PetrusResources

FIRST QUARTER REPORT

For the three months ended March 31, 2021

Petrus Resources Ltd. (“Petrus” or the “Company”) (TSX: PRQ) is pleased to report financial and operating results as at and for the three months ended March 31, 2021. Petrus is focused on generating free cash flow for debt repayment and further development of its Ferrier Cardium asset.

Following extreme market volatility throughout 2020, the first quarter of 2021 brought encouraging signs of rebalancing. Global economies continue to recover, bolstering demand and improving market conditions, which has translated to higher oil and natural gas prices. Petrus generated funds flow of $7.0 million during the first quarter of 2021. This was 9% higher than the previous quarter despite the Company’s first quarter production of 5,912 boe/d (65% natural gas) being 7% lower than production in the fourth quarter of 2020. This increase in funds flow is entirely due to commodity price improvement. The decrease in production quarter over quarter is a result of the natural declines of previously drilled wells coupled with an intentionally restrained approach to capital spending.

In light of the continued uncertainty associated with the COVID-19 pandemic and the Company’s sustained commitment to debt repayment, Petrus executed a disciplined capital strategy throughout the first quarter. Petrus’ Board of Directors approved a first quarter capital budget of $9.0 million, of which $7.9 million was deployed with the majority being directed toward the drilling of four (2.2 net) Cardium wells in the Company’s core area in Ferrier. Petrus continues to focus capital investment in Ferrier where ownership of critical infrastructure supports low operating costs and high rates of return.

Balance sheet strength remains Petrus’ top priority. Between the first quarter of 2020 and 2021, Petrus reduced net debt[(1)] by $9.3 million; a 7% decrease. Since December 31, 2015 the Company has repaid 49% or $110 million of net debt. Petrus’ revolving credit facility (“RCF”) matures May 31, 2021, and the second lien loan matures July 31, 2021. Management is currently working with the lenders on extension terms and continues to focus on its disciplined debt reduction strategy.

HIGHLIGHTS:

- **Commodity price improvements –** Realized price per boe increased by 27% in the first quarter of 2021 compared to the fourth quarter of 2020; from $24.05/boe to $30.55/boe. The increase was largely associated with the improvement in the realized pricing of oil and NGLs, which increased by 33% and 59%, respectively, quarter over quarter.

- **Funds flow –** Generated funds flow of $7.0 million ($0.14 per share) for the first three months of 2021, 9% higher than the previous quarter.

- **Capital activity** – During the quarter, Petrus drilled 4 gross (2.2 net) wells with capital expenditures of $7.9 million.

- **Low operating costs –** Corporate operating expense for the three months ended March 31, 2021 was $6.12/boe. The Company continues to focus on optimizing its cost structure through facility ownership and control, particularly in the Ferrier area where first quarter 2021 operating expense was $3.00/boe.

2021 OUTLOOK

Consistent with the company’s strategy of financial flexibility and balance sheet strength, Petrus will determine and provide guidance around quarterly capital spending as the year progresses. Petrus’ second quarter 2021 capital budget is forecasted to be $1.3 million and consists of mostly maintenance capital with no drilling planned for the quarter. Management continues to review pricing regularly and the Company has the financial and operational flexibility to adjust capital spending plans quickly in response to changing market conditions. Throughout 2021, Petrus plans on continuing to take a controlled approach to capital investments while reducing the amount drawn on the RCF.

[(1)]Refer to "Non-GAAP Financial Measures" in the Management's Discussion & Analysis attached hereto.
[(2)]Refer to "Advisories - Forward-Looking Statements" in the Management's Discussion & Analysis attached hereto.

Petrus Resources

MANAGEMENT'S DISCUSSION & ANALYSIS

March 31, 2021

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the financial and operating results of Petrus Resources Ltd. ("Petrus" or the "Company") as at and for the three months ended March 31, 2021. This MD&A is dated May 12, 2021 and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019. The Company's audited consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS"). Readers are directed to the "Advisories" section at the end of this MD&A regarding forward-looking statements and boe presentation and to the section "Non-GAAP Financial Measures" herein.

The principal undertaking of Petrus is the investment in energy assets. The operations of the Company consist of the acquisition, development, exploration and exploitation of these assets. The Company's head office is located at 2400, 240 - 4th Avenue SW, Calgary, Alberta, Canada. Additional information on Petrus, including the most recently filed Annual Information Form ("AIF"), are available under the Company's profile on SEDAR (the System for Electronic Document Analysis and Retrieval) at www.sedar.com.

SELECTED FINANCIAL INFORMATION

OPERATIONS	Three months ended Mar. 31, 2021	Three months ended Mar. 31, 2020	Three months ended Dec. 31, 2020	Three months ended Sept. 30, 2020	Three months ended Jun. 30, 2020
Average Production					
Natural gas (mcf/d)	22,985	30,604	26,177	26,181	27,630
Oil (bbl/d)	923	1,134	980	1,103	867
NGLs (bbl/d)	1,158	1,088	1,014	997	819
Total (boe/d)	**5,912**	**7,323**	**6,357**	**6,463**	**6,291**
Total (boe)	**532,099**	**666,361**	**584,860**	**594,599**	**572,440**
Light oil weighting	15 %	15 %	15 %	17 %	14 %
Realized Prices					
Natural gas ($/mcf)	3.33	2.40	3.07	2.51	2.35
Oil ($/bbl)	66.61	50.02	49.64	46.46	27.18
NGLs ($/bbl)	36.79	23.19	23.52	22.05	12.87
Total realized price ($/boe)	**30.55**	**21.23**	**24.05**	**21.48**	**15.73**
Royalty income	0.15	0.30	0.13	0.12	0.06
Royalty expense	(3.74)	(2.85)	(2.02)	(2.09)	(1.51)
Net oil and natural gas revenue ($/boe)	**26.96**	**18.68**	**22.16**	**19.51**	**14.28**
Operating expense	(6.12)	(4.55)	(5.53)	(4.05)	(4.44)
Transportation expense	(1.62)	(1.05)	(1.68)	(1.63)	(1.40)
Operating netback[(1)] ($/boe)	**19.22**	**13.08**	**14.95**	**13.83**	**8.44**
Realized gain (loss) on derivatives ($/boe)	(2.28)	1.76	0.65	2.20	6.39
Other income	0.04	0.07	0.31	0.04	0.17
General & administrative expense	(1.65)	(1.35)	(1.81)	(1.07)	(1.43)
Cash finance expense	(1.93)	(3.13)	(2.49)	(2.16)	(3.20)
Decommissioning expenditures	(0.27)	(0.56)	(0.63)	(0.13)	(0.15)
Funds flow & corporate netback[(1)(2)] ($/boe)	**13.13**	**9.87**	**10.98**	**12.71**	**10.22**

FINANCIAL (000s except $ per share)	Three months ended Mar. 31, 2021	Three months ended Mar. 31, 2020	Three months ended Dec. 31, 2020	Three months ended Sept. 30, 2020	Three months ended Jun. 30, 2020
Oil and natural gas revenue	16,339	14,344	14,143	12,840	9,041
Net loss	(3,155)	(87,444)	(151)	(3,678)	(6,281)
Net loss per share					
Basic	(0.06)	(1.77)	—	(0.07)	(0.13)
Fully diluted	(0.06)	(1.77)	—	(0.07)	(0.13)
Funds flow	6,993	6,566	6,423	7,551	5,855
Funds flow per share					
Basic	0.14	0.13	0.13	0.15	0.12
Fully diluted	0.14	0.13	0.13	0.15	0.12
Capital expenditures	7,917	8,655	2,797	2,543	305
Weighted average shares outstanding					
Basic	49,469	49,469	49,469	49,469	49,469
Fully diluted	49,469	49,469	49,469	49,469	49,469
As at period end					
Common shares outstanding					
Basic	49,469	49,469	49,469	49,469	49,469
Fully diluted	49,469	49,469	49,469	49,469	49,469
Total assets	177,587	193,679	177,914	179,895	184,532
Non-current liabilities	42,028	38.533	45,321	44,471	43,017
Net debt[(1)]	116,634	125,974	114,361	116,717	120,570

[(1)]Refer to "Non-GAAP Financial Measures" in the Management's Discussion & Analysis attached hereto.
[(2)]Corporate netback is equal to funds flow which is a comparable additional GAAP measure. Petrus analyzes these measures on an absolute value and per unit basis.

OPERATIONS UPDATE

First quarter average production by area was as follows:

For the three months ended March 31, 2021	Ferrier	Foothills	Central Alberta	Total
Natural gas (mcf/d)	16,660	1,346	4,978	22,984
Oil (bbl/d)	532	115	273	920
NGLs (bbl/d)	1,020	5	138	1,163
Total (boe/d)	**4,328**	**343**	**1,241**	**5,912**

First quarter average production was 5,912 boe/d in 2021 compared to 7,323 boe/d in 2020. The decrease in production can be attributed to natural declines and reduced capital activity as the Company continues to strategically restrain capital spending and focus on debt reduction.

In the first quarter of 2021, the Company invested capital of $7.9 million, which was largely directed to the drilling of one (1.0 net) Petrus operated well and three (1.2 net) non-operated wells in Ferrier. As all four of these wells began producing late in the quarter, production increases will not be fully realized until the second quarter.

CREDIT FACILITY UPDATE

Petrus' revolving credit facility ("RCF") matures May 31, 2021, and the second lien loan matures July 31, 2021. Management is currently working with the lenders on extension terms and continues to focus on its disciplined debt reduction strategy.

CAPITAL EXPENDITURES

Capital expenditures (excluding acquisitions and dispositions) totaled $7.9 million in the first quarter of 2021, compared to $8.7 million in the prior year comparative period. The Company participated in the drilling of 4 gross (2.2 net) Cardium light oil wells in Ferrier during the first quarter of 2021, as compared to 3 gross (2.0 net) Cardium light oil wells during the first quarter of 2020.

The following table shows capital expenditures for the reporting periods indicated. All capital is presented before decommissioning obligations.

Capital Expenditures ($000s)	Three months ended March 31, 2021	Three months ended March 31, 2020
Drill and complete	6,672	7,574
Oil and gas equipment	837	732
Land and lease	145	18
Capitalized general and administrative expense	263	331
Total capital expenditures	**7,917**	**8,655**
Gross (net) wells spud	**4 (2.2)**	**3 (2.0)**

[(1)] *Refer to "Advisories - Forward-Looking Statements" in the Management's Discussion & Analysis attached hereto.*

RESULTS OF OPERATIONS

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Three months ended Mar. 31, 2021	Three months ended Mar. 31, 2020	Three months ended Dec. 31, 2020	Three months ended Sept. 30, 2020	Three months ended Jun. 30, 2020
Average production					
Natural gas (mcf/d)	22,985	30,604	26,177	26,181	27,630
Oil (bbl/d)	923	1,134	980	1,103	867
NGLs (bbl/d)	1,158	1,088	1,014	997	819
Total (boe/d)	**5,912**	**7,323**	**6,357**	**6,463**	**6,291**
Total (boe)	**532,099**	**666,361**	**584,860**	**594,599**	**572,440**
Revenue ($000s)					
Natural gas	6,889	6,690	7,395	6,035	5,903
Oil	5,532	5,161	4,475	4,714	2,143
NGLs	3,836	2,296	2,195	2,022	959
Royalty revenue	82	197	78	69	36
Oil and natural gas revenue	**16,339**	**14,344**	**14,143**	**12,840**	**9,041**
Average realized prices					
Natural gas ($/mcf)	3.33	2.40	3.07	2.51	2.35
Oil ($/bbl)	66.61	50.02	49.64	46.46	27.18
NGLs ($/bbl)	36.79	23.19	23.52	22.05	12.87
Total realized price ($/boe)	30.55	21.23	24.05	21.48	15.73
Hedging gain (loss) ($/boe)	(2.28)	1.76	0.65	2.20	6.39
Total price including hedging ($/boe)	**28.27**	**22.99**	**24.70**	**23.68**	**22.12**

Average benchmark prices	Three months ended Mar. 31, 2021	Three months ended Mar. 31, 2020	Three months ended Dec. 31, 2020	Three months ended Sept. 30, 2020	Three months ended Jun. 30, 2020
Natural gas					
AECO 5A (C$/GJ)	2.98	1.93	2.50	2.02	1.89
AECO 7A (C$/GJ)	2.77	2.03	2.62	2.04	1.81
Crude oil					
Mixed Sweet Blend Edm (C$/bbl)	68.62	52.28	49.34	48.96	32.17
Natural gas liquids					
Propane Conway (US$/bbl)	35.74	15.40	25.50	19.78	14.54
Butane Edmonton (C$/bbl)	26.04	42.42	19.32	19.04	14.56
Foreign exchange					
US$/C$	0.79	0.74	0.77	0.74	0.74

FUNDS FLOW AND NET LOSS

Petrus generated funds flow of $7.0 million in the first quarter of 2021 compared to $6.6 million in the first quarter of 2020. The 7% increase is due to improved commodity prices, partially offset by decreased production and a realized hedging loss of $1.2 million. In the first quarter Petrus' total realized price was $30.55/boe compared to $21.23/boe in the first quarter of 2020.

Petrus reported a net loss of $3.2 million in the first quarter of 2021, compared to a net loss of $87.4 million in the first quarter of 2020. The net loss in the first quarter of 2020 is primarily due to the $98.0 million impairment loss recorded.

($000s except per share)	Three months ended March 31, 2021	Three months ended March 31, 2020
Funds flow	**6,993**	**6,566**
Funds flow per share - basic	0.14	0.13
Funds flow per share - fully diluted	0.14	0.13
Net loss	**(3,155)**	**(87,444)**
Net loss per share - basic	(0.06)	(1.77)
Net loss per share - fully diluted	(0.06)	(1.77)
Common shares outstanding (000s)		
Basic	49,469	49,469
Fully diluted	49,469	49,469
Weighted average shares outstanding (000s)		
Basic	49,469	49,469
Fully diluted	49,469	49,469

OIL AND NATURAL GAS REVENUE

First quarter average production in 2021 was 5,912 boe/d (15% light oil), 19% lower than the first quarter of 2020 (7,323 boe/d; 15% light oil). First quarter oil and natural gas revenue in 2021 was $16.3 million compared to $14.3 million in 2020. The 14% increase is due to higher oil and gas prices, partially offset by lower production.

The following table provides a breakdown of composition of the Company's production volume by product:

Production Volume by Product (%)	Three months ended March 31, 2021	Three months ended March 31, 2020
Natural gas	65 %	70 %
Crude oil and condensate	15 %	15 %
Natural gas liquids	20 %	15 %
Total commodity sales from production	**100 %**	**100 %**

The following table presents oil and natural gas revenue by product and the change from the prior comparative periods:

Oil and Natural Gas Revenue ($000s)	Three months ended March 31, 2021	Three months ended March 31, 2020	% Change
Natural gas	6,889	6,690	3 %
Crude oil and condensate	5,532	5,161	7 %
Natural gas liquids	3,836	2,296	67 %
Royalty income	82	197	(58)%
Total oil and natural gas revenue	**16,339**	**14,344**	**14 %**

The following table provides the average benchmark the Company's average realized commodity prices:

	Three months ended March 31, 2021	Three months ended March 31, 2020	% Change
Average benchmark prices			
Natural gas			
AECO 5A (C$/GJ)	2.98	1.93	54 %
AECO 7A (C$/GJ)	2.77	2.03	36 %
Crude oil			
Mixed Sweet Blend Edm (C$/bbl)	68.62	52.28	31 %
Natural gas liquids			
Propane Conway (US$/bbl)	35.74	15.40	132 %
Butane Edmonton (C$/bbl)	26.04	42.42	(39)%
Average realized prices			
Natural gas ($/mcf)	3.33	2.40	39 %
Oil ($/bbl)	66.61	50.02	33 %
NGLs ($/bbl)	36.79	23.19	59 %
Total average realized price	**30.55**	**21.23**	**44 %**

Natural gas

Natural gas revenue for the three months ended March 31, 2021 was up 3% to $6.9 million, compared to revenue of $6.7 million in the prior year comparative period, which accounted for approximately 34% of oil and natural gas revenue. Natural gas accounted for 42% of total oil and gas revenue for the quarter, down from 47% in the first quarter of 2020. First quarter 2021 average realized natural gas price was $3.33/mcf, compared to $2.40/mcf in the first quarter of 2020, a 39% increase. This increase was offset by a decline of 25% in natural gas production over the same period.

Crude oil and condensate

Oil and condensate revenue for the three months ended March 31, 2021 was up 7% to $5.5 million, compared to revenue of $5.2 million in the prior year comparative period. Oil and condensate accounted for 34% of total oil and gas revenue for the quarter, down from 36% in the first quarter of 2020. The average realized price of Petrus' light oil and condensate was $66.61/bbl for the first quarter of 2021 compared to $50.02/bbl in the first quarter of 2020. The increase of 33% is attributable to stronger oil prices. This was offset by a 19% decline in light oil and condensate volumes over the same period.

Natural gas liquids (NGLs)

NGL revenue for the three months ended March 31, 2021 was up 67% to $3.8 million, compared to revenue of $2.3 million in the prior year comparative period. NGLs accounted for 24% of total oil and natural gas revenue for the quarter, up from 16% in the first quarter of 2020.

The Company's NGL production mix consists of ethane, propane, butane and pentane. The pricing received for NGL production is based on annual contracts effective the first of April each year. The contract prices are based on the product mix, the fractionation process required and the demand for fractionation facilities. In the first quarter of 2021, the Company's realized blended NGL price averaged $36.79/bbl, compared to $23.19/bbl in the prior year comparative period. The 59% increase is primarily attributed to higher first quarter market pricing for propane at Conway, which increased 132% from the prior year comparative period.

ROYALTY EXPENSE

Royalties are paid to the Government of Alberta and to gross overriding royalty owners. The following table shows the Company's royalty expense (net of royalty allowances and incentives) for the periods shown:

Royalty Expense ($000s)	Three months ended March 31, 2021	Three months ended March 31, 2020
Crown	1,032	525
Percent of production revenue	6 %	4 %
Gross overriding	957	1,374
Total	**1,989**	**1,899**

First quarter royalty expense increased from $1.9 million in 2020 to $2.0 million in 2021 primarily due to Crown royalties doubling as a result of higher pricing. Gross overriding royalties in the first quarter of 2021 were lower than the prior year comparative period due to a large one-time adjustment recorded in the first quarter of 2020.

RISK MANAGEMENT

The Company utilizes financial derivative contracts to mitigate commodity price risk and provide stability and sustainability to the Company's economic returns, funds flow and capital development plan. Petrus' risk management program is governed by guidelines approved by its Board of Directors.

The impact of the contracts that were outstanding during the reporting periods are actual cash settlements and are recorded as realized hedging gains (losses). The unrealized gain (loss) is recorded to demonstrate the change in fair value of the outstanding contracts during the financial reporting period for financial statement purposes. Petrus does not follow hedge accounting for any of its risk management contracts in place. Petrus considers all of its risk management contracts to be effective economic hedges of its underlying business transactions.

The table below shows the realized and unrealized gain or loss on risk management contracts for the periods shown:

Net Gain (Loss) on Financial Derivatives ($000s)	Three months ended March 31, 2021	Three months ended March 31, 2020
Realized hedging gain (loss)	(1,215)	1,174
Unrealized hedging gain (loss)	(3,365)	11,685
Net gain (loss) on derivatives	**(4,580)**	**12,859**

In the first quarter, the Company recognized a realized hedging loss of $1.2 million in 2021, compared to a realized hedging gain of $1.2 million in the first quarter of 2020. The realized loss is due to improved commodity prices (relative to the respective contracts outstanding). The realized loss in the first quarter of 2021 decreased the Company's total realized price by $2.28/boe, compared to an increase of $1.76/boe in 2020.

During the first quarter of 2021, the Company recognized an unrealized loss of $3.4 million whereas during the first quarter of 2020 a $11.7 million unrealized gain was recorded. The price of oil decreased significantly during the first quarter of 2020 due to the global COVID-19 pandemic, combined with the production conflict between Russia and Saudi Arabia and excess oil supply, resulting in a large unrealized gain for the quarter. In the first quarter of 2021, oil and gas pricing has continued to improve.

The Company's risk management contracts provide protection from significant changes in crude oil and natural gas commodity prices for 2021 and 2022. The Company endeavors to hedge approximately half of its forecasted production for up to 6 months forward, and approximately 30% of its forecasted production for 6 to 12 months forward. The Company's hedging strategy is intended to provide stability and sustainability to the Company's economic returns, funds flow and capital development plan. A summary of Petrus' risk management contracts is included in note 8 of the Company's interim consolidated financial statements as at and for the period ended March 31, 2021. The table below summarizes Petrus' average crude oil and natural gas hedged volumes. The average volume of oil hedged for 2021 (825 bbl/d) represents 40% of first quarter 2021 average liquids production. The 15,250 GJ/day average natural gas hedged for 2021 represents 70% of first quarter 2021 average natural gas production.

The following table summarizes the average and minimum and maximum cap and floor prices for the 2021 to 2022 oil and natural gas contracts outstanding as at the date of this MD&A:

	2021					2022				
	Q1	Q2	Q3	Q4	Avg.(1)	Q1	Q2	Q3	Q4	Avg.(1)
Oil hedged (bbl/d)	700	800	900	900	**825**	600	—	—	—	**150**
Avg. WTI cap price ($C/bbl)	68.42	66.94	66.46	65.85	**66.83**	62.73	—	—	—	**—**
Avg. WTI floor price ($C/bbl)	68.42	66.94	66.46	65.85	**66.83**	62.73	—	—	—	**—**
Natural gas hedged (GJ/d)	17,000	16,000	14,000	14,000	**15,250**	11,000	—	—	—	**2,750**
Avg. AECO 7A cap price ($C/GJ)	2.18	2.15	2.08	2.48	**2.22**	2.62	—	—	—	**2.62**
Avg. AECO 7A floor price ($C/GJ)	2.18	2.15	2.08	2.48	**2.22**	2.62	—	—	—	**2.62**

(1)The volumes and prices reported are the weighted average volumes and prices for the period.

OPERATING EXPENSE

The following table shows the Company's operating expense for the reporting periods shown:

Operating Expense ($000s)	**Three months ended March 31, 2021**	**Three months ended March 31, 2020**
Fixed and variable operating expense	3,003	2,585
Processing, gathering and compression charges	487	681
Total gross operating expense	**3,490**	**3,266**
Overhead recoveries	(236)	(231)
Total net operating expense	**3,254**	**3,035**
Operating expense, net ($/boe)	**6.12**	**4.55**

For the three months ended March 31, 2021, net operating expense totaled $3.3 million, a 7% increase from $3.0 million during the prior year comparative period. The increase to total operating expense is due to the higher worker activities and power consumption as well as lower overhead recoveries from third party processing. On a per boe basis operating expense was 35% higher at $6.12/boe in the first quarter of 2021 compared to $4.55/boe in 2020. The increase on a per boe basis is primarily due to lower production volumes.

TRANSPORTATION EXPENSE

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

Transportation Expense ($000s)	**Three months ended March 31, 2021**	**Three months ended March 31, 2020**
Transportation expense	863	703
Transportation expense ($/boe)	1.62	1.05

Petrus pays commodity and demand charges for transporting its gas on pipeline systems. The Company also incurs trucking costs on the portion of its oil and natural gas liquids production that is not pipeline connected. For the three months ended March 31, 2021 transportation expense was $0.9 million or $1.62/boe compared to $0.7 million or $1.05 /boe in the prior year comparative period. The increase in transportation expense is attributed to the pipeline firm transportation contract that began in the second quarter of 2020.

GENERAL AND ADMINISTRATIVE EXPENSE

The following table illustrates the Company's general and administrative ("G&A") expense which is shown net of capitalized costs directly related to exploration and development activities:

General and Administrative Expense ($000s)	Three months ended March 31, 2021	Three months ended March 31, 2020
Personnel, consultants and directors	745	839
Administrative expenses	287	126
Regulatory and professional expenses	297	597
Gross general and administrative expense	**1,329**	**1,562**
Capitalized general and administrative expense	(208)	(325)
Overhead recoveries	(245)	(339)
General and administrative expense	**876**	**898**
General and administrative expense ($/boe)	**1.65**	**1.35**

For the three months ended March 31, 2021, gross G&A expense was $1.3 million compared to $1.6 million in the prior year comparative period, which represents a 17% decrease. First quarter G&A expense (net) in 2021 was $0.9 million or $1.65/boe which is consistent with the $0.9 million or $1.35/boe in the first quarter of 2020 (22% increase on a per boe basis due to 19% lower quarterly production). The gross decrease is attributed to fewer personnel resulting in lower office and personnel expenses, partially offset by lower overhead recoveries.

SHARE-BASED COMPENSATION EXPENSE

The following table illustrates the Company's share-based compensation expense which is shown net of capitalized costs directly related to exploration and development activities:

Share-Based Compensation Expense ($000s)	Three months ended March 31, 2021	Three months ended March 31, 2020
Gross share-based compensation expense	107	89
Capitalized share-based compensation expense	(17)	(35)
Share-based compensation expense	**90**	**54**

For the three months ended March 31, 2021, net share-based compensation expense was $0.09 million, which is 67% higher than the $0.05 million in the prior year comparative period.

FINANCE EXPENSE

The following table illustrates the Company's finance expense which includes cash and non-cash expenses:

Finance Expense ($000s)	Three months ended March 31, 2021	Three months ended March 31, 2020
Interest expense	1,029	2,089
Deferred financing costs	145	120
Non-cash Term Loan interest payment-in-kind	936	—
Accretion on decommissioning obligations	122	182
Total finance expense	**2,232**	**2,391**

First quarter total finance expense was $2.2 million in 2021, comprised of $0.9 million of non-cash accretion of its decommissioning obligations, $1.0 million of cash interest expense and $0.1 million of deferred financing fee amortization, both of which are related to the RCF and Term Loan. In the first quarter of 2020, the Company incurred total finance expense of $2.4 million, comprised of $0.2 million in non-cash accretion of its decommissioning obligation, $2.1 million cash interest expense and $0.1 million of deferred financing fee amortization. The 51% decrease in cash finance expense from the prior year is due to lower interest rate, lower RCF balance outstanding and non-cash interest payment-in-kind on the Term Loan.

DEPLETION AND DEPRECIATION

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

Depletion and Depreciation Expense ($000s)	Three months ended March 31, 2021	Three months ended March 31, 2020
Depletion and depreciation expense	5,633	7,740
Depletion and depreciation expense ($/boe)	10.59	11.62

Depletion and depreciation expense is calculated on a unit-of-production (boe) 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 cost. Such costs are segregated and depleted on an area by area basis relative to the respective underlying proved plus probable reserve base.

For the three months ended March 31, 2021, the Company recorded $5.6 million or $10.59/boe, compared to $7.7 million or $11.62/boe in the prior year comparative period. The decrease in depletion and depreciation expense is attributed to the impairment recorded in 2020.

IMPAIRMENT

The following table illustrates impairment losses recorded in the reporting periods:

Impairment ($000s)	Three months ended March 31, 2021	Three months ended March 31, 2020
Impairment	—	98,000
Total	**—**	**98,000**

Petrus recognized an impairment loss of $98.0 million in the Ferrier CGU during the three months ended March 31, 2020, due to the significant decrease in forward benchmark commodity prices at March 31, 2020 compared to December 31, 2019. For more information, refer to notes 3 and 4 of the March 31, 2020 interim consolidated financial statements.

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares . The Company has not issued any preferred shares. The following table details the number of issued and outstanding securities for the periods shown:

Share Capital (000s)	Three months ended March 31, 2021	Three months ended March 31, 2020
Weighted average common shares outstanding		
Basic	49,469	49,469
Fully diluted	49,469	49,469
Common shares outstanding		
Basic	49,469	49,469
Fully diluted	49,469	49,469
Stock options outstanding	1,988	1,954

At March 31, 2021, the Company had 49,469,358 common shares and 1,988,324 stock options outstanding.

The Company has a deferred share unit plan in place whereby it may issue deferred share units ("DSUs") to directors of the Company. At March 31, 2021, 1,618,702 DSUs were issued and outstanding (December 31, 2020 – 2,158,270). Each DSU entitles the participants to receive, at the Company's discretion, either common shares or a cash equivalent to the number of DSUs multiplied by the current trading price of the equivalent number of common shares. All DSUs vest and become payable upon retirement of the director.

LIQUIDITY AND CAPITAL RESOURCES

Petrus has two debt instruments outstanding. The first is a reserve-based, senior secured revolving credit facility with a syndicate of lenders, which is comprised of an RCF. The second is the Term Loan.

(a) Revolving Credit Facility

At March 31, 2021, the RCF was comprised of a $20 million operating facility and a $60.3 million syndicated term-out facility. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company. The RCF's maturity date is May 31, 2021 which was set prior to the Term Loan maturity of July 31, 2021 due to the inter-creditor relationship between the RCF and the Term Loan. The Company requires an extension or refinancing of its Term Loan before the syndicate of lenders will contemplate an extension to the RCF. The Company is actively engaged with the RCF syndicate of lenders and the Term Loan lender to extend the RCF and Term Loan.

At March 31, 2021, the Company had a $0.6 million letter of credit outstanding against the RCF (December 31, 2020 – $0.6 million) and had drawn $75.0 million against the RCF (December 31, 2020 – $77.5 million).

The amount of the RCF is subject to a borrowing base review performed on a semi-annual basis by the lenders, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. In addition, asset dispositions require unanimous lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2021. In the event that the lenders reduce the borrowing base below the amount drawn at the time of redetermination, the Company has 60 days to eliminate any shortfall by repaying amounts in excess of the new re-determined borrowing base.

(b) Term Loan

At March 31, 2021 the Company had a $37.7 million (December 31, 2020 – $36.8 million) Term Loan outstanding, which is due July 31, 2021. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

In July 2020, the Company extended the maturity of the Term Loan to July 31, 2021. The Term Loan bears interest that accrues at a per annum rate of the (three-month) Canadian Dealer Offered Rate plus 975 basis points. All of the interest will be made by way of payment-in-kind and added to the outstanding balance of the Term Loan in lieu of monthly payment of cash interest. The Term Loan extension also includes the removal of the Total Debt to EBITDA ratio as well as the Proved and PDP Asset Coverage Ratios from the financial covenants. The Working Capital ratio covenant has been updated to a minimum test of 0.6:1.0 (or such lower amount as agreed to by the lenders under the Term Loan which shall not be less than 0.5:1.0).

Financial Covenants

The RCF and the Term Loan carry financial covenants that are described in note 7 of the Company's December 31, 2020 audited annual consolidated financial statements. The Company was in compliance with all financial covenants at March 31, 2021.

Liquidity Risk

Liquidity risk relates to the risk the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by cash as they become due. The Company’s approach to managing liquidity risk is to ensure, as much as possible, that it will have sufficient liquidity to meet its short-term and long-term financial obligations when due, under both normal and unusual conditions without incurring unacceptable losses or risking harm to the Company’s reputation. The financial liabilities on its balance sheet consist of bank indebtedness, accounts payable, long term debt (including current portion thereof) and risk management liabilities.

At March 31, 2021, the Company had a working capital deficiency (excluding non-cash risk management assets and liabilities) of $116.6 million due to the classification of the Company's borrowings under its RCF and Term Loan. However, the Company remains in compliance with all financial covenants pertaining to its debt, and based on current available information relating to future production volumes, forward commodity pricing, future costs including capital, operating and general and administrative, forward exchange rates, interest rates and taxes, all of which are subject to measurement uncertainty, management expects to comply with all financial covenants during the subsequent 12 month period.

The following are the contractual maturities of financial liabilities as at March 31, 2021:

$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	11,655	11,655	—
Risk management liability	3,445	3,445	—
Bank indebtedness and long term debt[1]	113,905	113,905	—
Lease obligations	966	196	770
Total	**129,971**	**129,201**	**770**

[1]Excludes deferred finance fees.

The commitments for which the Company is responsible are as follows:

$000s	Total	< 1 year	1-5 years	> 5 years
Firm service transportation	**12,482**	**2,045**	**9,309**	**1,128**

Risk Management

Petrus is engaged in the acquisition, development, exploration and exploitation of oil and natural gas in western Canada. The Company is exposed to a number of risks, both financial and operational, through the pursuit of its strategic objectives. Actively managing these risks improves the ability to effectively execute Petrus' business strategy. Financial risks associated with the oil and natural gas industry include fluctuations in commodity prices, interest rates, currency exchange rates and the cost of goods and services. Financial risks also include third party credit risk and liquidity risk. Operational risks include reservoir performance uncertainties, competition, regulatory, environment and safety concerns.

For a more in-depth discussion of risk management, see notes 8 and 13 of the Company's March 31, 2021 interim consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

($000s unless otherwise noted)	Mar. 31, 2021	Dec. 31, 2020	Sept. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sept. 30, 2019	Jun. 30, 2019
Average Production								
Natural gas (mcf/d)	22,985	26,177	26,181	27,630	30,604	32,641	30,998	32,350
Oil (bbl/d)	923	980	1,103	867	1,134	1,834	1,247	1,679
NGLs (bbl/d)	1,158	1,014	997	819	1,088	1,018	1,372	1,576
Total (boe/d)	**5,912**	**6,357**	**6,463**	**6,291**	**7,323**	**8,292**	**7,785**	**8,647**
Total (boe)	**532,099**	**584,860**	**594,599**	**572,440**	**666,361**	**762,874**	**716,220**	**786,819**
Financial Results								
Oil and natural gas revenue	16,339	14,143	12,840	9,041	14,344	20,998	12,517	17,652
Royalty expense	(1,989)	(1,183)	(1,245)	(867)	(1,899)	(2,218)	(1,182)	(1,355)
Net oil and natural gas revenue	**14,350**	**12,960**	**11,595**	**8,174**	**12,445**	**18,780**	**11,335**	**16,297**
Transportation expense	(863)	(983)	(967)	(799)	(703)	(991)	(893)	(959)
Operating expense	(3,254)	(3,237)	(2,408)	(2,543)	(3,035)	(3,407)	(3,181)	(3,405)
Operating netback	**10,233**	**8,740**	**8,220**	**4,832**	**8,707**	**14,382**	**7,261**	**11,933**
Realized gain (loss) on derivatives	(1,215)	381	1,308	3,656	1,174	(1,417)	360	(800)
Other income	23	184	23	99	48	7	21	78
General and administrative expense	(876)	(1,059)	(635)	(817)	(898)	(1,459)	(776)	(530)
Cash finance expense	(1,029)	(1,456)	(1,286)	(1,831)	(2,089)	(1,939)	(2,230)	(2,126)
Decommissioning expenditures	(143)	(366)	(79)	(84)	(376)	(314)	(209)	(189)
Corporate netback and funds flow	**6,993**	**6,424**	**7,551**	**5,855**	**6,566**	**9,260**	**4,427**	**8,366**
Oil and natural gas revenue	**16,339**	**14,143**	**12,840**	**9,041**	**14,344**	**20,998**	**12,517**	**17,652**
Per share - basic	0.33	0.29	0.26	0.18	0.29	0.42	0.25	0.36
Per share - fully diluted	0.33	0.29	0.26	0.18	0.29	0.42	0.25	0.36
Net income (loss)	**3,365**	**(151)**	**(3,678)**	**(6,281)**	**(87,444)**	**(3,176)**	**(29,569)**	**2,863**
Per share - basic	0.07	—	(0.07)	(0.13)	(1.77)	(0.06)	(0.60)	0.06
Per share - fully diluted	0.07	—	(0.07)	(0.13)	(1.77)	(0.06)	(0.60)	0.06
Common shares outstanding (000s)								
Basic	49,469	49,469	49,469	49,469	49,469	49,469	49,469	49,469
Fully diluted	49,469	49,469	49,469	49,469	49,469	49,469	49,469	49,469
Weighted average shares outstanding (000s)								
Basic	49,469	49,469	49,469	49,469	49,469	49,469	49,469	49,469
Fully diluted	49,469	49,469	49,469	49,469	49,469	49,469	49,469	49,469
Total assets	177,587	177,914	179,895	184,532	193,679	289,225	296,367	328,912
Net debt	(116,634)	(114,361)	(116,717)	(120,570)	(125,974)	(123,744)	(128,553)	(130,619)

The oil and natural gas exploration and production industry is cyclical in nature. Petrus' financial position, results of operations and corporate netback are affected by commodity prices, exchange rates, Canadian price differentials and production levels. Petrus' average quarterly production decreased from 8,647 boe/d in the second quarter of 2019 to 5,912 boe/d in the first quarter of 2021. The 32% production decrease is attributable to Petrus' disciplined capital program, prioritizing debt repayment as well as certain production volumes in the Foothills area being shut-in due to uneconomic natural gas pricing.

Commodity price improvements enable higher reinvestment in exploration, development and acquisition activities as they increase the cash flows from operating activities. Commodity price reductions reduce revenues received and can challenge the economics of the Company's development program as the quantity of reserves may not be economically recoverable. Petrus' investment in its assets, and its ability to replace and grow reserve volumes, will be dependent on its ability to obtain debt and equity financing as well as the funds it receives from operations.

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. The Company's critical accounting estimates can be read in note 2 to the Company's consolidated financial statements as at and for the year ended December 31, 2020.

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The rapid outbreak and subsequent measures intended to limit the spread of COVID-19 have contributed to a significant increase in economic uncertainty, with more volatile commodity prices, currency exchange rates and interest rates. The duration and severity of the business disruptions and reduction in consumer activity internationally and the resulting financial effect is difficult to reliably estimate. The results of the potential economic downturn and any potential resulting direct or indirect effect on the Company has been considered in management's estimates at period end; however, there could be a further prospective material effect in future periods.

OTHER FINANCIAL INFORMATION

Significant accounting policies
The Company's significant accounting policies can be read in note 3 of the Company's consolidated financial statements as at and for the year ended December 31, 2020.

New standards and interpretations
The Company has not adopted any new standards and interpretations for the period ended March 31, 2021.

Internal Control over Financial Reporting
The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on January 1, 2021 and ending on March 31, 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

NON-GAAP FINANCIAL MEASURES

This MD&A makes reference to the terms "operating netback", "funds flow and corporate netback" and "net debt". These indicators are not recognized measures under GAAP (IFRS) and do not have a standardized meaning prescribed by GAAP (IFRS). Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Management uses these terms for the reasons set forth below.

Operating Netback
Operating netback is a common non-GAAP financial measure used in the oil and natural gas industry which is a useful supplemental measure to evaluate the specific operating performance by product at the oil and natural gas lease level. The most directly comparable

GAAP measure to operating netback is funds flow. Operating netback is calculated as oil and natural gas revenue less royalties, operating and transportation expenses. It is presented on an absolute value and per unit basis.

Funds Flow and Corporate Netback

Corporate netback is a common non-GAAP financial measure used in the oil and natural gas industry which evaluates the Company's profitability at the corporate level. Corporate netback is equal to funds flow which is a directly comparable GAAP measure. Petrus analyzes these measures on an absolute value and per unit basis. Management believes that funds flow and corporate netback provide information to assist a reader in understanding the Company's profitability relative to current commodity prices. It is calculated, in the following table, as the operating netback less general and administrative expense, finance expense, decommissioning expenditures, plus other income and the net realized gain (loss) on financial derivatives.

	Three months ended March 31, 2021		Three months ended March 31, 2020	
	$000s	**$/boe**	**$000s**	**$/boe**
Oil and natural gas revenue	16,339	30.71	14,344	21.53
Royalty expense	(1,989)	(3.74)	(1,899)	(2.85)
Net oil and natural gas revenue	**14,350**	**26.97**	**12,445**	**18.68**
Transportation expense	(863)	(1.62)	(703)	(1.05)
Operating expense	(3,254)	(6.12)	(3,035)	(4.55)
Operating netback	**10,233**	**19.23**	**8,707**	**13.08**
Realized gain (loss) on financial derivatives	(1,215)	(2.28)	1,174	1.76
Other income	23	0.04	48	0.07
General & administrative expense	(876)	(1.65)	(898)	(1.35)
Cash finance expense[1]	(1,029)	(1.99)	(2,089)	(3.13)
Decommissioning expenditures	(143)	(0.27)	(376)	(0.56)
Funds flow and corporate netback	**6,993**	**13.08**	**6,566**	**9.87**

[1] *Excludes non-cash Term Loan interest payment-in-kind*

Net Debt

Net debt is a non-GAAP financial measure and is calculated as current assets (excluding unrealized financial derivative assets) less current liabilities (excluding unrealized financial derivative liabilities, right-of-use lease obligations, and deferred share unit liabilities) and long term debt. Petrus uses net debt as a key indicator of its leverage and strength of its balance sheet. There is no GAAP measure that is reasonably comparable to net debt.

($000s)	**As at March 31, 2021**	**As at December 31, 2020**
Adjusted current assets[1]	8,926	7,428
Less: adjusted current liabilities[1]	(125,560)	(121,789)
Net debt	**(116,634)**	**(114,361)**

[1] *Adjusted for unrealized risk management assets, liabilities, lease obligations and unrealized deferred share unit liabilities.*

ADVISORIES

Basis of Presentation
Financial data presented above has largely been derived from the Company's financial statements, prepared in accordance with GAAP which require publicly accountable enterprises to prepare their financial statements using IFRS. Accounting policies adopted by the Company are set out in the notes to the consolidated financial statements as at and for the twelve months ended December 31, 2019. 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 MD&A 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: Petrus having adequate liquidity to execute the Company's business plan over the coming year; Petrus' contemplated second quarter budget and expected drilling plans; Petrus' ability to fund capital investments and pay down its long term debt within cash flow; the Company's ability to adjust liquids content in the natural gas stream to maximize profitability of all products as well as adjust production rates quickly to respond to changing market conditions; planned debt repayments; anticipated production increases and the timing thereof; the Company's ability to modify its operations; expectations regarding the adequacy of Petrus' liquidity and the funding of its financial liabilities; the impact of the current economic environment on Petrus; the performance characteristics of the Company's crude oil, NGL and natural gas properties; future prospects; the focus of and timing of capital expenditures; access to debt and equity markets; 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; and treatment under governmental regulatory regimes and tax laws.

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.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Petrus' prospective results of operations including, without limitation, its revenue outlook for Petrus for the remainder of 2021, liquidity to execute the Company's business plan over the coming year and ability to repay debt, which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. Petrus' actual results, performance or achievement could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits Petrus will derive therefrom. Petrus has included the FOFI in order to provide readers with a more complete perspective on Petrus' future operations and such information may not be appropriate for other purposes.

These forward-looking statements and FOFI are made as of the date of this MD&A and the Company disclaims any intent or obligation to update any forward-looking statements and FOFI, 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 six 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 equivalence of the two commodities at the burner tip. Boe's do not represent an economic value equivalence at the wellhead and therefore may be a misleading measure if used in isolation.

Abbreviations

$000's	*thousand dollars*
$/bbl	*dollars per barrel*
$/boe	*dollars per barrel of oil equivalent*
$/GJ	*dollars per gigajoule*
$/mcf	*dollars per thousand cubic feet*
bbl	*barrel*
bbl/d	*barrels per day*
boe	*barrel of oil equivalent*
mboe	*barrel of oil equivalent*
mmboe	*thousand barrel of oil equivalent*
boe/d	*million barrel of oil equivalent per day*
GJ	*gigajoule*
GJ/d	*gigajoules per day*
mcf	*thousand cubic feet*
mcf/d	*thousand cubic feet per day*
mmcf/d	*million cubic feet per day*
NGLs	*natural gas liquids*
WTI	*West Texas Intermediate*

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Presented in 000's of Canadian dollars)

As at	March 31, 2021	December 31, 2020
ASSETS		
Current		
Deposits and prepaid expenses	1,308	1,150
Accounts receivable *(note 13)*	7,618	6,278
Risk management asset *(note 8)*	—	934
Total current assets	**8,926**	**8,362**
Non-current		
Risk management asset *(note 8)*	—	15
Exploration and evaluation assets *(note 3)*	17,743	17,568
Property, plant and equipment *(note 4)*	150,918	151,969
	168,661	**169,552**
Total assets	**177,587**	**177,914**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	1,276	32
Current portion of long term debt *(note 5)*	112,629	114,049
Accounts payable and accrued liabilities *(note 13)*	11,655	7,708
Risk management liability *(note 8)*	3,445	986
Lease obligations *(note 6)*	196	188
Total current liabilities	**129,201**	**122,963**
Non-current liabilities		
Lease obligations *(note 6)*	770	824
Decommissioning obligation *(note 7)*	41,258	44,456
Risk management liability *(note 8)*	—	41
Total liabilities	**171,229**	**168,284**
Shareholders' equity		
Share capital *(note 9)*	430,119	430,119
Contributed surplus	9,479	9,596
Deficit	(433,240)	(430,085)
Total shareholders' equity	**6,358**	**9,630**
Total liabilities and shareholders' equity	**177,587**	**177,914**

Going concern (note 2)
Commitments (note 17)
See accompanying notes to the interim consolidated financial statements

Approved by the Board of Directors,

(signed) "Don T. Gray"

Don T. Gray
Chairman

(signed) "Donald Cormack"

Donald Cormack
Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

(Presented in 000's of Canadian dollars, except per share amounts)

	Three months ended March 31, 2021	Three months ended March 31, 2020
REVENUE		
Oil and natural gas revenue *(note 18)*	**16,339**	**14,344**
Royalty expense	(1,989)	(1,899)
Net oil and natural gas revenue	**14,350**	**12,445**
Other income	23	48
Net gain (loss) on risk management *(note 8)*	(4,580)	12,859
	9,793	**25,352**
EXPENSES		
Operating *(note 11)*	3,254	3,035
Transportation	863	703
General and administrative *(note 12)*	876	898
Share-based compensation *(note 9)*	90	54
Finance *(note 15)*	2,232	2,391
Depletion and depreciation *(note 4)*	5,633	7,740
Loss on sale of assets	—	(25)
Impairment *(notes 3 and 4)*	—	98,000
Total expenses	**12,948**	**112,796**
NET LOSS AND COMPREHENSIVE LOSS	**(3,155)**	**(87,444)**
Net loss per common share		
Basic and diluted *(note 10)*	**(0.06)**	**(1.77)**

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Presented in 000's of Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2019	**430,119**	**9,112**	**(332,531)**	**106,700**
Net loss	—	—	(87,444)	(87,444)
Share-based compensation *(note 9)*	—	89	—	89
Balance, March 31, 2020	**430,119**	**9,201**	**(419,975)**	**19,345**
Balance, December 31, 2020	**430,119**	**9,596**	**(430,085)**	**9,630**
Net loss	—	—	(3,155)	(3,155)
Deferred Share Unit settlement *(note 9)*	—	(224)	—	(224)
Share-based compensation *(note 9)*	—	107	—	107
Balance, March 31, 2021	**430,119**	**9,479**	**(433,240)**	**6,358**

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Presented in 000's of Canadian dollars)

	Three months ended March 31, 2021	Three months ended March 31, 2020
OPERATING ACTIVITIES		
Net loss	**(3,155)**	**(87,444)**
Adjust items not affecting cash:		
Share-based compensation *(note 9)*	90	54
Unrealized (gain) loss on financial derivatives (*note 8)*	3,365	(11,685)
Non-cash finance expenses *(note 15)*	267	302
Non-cash term loan interest payment-in-kind *(note 5)*	936	—
Depletion and depreciation *(note 4)*	5,633	7,740
Impairment *(notes 3 and 4)*	—	98,000
Loss on sale of assets	—	(25)
Decommissioning expenditures *(note 7)*	(143)	(376)
Funds flow	**6,993**	**6,566**
Change in operating non-cash working capital *(note 16)*	219	6,564
Cash flows from operating activities	**7,212**	**13,130**
FINANCING ACTIVITIES		
Deferred Share Unit payment *(note 9)*	(59)	—
Repayment of revolving credit facility	(2,500)	(4,000)
Drawing of bank indebtedness *(note 16)*	1,244	130
Repayment of lease liabilities *(note 6)*	(46)	(21)
Change in financing non-cash working capital *(note 16)*	—	(59)
Cash flows used in financing activities	**(1,361)**	**(3,950)**
INVESTING ACTIVITIES		
Exploration and evaluation asset expenditures *(note 3)*	(297)	(81)
Petroleum and natural gas property expenditures *(note 4)*	(7,620)	(8,573)
Change in investing non-cash working capital *(note 16)*	2,066	(782)
Cash flows used in investing activities	**(5,851)**	**(9,436)**
Increase (decrease) in cash	—	(256)
Cash, beginning of period	—	256
Cash, end of period	**—**	**—**
Cash interest paid *(note 15)*	1,029	2,089

See accompanying notes to the interim consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2021 and 2020

1. NATURE OF THE ORGANIZATION

Petrus Resources Ltd. (the "Company" or "Petrus") was incorporated under the laws of the Province of Alberta on November 25, 2015. 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. These consolidated financial statements reflect only the Company's proportionate interest in such activities and are comprised of the Company and its subsidiaries, Petrus Resources Corp. and Petrus Resources Inc.

The Company's head office is located at 2400, 240 - 4th Avenue SW, Calgary, Alberta, Canada.

These interim consolidated financial statements, for the three months ended March 31, 2021 and prior year comparative period, were approved by the Company's Audit Committee and Board of Directors on May 12, 2021.

2. BASIS OF PRESENTATION

Going Concern

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

As at March 31, 2021, the Company's revolving credit facility ("RCF") and Term Loan are due on May 31, 2021 and July 31, 2021, respectively. The borrowings under the RCF and the Term Loan are classified as current liabilities in the March 31, 2021 interim consolidated financial statements. The Company remains in compliance with each financial covenant. However, the classification of the debt instruments resulted in a working capital deficiency (excluding non-cash risk management assets and liabilities) of $116.6 million as at March 31, 2021.

The Company is actively engaging with the RCF syndicate of lenders and the Term Loan lender to extend the RCF and Term Loan. However, there can be no certainty as to the ability of the Company to successfully extend its RCF and Term Loan. There is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not include adjustments to the recoverability and classification of recorded asset and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

Statement of Compliance

These condensed interim consolidated 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 consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2020 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 consolidated 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 consolidated 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, 2020. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2020. These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency, except where otherwise noted.

Significant Accounting Policies and Critical Accounting Estimates

The Company's significant accounting policies and critical accounting estimates can be read in note 3 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2020.

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, shareholders' equity, revenue and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are continuously reviewed with the financial statement effect being recognized in the reporting period that the changes to estimates are made.

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The rapid outbreak and subsequent measures intended to limit the spread of COVID-19 have contributed to a significant increase in economic uncertainty, with more volatile commodity prices, currency exchange rates and interest rates. The duration and severity of the business disruptions and reduction in consumer activity internationally and the resulting financial effect is difficult to reliably estimate. The results of the potential economic downturn and any potential resulting direct or indirect effect on the Company has been considered in management's estimates at period end; however, there could be a further prospective material effect in future periods.

3. EXPLORATION AND EVALUATION ASSETS

The components of the Company's exploration and evaluation ("E&E") assets are as follows:

$000s	
Balance, December 31, 2019	**36,116**
Additions	4,590
Property acquisitions	(58)
Exploration and evaluation expense	(18)
Capitalized G&A	279
Capitalized share-based compensation	26
Transfers to property, plant and equipment *(note 4)*	(367)
Impairment loss	(23,000)
Balance, December 31, 2020	**17,568**
Additions	245
Capitalized G&A	52
Capitalized share-based compensation *(note 9)*	4
Transfers to property, plant and equipment *(note 4)*	(126)
Balance, March 31, 2021	**17,743**

For the three months ended March 31, 2021, the Company did not incur any exploration and evaluation expense (which relates to expired and nearly expired undeveloped, non-core land), as the provincial government has deferred all expiries for a period of one year due to the COVID-19 global pandemic (three months ended March 31, 2020 – nil).

During the three months ended March 31, 2021, the Company capitalized $0.1 million of general and administrative expenses ("G&A") (three months ended March 31, 2020 – $0.1 million) and $0.004 million of non-cash share-based compensation directly attributable to exploration activities (three months ended March 31, 2020 – $0.01 million).

During the year ended December 31, 2020, due to the significant decrease in forward benchmark commodity prices in the first quarter, the Company identified indicators of impairment and conducted an impairment test on all of the Company's Cash Generating Units ("CGUs"). No impairment was recorded for the Foothills, Central Alberta and Kakwa CGUs during the year ended December 31, 2020. For the Ferrier CGU, the Company recorded an impairment loss of $23.0 million on its E&E assets for the quarter ended March 31, 2020. The Company had also tested the Ferrier CGU for impairment on December 31, 2020 and did not record any further impairment.

The Company did not identify any indicators of impairment or impairment reversal for the three months ended March 31, 2021.

4. PROPERTY, PLANT AND EQUIPMENT

The components of the Company's property, plant and equipment ("PP&E") assets are as follows:

$000s	Cost	Accumulated DD&A	Net book value
Balance, December 31, 2019	**821,861**	**(583,383)**	**238,478**
Additions	8,600	—	8,600
Capitalized G&A	838	—	838
Capitalized share based compensation	77	—	77
Transfer from exploration and evaluation assets *(note 3)*	367	—	367
Depletion & depreciation	—	(25,231)	(25,231)
Increase in decommissioning expenses	3,840	—	3,840
Impairment provision	—	(75,000)	(75,000)
Balance, December 31, 2020	**835,583**	**(683,614)**	**151,969**
Additions	7,359	—	7,359
Capitalized G&A	261	—	261
Capitalized share-based compensation *(note 9)*	13	—	13
Transfers from exploration and evaluation assets *(note 3)*	126	—	126
Depletion & depreciation	—	(5,633)	(5,633)
Decrease in decommissioning provision *(note 7)*	(3,177)	—	(3,177)
Balance, March 31, 2021	**840,165**	**(689,247)**	**150,918**

At March 31, 2021, estimated future development costs of $252.3 million (December 31, 2020 – $252.3 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 months ended March 31, 2021, the Company capitalized $0.3 million of general and administrative expenses ("G&A") (three months ended March 31, 2020 – $0.2 million) and non-cash share-based compensation of $0.01 million (three months ended March 31, 2020 – $0.03 million), directly attributable to development activities.

The Company did not identify any indicators of impairment or impairment reversal for the three months ended March 31, 2021.

During the year ended December 31, 2020, due to the significant decrease in forward benchmark commodity prices in the first quarter, the Company identified indicators of impairment and conducted an impairment test on all of the Company's CGUs. No impairment was recorded for the Foothills and Central Alberta CGUs during the year ended December 31, 2020. For the Ferrier CGU, the Company recorded an impairment loss of $75 million on its PP&E asset on March 31, 2020, as the carrying amount exceeded the recoverable amount. The Company had also tested the Ferrier CGU for impairment on December 31, 2020 and did not record any further impairment.

The recoverable amount, a level 3 input on the fair value hierarchy, was estimated at its value-in-use, using a pre-tax discount rate of 11.0% to 12.5%. A 1% increase in the discount rate would have increase impairment by approximately $7 million. A 1% decrease in the discount rate would decrease impairment by approximately $6 million. The Company uses the following forward commodity price estimates:

Year	Canadian Light Sweet 40 API $/Bbl	AECO $/MMbtu
2021	54.55	2.86
2022	57.14	2.78
2023	63.64	2.69
2024	64.91	2.75
2025	66.21	2.80
2026	67.53	2.86
2027	68.88	2.91
2028	70.26	2.97
2029	71.66	3.03
2030	73.10	3.09
2031	74.56	3.15

Escalation rate of 2.0% thereafter.

At March 31, 2021, the carrying balance of the right of use asset was $0.9 million.

5. DEBT

Petrus has two debt instruments outstanding. The first is a reserve-based, senior secured revolving credit facility with a syndicate of lenders, which is comprised of an operating facility and a syndicated term-out facility (together, the "Revolving Credit Facility" or "RCF"). The second is a subordinated secured term loan (the "Term Loan").

(a) Revolving Credit Facility

At March 31, 2021, the RCF was comprised of a $20 million operating facility and a $60.3 million syndicated term-out facility. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company. The RCF's maturity date is May 31, 2021 which was set prior to the Term Loan maturity of July 31, 2021 due to the inter-creditor relationship between the RCF and the Term Loan. The Company requires an extension or refinancing of its Term Loan before the syndicate of lenders will contemplate an extension to the RCF. The Company is actively engaged with the RCF syndicate of lenders and the Term Loan lender to extend the RCF and Term Loan.

At March 31, 2021, the Company had a $0.6 million letter of credit outstanding against the RCF (December 31, 2020 – $0.6 million) and had drawn $75.0 million against the RCF (December 31, 2020 – $77.5 million).

The amount of the RCF is subject to a borrowing base review performed on a semi-annual basis by the lenders, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. In addition, asset dispositions require unanimous lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2021. In the event that the lenders reduce the borrowing base below the amount drawn at the time of redetermination, the Company has 60 days to eliminate any shortfall by repaying amounts in excess of the new re-determined borrowing base.

(b) Term Loan

At March 31, 2021 the Company had a $37.7 million (December 31, 2020 – $36.5 million) Term Loan outstanding, which is due July 31, 2021. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

In July 2020, the Company extended the maturity of the Term Loan to July 31, 2021. The Term Loan bears interest that accrues at a per annum rate of the (three-month) Canadian Dealer Offered Rate plus 975 basis points. All of the interest will be made by way of payment-in-kind ("PIK") and added to the outstanding balance of the Term Loan in lieu of monthly payment of cash interest. The Term Loan extension also includes the removal of the Total Debt to EBITDA ratio as well as the Proved and PDP Asset Coverage Ratios from the financial covenants. The Working Capital ratio covenant has been updated to a minimum test of 0.6:1.0 (or such lower amount as agreed to by the lenders under the Term Loan which shall not be less than 0.5:1.0).

Liquidity

At March 31, 2021, the Company had a working capital deficiency (excluding non-cash risk management assets and liabilities) of $116.6 million, as the Company's borrowings under its RCF and Term Loan are classified as current liabilities (see note 2). However, the Company remains in compliance with all financial covenants pertaining to its debt, and based on current available information relating to future production volumes, forward commodity pricing, future costs including capital, operating and general and administrative, forward exchange rates, interest rates and taxes, all of which are subject to measurement uncertainty, management expects to comply with all financial covenants during the subsequent 12 month period.

Financial Covenants

The Company's RCF and Term Loan are subject to certain financial covenants. For the financial covenants' definitions and calculation methodology refer to the Company's Audited Consolidated Financial Statements as at and for the year ended December 31, 2019.

The key financial covenants as at March 31, 2021 are summarized in the following table. At March 31, 2021 the Company is in compliance with all financial covenants.

Financial Covenant Description	Required Ratio	As at March 31, 2021
Working Capital Ratio	Over 0.60	1.05

6. LEASES

The Company's lease obligations are as follows:

$000s	
Balance, December 31, 2020	**1,012**
Finance expense	19
Lease payments	(65)
Balance, March 31, 2021	**966**

The Company's future commitments associated with its lease obligations are as follows:

$000s	As at March 31, 2021
Less than 1 year	261
1 to 3 years	829
4 to 5 years	23
After 5 years	—
Total lease payments	1,113
Amounts representing finance expense	(147)
Present value of lease obligation	966
Current portion of lease obligation	196
Non-current portion of lease obligation	770

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 1.9 percent and an inflation rate of 1.6 percent (1.1 percent and 1.4 percent, respectively at December 31, 2020). Changes in estimates in 2020 and 2021 are due to the changes in the risk free rate and changes in the estimated future cash flow to reclaim the wells and facilities. The Company has estimated the net present value of the decommissioning obligations to be $41.3 million as at March 31, 2021 ($44.5 million at December 31, 2020). The undiscounted, uninflated total future liability at March 31, 2021 is $41.3 million ($41.4 million at December 31, 2020). The payments are expected to be incurred over the operating lives of the assets.

The following table reconciles the decommissioning liability:

$000s	
Balance, December 31, 2019	**41,259**
Property dispositions	(98)
Other adjustments	(135)
Liabilities incurred	320
Liabilities settled	(904)
Change in estimates	3,520
Accretion expense	494
Balance, December 31, 2020	**44,456**
Liabilities incurred	156
Liabilities settled	(143)
Change in estimates or discount rate	(3,333)
Accretion expense	122
Balance, March 31, 2021	**41,258**

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 had outstanding as at March 31, 2021:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN$/GJ)
Natural Gas Swaps			
Apr. 1, 2021 to May. 31, 2021	Fixed price	3,000	$2.67
Apr. 1, 2021 to Oct. 31, 2021	Fixed price	14,000	$2.08
Nov. 1, 2021 to Dec. 31, 2021	Fixed price	6,000	$2.78
Nov. 1, 2021 to Mar. 31, 2022	Fixed price	8,000	$2.61
Jan. 1, 2022 to Mar. 31, 2022	Fixed price	2,000	$2.61

Contract Period	Type	Total Daily Volume (Bbl)	Average Price (CDN$/Bbl)
Crude Oil Swaps			
Apr. 1, 2021 to Jun. 30, 2021	Fixed price	600	$70.13
Apr. 1, 2021 to Dec. 31, 2021	Fixed price	200	$57.39
Jul. 1, 2021 to Sep. 30, 2021	Fixed price	400	$66.24
Jul. 1, 2021 to Dec. 31, 2021	Fixed price	300	$72.80
Oct. 1, 2021 to Dec 31, 2021	Fixed price	400	$64.86
Jan. 1, 2022 to Mar. 31, 2022	Fixed price	600	$62.73

Contract Period	Type	Average Rate (%)	Notional Amount (000s CDN$)
Interest Rate Swaps			
Apr. 1, 2021 to Dec. 31, 2022	Fixed rate	2.34	$20,000

Risk management asset and liability:

$000s At March 31, 2021	**Asset**	**Liability**
Current commodity derivatives	—	3,445
Non-current commodity derivatives	—	—
	—	**3,445**
$000s At December 31, 2020		
Current commodity derivatives	934	986
Non-current commodity derivatives	15	41
	949	**1,027**

Earnings impact of realized and unrealized gains (losses) on financial derivatives:

$000s	**Three months ended March 31, 2021**	**Three months ended March 31, 2020**
Realized gain (loss) on financial derivatives	(1,215)	1,174
Unrealized gain (loss) on financial derivatives	(3,365)	11,685
Net gain (loss) on financial derivatives	**(4,580)**	**12,859**

9. SHARE CAPITAL

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

Issued and Outstanding

Common shares ($000s)	**Number of Shares**	**Amount**
Balance, December 31, 2020 and March 31, 2021	**49,469,358**	**430,119**

SHARE-BASED COMPENSATION

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 plans 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, if any, 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, if any.

At March 31, 2021, 1,988,324 (December 31, 2020 – 2,276,923) stock options were outstanding. The summary of stock option activity is presented below:

	Number of stock options	Weighted average exercise price
Balance, December 31, 2019	**2,361,958**	**$2.87**
Granted	1,122,276	$0.23
Cancelled/forfeited	(353,320)	$1.06
Expired	(853,991)	$2.16
Balance, December 31, 2020	**2,276,923**	**$0.40**
Exercised	(200,119)	$0.26
Expired	(88,480)	$2.33
Balance, March 31, 2021	**1,988,324**	**$0.38**
Exercisable, March 31, 2021	**288,599**	**$0.75**

The following table summarizes information about the stock options granted since inception:

Range of Exercise Price	**Stock Options Outstanding**		
	Number granted	**Weighted average exercise price**	**Weighted average remaining life (years)**
$0.23 - $0.86	1,904,324	$0.30	2.13
$1.49	84,000	$1.49	0.28
	1,988,324	**$0.38**	**2.05**

For the year ended December 31, 2020, the Company granted options which vest equally over three years, and upon vesting, expire 30 business days thereafter. The weighted average fair value of each option granted during the year ended December 31, 2020 of $0.11 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2020
Risk free interest rate	0.20% - 0.29%
Expected life (years)	1.08 - 3.08
Estimated volatility of underlying common shares (%)	80% - 100%
Estimated forfeiture rate	20 %
Expected dividend yield (%)	— %

Petrus estimated the volatility of the underlying common shares by analyzing the Company's volatility as well as the volatility of peer group public companies with similar corporate structure, oil and gas assets and size.

Deferred Share Unit ("DSU") Plan

The Company has a deferred share unit plan in place whereby it may issue deferred share units to directors of the Company. The aggregate number of shares that may be issued from treasury of Petrus pursuant to the plan shall not exceed: (i) five percent (5%) of the number of issued and outstanding common shares of the Company (on a non-diluted basis) at the date of issue; and (ii) ten percent (10%) of the number of issued and outstanding common shares of the Company (on a non-diluted basis) at the date of issue, less the aggregate number of common shares of the Company reserved for issuance under any other share compensation plan.

Each DSU entitles the participants to receive, at the Company's discretion, either shares of the Company or cash equal to the trading price of the equivalent number of shares of the Company. All DSUs granted vest and become payable upon retirement of the director.

The compensation expense was calculated as equity using the fair value method based on the trading price of the Company's shares on the grant date. At March 31, 2021, 1,618,702 DSUs were issued and outstanding (December 2020 – 2,158,270). During the first quarter of 2021, the Company settled 539,568 DSUs for $0.2 million in cash.

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

$000s	March 31, 2021	March 31, 2020
Expensed	90	54
Capitalized to exploration and evaluation assets	4	9
Capitalized to property, plant and equipment	13	26
Total share-based compensation	**107**	**89**

10. LOSS PER SHARE

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Net loss for the period ($000s)	**(3,155)**	**(87,444)**
Weighted average number of common shares – basic (000s)	49,469	49,469
Weighted average number of common shares – diluted (000s)	49,469	49,469
Net loss per common share – basic	**($0.06)**	**($1.77)**
Net loss per common share – diluted	**($0.06)**	**($1.77)**

In computing diluted loss per share for the three months ended March 31, 2021, 1,988,324 outstanding stock options and 1,618,702 DSUs were considered (December 31, 2020 – 2,276,923 and 2,158,270 respectively), which were excluded from the calculation as their impact was anti-dilutive.

11. OPERATING EXPENSES

The Company's operating expenses consisted of the following expenditures:

$000s	Three months ended March 31, 2021	Three months ended March 31, 2020
Fixed and variable operating expenses	3,003	2,585
Processing, gathering and compression charges	487	681
Total gross operating expenses	**3,490**	**3,266**
Overhead recoveries	(236)	(231)
Total net operating expenses	**3,254**	**3,035**

12. GENERAL AND ADMINISTRATIVE EXPENSES

The Company's general and administrative expenses consisted of the following expenditures:

$000s	Three months ended March 31, 2021	Three months ended March 31, 2020
Gross general and administrative expense	1,329	1,562
Capitalized general and administrative expense	(208)	(325)
Overhead recoveries	(245)	(339)
General and administrative expense	**876**	**898**

13. FINANCIAL INSTRUMENTS

Risks associated with financial instruments

Credit risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risk. Concentration of credit risk is mitigated by marketing the majority of the Company's production to reputable and financially sound purchasers under normal industry sale and payment terms. As is common in the petroleum and natural gas industry in western Canada, Petrus' receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Of the $7.6 million of accounts receivable outstanding at March 31, 2021 (December 31, 2020 – $6.3 million), $5.5 million is owed from 3 parties (December 31, 2020 – $4.7 million from 3 parties), and the balances were received subsequent to the quarter end. The Company considers accounts receivable outstanding past 120 days to be 'past due'. At March 31, 2021, the Company had an allowance for doubtful accounts of $0.5 million (December 31, 2020 – $0.5 million). At March 31, 2021, 94% of Petrus' accounts receivable were aged less than 120 days and 6% of Petrus' accounts receivable were aged greater than 120 days. The Company does not anticipate any material collection issues.

The Company's risk management assets and cash are with chartered Canadian banks and the Company does not consider these assets to carry material credit risk.

Liquidity risk

At March 31, 2021, the Company had a $80.3 million RCF, on which $75.0 million was drawn (December 31, 2020 – $77.5 million). While the Company is exposed to the risk of reductions to the borrowing base of the RCF, the Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through funds flow and available credit capacity from its RCF. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2021 (see note 5).

The following are the contractual maturities of financial liabilities as at March 31, 2021:

$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	11,655	11,655	—
Risk management liability	3,445	3,445	—
Bank indebtedness and long term debt(1)	113,905	113,905	—
Lease obligations	966	196	770
Total	**129,971**	**129,201**	**770**

(1)Excludes deferred finance fees.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash, bank indebtedness and accounts receivable are not exposed to significant interest rate risk. The RCF and Term Loan are exposed to interest rate cash flow risk as the instruments are priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed to interest rate risk. To manage exposure to interest rate volatility, the Company entered into interest rate swap contracts (see note 8). A 1% increase in the Canadian prime interest rate during the three months ended March 31, 2021 would have increased net loss by approximately $0.9 million, which relates to interest expense on the average outstanding RCF and Term Loan, net of any interest rate swaps to fix the interest rate on loans, during the period assuming that all other variables remain constant (March 31, 2020 – $0.3 million). A 1% decrease in the Canadian prime interest rate during the year would result in an opposite impact on net loss.

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Company's borrowing base limit under its Revolving Credit Facility and may reduce the Company's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by Canadian and United States demand, but also by world events that dictate the levels of supply and demand.

The Company manages the risks associated with changes in commodity prices by entering into a variety of financial derivative contracts (see note 8). The Company assesses the effects of movement in commodity prices on net loss. When assessing the potential impact of these commodity price changes, the Company believes a $5/CDN WTI/bbl change in the price of oil and a $0.25/GJ change in the price of natural gas are reasonable measures.

As at March 31, 2021, it was estimated that a $0.25/GJ decrease in the price of natural gas would have decreased net loss by $1.3 million (March 31, 2020 – $1.8 million). An opposite change in commodity prices would result in an opposite impact on net loss. As at March 31, 2021, it was estimated that a $5.00/ CDN WTI/bbl decrease in the price of oil would have decreased net loss by $1.5 million (March 31, 2020 – $1.5 million). An opposite change in commodity prices would result in an opposite impact on net loss.

14. CAPITAL MANAGEMENT

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. In the management of capital, the Company includes share capital and total net debt, which is made up of debt and working capital (current assets less current liabilities). The Company 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.

15. FINANCE EXPENSES

The components of finance expenses are as follows:

$000s	Three months ended March 31, 2021	Three months ended March 31, 2020
Cash:		
Interest	1,029	2,089
Total cash finance expenses	1,029	2,089
Non-cash:		
Deferred financing costs	145	120
Non-cash Term Loan interest payment-in-kind	936	—
Accretion on decommissioning obligations *(note 7)*	122	182
Total non-cash finance expenses	1,203	302
Total finance expenses	**2,232**	**2,391**

16. SUPPLEMENTAL CASH FLOW INFORMATION

The following table reconciles the changes in non-cash working capital as disclosed in the statements of cash flows:

$000s	Three months ended March 31, 2021	Three months ended March 31, 2020
Source (use) in non-cash working capital:		
Deposits and prepaid expenses	(159)	(98)
Transaction costs on debt	(163)	(37)
Accounts receivable	(1,340)	5,087
Accounts payable and accrued liabilities	3,947	771
	2,285	**5,723**
Operating activities	219	6,564
Financing activities	—	(59)
Investing activities	2,066	(782)

The following table reconciles the changes in liability resulting from financing activities:

$000s	Bank Indebtedness	Revolving Credit Facility	Term Loan	Total Liabilities from Financing Activities
Balance, December 31, 2020	**32**	**77,484**	**36,565**	**114,081**
Cash flows	1,244	(2,500)	—	(1,256)
Payment-in-kind	—	—	936	936
Non-cash changes	—	144	—	144
Balance, March 31, 2021	**1,276**	**75,128**	**37,501**	**113,905**

17. COMMITMENTS AND CONTINGENCIES

Commitments

The commitments for which the Company is responsible are as follows:

$000s	Total	< 1 year	1-5 years	> 5 years
Firm service transportation	12,482	2,045	9,309	1,128

Contingencies

In the normal course of Petrus' operations, the Company may become involved in, named as a party to, or be the subject of, various legal proceedings. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty. Petrus does not anticipate that these claims will have a material impact on its financial position.

18. REVENUE

The following table presents Petrus' oil and natural gas revenue disaggregated by product type:

$000s	Three months ended March 31, 2021	Three months ended March 31, 2020
Production Revenue		
Oil and condensate sales	5,532	5,161
Natural gas sales	6,889	6,690
Natural gas liquids sales	3,836	2,296
Total oil and natural gas production revenue	**16,257**	**14,147**
Royalty revenue	82	197
Total oil and natural gas revenue	**16,339**	**14,344**

19. SUBSEQUENT EVENT

Disposition

Subsequent to the end of the first quarter of 2021, the Company received regulatory approval to dispose of certain non-core property, plant and equipment for $0.1 million. The purchaser will also assume the decommissioning liabilities associated with these assets. The transaction is subject to the approval of the Company's RCF and Term Loan lenders.

CORPORATE INFORMATION

OFFICER & VICE PRESIDENT

Ken Gray, P.Eng
President and
Chief Executive Officer

Mathew Wong, CPA, CFA, CPA (WA, USA)
Vice President, Finance

DIRECTORS

Don T. Gray
Chairman
Scottsdale, Arizona

Ken Gray
Calgary, Alberta

Patrick Arnell
Calgary, Alberta

Donald Cormack
Calgary, Alberta

SOLICITOR

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITOR
Ernst & Young LLP
Chartered Professional Accountants
Calgary, Alberta

INDEPENDENT RESERVE EVALUATORS
Sproule and Associates
Calgary, Alberta

BANKERS
TD Securities (Syndicate Lead Agent)
Calgary, Alberta

Macquarie Bank Limited
Houston, Texas

TRANSFER AGENT
Odyssey Trust Company
Calgary, Alberta

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

WEBSITE
www.petrusresources.com