477,594)
Unrealized gain (loss)	1,094,430	1,639,232	(3,265,351)	163,890
	(401,931)	**1,489,539**	**(6,193,781)**	**(313,704)**

9. SHARE CAPITAL

Authorized

The authorized share capital consists of an unlimited number of common voting shares without par value.

Issued and Outstanding

Common shares	Number of Shares	Amount
Balance, December 31, 2012	**86,275,633**	**144,119,128**
Common shares issued under private placement (a)	52,655	105,310
Flow-through shares issued, net of premium (a)	34,024	68,048
Tax effect of share issue costs	—	18,176
Common shares issued under private placement (b)	14,286	28,572
Balance, December 31, 2013	**86,376,598**	**144,339,234**
Common shares issued under private placement (c)	15,256,000	49,582,000
Flow-through shares issued, net of premium (c)	115,000	373,750
Share issue costs	—	(1,843,985)
Tax effect of share issue costs	—	460,997
Balance, June 30, 2014	**101,747,598**	**192,911,996**

Share Issuances

(a) On April 26, 2013 the Company issued 52,655 common shares at a price of $2.00 per share and 34,024 flow-through shares at a price of $2.40 per share for total gross proceeds of $186,968. Of the issuance price, $0.40 per share or $13,610 was determined to be the premium on the flow-through shares. The issuance was made pursuant to an Exempt Offering which provided employees and key consultants an opportunity to purchase common and flow-through shares of the Company. The common shares issued are subject to a restricted hold period which expired August 27, 2013.

(b) On August 19, 2013 the Company issued 14,286 common shares at a price of $2.00 per share for gross proceeds of $28,572. The issuance was made pursuant to an Exempt Offering which provided employees and key consultants an opportunity to purchase common and flow-through shares of the Company. The common shares issued are subject to a restricted hold period which expired December 19, 2013.

(c) On June 2, 2014 the Company issued 15,256,000 common shares at a price of $3.25 per share and 115,000 flow-through shares at a price of $3.90 per share for total gross proceeds of $50,030,500. Of the issuance price, $0.65 per share or $74,750 was determined to be the premium on the flow-through shares. The common shares issued are subject to a restricted hold period which expires October 3, 2014.

SHARE-BASED COMPENSATION

Performance Warrants

The Company has issued performance warrants to employees, consultants and directors of the Company. Performance warrants were granted and vest based on three criteria, time (one third vest per year), market (one third vest as certain share price hurdles are achieved) and employment or service. The warrants expire five years from the date of issuance. Upon exercise of the warrants the Company may settle the obligation by issuing common shares of the Company. The shares to be offered consist of common shares of the Company`s authorized but unissued common shares. The aggregate number of shares issuable upon the exercise of all warrants granted shall not exceed 20% of the 32,113,016 issued and outstanding shares as at April 30, 2012. At June 30, 2014, 6,407,603 (December 31, 2013; 6,422,603) performance warrants were issued.

	Number of warrants outstanding	Weighted Average Exercise Price ($)
Balance, December 31, 2012	**6,422,603**	**$2.00**
Forfeited or expired	(417,000)	$2.00
Granted	417,000	$2.25
Balance, December 31, 2013	**6,422,603**	**$2.02**
Forfeited or expired	(15,000)	$2.00
Balance, June 30, 2014	**6,407,603**	**$2.02**

The following tables summarize information about the performance warrants granted since inception:

	Warrants Issued			Warrants Exercisable	
Grant date	**Number outstanding**	**Weighted average exercise price**	**Weighted average remaining life (years)**	**Number exercisable**	**Weighted average exercise price**
December 19, 2011	4,517,000	$2.00	2.47	1,320,920	$2.00
March 20, 2012	400,000	$2.00	2.72	132,000	$2.00
May 1, 2012	400,000	$2.00	2.84	132,000	$2.00
September 5, 2012	225,000	$2.00	3.18	74,250	$2.00
July 10, 2012	41,603	$2.00	3.03	8,729	$2.00
August 6, 2012	400,000	$2.00	3.10	132,000	$2.00
November 5, 2012	100,000	$2.00	3.35	33,000	$2.00
November 14, 2013	417,000	$2.25	4.38	—	$2.25
	6,407,603	**$2.02**	**2.60**	**1,832,899**	**$2.02**

At June 30, 2014 there were 1,837,899 exercisable performance warrants. The fair value of each warrant granted during the period was Nil as no warrants were granted during the period (2013 - $0.25). The Black-Scholes pricing model uses the following weighted average assumptions (June 30):

	2014	2013
Risk free interest rate	—	1.23%
Expected life (years)	—	5
Estimated volatility of underlying common shares (%)	—	50%
Estimated forfeiture rate	—	20%
Expected dividend yield (%)	—	0%

Petrus estimated the volatility of the underlying common shares by analyzing the volatility of peer group private companies with similar corporate structure, oil and gas assets and size. With respect to the market condition inherent in the warrants, Petrus estimated the probability of achieving the condition and applied the probability to each individual vesting tranche in order to fairly estimate the fair value of each warrant.

Stock Options

The Company has a stock option plan in place whereby it may issue stock options to employees, consultants and directors of the Company. The aggregate number of shares that may be acquired upon exercise of all Options granted pursuant to the plan shall, at any date or time of determination, be equal to ten percent (10%) of the number that is equal to (i) the number of the Company's basic Common shares then issued and outstanding; minus (ii) a number equal to five (5) times the number of Common Shares that are issuable upon exercise of the then outstanding Performance Warrants minus (iii) a number equal to fifty percent (50%) of the number of Common Shares that have previously been issued upon the exercise of Performance Warrants. The options vest based on time (one third vest per year) and expire five years from the date of issuance. At June 30, 2014, 5,050,000 (December 31, 2013; 4,355,000) stock options were issued. The summary of stock option activity is presented below:

	Number of stock options	Weighted Average Exercise Price ($)
Balance, December 31, 2013	**4,355,000**	**$1.84**
Granted	700,000	$2.62
Forfeited or expired	(5,000)	$1.75
Balance, June 30, 2014	**5,050,000**	**$1.92**

The following tables summarize information about the stock options granted since inception:

	Stock Options Issued			Stock Options Exercisable	
Grant date	Number granted	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price
June 29, 2012	3,600,000	$1.75	3.00	2,403,288	$1.75
July 10, 2012	60,000	$1.75	3.19	16,667	$1.75
August 27, 2012	175,000	$1.75	3.33	58,333	$1.75
November 5, 2012	155,000	$1.75	3.52	51,667	$1.75
March 18, 2013	99,000	$2.00	3.88	33,000	$2.00
June 3, 2013	10,000	$2.00	4.09	3,333	$2.00
November 14, 2013	160,000	$2.25	4.54	—	$2.25
December 31, 2013	315,000	$2.25	4.67	—	$2.25
February 10, 2014	150,000	$2.25	4.78	—	$2.25
March 12, 2014	140,000	$2.50	4.87	—	$2.50
March 31, 2014	165,000	$2.50	4.92	—	$2.50
April 11, 2014	120,000	$2.75	4.95	—	$2.75
April 28, 2014	125,000	$3.25	4.99	—	$3.25
	5,050,000	**$1.92**	**3.40**	**2,566,288**	**$1.92**

At June 30, 2014 there were 2,566,288 exercisable stock options. The fair value of each stock option granted in the period of $0.92 (2013 - $0.77) per option is estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions (at June 30):

	2014	**2013**
Risk free interest rate	1.20%	1.20%
Expected life (years)	5	5
Estimated volatility of underlying common shares (%)	50%	50%
Estimated forfeiture rate	20%	20%
Expected dividend yield (%)	0%	0%

Petrus estimated the volatility of the underlying common shares by analyzing the volatility of peer group private companies with similar corporate structure, oil and gas assets and size.

The following table summarizes the Company's share-based compensation costs:

Share-based compensation costs ($):	**Three months ended June 30, 2014**	**Three months ended June 30, 2013**	**Six months ended June 30, 2014**	**Six months ended June 30, 2013**
Expensed in net income	178,881	285,404	323,105	578,122
Capitalized to exploration and evaluation assets	89,440	142,701	161,552	289,060
Capitalized to property, plant and equipment	89,441	142,701	161,553	289,060
Total share-based compensation	**357,762**	570,806	**646,210**	1,156,242

10. EARNINGS PER SHARE

Earnings per share amounts are calculated by dividing the net income for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

	Three months ended June 30, 2014	**Three months ended June 30, 2013**	**Six months ended June 30, 2014**	**Six months ended June 30, 2013**
Net income for the period	**5,505,324**	4,010,313	**8,287,152**	4,056,695
Weighted average number of common shares – basic	91,106,136	86,349,929	88,754,432	86,312,986
Weighted average number of common shares - diluted	93,943,009	86,849,304	91,591,305	86,812,361
Net income per common share – basic	**0.06**	0.05	**0.09**	0.05
Net income per common share - diluted	**0.06**	0.05	**0.09**	0.05

11. OPERATING EXPENSES

The Company's gross operating expenses for the three and six months ending June 30, 2014 were $4.5 million and $8.0 million, respectively (June 30, 2013; $3.3 million and $6.6 million). For the three and six months ended June 30, 2014, this includes $1.7 million and $2.7 million of processing, gathering and compression charges, respectively (June 30, 2013; $96,653 and $1.7 million).

The Company generated processing income recoveries of $293,896 and $28,018 for the three and six months ending June 30, 2014 respectively (June 30, 2013; $555,610 and $768,087) which reduced the Company's reported operating expenses to $4.2 million and $7.9 million for the three and six months ending June 30, 2014 (June 30, 2013; $2.8 million and $5.8 million).

12. COMMITMENTS

At June 30, 2014 the commitments for which the Company is responsible are as follows:

Commitments (000s)	**Total**	**< 1 year**	**1-5 years**	**> 5 years**
Corporate office lease	440	293	147	—
Total commitments	**440**	**293**	**147**	**—**

13. SUBSEQUENT EVENTS

Commitments

Effective July 9, 2014 the Company obtained a sublease extension for Petrus' corporate office space, concurrent on signing an agreement for additional office space for its corporate office. The office space commitments expire January 31, 2020 and are as follows:

Commitments (000s)	**Total**	**< 1 year**	**1-5 years**	**> 5 years**
Corporate office lease	3,387	265	2,704	418
Total commitments	**3,387**	**265**	**2,704**	**418**

Corporate Acquisitions

Arriva Energy Inc.

On July 21, 2014 Petrus entered into a pre-acquisition agreement pursuant to which Petrus will, subject to the satisfaction or waiver of certain conditions, make an all-cash offer of $103 million, inclusive of debt and transaction costs. Petrus will acquire the 41.2 million common shares outstanding of Arriva Energy Inc. at a purchase price of $2.05 per share, in addition to any Arriva shares issued pursuant to outstanding options, by way of a take-over bid.

Petrus anticipates mailing the offer to Arriva shareholders in mid-August 2014 and the offer will expire 35 days thereafter unless otherwise extended by Petrus in accordance with the terms of the pre-acquisition agreement.

Credit Facility

Concurrent with the closing of the acquisition of Arriva Energy Inc., Petrus has obtained commitment from its syndicated lenders to increase its demand credit facility from $80 million to $120 million for a total combined credit facility, inclusive of the $20 million operating facility, of $140 million.

Concurrent with the closing of the acquisition of the private corporation, Petrus has obtained commitment from its syndicated lenders to increase its demand credit facility from $120 million to $170 million for a total combined credit facility, inclusive of the $20 million operating facility, of $190 million.

The Company has provided collateral by way of a $600 million debenture over all of the present and after acquired property of the Company. The facilities carry a financial covenant which limits the Company's ability to borrow amounts greater than the facility limit. Refer to note 6.

Asset Acquisition

On July 31, 2014 the Company entered into an agreement with an industry partner to acquire petroleum and natural gas assets in the Ferrier/Strachan area of Alberta for cash consideration of $14.8 million. Petrus expects to close the acquisition during the third quarter.

Share Capital

On July 9, 2014 the Company granted 325,000 stock options at an exercise price of $3.25. On July 14, 2014 the Company granted 275,000 stock options at an exercise price of $3.25. On August 5, 2014, 2014 the Company granted 65,000 stock options at an exercise price of $3.25. On August 11, 2014 the Company granted 25,000 stock options at an exercise price of $3.25. The options vest based on time (one third vest per year) and expire five years from the date of issuance.

CORPORATE INFORMATION

OFFICERS

Kevin L. Adair, P. Eng.
President and Chief Executive Officer

Neil Korchinski, P. Eng.
Vice President, Engineering and
Chief Operating Officer

Cheree Stephenson, CA
Vice President, Finance and
Chief Financial Officer

Peter Verburg
Corporate Secretary

DIRECTORS

Don T. Gray
Chairman
Calgary, Alberta

Kevin L. Adair
Calgary, Alberta

Patrick Arnell
Calgary, Alberta

Joe Looke
Irving, Texas

Peter Verburg
Calgary, Alberta

SOLICITOR
Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITOR
Ernst & Young LLP
Chartered Accountants
Calgary, Alberta

INDEPENDENT RESERVE EVALUATORS
GLJ Petroleum Consultants
Calgary, Alberta

Sproule and Associates
Calgary, Alberta

BANKERS
TD Securities
Calgary, Alberta

TRANSFER AGENT
Valiant Trust Company
Calgary, Alberta

HEAD OFFICE
2400, 240 – 4th Avenue S.W.
Calgary, Alberta T2P 5H4
Phone: 403-984-9014
Fax: 403-984-2717

WEBSITE
www.petrusresources.com