THIRD QUARTER REPORT

For the three and nine months ended September 30, 2022

Petrus Resources Ltd. ("Petrus" or the "Company") (TSX: PRQ) is pleased to report financial and operating results as at and for the three and nine months ended September 30, 2022.

Q3 2022 HIGHLIGHTS:

- **Surging capital activity –** 9 (8.4 net) wells spud with 5 (2.3 net) wells completed and on production in the Ferrier and North Ferrier areas with total capital expenditures (excluding acquisitions) of $49.5 million during the third quarter of 2022.
- **Funds flow[(1)] remains strong –** Generated funds flow of $13.8 million for the third quarter of 2022, 75% higher than funds flow of $7.9 million for the third quarter of 2021. Funds flow for the first nine months of 2022 was $53.6 million, up 134% from the comparative period in 2021.
- **Realized price increase –** Realized price per boe increased by 26% in the third quarter of 2022 compared to the third quarter of 2021; from $37.00/boe to $46.62/boe. The realized oil, natural gas and NGL prices increased by 34%, 24% and 38%, respectively.
- **Production up 12% –** Production was up 12% from 5,937 boe/d[(3)] in the third quarter of 2021 to 6,639 boe/d in the third quarter of 2022 due to the new wells drilled in late 2021 and the strategic acquisition of Cardium assets located in Petrus' Ferrier area that closed in March 2022. Wells from the 2022 capital program began coming on stream September 30th.
- **Net debt[(1)] reduction –** Net debt was $48.5 million at September 30, 2022, a 19% decrease from the third quarter of 2021. The Company continues to manage its balance sheet with the goal of maintaining a net debt to funds flow ratio[(2)] of under 1x.

2022 CAPITAL PROGRAM

Subsequent to the third quarter (as at the date of this report) Petrus has spud 4 (3.3 net) more wells and put 7 (6.1 net) more wells on production. Cash flow related to these wells will be realized in the fourth quarter as wells are completed and brought on stream. Based on the initial results of the wells on production to date, the Company is on track to achieve the 2022 exit production guidance of 10,500 to 11,000 boe/d.

2023 BUDGET GUIDANCE

Petrus' Board of Directors has approved a capital budget for 2023 of $130 million to $135 million. Roughly 90% of the budget is directed towards drilling in the Ferrier and North Ferrier areas, and 10% towards land, facilities and corporate development.

The 2023 capital budget was developed using a 2023 average price forecast of US$77/bbl WTI for oil, an AECO gas price of $4.00/GJ and a foreign exchange rate of US$0.73. Under these pricing assumptions, through the execution of this capital plan, Petrus is expecting to:

- Achieve an average production rate of 13,000 to 13,500 boe/d[(3)] in 2023, which is a projected increase of approximately 75% over 2022.
- Generate $140 million to $150 million in annual funds flow[(1)] for 2023 ($1.15 to $1.23 per share[(2)]), representing an anticipated 65% improvement from 2022.
- Reduce net debt to approximately $35 million to $40 million, and maintaining it below 0.5x funds flow[(2)].

Given the inherent volatility of commodity prices, the Company recognizes it is prudent to remain disciplined and flexible from an operational and financial perspective. Petrus will continue to monitor Canadian light oil and natural gas prices and will evaluate capital investments on an ongoing basis.

(1) Non-GAAP measure. Refer to "Non-GAAP and Other Financial Measures" in the Management's Discussion & Analysis attached hereto.
(2) Non-GAAP ratio. Refer to "Non-GAAP and Other Financial Measures" in the Management's Discussion & Analysis attached hereto.
(3) Disclosure of production on a per boe basis consists of the constituent product types and their respective quantities. Refer to "BOE Presentation" and "Production and Product Type Information" for further details in the Management's Discussion & Analysis attached hereto.

SELECTED FINANCIAL INFORMATION

OPERATIONS	Three months ended Sept. 30, 2022	Three months ended Sept. 30, 2021	Three months ended Jun. 30, 2022	Three months ended Mar. 31, 2022	Three months ended Dec. 31, 2021
Average Production					
Natural gas (mcf/d)	28,107	23,942	30,913	29,530	23,494
Oil (bbl/d)	957	937	1,073	1,250	1,002
NGLs (bbl/d)	997	1,010	1,055	1,207	962
Total (boe/d)	**6,639**	**5,937**	**7,280**	**7,379**	**5,880**
Total (boe)	**610,722**	**546,227**	**662,456**	**664,010**	**540,924**
Light oil weighting	14 %	21 %	15 %	17 %	20 %
Realized Prices					
Natural gas ($/mcf)	5.02	4.04	7.74	5.20	5.45
Oil ($/bbl)	111.04	82.56	133.36	110.12	89.71
NGLs ($/bbl)	62.25	45.10	74.63	60.12	56.35
Total realized price ($/boe)	**46.62**	**37.00**	**63.33**	**49.31**	**46.29**
Royalty income	0.37	0.18	0.25	0.29	0.06
Royalty expense	(11.84)	(3.94)	(8.64)	(6.89)	(6.34)
Net oil and natural gas revenue ($/boe)	**35.15**	**33.24**	**54.94**	**42.71**	**40.01**
Operating expense	(8.47)	(5.57)	(7.92)	(6.76)	(5.02)
Transportation expense	(1.89)	(1.81)	(2.16)	(2.17)	(1.87)
Operating netback[1] ($/boe)	**24.79**	**25.86**	**44.86**	**33.78**	**33.12**
Realized gain (loss) on financial derivatives	1.00	(6.41)	—	(6.98)	(9.52)
Loss on risk management activities	(0.81)	—	(6.76)	—	—
Other income	0.05	0.02	0.04	0.07	0.04
General & administrative expense	(1.30)	(1.47)	(1.70)	(0.82)	(2.24)
Cash finance expense	(0.87)	(3.30)	(1.46)	(1.04)	(1.58)
Decommissioning expenditures	(0.29)	(0.27)	0.06	(0.02)	(0.56)
Funds flow & corporate netback[1] ($/boe)	**22.57**	**14.43**	**35.04**	**24.99**	**19.26**

FINANCIAL (000s except $ per share)	Three months ended Sept. 30, 2022	Three months ended Sept. 30, 2021	Three months ended Jun. 30, 2022	Three months ended Mar. 31, 2022	Three months ended Dec. 31, 2021
Oil and natural gas revenue	28,701	20,306	42,119	32,940	25,070
Net income	9,822	7,343	18,046	10,903	114,633
Net income per share					
Basic	0.08	0.14	0.16	0.11	1.19
Fully diluted	0.08	0.13	0.15	0.11	1.11
Funds flow[2]	13,789	7,874	23,208	16,601	10,418
Funds flow per share[1]					
Basic	0.11	0.15	0.21	0.17	0.11
Fully diluted	0.11	0.14	0.20	0.16	0.10
Capital expenditures	49,513	6,101	4,932	5,064	12,235
Acquisitions (dispositions)	16	—	364	15,200	—
Weighted average shares outstanding					
Basic	122,058	54,167	111,795	99,189	96,660
Fully diluted	126,822	57,638	117,203	103,250	102,868
As at period end					
Common shares outstanding					
Basic	122,197	96,603	122,017	106,907	96,708
Fully diluted	131,482	100,074	131,302	113,883	103,889
Total assets	356,050	173,101	302,472	308,744	290,492
Non-current liabilities	61,778	40,200	50,924	46,702	42,172
Net debt[2]	48,465	60,071	13,895	50,044	61,779

[1]Non-GAAP ratio. Refer to "Non-GAAP and Other Financial Measures" in the Management's Discussion & Analysis attached hereto.
[2]Non-GAAP measure. Refer to "Non-GAAP and Other Financial Measures" in the Management's Discussion & Analysis attached hereto.

OPERATIONS UPDATE

Third quarter average production by area was as follows:

For the three months ended September 30, 2022	Ferrier	North Ferrier	Foothills	Central Alberta	Kakwa	Total
Natural gas (mcf/d)	15,870	4,252	2,450	5,375	160	28,107
Oil (bbl/d)	406	170	77	279	28	960
NGLs (bbl/d)	707	108	11	160	9	995
Total (boe/d)	**3,758**	**987**	**496**	**1,334**	**64**	**6,639**

Third quarter average production was 6,639 boe/d in 2022 compared to 5,937 boe/d in 2021. The increase in production is due to the new wells drilled in late 2021, the strategic acquisition of Cardium assets located in Petrus' Ferrier area that closed in March 2022, and certain wells in the Foothills area being brought back on-stream due to improved pricing.

The activity of Petrus' 2022 capital program is weighted heavily towards the third and fourth quarters with 9 (8.4 net) wells spud in the Ferrier and North Ferrier areas during the third quarter. Of these, 5 (2.3 net) wells were completed and on production by September 30, 2022.

2022 INCREASED BUDGET GUIDANCE

During the third quarter of 2022, Petrus announced an increase in its annual budget guidance where the Board of Directors approved a revised 2022 capital budget of $105 million to $115 million (up from $50-$55 million); $90 to $100 million directed toward the 2022 capital program with the balance having been directed toward a previously announced non-cash strategic acquisition that closed in March 2022. The capital program is focused substantially on achieving an exit production rate of 10,500 to 11,000 boe/d[(1)].

CAPITAL EXPENDITURES

The Company's 2022 capital program accelerated in the third quarter with capital expenditures (excluding acquisitions) totaling $49.5 million in the third quarter of 2022, compared to $6.1 million in the prior year comparative period.

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

Capital Expenditures ($000s)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Drill and complete	44,171	4,460	49,880	11,113
Oil and gas equipment	3,138	1,432	6,932	2,814
Land and lease	1,419	10	1,468	249
Capitalized general and administrative expense	785	198	1,233	604
Total capital expenditures	**49,513**	**6,100**	**59,513**	**14,780**
Gross (net) wells spud	**9 (8.4)**	**2 (1.2)**	**15 (10.3)**	**6 (3.4)**

During the first quarter of 2022, Petrus closed an acquisition in its core Ferrier area. Included in this acquisition was approximately 425 boe/d of production and 5,120 net acres of undeveloped land. The acquisition was made for total share consideration of 10 million shares ($15.2 million).

[(1)]Disclosure of production on a per boe basis consists of the constituent product types and their respective quantities. Refer to "BOE Presentation" and "Production and Product Type Information" for further details in the Management's Discussion & Analysis attached hereto.

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2022

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 and nine months ended September 30, 2022. This MD&A is dated November 8, 2022 and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2021 and 2020 and the Company's interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2022 and 2021. The Company's 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 and Other 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.

RESULTS OF OPERATIONS

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Three months ended Sept. 30, 2022	Three months ended Sept. 30, 2021	Three months ended Jun. 30, 2022	Three months ended Mar. 31, 2022	Three months ended Dec. 31, 2021
Average production					
Natural gas (mcf/d)	28,107	23,942	30,913	29,530	23,494
Oil (bbl/d)	957	937	1,073	1,250	1,002
NGLs (bbl/d)	997	1,010	1,055	1,207	962
Total (boe/d)	**6,639**	**5,937**	**7,280**	**7,379**	**5,880**
Total (boe)	**610,722**	**546,227**	**662,456**	**664,010**	**540,924**
Revenue ($000s)					
Natural gas	12,990	8,902	21,771	13,830	11,781
Oil	9,776	7,120	13,022	12,387	8,273
NGLs	5,708	4,188	7,162	6,528	4,985
Royalty revenue	227	96	164	195	31
Oil and natural gas revenue	**28,701**	**20,306**	**42,119**	**32,940**	**25,070**
Average realized prices					
Natural gas ($/mcf)	5.02	4.04	7.74	5.20	5.45
Oil ($/bbl)	111.04	82.56	133.36	110.12	89.71
NGLs ($/bbl)	62.25	45.10	74.63	60.12	56.35
Total realized price ($/boe)	46.62	37.00	63.33	49.31	46.29
Hedging gain (loss) ($/boe)	1.00	(6.41)	—	(6.98)	(9.52)
Loss on risk management ($/boe)	(0.81)	—	(6.76)	—	—
Total price including hedging ($/boe)	**46.81**	**30.59**	**56.57**	**42.33**	**36.77**

Average benchmark prices	Three months ended Sept. 30, 2022	Three months ended Sept. 30, 2021	Three months ended Jun. 30, 2022	Three months ended Mar. 31, 2022	Three months ended Dec. 31, 2021
Natural gas					
AECO 5A (C$/GJ)	3.95	3.41	6.86	4.49	4.41
AECO 7A (C$/GJ)	5.29	3.36	5.95	4.35	4.68
Crude oil					
Mixed Sweet Blend Edm (C$/bbl)	115.94	84.17	134.99	117.57	92.97
Natural gas liquids					
Propane Conway (US$/bbl)	46.62	47.04	53.17	53.69	54.81
Butane Edmonton (C$/bbl)	51.38	55.58	68.74	72.94	81.90
Foreign exchange					
US$/C$	0.77	0.79	0.79	0.79	0.79

FUNDS FLOW AND NET INCOME (LOSS)

Petrus generated funds flow of $13.8 million in the third quarter of 2022 compared to $7.9 million in the third quarter of 2021. The 75% increase is due to improved commodity prices and higher production. In the third quarter Petrus' total realized price (before risk management) was $46.62/boe compared to $37.00/boe in the third quarter of 2021.

Petrus reported net income of $9.8 million in the third quarter of 2022, compared to net income of $7.3 million in the third quarter of 2021. The increase in net income in the third quarter of 2022 is primarily due to the improved commodity prices and increased production.

($000s except per share)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Funds flow	**13,789**	**7,874**	**53,598**	**22,934**
Funds flow per share - basic	0.11	0.15	0.48	0.45
Funds flow per share - fully diluted	0.11	0.14	0.46	0.42
Net income (loss)	**9,822**	**7,343**	**38,771**	**(77)**
Net income (loss) per share - basic	0.08	0.14	0.34	—
Net income (loss) per share - fully diluted	0.08	0.13	0.33	—
Common shares outstanding (000s)				
Basic	122,197	96,603	122,197	96,603
Fully diluted	131,482	100,074	131,482	100,074
Weighted average shares outstanding (000s)				
Basic	122,058	54,167	112,710	51,065
Fully diluted	126,822	57,638	117,525	54,537

OIL AND NATURAL GAS REVENUE

Third quarter average production in 2022 was 6,639 boe/d (15% light oil), 12% higher than the third quarter of 2021 (5,937 boe/d; 16% light oil). Third quarter oil and natural gas revenue in 2022 was $28.7 million compared to $20.3 million in 2021. The 41% increase is due to higher commodity prices and production.

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

Production Volume by Product (%)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Natural gas	71 %	67 %	69 %	65 %
Crude oil and condensate	15 %	16 %	16 %	17 %
Natural gas liquids	14 %	17 %	15 %	18 %
Total commodity sales from production	**100 %**	**100 %**	**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 September 30, 2022	Three months ended September 30, 2021	% Change	Nine months ended September 30, 2022	Nine months ended September 30, 2021	% Change
Natural gas	12,990	8,902	46 %	48,591	23,052	111 %
Crude oil and condensate	9,776	7,120	37 %	35,185	21,049	67 %
Natural gas liquids	5,708	4,188	36 %	19,398	11,808	64 %
Royalty income	227	96	136 %	586	289	103 %
Total oil and natural gas revenue	**28,701**	**20,306**	**41 %**	**103,760**	**56,198**	**85 %**

The following table provides the average benchmark commodity prices and the Company's average realized commodity prices (before hedging and risk management gains/losses):

	Three months ended September 30, 2022	Three months ended September 30, 2021	% Change	Nine months ended September 30, 2022	Nine months ended September 30, 2021	% Change
Average benchmark prices						
Natural gas						
AECO 5A (C$/GJ)	3.95	3.41	16 %	5.10	3.11	64 %
AECO 7A (C$/GJ)	5.29	3.36	57 %	5.20	2.94	77 %
Crude oil						
Mixed Sweet Blend Edm (C$/bbl)	115.94	84.17	38 %	123.17	76.32	61 %
Natural gas liquids						
Propane Conway (US$/bbl)	46.62	47.04	(1)%	53.43	39.20	36 %
Butane Edmonton (C$/bbl)	51.38	55.58	(8)%	70.84	38.55	84 %
Average realized prices						
Natural gas ($/mcf)	5.02	4.04	24 %	6.03	3.56	69 %
Oil ($/bbl)	111.04	82.56	34 %	118.00	75.23	57 %
NGLs ($/bbl)	62.25	45.10	38 %	65.48	40.40	62 %
Total average realized price	**46.62**	**37.00**	**26 %**	**53.26**	**33.83**	**57 %**

Natural gas

Natural gas revenue for the three months ended September 30, 2022 increased by 46% to $13.0 million, compared to revenue of $8.9 million in the prior year comparative period. This increase is due to the combination of higher natural gas prices and increased production. Natural gas accounted for 46% of total oil and gas revenue for the quarter, higher than the 44% in the third quarter of 2021. Third quarter 2022 average realized natural gas price was $5.02/mcf, compared to $4.04/mcf in the third quarter of 2021, a 24% increase. The increase in realized price is due to the higher natural gas prices (AECO 5A 16% higher and AECO 7A 57% higher in the third quarter of 2022). Natural gas production was up 17% over the prior year comparative period.

Crude oil and condensate

Oil and condensate revenue for the three months ended September 30, 2022 was up 37% to $9.8 million, compared to revenue of $7.1 million in the prior year comparative period; this increase is due to higher oil prices and production. Oil and condensate accounted for 34% of total oil and gas revenue for the quarter. The average realized price of light oil and condensate was $111.04/bbl for the third quarter of 2022 compared to $82.56/bbl in the third quarter of 2021, an increase of 34%. Oil and condensate production was up 2% over the prior year comparative period.

Natural gas liquids (NGLs)

NGL revenue for the three months ended September 30, 2022 was up 36% to $5.7 million, compared to revenue of $4.2 million in the prior year comparative period. The increase is primarily due to higher pricing despite lower production. NGLs accounted for 20% of total oil and natural gas revenue for the quarter, down slightly from 21% in the third quarter of 2021. In the third quarter of 2022, the Company's realized blended NGL price averaged $62.25/bbl, compared to $45.10/bbl in the prior year comparative period. The 38% increase is attributed to higher third quarter market pricing.

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. NGL production was consistent with 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 September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Crown	5,330	1,013	11,269	3,856
Percent of production revenue	19 %	5 %	11 %	7 %
Gross overriding	1,898	1,137	6,255	3,077
Total	**7,228**	**2,150**	**17,524**	**6,933**

Third quarter royalty expense increased from $2.2 million in 2021 to $7.2 million in 2022. On a nine month basis, total royalty expense (net of royalty allowances and incentives) increased from $6.9 million in 2021 to $17.5 million in 2022. The Crown royalties have increased significantly for each comparative period as a result of higher pricing, higher royalty rates and increased production.

Gross overriding royalties increased from $1.1 million in the third quarter of 2021 to $1.9 million in the third quarter of 2022 also due to higher pricing and increased production. For the nine months ended September 30, 2022, gross overriding royalties increased from $3.1 million in 2021 to $6.3 million in 2022.

RISK MANAGEMENT

The Company utilizes financial derivative contracts and physical commodity 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) for financial derivatives and premium (loss) on risk management activities for physical commodity contracts. The unrealized gain (loss) is recorded to demonstrate the change in fair value of the outstanding financial derivative 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 financial derivative contracts for the periods shown:

Net Gain (Loss) on Financial Derivatives ($000s)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Realized hedging gain (loss)	610	(3,505)	(4,022)	(6,563)
Unrealized hedging gain (loss)	4,014	385	9,568	(8,473)
Net gain (loss) on derivatives	**4,624**	**(3,120)**	**5,546**	**(15,036)**

For the third quarter of 2022, the Company recognized a realized hedging gain of $0.6 million compared to a realized hedging loss of $3.5 million in the third quarter of 2021. The realized hedging gain in the current quarter is due to lower commodity prices relative to the respective contracts outstanding. For the nine months ended September 30, 2022, the Company recognized a realized hedging loss of $4.0 million compared to realized hedging loss of $6.6 million in 2021. The realized losses are due to improved commodity prices relative to the respective contracts outstanding.

During the third quarter of 2022, the Company recognized an unrealized gain of $4.0 million compared to an unrealized gain of $0.4 million in the third quarter of 2021. The unrealized gains are due to the financial derivative hedge contracts entered into during the quarter with higher contract prices than market value as at September 30, 2022. The Company recognized an unrealized hedging gain of $9.6 million for the nine months ended September 30, 2022 compared to an unrealized loss of $8.5 million for the prior year comparative period. The gain represents the change in the unrealized risk management net asset position during the first nine months of 2022. This change is a result of new contracts entered into and contracts settled during the period as well as changes in value of existing contracts due to fluctuations in commodity prices.

The table below shows the premium (loss) on risk management activities related to physical commodity contracts for the periods shown:

Net Loss on Risk Management Activities ($000s)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Loss on physical commodity contracts	(497)	—	(4,973)	—
Net loss on risk management activities	**(497)**	**—**	**(4,973)**	**—**

During the third quarter of 2022 the Company recorded a loss of $0.5 million or $0.81/boe related to the settlement of its physical commodity contracts. For the nine months ended September 30, 2022, the Company recorded a loss of $5.0 million or $2.57/boe. The losses are a result of lower contract prices in comparison to benchmark prices during the periods. The average volume of gas hedged through physical commodity contracts during the third quarter of 2022 was 15,000 GJ/d at an average price of $3.58/GJ. There was no loss or premium recorded during the three and nine months ended September 30, 2021 as there were no contracts outstanding during the periods.

The Company's risk management contracts provide protection from significant changes in crude oil and natural gas commodity prices for 2022, 2023 and 2024. The Company endeavors to hedge approximately half of its forecasted production for up to 12 months forward, and approximately 10% to 25% of its forecasted production for 12 to 24 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 9 of the Company's interim consolidated financial statements as at and for the period ended September 30, 2022.

The table below summarizes Petrus' quarterly average crude oil and natural gas hedged volumes and average prices through financial derivative contracts as at the date of this MD&A:

	2022			2023					2024				
	Q3	Q4	Avg.[1]	Q1	Q2	Q3	Q4	Avg.[1]	Q1	Q2	Q3	Q4	Avg.[1]
Oil hedged (bbl/d)	533	600	**567**	1,000	1,000	1,000	1,100	**1,025**	700	700	—	—	**350**
Avg. WTI price ($C/bbl)	131.38	129.24	**130.25**	113.41	113.41	106.08	105.72	**109.56**	99.80	99.80	—	—	**99.80**
Natural gas hedged (GJ/d)	—	3,333	**1,667**	5,000	11,000	11,000	9,667	**9,167**	9,000	3,000	3,000	3,000	**4,500**
Avg. AECO 7A price ($C/GJ)	—	6.97	**6.97**	6.97	4.43	4.43	4.75	**4.86**	4.90	3.52	3.52	3.52	**4.21**

[1] *The volumes and prices reported are the weighted average volumes and prices for the period.*

The following table summarizes the quarterly average volume and average prices for the natural gas physical commodity contracts as at the date of this MD&A:

	2022			2023				
	Q3	Q4	Avg.[1]	Q1	Q2	Q3	Q4	Avg.[1]
Natural gas hedged (GJ/d)	15,000	14,333	**14,778**	14,000	—	—	—	**3,500**
Avg. AECO 7A price ($C/GJ)	3.58	3.98	**3.71**	4.17	—	—	—	**4.17**

[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 ($000s)	**Three months ended September 30, 2022**	**Three months ended September 30, 2021**	**Nine months ended September 30, 2022**	**Nine months ended September 30, 2021**
Fixed and variable operating expense	4,203	2,527	11,782	8,951
Processing, gathering and compression charges	1,271	767	3,974	1,975
Total gross operating expense	**5,474**	**3,294**	**15,756**	**10,926**
Overhead recoveries	(303)	(252)	(844)	(727)
Total net operating expense	**5,171**	**3,042**	**14,912**	**10,199**
Operating expense, net ($/boe)	**8.47**	**5.57**	**7.70**	**6.17**

For the three months ended September 30, 2022, net operating expense totaled $5.2 million, a 70% increase from $3.0 million during the prior year comparative period. On a per boe basis, net operating expense was 52% higher at $8.47/boe in the third quarter of 2022 compared to $5.57/boe in 2021. For the nine months ended September 30, 2022, net operating expense totaled $14.9 million, a 46% increase from $10.2 million during the prior year comparative period. On a per boe basis, operating expense increased 25% from $6.17/boe to $7.70/boe.

The increase in total net operating expense on a quarterly and year to date basis is mainly due to higher overall costs, specifically property tax, power, fuel and chemical costs. Gas gathering and processing fees were higher as well with lower related recoveries for the three and nine months ended September 30, 2022. On a per boe basis, net operating expense is higher also due to excess capacity at the Company's

Ferrier gas processing plant; however, as operated production increases in Ferrier, the Company expects operating expense on a per boe basis to decrease.

TRANSPORTATION EXPENSE

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

Transportation Expense ($000s)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Transportation expense	1,155	990	4,029	2,910
Transportation expense ($/boe)	1.89	1.81	2.08	1.76

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 September 30, 2022 transportation expense was $1.2 million or $1.89/boe compared to $1.0 million or $1.81/boe in 2021.

For the nine months ended September 30, 2022, transportation expense was $4.0 million or $2.08/boe compared to $2.9 million or $1.76 / boe in the prior year comparative period. The increase in total transportation expense is due to higher production. On a per boe basis, transportation expense is higher due to increased trucking costs in Ferrier, higher fuel surcharges and higher sales gas transportation tolls. Transportation expense is also higher on a per boe basis due to surplus contracted transportation service on TC Energy's NGTL sales system. As operated production increases in Ferrier, the Company expects transportation expense on a per boe basis will be reduced.

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 ($000s)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Personnel, consultants and directors	777	683	2,354	2,459
Administrative expenses	569	328	1,326	1,122
Regulatory and professional expenses	159	196	655	576
Gross general and administrative expense	**1,505**	**1,207**	**4,335**	**4,157**
Capitalized general and administrative expense	(238)	(183)	(672)	(589)
Overhead recoveries	(474)	(220)	(1,200)	(507)
General and administrative expense	**793**	**804**	**2,463**	**3,061**
General and administrative expense ($/boe)	**1.30**	**1.47**	**1.27**	**1.85**

For the three months ended September 30, 2022, gross G&A expense (before capitalization and overhead recoveries) was $1.5 million compared to $1.2 million in the prior year comparative period. The increase in gross G&A was mainly due to inflation and higher staffing and consultant fees due to the Company's capital program. Net G&A expense in the third quarter of 2022 was $0.8 million, which was consistent with the $0.8 million in the prior year comparative period.

For the nine months ended September 30, 2022, gross G&A expense (before capitalization and overhead recoveries) was $4.3 million compared to $4.2 million in the prior year comparative period. Net G&A expense on a nine month basis was $2.5 million or $1.27/boe, a significant decrease from the $3.1 million or $1.85/boe in the first three quarters of 2021. The net decrease is attributed to higher overhead recoveries as a result of the increase in capital activity of operated wells in comparison to non-operated wells in 2021. In addition, personnel expense was lower during the nine months ended September 30, 2022 as the Company incurred severance costs related to staff departures in the first nine months of 2021.

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 September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Gross share-based compensation expense	521	47	1,016	191
Capitalized share-based compensation expense	(156)	(15)	(305)	(47)
Share-based compensation expense	**365**	**32**	**711**	**144**

For the three months ended September 30, 2022, net share-based compensation expense was $0.37 million compared to $0.03 million in the prior year comparative period. For the nine months ended September 30, 2022, net share based compensation expense was $0.71 million, compared to $0.14 million in 2021. The increases are due to the higher Company share price resulting in an increased value related to the stock options granted by the Company.

FINANCE EXPENSE

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

Finance Expense ($000s)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Interest expense	290	1,180	1,366	3,297
Finance fees	239	623	816	980
Foreign exchange	1	—	3	—
Deferred financing costs	142	44	293	305
Non-cash term loan interest payment-in-kind	—	672	—	2,573
Accretion on decommissioning obligations	306	191	757	509
Total finance expense	**978**	**2,710**	**3,235**	**7,664**

Third quarter total finance expense was $1.0 million in 2022, comprised of $0.3 million of non-cash accretion of its decommissioning obligations, $0.3 million of cash interest expense, $0.2 million of finance fees, and $0.1 million of deferred financing fee amortization (related to the Company's revolving loan facility). In the third quarter of 2021, the Company incurred total finance expense of $2.7 million, comprised of $0.2 million in non-cash accretion of its decommissioning obligation, $0.7 million of non-cash interest payment-in-kind on the second lien term loan, $1.2 million cash interest expense and $0.6 million of finance fees. For the nine months ended September 30, 2022, total finance expense was $3.2 million compared to $7.7 million in 2021. The significant decrease in finance expense from the prior year comparative periods is due to the debt restructuring that closed in May 2022, which included the repayment of the previous revolving credit facility and the retirement of the previous second lien term loan.

DEPLETION AND DEPRECIATION

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

Depletion and Depreciation Expense ($000s)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Depletion and depreciation expense	7,411	5,879	22,619	17,484
Depletion and depreciation expense ($/boe)	12.13	10.76	11.68	10.58

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 September 30, 2022, the Company recorded depletion and depreciation of $7.4 million or $12.13/boe, compared to $5.9 million or $10.76/boe in the prior year comparative period. For the nine months ended September 30, 2022, the Company recorded depletion and depreciation of $22.6 million or $11.68/boe, compared to $17.5 million or $10.58/boe in the prior year comparative period. The increase in depletion and depreciation expense is attributed to higher production volume and the impairment reversal recorded at the end of 2021 that increased the net book value of the Ferrier cash generating unit asset.

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 September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Weighted average common shares outstanding				
Basic	122,058	54,167	112,710	51,065
Fully diluted	126,822	57,638	117,525	54,537
Common shares outstanding				
Basic	122,197	96,603	122,197	96,603
Fully diluted	131,482	100,074	131,482	100,074
Stock options outstanding	8,507	1,853	8,507	1,853

At September 30, 2022, and the date of this MD&A, the Company had 122,196,508 common shares and 8,506,729 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 September 30, 2022 and the date of this MD&A, 1,618,702 DSUs were issued and outstanding (December 31, 2021 – 1,618,702). 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.

Rights Offering

During the second quarter of 2022, the Company completed a rights offering (the "Rights Offering") where the Company issued approximately 14.8 million common shares at $1.35 per share for aggregate gross proceeds to the Company of approximately $20.0 million. The issuance costs were estimated to be $0.4 million and the net proceeds of $19.6 million were utilized for debt repayment and towards working capital.

The Company entered into a standby purchase agreement with each of Don Gray, Stuart Gray and Glen Gray (collectively, the "Stand-By Guarantors"). The Rights Offering was oversubscribed by 84% and as a result, the Stand-By Guarantors did not acquire any common shares in connection with the Rights Offering pursuant to their stand-by commitments. The Company had approximately 121.7 million shares outstanding following the Rights Offering with the Stand-By Guarantors owning approximately 71% of the outstanding shares.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2022, Petrus had two debt instruments outstanding; a reserve-based, secured operating revolving loan facility with an Alberta-based financial institution (the "Revolving Loan Facility" or "RLF") and a second lien secured term facility (the "Second Lien Facility").

Revolving Loan Facility

At September 30, 2022, the RLF was comprised of a $30.0 million operating facility payable on demand by the lender. The amount of the RLF is subject to a borrowing base review performed on a semi-annual basis by the lender, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. The next semi-annual review is due on November 30, 2022.

At September 30, 2022, the Company had a $0.6 million letter of credit outstanding against the RLF (December 31, 2021 – $0.6 million on the previous revolving credit facility) and had drawn nil against the RLF (December 31, 2021 – $57.7 million on the previous revolving credit facility). As at the report date of November 8, 2022, the Company had drawn $18.4 million on its RLF to reduce the current accounts payable balance.

Second Lien Facility

At September 30, 2022 the Company had $22.0 million drawn on the $25 million Second Lien Facility. The Second Lien Facility is a three-year term facility (maturity date May 31, 2025 with an option to extend by an additional two years) with a fixed interest rate of 11% per annum and can be repaid at the discretion of the Company after the first year. The Second Lien Facility is a related party transaction with a major shareholder who owns approximately 21% of the outstanding shares of the Company.

Debt Settlement - Term Loan & Revolving Credit Facility
During the nine months ended September 30, 2022, the Company entered into agreements with new lenders to the Company, providing two new credit facilities (the "New Credit Facilities") totaling $55 million. The New Credit Facilities, together with the net proceeds of the Company's recently closed $20 million rights offering, were used to repay in full all amounts owing under the Company's existing revolving credit facility (the "Revolving Credit Facility" or "RCF"). The New Credit Facilities closed in May 2022.

Prior to September 30, 2021, Petrus had a subordinated secured term loan (the "Term Loan"). During the third quarter of 2021, the Company settled its Term Loan with a principal amount (carrying value) of $39.4 million in consideration for the issuance of $15.8 million (the settlement amount) of common shares of Petrus ("Common Shares") to the holders of the Term Loan at an issue price of $0.55 per share. The difference between the carrying value and the settlement amount of the debt was added to contributed surplus in the amount of $18.1 million (net of the recovery of income taxes of $5.4 million).

Financial Covenants
The Company's RLF is subject to certain financial covenants. The key financial covenants as at September 30, 2022 are summarized in the following table. At September 30, 2022 the Company is in compliance with all financial covenants.

Financial Covenant Description	Required Ratio	As at September 30, 2022
Working Capital Ratio	Over 1.0	1.1

Liquidity
At September 30, 2022, the Company had a working capital deficiency (excluding non-cash risk management assets and liabilities) of $26.7 million, as the company had $50.9 million in current accounts payable due to the substantial increase in capital activity during the third quarter of 2022.

During the nine months ended September 30, 2022, the Company entered into agreements with new lenders and repaid the previous revolving credit facility in full.

The following are the contractual maturities of financial liabilities as at September 30, 2022:

$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	50,867	50,867	—
Long term debt	22,000	—	22,000
Lease obligations	660	235	425
Total	**73,527**	**51,102**	**22,425**

[(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	10,762	2,338	8,424	—

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 9 and 14 of the Company's September 30, 2022 interim consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

($000s unless otherwise noted)	Sept. 30, 2022	Jun. 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sept. 30, 2021	Jun. 30, 2021	Mar. 31, 2021	Dec. 31, 2020
Average Production								
Natural gas (mcf/d)	28,107	30,913	29,530	23,494	23,942	24,291	22,985	26,177
Oil (bbl/d)	957	1,073	1,250	1,002	937	1,214	923	980
NGLs (bbl/d)	997	1,055	1,207	962	1,010	1,046	1,158	1,014
Total (boe/d)	**6,639**	**7,280**	**7,379**	**5,880**	**5,937**	**6,309**	**5,912**	**6,357**
Total (boe)	**610,722**	**662,456**	**664,010**	**540,924**	**546,227**	**574,084**	**532,099**	**584,860**
Financial Results								
Oil and natural gas revenue	28,701	42,119	32,940	25,070	20,306	19,553	16,339	14,143
Royalty expense	(7,228)	(5,721)	(4,576)	(3,429)	(2,150)	(2,794)	(1,989)	(1,183)
Net oil and natural gas revenue	**21,473**	**36,398**	**28,364**	**21,641**	**18,156**	**16,759**	**14,350**	**12,960**
Transportation expense	(1,155)	(1,434)	(1,440)	(1,010)	(991)	(1,057)	(863)	(983)
Operating expense	(5,171)	(5,249)	(4,492)	(2,715)	(3,042)	(3,903)	(3,254)	(3,237)
Operating netback[(1)]	**15,147**	**29,715**	**22,432**	**17,916**	**14,123**	**11,799**	**10,233**	**8,740**
Realized gain (loss) on financial derivatives	610	—	(4,632)	(5,148)	(3,504)	(1,843)	(1,215)	381
Loss on risk management activities	(497)	(4,476)	—	—	—	—	—	—
Other income	30	28	47	21	12	1,018	23	184
General and administrative expense	(793)	(1,127)	(543)	(1,213)	(804)	(1,381)	(876)	(1,059)
Cash finance expense	(528)	(969)	(689)	(856)	(1,803)	(1,444)	(1,029)	(1,456)
Decommissioning expenditures	(180)	37	(14)	(302)	(150)	(79)	(143)	(366)
Corporate netback and funds flow[(1)]	**13,789**	**23,208**	**16,601**	**10,418**	**7,874**	**8,070**	**6,993**	**6,424**
Oil and natural gas revenue	**28,701**	**42,119**	**32,940**	**25,070**	**20,306**	**19,553**	**16,339**	**14,143**
Per share - basic	0.24	0.38	0.33	0.26	0.37	0.39	0.33	0.29
Per share - fully diluted	0.23	0.36	0.32	0.24	0.35	0.39	0.33	0.29
Net income (loss)	**9,822**	**18,046**	**10,903**	**114,633**	**7,343**	**(4,265)**	**(3,155)**	**(151)**
Per share - basic	0.08	0.16	0.11	1.19	0.14	(0.09)	(0.06)	—
Per share - fully diluted	0.08	0.15	0.11	1.11	0.13	(0.09)	(0.06)	—
Common shares outstanding (000s)								
Basic	122,197	122,017	106,907	96,708	96,603	49,559	49,469	49,469
Fully diluted	131,482	131,302	113,883	103,889	100,074	49,559	49,469	49,469
Weighted average shares outstanding (000s)								
Basic	122,058	111,795	99,189	96,660	54,167	49,513	49,469	49,469
Fully diluted	126,822	117,203	103,250	102,868	57,638	49,513	49,469	49,469
Total assets	356,050	302,472	308,744	290,492	173,101	176,629	177,587	177,914

[(1)]*Non-GAAP measure. Refer to "Non-GAAP and Other Financial Measures".*

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 commodity price differentials and production levels. Petrus' average quarterly production has increased from 6,357 boe/d in the fourth quarter of 2020 to 6,639 boe/d in the third quarter of 2022. The 4% production increase is attributable to Petrus' shift in focus back to production growth and an increased capital program.

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 audited consolidated financial statements as at and for the year ended December 31, 2021.

COVID-19 Global Pandemic

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, interest rates and inflation rates. The duration and severity of the business disruptions and the resulting financial effect is difficult to reliably estimate. The result 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.

Russian/Ukrainian Conflict

In February 2022, Russian military forces invaded Ukraine. The outcome of the conflict is uncertain and is likely to have wide-ranging consequences on the peace and stability of the region and the world economy. In addition, certain countries including Canada, have imposed strict financial and trade sanctions against Russia which may have far reaching effects on the global economy. Disruption of supplies of commodities from Russia could have a significant impact on worldwide commodity prices. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain. Any negative impact on economic conditions and global markets from these developments could adversely affect our business, financial condition and liquidity including our ability to access capital and the related costs.

The Company does not have sales, production, or operations within Russia or Ukraine, and it is not expected that the conflict will directly impact its operations. Nevertheless, the ongoing war induces greater uncertainties in global financial markets and supply chain systems which could lead to volatility in oil prices, inflation, interest rates, financing costs, and shortage or delays for certain goods or services. The Company continues assessing its exposure.

OTHER FINANCIAL INFORMATION

Significant accounting policies

The Company's significant accounting policies can be read in note 3 of the Company's audited consolidated financial statements as at and for the year ended December 31, 2021.

New standards and interpretations

The Company has not adopted any new standards and interpretations for the period ended September 30, 2022.

Internal Controls 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 July 1, 2022 and ending on September 30, 2022 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 AND OTHER FINANCIAL MEASURES

This MD&A makes reference to the terms "operating netback" (on an absolute and $/boe basis), "corporate netback" (on an absolute and $/boe basis), "funds flow" (on an absolute, per share (basic and fully diluted) and $/boe basis) and "net debt". These non-GAAP and other financial measures 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. These non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS as indicators of our performance. Management uses these non-GAAP and other financial measures 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 type at the oil and natural gas lease level. The most directly comparable GAAP measure to operating netback is oil and natural gas revenue. Operating netback is calculated as oil and natural gas revenue less royalty expenses, operating expenses and transportation expenses. See below and under "Summary of Quarterly Results" for a reconciliation of operating netback to oil and natural gas revenue.

Operating netback ($/boe) is a non-GAAP ratio used in the oil and natural gas industry which is a useful supplemental measure to evaluate the specific operating performance by product type at the oil and natural gas lease level . It is calculated as operating netbacks divided by weighted average daily production on a per boe basis. See below.

Corporate Netback and Funds Flow

Corporate netback or funds flow 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 and funds flow are used interchangeably. Petrus analyzes these measures on an absolute value and on a per unit (boe) and per share (basic and fully diluted) basis as non-GAAP ratios. 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. They are calculated 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 and risk management activities. See below for a reconciliation of funds flow and corporate netback to oil and natural gas revenue.

Corporate netback ($/boe) or funds flow ($/boe) is a non-GAAP ratio used in the oil and natural gas industry which evaluates the Company’s profitability at the corporate level. Management believes that funds flow ($/boe) or corporate netback ($/boe) provide information to assist a reader in understanding the Company's profitability relative to current commodity prices. It is calculated as corporate netbacks or funds flow divided by weighted average daily production on a per boe basis. See below.

Funds flow per share (basic and fully diluted) is comprised of funds flow divided by basic or fully diluted weighted average common shares outstanding.

	Three months ended Sept. 30, 2022		Three months ended Sept. 30, 2021		Nine months ended September 30, 2022		Nine months ended September 30, 2021	
	$000s	$/boe	$000s	$/boe	$000s	$/boe	$000s	$/boe
Oil and natural gas revenue	28,701	47.00	20,306	37.18	103,760	53.55	56,198	34.00
Royalty expense	(7,228)	(11.84)	(2,150)	(3.94)	(17,525)	(9.05)	(6,933)	(4.20)
Net oil and natural gas revenue	**21,473**	**35.16**	**18,156**	**33.24**	**86,235**	**44.50**	**49,265**	**29.80**
Transportation expense	(1,155)	(1.89)	(991)	(1.81)	(4,029)	(2.08)	(2,911)	(1.76)
Operating expense	(5,171)	(8.47)	(3,042)	(5.57)	(14,912)	(7.70)	(10,199)	(6.17)
Operating netback	**15,147**	**24.80**	**14,123**	**25.86**	**67,294**	**34.72**	**36,155**	**21.87**
Realized gain (loss) on financial derivatives	610	1.00	(3,504)	(6.41)	(4,022)	(2.08)	(6,564)	(3.97)
Loss on risk management activities	(497)	(0.81)	—	—	(4,973)	(2.57)	—	—
Other income	30	0.05	12	0.02	105	0.05	1,053	0.64
General & administrative expense	(793)	(1.30)	(804)	(1.47)	(2,463)	(1.27)	(3,061)	(1.85)
Cash finance expense(1)	(528)	(0.87)	(1,803)	(3.30)	(2,184)	(0.39)	(4,277)	(2.59)
Decommissioning expenditures	(180)	(0.29)	(150)	(0.27)	(159)	(0.08)	(372)	(0.23)
Funds flow and corporate netback	**13,789**	**22.58**	**7,874**	**14.43**	**53,598**	**28.38**	**22,934**	**13.87**

(1) *Excludes non-cash Term Loan interest payment-in-kind*

Net Debt

Net debt is a non-GAAP financial measure and is calculated as the sum of long term debt and working capital (current assets and current liabilities), excluding the current financial derivative contracts and current portion of the lease obligation. Petrus uses net debt as a key indicator of its leverage and strength of its balance sheet. Net debt is reconciled, in the table below, to long-term debt which is the most directly comparable GAAP measure.

($000s)	As at September 30, 2022	As at June 30, 2022	As at March 31, 2022	As at December 31, 2021
Long-term debt	22,000	12,000	—	—
Current assets	(29,905)	(18,783)	(17,356)	(15,611)
Current liabilities	51,102	18,785	67,625	80,095
Current financial derivatives	5,503	2,124	—	(2,488)
Current portion of lease obligation	(235)	(231)	(225)	(217)
Net debt	**48,465**	**13,895**	**50,044**	**61,779**

Net debt to funds flow ratio is a non-GAAP ratio used as a key indicator of our leverage and strength of our balance sheet. It is calculated as net debt divided by funds flow for the relevant period.

ADVISORIES

Basis of Presentation

Financial data presented above has largely been derived from the Company's financial statements, prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using Inernational Financial Reporting Standards ("IFRS"). Accounting policies adopted by the Company are set out in the notes to the audited consolidated financial statements as at and for the twelve months ended December 31, 2021. 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, 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: that the Company will continue to manage its balance sheet with the goal of maintaining a net debt to funds flow ratio of under 1x; that cash flow related to wells drilled and put on production after Q3 will be realized in the fourth quarter as wells are completed and brought on stream; the Company's 2022 exit production guidance, and that the Company is on track to achieve such guidance; the Company's 2023 capital budget range, major capital spending items in the budget, and the portion of the budget that will be spent on each item; the Company's 2023 forecast for average commodity prices and foreign exchange rates; the Company's expectations for what the execution of the 2023 capital plan will achieve, including average daily production range, total funds flow range, net debt levels and net debt to funds flow ratios for 2023, that the Company will remain disciplined and flexible from an operational and financial perspective; and that Petrus will continue to monitor the price of Canadian light oil and natural gas and will evaluate capital investments on an ongoing basis; the Company's revised 2022 capital budget range, major capital spending items in the budget, and the portion of the budget that will be spent on each item. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

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

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Petrus' prospective results of operations including, without limitation, its forecasts for: net debt to funds flow ratio; 2022 exit production range; 2022 and 2023 capital budget range and the components thereof; 2023 commodity prices and exchange rates; 2023 average production rate; and 2023 funds flow; 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.

Production and Product Type Information

The Company's forecast 2022 exit production rate and average daily 2023 production rate disclosed in this press release consist of the following product types, as defined in National Instrument 51-101 and using the conversion ratio described above, where applicable: 10,500 to 11,000 boe/d 2022 exit production rate – 29% light oil and condensate, 13% natural gas liquids and 58% conventional natural gas; and 13,000 to 13,500 boe/d 2023 production rate – 24% light oil and condensate, 15% natural gas liquids and 61% conventional natural gas.

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	*thousand barrel of oil equivalent*
mmboe	*million barrel of oil equivalent*
boe/d	*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	September 30, 2022	December 31, 2021
ASSETS		
Current		
Cash	7,188	4,928
Deposits and prepaid expenses	2,091	950
Accounts receivable *(note 14)*	15,123	9,733
Risk management asset *(note 9)*	5,503	—
Total current assets	**29,905**	**15,611**
Non-current		
Risk management asset *(note 9)*	1,578	—
Exploration and evaluation assets *(note 4)*	36,517	35,634
Property, plant and equipment *(note 5)*	288,050	239,247
	326,145	**274,881**
Total assets	**356,050**	**290,492**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of long term debt *(note 6)*	—	57,700
Accounts payable and accrued liabilities *(note 14)*	50,867	19,690
Risk management liability *(note 9)*	—	2,488
Lease obligations *(note 7)*	235	217
Total current liabilities	**51,102**	**80,095**
Non-current liabilities		
Long term debt *(note 6)*	22,000	—
Lease obligations *(note 7)*	425	603
Decommissioning obligation *(note 8)*	39,353	41,569
Total liabilities	**112,880**	**122,267**
Shareholders' equity		
Share capital *(note 10)*	491,184	455,908
Contributed surplus	28,744	27,846
Deficit	(276,758)	(315,529)
Total shareholders' equity	**243,170**	**168,225**
Total liabilities and shareholders' equity	**356,050**	**290,492**

Commitments (note 18)
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 INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

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

	Three months ended Sept. 30, 2022	Three months ended Sept. 30, 2021	Nine months ended Sept. 30, 2022	Nine months ended Sept. 30, 2021
REVENUE				
Oil and natural gas revenue *(note 19)*	**28,701**	**20,306**	**103,760**	**56,198**
Royalty expense	(7,227)	(2,150)	(17,524)	(6,933)
Net oil and natural gas revenue	**21,474**	**18,156**	**86,236**	**49,265**
Other income	30	386	105	1,427
Loss on risk management activities *(note 19)*	(497)	—	(4,973)	—
Net gain (loss) on financial derivatives *(note 9)*	4,624	(3,120)	5,546	(15,036)
	25,631	**15,422**	**86,914**	**35,656**
EXPENSES				
Operating *(note 12)*	5,171	3,042	14,912	10,199
Transportation	1,155	990	4,029	2,910
General and administrative *(note 13)*	793	804	2,463	3,061
Share-based compensation *(note 10)*	365	32	711	144
Finance *(note 16)*	978	2,710	3,235	7,664
Exploration and evaluation *(note 4)*	65	46	303	108
Depletion and depreciation *(note 5)*	7,411	5,879	22,619	17,484
(Gain) on sale of assets	(129)	—	(129)	(412)
Total expenses	**15,809**	**13,503**	**48,143**	**41,158**
NET INCOME (LOSS) BEFORE INCOME TAX	**9,822**	**1,919**	**38,771**	**(5,501)**
Deferred income tax recovery	—	(5,424)	—	(5,424)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**9,822**	**7,343**	**38,771**	**(77)**
Net income (loss) per common share				
Basic *(note 11)*	0.08	0.14	0.34	—
Diluted *(note 11)*	0.08	0.13	0.33	—

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, 2020	**430,119**	**9,596**	**(430,085)**	**9,630**
Net income	—	—	(77)	(77)
Deferred Share Unit settlement	—	(223)	—	(223)
Issuance of common shares	25,862	18,131	—	43,993
Share issue costs	(111)	—	—	(111)
Share-based compensation *(note 10)*	—	191	—	191
Balance, September 30, 2021	**455,870**	**27,695**	**(430,162)**	**53,403**
Balance, December 31, 2021	**455,908**	**27,846**	**(315,529)**	**168,225**
Net income	—	—	38,771	38,771
Common shares issued for property acquisition *(note 3)*	15,200	—	—	15,200
Common shares issued for rights offering *(note 10)*	20,003	—	—	20,003
Issuance of common shares *(note 10)*	370	(118)	—	252
Share issue costs *(note 10)*	(297)	—	—	(297)
Share-based compensation *(note 10)*	—	1,016	—	1,016
Balance, September 30, 2022	**491,184**	**28,744**	**(276,758)**	**243,170**

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 Sept. 30, 2022	Three months ended Sept. 30, 2021	Nine months ended Sept. 30, 2022	Nine months ended Sept. 30, 2021
OPERATING ACTIVITIES				
Net income (loss)	**9,822**	**7,343**	**38,771**	**(77)**
Adjust items not affecting cash:				
Share-based compensation *(note 10)*	365	32	711	144
Unrealized (gain) loss on financial derivatives *(note 9)*	(4,013)	(385)	(9,568)	8,473
Non-cash finance expenses *(note 16)*	448	235	1,050	814
Non-cash term loan interest payment-in-kind	—	672	—	2,573
Depletion and depreciation *(note 5)*	7,411	5,879	22,619	17,484
Exploration and evaluation expense *(note 4)*	65	46	303	108
Gain on sale of assets	(129)	—	(129)	(412)
Recovery of income taxes on debt settlement *(note 6)*	—	(5,424)	—	(5,424)
Other income	—	(374)	—	(376)
Decommissioning expenditures *(note 8)*	(180)	(150)	(159)	(373)
	13,789	**7,874**	**53,598**	**22,934**
Change in operating non-cash working capital *(note 17)*	22,089	5,054	15,789	234
Cash flows from operating activities	**35,878**	**12,928**	**69,387**	**23,168**
FINANCING ACTIVITIES				
Deferred Share Unit payment *(note 10)*	—	26	—	(31)
Share issue *(note 10)*	83	10,070	20,076	10,070
Repayment of revolving credit facility	—	(15,345)	(57,700)	(18,445)
Drawing (repayment) of bank indebtedness *(note 17)*	(6,915)	245	—	213
Transaction costs on debt	173	—	(335)	—
Repayment of lease liabilities *(note 7)*	(57)	(48)	(160)	(142)
Proceeds from long term debt *(note 6)*	10,000	—	22,000	—
Change in financing non-cash working capital *(note 17)*	476	(161)	—	(162)
Cash flows from (used in) financing activities	**3,760**	**(5,213)**	**(16,119)**	**(8,497)**
INVESTING ACTIVITIES				
Property, plant and equipment acquisitions *(note 3)*	607	—	243	128
Exploration and evaluation asset expenditures *(note 4)*	(1,314)	(47)	(1,423)	(457)
Petroleum and natural gas property expenditures *(note 5)*	(48,166)	(6,055)	(58,214)	(14,354)
Other capital expenditures	(48)	—	(161)	—
Change in investing non-cash working capital *(note 17)*	16,237	(1,925)	8,547	12
Cash flows used in investing activities	**(32,684)**	**(8,027)**	**(51,008)**	**(14,671)**
Increase (decrease) in cash	6,954	(312)	2,260	—
Cash, beginning of period	234	312	4,928	—
Cash, end of period	**7,188**	**—**	**7,188**	**—**
Cash interest paid *(note 16)*	530	1,803	2,185	4,277

See accompanying notes to the interim consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the periods ended September 30, 2022 and 2021

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 and nine months ended September 30, 2022 and prior year comparative period, were approved by the Company's Audit Committee and Board of Directors on November 8, 2022.

2. BASIS OF PRESENTATION

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, 2021 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, 2021. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2021. 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, 2021.

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.

Business Combinations

The acquisition method of accounting is used to account for acquisitions of entities and assets that meet the definition of a business under IFRS. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in profit or loss. Business combination associated transaction costs are expensed when incurred.

Within the IFRS Business Combinations guidance, there is an optional fair value concentration test. The concentration test is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process, and the acquisition is accounted for as a business combination. The cost of an acquisition that does not meet the definition of a business under IFRS and does not qualify as a business combination is measured as the fair value of the consideration given and liabilities incurred or assumed at the date of exchange. No goodwill arises on an asset acquisition and the cost of the assets acquired and liabilities assumed are allocated to the assets and liabilities on the basis of their relative fair values at the date of purchase. Asset acquisition associated transaction costs are capitalized as a cost of the acquisition.

COVID-19 Global Pandemic

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 result 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.

Russian/Ukrainian Conflict

In February 2022, Russian military forces invaded Ukraine. The outcome of the conflict is uncertain and is likely to have wide-ranging consequences on the peace and stability of the region and the world economy. In addition, certain countries including Canada, have imposed strict financial and trade sanctions against Russia which may have far reaching effects on the global economy. Disruption of supplies of commodities from Russia could have a significant impact on worldwide commodity prices. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain. Any negative impact on economic conditions and global markets from these developments could adversely affect our business, financial condition and liquidity including our ability to access capital and the related costs.

The Company does not have sales, production, or operations within Russia or Ukraine, it is not expected that the conflict will directly impact its operations. Nevertheless, the ongoing war induces greater uncertainties in global financial markets and supply chain systems which could lead to volatility in oil prices, inflation, interest rates, financing costs, and shortage or delays for certain goods or services. The Company continues assessing its exposure.

3. PROPERTY ACQUISITION

On March 14, 2022, Petrus completed the acquisition of certain oil and liquids rich natural gas weighted properties within its Ferrier core area from a privately owned limited partnership and its general partner. The acquired partnership was managed and directed by an officer and director of Petrus and two of Petrus' major shareholders owned or controlled, in aggregate, approximately 69.5% and 50% of the acquired partnership's units and shares, respectively.

Given the close proximity of the acquired properties to the Company's existing assets and infrastructure, the acquired properties are synergistic to existing operations and complementary to current development plans. The assets were acquired for share consideration of $15.2 million (10 million common shares of Petrus at $1.52 per share on closing date). The Company applied the optional concentration test permitted under IFRS 3 to the acquisition which resulted in the acquired assets being accounted for as an asset acquisition. As such the purchase price was allocated to the identifiable assets and liabilities based on their relative fair values at the date of acquisition. Assets acquired in the transaction will be included in the Ferrier CGU. Asset acquisition transaction costs of $0.3 million were capitalized as a cost of the asset.

The amounts recognized on the date of acquisition to identifiable net assets were as follows:

$000s (except share and per share amounts)	
Net assets acquired:	
Cash & cash equivalents	433
Accounts receivable & other assets	496
Accounts payable & accrued liabilities	(406)
Property, plant and equipment	16,766
Decommissioning obligation	(2,089)
Net assets acquired	**15,200**
Purchase consideration:	
Common shares issued to partners	10,000,000
Price of Petrus common shares ($ per share) on close date	$1.52
Total purchase consideration	**15,200**

4. EXPLORATION AND EVALUATION ASSETS

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

$000s	
Balance, December 31, 2020	**17,568**
Additions	401
Property dispositions	(18)
Exploration and evaluation expense	(108)
Capitalized G&A	220
Capitalized share-based compensation	24
Transfers to property, plant and equipment *(note 5)*	(5,093)
Impairment reversal	22,640
Balance, December 31, 2021	**35,634**
Property acquisition *(note 3)*	1,254
Exploration and evaluation expense	(303)
Capitalized G&A	168
Capitalized share-based compensation *(note 10)*	76
Transfers to property, plant and equipment *(note 5)*	(312)
Balance, September 30, 2022	**36,517**

During the three and nine months ended September 30, 2022, the Company incurred exploration and evaluation expenses of $0.07 million and $0.30 million, respectively, which relates to expired and nearly expired undeveloped, non-core land (three and nine months ended September 30, 2021 – $0.1 million).

During the three and nine months ended September 30, 2022, the Company capitalized $0.06 million and $0.17 million, respectively, of general and administrative expenses ("G&A") (three and nine months ended September 30, 2021 – $0.05 million and $0.15 million) and $0.04 million and $0.08 million of non-cash share-based compensation directly attributable to exploration activities (three and nine months ended September 30, 2021 – $0.004 million and $0.012 million).

The Company did not identify any indicators of impairment or impairment reversal for the three and nine months ended September 30, 2022.

Due to the increase in forward benchmark commodity prices during the year ended December 31, 2021, the Company identified indicators of impairment reversal in its Ferrier Cash Generating Unit ("CGU"). As a result, for the Ferrier CGU, the Company recorded an impairment reversal of $22.6 million on its E&E assets, as the recoverable amount exceeded the carrying value. No impairment or impairment reversal for E&E assets was recorded on any other CGUs of the Company.

5. 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, 2020	**835,583**	**(683,614)**	**151,969**
Additions	25,593	—	25,593
Property (dispositions)	(14,495)	12,439	(2,056)
Capitalized G&A	658	—	658
Capitalized share based compensation	73	—	73
Transfer from exploration and evaluation assets *(note 4)*	5,093	—	5,093
Depletion and depreciation	—	(22,992)	(22,992)
Changes in decommissioning provision	329	—	329
Impairment provision	—	80,580	80,580
Balance, December 31, 2021	**852,834**	**(613,587)**	**239,247**
Additions	58,386	—	58,386
Property acquisitions *(note 3)*	16,766	—	16,766
Capitalized G&A	504	—	504
Capitalized share-based compensation *(note 10)*	229	—	229
Transfers from exploration and evaluation assets *(note 4)*	312	—	312
Depletion and depreciation	—	(22,619)	(22,619)
Changes in decommissioning provision *(note 8)*	(4,775)	—	(4,775)
Balance, September 30, 2022	**924,256**	**(636,206)**	**288,050**

At September 30, 2022, estimated future development costs of $441.6 million (December 31, 2021 – $343.5 million) associated with the development of the Company's proved plus probable undeveloped reserves were included with the costs subject to depletion. During the three and nine months ended September 30, 2022, the Company capitalized $0.2 million and $0.5 million, respectively, of general and administrative expenses ("G&A") (three and nine months ended September 30, 2021 – $0.1 million and $0.4 million) and non-cash share-based compensation of $0.16 million and $0.23 million, respectively, (three and nine months ended September 30, 2021 – $0.02 million and $0.03 million), directly attributable to development activities.

The Company did not identify any indicators of impairment or impairment reversal for the three and nine months ended September 30, 2022.

At September 30, 2022, the carrying balance of the right of use asset was $0.7 million.

At December 31, 2021, in its Ferrier CGU, the Company identified an indicator of impairment reversal as a result of improved commodity prices. For the Kakwa CGU, the Company identified an indicator of impairment due to the decrease in proved and probable reserve values.

As a result of the above indicators, an impairment test on the Company's PP&E assets was performed. For the Ferrier CGU, the Company recorded an impairment reversal of $84.3 million on its PP&E assets on December 31, 2021, as the recoverable amount exceeded the carrying amount. The impairment reversal amount reflects all of the original impairment charges recorded on March 31, 2020 and December 31, 2014, less associated depletion. In addition, for the Kakwa CGU, the Company recorded an impairment charge of $3.7 million on its PP&E assets.

For the North Ferrier, Central Alberta and Foothills CGUs, the Company did not identify any indicators of impairment or impairment reversal.

The recoverable amount, a level 3 input on the fair value hierarchy, was estimated at its fair value less costs to dispose, using an after--tax discount rate of 11.6% to 13.1%. A 1% increase in the discount rate would have increased impairment by approximately $11.7 million. A 1% decrease in the discount rate would decrease impairment by approximately $0.2 million. The Company used the following forward commodity price estimates:

Year	Canadian Light Sweet $/Bbl	AECO $/MMbtu
2022	86.77	3.55
2023	81.25	3.25
2024	78.75	3.05
2025	80.33	3.13
2026	81.93	3.19
2027	83.57	3.26
2028	85.24	3.32
2029	86.95	3.39
2030	88.69	3.46
2031	90.46	3.52
2032	92.27	3.60

Escalation rate of 2.0% thereafter.

6. DEBT

At September 30, 2022, Petrus had two debt instruments outstanding; a reserve-based, secured operating revolving loan facility with an Alberta-based financial institution (the “Revolving Loan Facility” or “RLF”) and a second lien secured term facility (the "Second Lien Facility").

Revolving Loan Facility

At September 30, 2022, the RLF was comprised of a $30.0 million operating facility payable on demand by the lender. The amount of the RLF is subject to a borrowing base review performed on a semi-annual basis by the lender, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. The next semi-annual review is due on November 30, 2022.

At September 30, 2022, the Company had a $0.6 million letter of credit outstanding against the RLF (December 31, 2021 – $0.6 million on the previous revolving credit facility) and had drawn nil against the RLF (December 31, 2021 – $57.7 million on the previous revolving credit facility). As at the report date of November 8, 2022, the Company had drawn $18.4 million on its RLF to reduce the current accounts payable balance.

Second Lien Facility

At September 30, 2022 the Company had $22.0 million outstanding on the $25 million Second Lien Facility. The Second Lien Facility is a three-year term facility (maturity date May 31, 2025 with an option to extend by an additional two years) with a fixed interest rate of 11% per annum and can be repaid at the discretion of the Company after the first year. The Second Lien Facility is a related party transaction with a major shareholder who owns approximately 21% of the outstanding shares of the Company (see note 20).

Debt Settlement - Term Loan & Revolving Credit Facility

During the nine months ended September 30, 2022, the Company entered into agreements with new lenders to the Company, providing two new credit facilities (the “New Credit Facilities”) totaling $55 million. The New Credit Facilities, together with the net proceeds of the Company's recently closed $20 million rights offering, were used to repay in full all amounts owing under the Company's existing revolving credit facility (the "Revolving Credit Facility" or "RCF"). The New Credit Facilities closed in May 2022.

Prior to September 30, 2021, Petrus had a subordinated secured term loan (the "Term Loan"). During the third quarter of 2021, the Company settled its Term Loan with a principal amount (carrying value) of $39.4 million in consideration for the issuance of $15.8 million (the settlement amount) of common shares of Petrus ("Common Shares") to the holders of the Term Loan at an issue price of $0.55 per share. The difference between the carrying value and the settlement amount of the debt was added to contributed surplus in the amount of $18.1 million (net of the recovery of income taxes of $5.4 million).

Financial Covenants

The Company's RLF is subject to certain financial covenants. The key financial covenants as at September 30, 2022 are summarized in the following table. At September 30, 2022 the Company is in compliance with all financial covenants.

Financial Covenant Description	Required Ratio	As at September 30, 2022
Working Capital Ratio	Over 1.0	1.1

7. LEASES

The Company's lease obligations are as follows:

$000s	
Balance, December 31, 2021	**820**
Finance expense	42
Lease payments	(202)
Balance, September 30, 2022	**660**

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

$000s	**As at September 30, 2022**
Less than 1 year	277
1 to 3 years	438
Total lease payments	715
Amounts representing finance expense	(55)
Present value of lease obligation	660
Current portion of lease obligation	235
Non-current portion of lease obligation	425

8. 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 3.14 percent and an inflation rate of 3.0 percent (1.66 percent and 2.0 percent, respectively at December 31, 2021). Changes in estimates in 2021 and 2022 are due to the changes in the risk free and inflation rates 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 $39.4 million as at September 30, 2022 ($41.6 million at December 31, 2021). The undiscounted, uninflated total future liability at September 30, 2022 is $40.6 million ($38.3 million at December 31, 2021). 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, 2020	**44,456**
Property dispositions	(2,876)
Other adjustments	(373)
Liabilities incurred	489
Liabilities settled	(674)
Change in estimates	(160)
Accretion expense	707
Balance, December 31, 2021	**41,569**
Property acquisitions *(note 3)*	2,089
Property dispositions	(129)
Liabilities incurred	455
Liabilities settled	(158)
Change in estimates or discount rate	(5,230)
Accretion expense	757
Balance, September 30, 2022	**39,353**

9. 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 at September 30, 2022:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN$/GJ)
Natural Gas Swaps			
Nov. 1, 2022 to Mar. 31, 2023	Fixed price	5,000	$6.97
Apr. 1, 2023 to Oct. 31, 2023	Fixed price	10,000	$4.48
Nov. 1, 2023 to Mar. 31, 2024	Fixed price	7,000	$4.89

Contract Period	Type	Total Daily Volume (Bbl)	Average Price (CDN$/Bbl)
Crude Oil Swaps			
Oct. 1, 2022 to Dec. 31, 2022	Fixed price	600	$129.24
Jan 1, 2023 to Jun 30, 2023	Fixed price	800	$115.73
Jan. 1, 2023 to Dec 31 2023	Fixed price	200	$104.15
Jul. 1, 2023 to Dec 31 2023	Fixed price	700	$107.96
Jan. 1 2024 to Jun 30, 2024	Fixed price	500	$100.77

The following table summarizes the physical commodity contracts in place at September 30, 2022:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN$/GJ)
Natural Gas			
Oct. 1, 2022 to Oct. 31, 2022	Fixed price	15,000	$3.59
Nov. 1, 2022 to Mar. 31, 2023	Fixed price	14,000	$4.25

Risk management asset and liability:

$000s At September 30, 2022	**Asset**	**Liability**
Current commodity derivatives	5,503	—
Non-current commodity derivatives	1,578	—
	7,081	**—**
$000s At December 31, 2021		
Current commodity derivatives	—	2,488
	—	**2,488**

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

$000s	Three months ended Sept. 30, 2022	Three months ended Sept. 30, 2021	Nine months ended Sept. 30, 2022	Nine months ended Sept. 30, 2021
Realized gain (loss) on financial derivatives	610	(3,505)	(4,022)	(6,563)
Unrealized gain (loss) on financial derivatives	4,014	385	9,568	(8,473)
Net gain (loss) on financial derivatives	**4,624**	**(3,120)**	**5,546**	**(15,036)**

10. 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	**49,469,358**	**430,119**
Common shares issued for private placement, equity conversion and debt settlement	46,909,092	25,800
Common shares issued on exercise of stock options	329,462	100
Share issue costs	—	(111)
Balance, December 31, 2021	**96,707,912**	**455,908**
Common shares issued for property acquisition	10,000,000	15,200
Common shares issued in a rights offering	14,817,347	20,003
Common shares issued on exercise of stock options	671,249	370
Share issue costs	—	(297)
Balance, September 30, 2022	**122,196,508**	**491,184**

Rights Offering

During the nine months ended September 30, 2022, the Company completed a rights offering (the "Offering"). Pursuant to the Offering, the Company issued 14.8 million common shares at $1.35 per share for aggregate gross proceeds to the Company of $20.0 million. The issuance costs were estimated to be $0.3 million and the net proceeds of $19.6 million were utilized for debt repayment and towards working capital.

The Company entered into a standby purchase agreement with three investors (collectively, the "Stand-By Guarantors") who each own more than 20% of the outstanding shares of the Company. As a result of the exercise of the basic subscription privilege and additional subscription privilege by the holders of rights (including the Stand-By Guarantors), the Stand-By Guarantors did not acquire any Common Shares in connection with the Rights Offering pursuant to their stand-by commitments. The basic and additional subscriptions totaled 184% of the common shares of the Company available through the Rights Offering. The Company had approximately 121.7 million shares outstanding following the rights offering with the Stand-By Guarantors owning approximately 71% of the outstanding shares.

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 September 30, 2022, 8,506,729 (December 31, 2021 – 5,562,549) stock options were outstanding. The summary of stock option activity is presented below:

	Number of stock options	Weighted average exercise price
Balance, December 31, 2020	**2,276,923**	**$0.40**
Granted	4,637,500	$0.75
Forfeited	(623,513)	$0.36
Expired	(198,780)	$1.68
Exercised	(529,581)	$0.28
Balance, December 31, 2021	**5,562,549**	**$0.67**
Granted	3,622,500	$2.12
Exercised	(671,249)	$0.38
Expired	(7,071)	$0.74
Balance, September 30, 2022	**8,506,729**	**$1.31**
Exercisable, September 30, 2022	**—**	**—**

The following table summarizes information about the stock options granted and outstanding:

Range of Exercise Price	**Stock Options Outstanding**		
	Number granted	**Weighted average exercise price**	**Weighted average remaining life (years)**
$0.23 - $0.50	496,728	$0.24	0.89
$0.51 - $0.80	3,372,501	$0.72	2.07
$0.89	1,015,000	$0.89	2.26
$1.78 - $2.25	3,622,500	$2.12	2.92
	8,506,729	**$1.31**	**2.43**

During the nine months ended September 30, 2022 the Company granted 3,622,500 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 nine months ended September 30, 2022 of $2.12 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2022	**2021**
Risk free interest rate	2.46% - 3.33%	0.15% - 0.49%
Expected life (years)	1.08 - 3.08	1.08 - 3.08
Estimated volatility of underlying common shares (%)	110% to 111%	100% to 113%
Estimated forfeiture rate	33%	33%
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 September 30, 2022, 1,618,702 DSUs were issued and outstanding (December 2021 – 1,618,702).

Share-based Compensation

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

$000s	**Three months ended Sept. 30, 2022**	**Three months ended Sept. 30, 2021**	**Nine months ended Sept. 30, 2022**	**Nine months ended Sept. 30, 2021**
Expensed	365	32	711	144
Capitalized to exploration and evaluation assets	39	4	76	12
Capitalized to property, plant and equipment	159	22	229	35
Total share-based compensation	**563**	**58**	**1,016**	**191**

11. NET INCOME (LOSS) PER SHARE

Net income (loss) per share amounts are calculated by dividing the net income (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 Sept. 30, 2022	Three months ended Sept. 30, 2021	Nine months ended Sept. 30, 2022	Nine months ended Sept. 30, 2021
Net income (loss) for the period ($000s)	**9,822**	**7,343**	**38,771**	**(77)**
Weighted average number of common shares – basic (000s)	122,058	54,167	112,710	51,065
Weighted average number of common shares – diluted (000s)	126,822	57,638	117,525	54,537
Net income (loss) per common share – basic	**$0.08**	**$0.14**	**$0.34**	**—**
Net income (loss) per common share – diluted	**$0.08**	**$0.13**	**$0.33**	**—**

In computing diluted loss per share for the three and nine months ended September 30, 2022, 8,506,729 outstanding stock options and 1,618,702 DSUs were included (December 31, 2021 – 4,547,549 and 1,618,702 respectively).

12. OPERATING EXPENSES

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

$000s	Three months ended Sept. 30, 2022	Three months ended Sept. 30, 2021	Nine months ended Sept. 30, 2022	Nine months ended Sept. 30, 2021
Fixed and variable operating expenses	4,203	2,527	11,782	8,951
Processing, gathering and compression charges	1,271	767	3,974	1,975
Total gross operating expenses	**5,474**	**3,294**	**15,756**	**10,926**
Overhead recoveries	(303)	(252)	(844)	(727)
Total net operating expenses	**5,171**	**3,042**	**14,912**	**10,199**

13. GENERAL AND ADMINISTRATIVE EXPENSES

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

$000s	Three months ended Sept. 30, 2022	Three months ended Sept. 30, 2021	Nine months ended Sept. 30, 2022	Nine months ended Sept. 30, 2021
Gross general and administrative expense	1,505	1,207	4,335	4,157
Capitalized general and administrative expense	(238)	(183)	(672)	(589)
Overhead recoveries	(474)	(220)	(1,200)	(507)
General and administrative expense	**793**	**804**	**2,463**	**3,061**

14. 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 $15.1 million of accounts receivable outstanding at September 30, 2022 (December 31, 2021 – $9.7 million), $2.7 million is owed from 3 parties (December 31, 2021 – $7.4 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 September 30, 2022, the Company had an allowance for doubtful accounts of $0.1 million (December 31, 2021 – $0.5 million). At September 30, 2022, 99% of Petrus' accounts receivable were aged less than 120 days and 1% 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 September 30, 2022, the Company had a working capital deficiency (excluding non-cash risk management assets and liabilities) of $26.7 million, as the company had $50.9 million in current accounts payable due to the substantial increase in capital activity during the third quarter of 2022.

At September 30, 2022, the Company had a $30.0 million RLF, of which nil was drawn (December 31, 2021 – $57.7 million on the previous RCF which has been repaid in full). For the three and nine months ended September 30, 2022, the Company generated cash flow from operating activities of $35.9 million and $69.4 million, respectively.

During the nine months ended September 30, 2022, the Company entered into agreements with new lenders and repaid the previous RCF in full (see note 6).

The following are the contractual maturities of financial liabilities as at September 30, 2022:

$000s	**Total**	**< 1 year**	**1-5 years**
Accounts payable and accrued liabilities	50,867	50,867	—
Long term debt	22,000	—	22,000
Lease obligations	660	235	425
Total	**73,527**	**51,102**	**22,425**

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 RLF is exposed to interest rate cash flow risk as the instrument is 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. A 1% increase in the Canadian prime interest rate during the three and nine months ended September 30, 2022 would have increased/decreased net income by approximately $0.03 million for both periods, which relates to interest expense on the average outstanding RLF during the periods assuming that all other variables remain constant (September 30, 2021 – $0.7 million).

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 9). 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.

At September 30, 2022, it was estimated that a $0.25/GJ decrease in the price of natural gas would have increased net income by $1.0 million (September 30, 2021 – $0.6 million). An opposite change in commodity prices would result in an opposite impact on net income for the periods. At September 30, 2022, it was estimated that a $5.00/CDN WTI/bbl decrease in the price of oil would have increased net income by $2.5 million (September 30, 2021 – $1.0 million). An opposite change in commodity prices would result in an opposite impact on net income for the periods.

15. 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.

16. FINANCE EXPENSES

The components of finance expenses are as follows:

$000s	Three months ended Sept. 30, 2022	Three months ended Sept. 30, 2021	Nine months ended Sept. 30, 2022	Nine months ended Sept. 30, 2021
Cash:				
Interest	290	1,180	1,366	3,297
Finance fees	239	623	816	980
Foreign exchange	1	—	3	—
Total cash finance expenses	530	1,803	2,185	4,277
Non-cash:				
Deferred financing costs	142	44	293	305
Non-cash Term Loan interest payment-in-kind	—	672	—	2,573
Accretion on decommissioning obligations *(note 8)*	306	191	757	509
Total non-cash finance expenses	448	907	1,050	3,387
Total finance expenses	**978**	**2,710**	**3,235**	**7,664**

17. 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 Sept. 30, 2022	Three months ended Sept. 30, 2021	Nine months ended Sept. 30, 2022	Nine months ended Sept. 30, 2021
Source (use) in non-cash working capital:				
Deposits and prepaid expenses	239	(21)	(1,141)	(361)
Transaction costs on debt	(843)	(14)	(653)	(161)
Accounts receivable	(1,028)	3,181	(5,390)	(2,878)
Accounts payable and accrued liabilities	39,228	(178)	31,177	3,484
	37,596	**2,968**	**23,993**	**84**
Operating activities	22,089	5,054	15,789	234
Financing activities	476	(161)	—	(162)
Investing activities	16,237	(1,925)	8,547	12

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, 2021	—	**57,700**	—	**57,700**
Cash flows	—	(57,700)	22,000	(35,700)
Balance, September 30, 2022	—	—	**22,000**	**22,000**

18. 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	10,762	2,338	8,424	—

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.

19. REVENUE

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

$000s	Three months ended Sept. 30, 2022	Three months ended Sept. 30, 2021	Nine months ended Sept. 30, 2022	Nine months ended Sept. 30, 2021
Production Revenue				
Oil and condensate sales	9,776	7,120	35,185	21,049
Natural gas sales	12,990	8,902	48,591	23,052
Natural gas liquids sales	5,708	4,188	19,398	11,808
Total oil and natural gas production revenue	**28,474**	**20,210**	**103,174**	**55,909**
Royalty revenue	227	96	586	289
Loss on risk management activities	(497)	—	(4,973)	—
Total oil and natural gas revenue	**28,204**	**20,306**	**98,787**	**56,198**

20. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2022, the Company completed its debt restructuring transactions, which included the Second Lien Facility in the form of a promissory note held by a major shareholder, owning approximately 21% of the outstanding shares of the Company (see note 6).

During the nine months ended September 30, 2022, the Company closed an asset acquisition that was considered a related party transaction (see note 3).

During the nine months ended September 30, 2022, the Company entered into a standby purchase agreement with three investors (collectively, the "Stand-By Guarantors") who each own more than 20% of the outstanding shares of the Company. The Company entered into a standby purchase agreement with each of Don Gray, Stuart Gray and Glen Gray (collectively, the "Stand-By Guarantors"). The Rights Offering was oversubscribed by 84% and as a result, the Stand-By Guarantors did not acquire any Common Shares in connection with the Rights Offering pursuant to their stand-by commitments. The Company had approximately 121.7 million share outstanding following the Rights Offering with the Stand-By Guarantors owning approximately 71% of the outstanding shares.

CORPORATE INFORMATION

OFFICERS

Ken Gray, P.Eng
President and
Chief Executive Officer

Mathew Wong, CPA, CFA, CPA (WA, USA)
Chief Financial Officer

Matt Skanderup
Chief Operating Officer

DIRECTORS

Don T. Gray
Chairman
Scottsdale, Arizona

Ken Gray
Calgary, Alberta

Patrick Arnell
Calgary, Alberta

Donald Cormack
Calgary, Alberta

Peter Verburg
Calgary, Alberta

SOLICITOR

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITOR
Ernst & Young LLP
Chartered Professional Accountants
Calgary, Alberta

INDEPENDENT RESERVE EVALUATORS
InSite Petroleum Consultants Ltd.
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