Q2 15

# SECOND QUARTER REPORT

*For the three and six months ended June 30, 2015*

---

Petrus Resources Ltd. ("Petrus" or the "Company") is pleased to report operating and financial results for the second quarter of 2015.

- Average production in the second quarter was 8,890 boe per day (38% oil and liquids) as compared to 4,959 boe per day (44% oil and liquids) reported for the second quarter of 2014. Since mid-January, a portion of the Company's sales volume (affecting three of the four operating areas) has been restricted due to transportation curtailments on TransCanada Pipelines Limited ("TCPL") infrastructure on their western Alberta main pipeline. During the second quarter, the Company estimates that 700 boe per day was directly curtailed by third party transportation restrictions. Petrus also delayed well completions and tie-ins in Ferrier during the first half of 2015 as the additional volumes would have exceeded available transportation capacity. In July, TCPL advised industry that it had a new unplanned outage at its Clearwater compressor station. TCPL has not provided guidance on when the Clearwater compressor station outage will be resolved. Currently the Clearwater TCPL outage is restricting approximately 1,100 boe per day in Ferrier from existing production. In addition, the outage restricts the Company's ability to bring production on stream from five new drills.

- Petrus generated $12.6 million in funds from operations during the second quarter, compared to $13.3 million in the second quarter of 2014. Commodity prices have declined significantly from the prior year. The average benchmark natural gas price in Canada (AECO) decreased by 44% second quarter over second quarter (averaging $2.64 per mcf, compared to $4.68 per mcf in the second quarter of 2014). The average price of Edmonton Light Sweet crude oil decreased 33% over the same period ($69.66 per bbl from $104.48 per bbl).

- Operating costs in the second quarter of 2015 of $9.14 per boe were negatively impacted by the TCPL related transportation curtailments due to amortization of the fixed operating cost component over lower sales volumes. Despite the lower sales volumes, operating costs declined 2%, from $9.29 per boe in the second quarter of 2014. The decrease is attributed to investment in facilities designed to reduce operating costs. Petrus continues to work to further reduce operating expenses and increase processing revenue. The Company is currently constructing a gas plant in the Ferrier area in order to control and reduce costs. The 25 mmcf per day plant will be connected directly to a TCPL sales pipeline and will be capable of NGL refrigeration and liquids recovery in order to reduce the Company's reliance on third parties for processing. The plant is expected to be on stream in the fourth quarter of 2015.

- Over the three month period ended June 30, 2015, Petrus invested $13.3 million in exploration and development activity, up from $9.3 million in the second quarter of 2014. Petrus disposed of non-core expiring land for proceeds of $0.1 million. The investments were funded by cash flow and available credit lines. To date in 2015, the Company has invested $6 million in a gas processing facility in the Company's Ferrier area which is expected to come on stream during the fourth quarter and is expected to mitigate capacity constraints and reduce exposure to operations outside of the Company's control.

- The Company ended the second quarter with 140.6 million common shares outstanding and had drawn $138.0 million against its $200.0 million credit facility. At June 30, 2015 Petrus had net debt of $228.6 million in addition to a $2.4 million outstanding letter of credit (required until the facility construction is complete in the Ferrier area).

- At the end of the second quarter Petrus had 344,856 net acres of undeveloped land, a two-fold increase over the undeveloped land position a year earlier.

June 30, 2015

## SELECTED FINANCIAL INFORMATION

| (000s) except per boe amounts | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Three months ended Mar. 31, 2015 | Three months ended Dec. 31, 2014 | Three months ended Sep. 30, 2014 |
|---|---|---|---|---|---|
| **OPERATIONS** | | | | | |
| **Average Production** | | | | | |
| Natural gas (mcf/d) | 33,103 | 16,800 | 31,525 | 34,626 | 17,557 |
| Oil (bbl/d) | 2,811 | 2,012 | 3,559 | 2,998 | 1,799 |
| NGLs (bbl/d) | 560 | 147 | 519 | 1,053 | 203 |
| **Total (boe/d)** | **8,890** | 4,959 | **9,333** | 9,822 | 4,928 |
| **Total (boe)** | **808,947** | 451,269 | **839,927** | 903,620 | 453,359 |
| **Natural gas sales weighting** | ***62%*** | 56% | ***56%*** | *59%* | 59% |
| **Realized Sales Prices** | | | | | |
| Natural gas ($/mcf) | 2.90 | 5.21 | 3.12 | 3.97 | 4.23 |
| Oil ($/bbl) | 64.76 | 100.20 | 47.38 | 67.47 | 95.51 |
| NGLs ($/bbl) | 24.99 | 37.60 | 29.77 | 47.52 | 51.08 |
| Total ($/boe) | 32.85 | 59.42 | 30.27 | 39.37 | 52.04 |
| Hedging gain (loss) ($/boe) | 3.58 | (3.32) | 5.81 | 3.73 | (3.00) |
| **Operating Netback ($/boe)** | | | | | |
| Effective price | 36.43 | 56.10 | 36.08 | 43.10 | 49.04 |
| Royalty income | 0.08 | 0.67 | 0.09 | 0.47 | 0.28 |
| Royalty expense | (3.73) | (12.76) | (4.55) | (4.38) | (8.90) |
| Operating expense | (9.14) | (9.29) | (7.78) | (6.43) | (9.69) |
| Transportation expense | (1.93) | (2.17) | (1.86) | (1.25) | (2.87) |
| **Operating netback (1) ($/boe)** | **21.71** | 32.55 | **21.98** | 31.51 | 27.86 |
| G & A expense (2) | (2.28) | (1.77) | (1.98) | (2.34) | (3.19) |
| Net interest expense (3) | (3.91) | (1.36) | (2.72) | (1.93) | (2.88) |
| **Corporate netback (1) ($/boe)** | **15.52** | 29.42 | **17.28** | 27.24 | 21.79 |
| **FINANCIAL ($000s except per share)** | | | | | |
| Oil and natural gas revenue | 26,576 | 26,815 | 25,495 | 35,998 | 23,592 |
| Funds from operations (1) | 12,549 | 13,278 | 14,535 | 24,627 | 9,878 |
| Funds from operations per share (1) | 0.09 | 0.16 | 0.10 | 0.18 | 0.09 |
| Net income (loss) | (7,239) | 5,505 | (6,312) | (63,308) | 7,530 |
| Net income (loss) per share | (0.05) | 0.06 | (0.05) | (0.45) | 0.07 |
| Capital expenditures | 13,288 | 9,275 | 25,383 | 53,049 | 28,964 |
| Net acquisitions (dispositions) | (125) | — | 1,063 | 195,028 | 113,605 |
| Common shares outstanding | 140,593 | 101,748 | 140,593 | 140,593 | 140,458 |
| Weighted average shares | 140,593 | 91,106 | 140,593 | 140,571 | 108,212 |
| **As at quarter end ($000s)** | | | | | |
| Net debt (1) (4) | (228,562) | 415 | (227,607) | (215,049) | 21,014 |
| Bank debt outstanding | 142,000 | — | 115,000 | 190,000 | 90,000 |
| Bank debt available (5) | 35,600 | 90,000 | 85,000 | 100,000 | 50,000 |
| Shareholders' equity | 299,061 | 213,508 | 305,912 | 311,760 | 374,070 |
| Total assets | 627,808 | 259,110 | 641,547 | 647,304 | 549,248 |

*(1) Non-GAAP measures, including the methodology used to calculate debt-adjusted share amounts, are defined on pages 5 and 6 of the June 30, 2015 MD&A.*
*(2) G&A expense is presented net of capitalized general & administrative costs. Please refer to the G&A section on page 10 in the June 30, 2015 MD&A.*
*(3) Interest expense is presented net of other income and non-cash deferred finance expense.*
*(4) Net debt includes working capital (deficiency).*
*(5) $200 million credit facility less: $20 million non-borrowing base facility, $2.4 million letter of credit and $4.0 million bank overdraft.*

## OPERATIONS UPDATE

| Average production for the quarter ended June 30, 2015 | Ferrier | Foothills | Peace River | Central Alberta | Total |
|---|---|---|---|---|---|
| **Average Production** | | | | | |
| Natural gas (mcf/d) | 7,720 | 9,702 | 3,750 | 11,931 | **33,103** |
| Oil (bbl/d) | 438 | 651 | 779 | 943 | **2,811** |
| NGLs (bbl/d) | 171 | 80 | 30 | 279 | **560** |
| **Total (boe/d)** | **1,897** | **2,348** | **1,434** | **3,211** | **8,890** |
| ***Natural gas sales weighting*** | ***68%*** | ***69%*** | ***44%*** | ***62%*** | ***62%*** |

**Ferrier**

Petrus invested $6.9 million in the Ferrier area in the second quarter of 2015. Completion operations for two wells which were drilled earlier in 2015 began at the end of the second quarter and were completed during the third quarter. The majority of the capital invested during the second quarter was directed toward construction of a gas processing facility. The facility is expected to come on stream during the fourth quarter and is expected to mitigate capacity constraints and reduce exposure to operations outside of the Company's control.

Rolling transportation curtailments (since January) on major TCPL infrastructure have resulted in many producers being required to reduce sales volumes. Petrus was required to shut in fluctuating levels of its Ferrier volumes during the second quarter and estimates that approximately 2% of its quarterly average production rate was restricted at quarter end. Subsequent to June 30, 2015, TCPL announced further pipeline curtailments attributed to a Clearwater compressor outage. TCPL has not provided a completion date for the Clearwater repairs. Currently the Clearwater TCPL outage is restricting approximately 1,100 boe per day in Ferrier from existing production. In addition, the outage restricts the Company's ability to bring production on stream from five new drills.

**Foothills**

Petrus invested $6.0 million in the Foothills area in the second quarter of 2015 to finish drilling, complete and tie in two (1.8 net) wells as well as for the construction of production facilities.

Drilling operations that occurred during the second quarter in the Foothills were part of two farm-in deals, one in Cordel and one in Brown Creek. The first well is a twin of an existing well in Brown Creek for a Notikewin gas target, and has earned Petrus a 100% working interest in two sections of land. It was drilled and multi stage fractured during the first quarter but encountered casing liner integrity issues on flowback. It is currently shut in to evaluate reservoir pressure in order for Petrus to evaluate further options. The second well (in which Petrus has earned a 75% working interest) is a stepout offset location to a producing well in Cordel. Completion and tie in operations took place during the quarter and the well was recently brought on production.

Petrus has encountered third party pipeline constraints in the Foothills area and estimates that approximately 12% of the quarterly average production rate was curtailed at quarter end. Petrus anticipates that the sales will return to normal levels later in the year.

**Peace River**

Petrus invested $2.5 million in the Peace River area in the second quarter of 2015 to construct and tie in production and water disposal facilities. Two oil batteries with water disposal capabilities are now fully operational at Tangent and Berwyn contributing to significantly lower operating costs and increased runtime. Operating costs per boe in the Company's Peace River area have declined over 50% from 2012 when the properties were acquired. Petrus has initiated a pilot waterflood program at Berwyn and expects to expand the waterflood area over the next year.

Petrus has encountered third party pipeline constraints in the Peace River area and estimates that approximately 13% of the quarterly average production rate was curtailed at quarter end. Petrus anticipates that the sales will return to normal levels later in the year.

**Central Alberta**

Petrus is evaluating waterflood expansion opportunities to optimize the assets in the Central Alberta area. Petrus did not invest significant capital in this area in the second quarter of 2015; however, the Company has plans for additional development opportunities in the area as commodity prices improve.

## MANAGEMENT'S DISCUSSION & ANALYSIS

The following is management's discussion and analysis ("MD&A") of the financial and operating results of the Company as at and for the three and six month periods ended June 30, 2015. The report is dated August 12, 2015. This MD&A should be read in conjunction with the June 30, 2015 unaudited condensed interim financial statements as well as the December 31, 2014 audited annual financial statements. Readers are directed to the advisories at the end of this report regarding forward-looking statements, BOE presentation and non-IFRS measures.

## FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

| | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Three months ended Mar. 31, 2015 | Three months ended Dec. 31, 2014 | Three months ended Sept. 30, 2014 |
|---|---|---|---|---|---|
| **Quarterly average production** | | | | | |
| Natural gas (mcf/d) | 33,103 | 16,800 | 31,525 | 34,626 | 17,557 |
| Oil (bbl/d) | 2,811 | 2,012 | 3,559 | 2,998 | 1,799 |
| NGLs (bbl/d) | 560 | 147 | 519 | 1,053 | 203 |
| **Total (boe/d)** | **8,890** | 4,959 | **9,333** | 9,822 | 4,928 |
| Total (boe) | 808,947 | 451,269 | 839,927 | 903,620 | 453,359 |
| **Revenue (000s)** | | | | | |
| Natural Gas | 8,734 | 7,966 | 8,857 | 12,639 | 6,830 |
| Oil | 16,568 | 18,346 | 15,176 | 19,742 | 15,811 |
| NGLs | 1,274 | 503 | 1,391 | 3,194 | 951 |
| Commodity revenue | 26,576 | 26,815 | 25,424 | 35,575 | 23,592 |
| Royalty revenue | 65 | 303 | 72 | 423 | 128 |
| Oil and natural gas revenue | 26,641 | 27,118 | 25,496 | 35,998 | 23,720 |
| **Average realized prices** | | | | | |
| Natural gas ($/mcf) | 2.90 | 5.21 | 3.12 | 3.97 | 4.23 |
| Oil ($/bbl) | 64.76 | 100.20 | 47.38 | 67.47 | 95.51 |
| NGLs ($/bbl) | 24.99 | 37.60 | 29.77 | 47.52 | 51.08 |
| Total ($/boe) | 32.85 | 59.42 | 30.27 | 39.37 | 52.04 |
| Hedging gain (loss) | 3.58 | (3.32) | 5.81 | 3.73 | (3.00) |
| Total realized ($/boe) | 36.43 | 56.10 | 36.08 | 43.10 | 49.04 |
| **Average benchmark prices** | **Three months ended June 30, 2015** | **Three months ended June 30, 2014** | **Three months ended Mar. 31, 2015** | **Three months ended Dec. 31, 2014** | **Three months ended Sept. 30, 2014** |
| Natural gas | | | | | |
| AECO (C$/mcf) | 2.64 | 4.68 | 2.74 | 3.61 | 4.19 |
| Crude Oil | | | | | |
| Edm Lt. (C$/ bbl) | 69.66 | 104.48 | 52.81 | 75.44 | 97.71 |
| Foreign Exchange | | | | | |
| US$/C$ | 0.81 | 0.92 | 0.81 | 0.88 | 0.92 |

## OIL AND NATURAL GAS REVENUE

Average production for the second quarter of 2015 was 8,890 boe per day (62% natural gas), compared to 4,959 boe per day (55% natural gas) for the second quarter of the prior year. Total commodity revenue decreased from $26.8 million in the second quarter of 2014 to $26.6 million in the comparative period of 2015. Average production for the first six months of 2015 was 9,113 boe per day (59% natural gas), compared to 4,668 boe per day (53% natural gas) for the prior year comparative period. Total commodity revenue decreased from $52.4 million in the first six months of 2014 to $52.0 million in the comparative period of 2015.

### *Natural gas*

During the three and six months ended June 30, 2015, the benchmark natural gas price in Canada (set at the AECO hub) decreased by 44% and 50% respectively from the prior year (average price of $2.64 per mcf in the second quarter compared to $4.68 per mcf in the second quarter of the prior year and $2.70 per mcf for the first six months of 2015, compared to $5.36 per mcf for the comparative period in 2014). The Company's average realized gas price during the second quarter of 2015 was $2.90 per mcf compared to $5.21 per mcf in the second quarter of the prior year, which represents a 44% decrease, and $3.00 per mcf for the first half of 2015, compared to $5.56 per mcf for the same period in the prior year, which represents a 54% decrease. Natural gas revenue for the second quarter of 2015 was $8.7 million and production of 3,012,373 mcf accounted for approximately 62% of second quarter production volume and 33% of commodity revenue (compared to revenue of $8.0 million and production of 1,528,800 mcf for 56% of production volume and 30% of commodity revenue in the second quarter of the prior year). Natural gas revenue for the first six months of 2015 was $17.6 million and production of 5,849,623 mcf accounted for approximately 59% of production volume in the period and 34% of commodity revenue (compared to revenue of $14.9 million and production of 2,686,560 mcf for 53% of production volume and 29% of commodity revenue in the prior year comparative period).

***Crude oil and condensate***

Edmonton Light Sweet ("Edmonton") crude oil prices decreased 33% from the second quarter of 2014 to the second quarter of 2015 ($69.66 per bbl for the second quarter of 2015 compared to an average price of $104.48 per bbl for the prior period). Prices decreased 60% from the first six months of 2014 to the first six months of 2015 ($61.23 in 2015 compared to an average price of $102.33 for the prior period). The average realized price of Petrus' crude oil and condensate was $64.76 per bbl for the second quarter of 2015 compared to $100.20 per bbl for the same period in the prior year; $55.10 for the first six months of 2015 compared to $97.10 for the same period in the period year. Oil and condensate revenue for the second quarter of 2015 was $16.6 million and production of 255,801 bbl accounted for approximately 32% of total production volume and 62% of commodity revenue (compared to revenue of $18.4 million and production of 183,092 bbl for 41% of total production volume and 68% of commodity revenue in the second quarter of the prior year). Oil and condensate revenue for the first six months of 2015 was $31.7 million and production of 576,111 accounted for approximately 35% of total production volume and 61% of commodity revenue (compared to revenue of $36.4 million and production of 375,152 for 44% of total production volume and 70% of commodity revenue in the first six months of the prior year).

***Natural gas liquids (NGLs)***

The Company's NGL production mix consists of ethane, propane, butane, pentane and sulphur. The pricing received for NGL production is based on the product mix, the fractionation process required and the demand for fractionation facilities. In the second quarter of 2015, the overall realized NGL price averaged $24.99 per bbl compared to $37.60 per bbl in the prior year. In the first six months of 2015, the overall realized NGL price average $27.29 per bbl compared to $46.70 per bbl in the prior year. NGL revenue for the second quarter of 2015 was $1.3 million and production of 50,960 bbl accounted for approximately 6% of the Company's production volume and 5% of commodity revenue in the second quarter (compared to revenue of $503,000 and production of 13,377 bbl for 3% of total production and 2% of commodity revenue for the second quarter of the prior year). NGL revenue for the first six months of 2015 was $2.7 million and production of 97,670 bbl accounted for approximately 6% of production volume and 5% of commodity revenue in the period (compared to revenue of $1.0 million and production of 21,927 bbl for 3% of total production and 2% of commodity revenue in the first six months of the prior year).

***Royalty Revenue***

Petrus records gross overriding royalty revenue for production related to land or mineral rights owned. The revenue is included in "Other Income" on the Company's Statement of Net Income (Loss) and Comprehensive Income (Loss). Royalty revenue earned in the second quarter was $0.06 million compared to $0.3 million in the comparative quarter of the prior year. Royalty revenue earned in the six month period ended June 30, 2015 was $0.1 million compared to $0.6 million in the comparative period of the prior year.

## NON-GAAP MEASURES

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

***Funds from Operations***

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

| ($000s) | **Six months ended Jun. 30, 2015** | Six months ended Jun. 30, 2014 | **Three months ended Jun. 30, 2015** | Three months ended Jun. 30, 2014 |
|---|---|---|---|---|
| Cash flows from (used in) operating activities | **(4,854)** | 25,248 | **(6,611)** | 14,328 |
| Changes in non-cash working capital | **31,563** | 1,171 | **18,958** | (1,383) |
| Settlement of decommissioning obligations | **571** | 349 | **202** | 333 |
| Funds from operations | **27,280** | 26,768 | **12,549** | 13,278 |

***Operating Netback***

Operating netback is a common non-GAAP metric used in the oil and gas industry which is a useful supplemental measure to evaluate the specific operating performance by product at the oil and gas lease level. The operating netback is calculated as realized price less royalties, operating and transportation expenses on a per unit basis.

***Corporate Netback***

Corporate netback is also a common non-GAAP metric used in the oil and gas industry which evaluates the Company's profitability at the corporate level. It is calculated as the operating netback less cash general & administrative and finance expenses.

***Net Debt***

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

| **($000s)** | **As at Jun. 30, 2015** | As at Jun. 30, 2014 |
|---|---|---|
| Current assets (excluding financial derivative assets) | 20,791 | 11,052 |
| Less: current liabilities (excluding financial derivative liabilities) | (17,891) | (10,637) |
| Less: bank debt | (231,462) | — |
| **Working capital (net debt)** | **(228,562)** | **415** |

***Debt-adjusted shares***

Debt-adjusted shares are calculated by adding the shares outstanding for the relevant period to the share equivalent of the Company's net debt at the end of the period. The calculation assumes the debt is extinguished with a share issuance. Petrus is a privately held company with no public market pricing data. In order to determine the price to convert the Company's debt to shares, Petrus uses the current equity price if a share issuance was completed during the period. If a share issuance was not completed, a six times debt-adjusted cash flow multiple is used. The cash flow multiple is based upon trailing quarter annualized funds from operations which represents the annualized cash flow from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations. The sole purpose of the calculation is to show a comparative metric on a consistent basis. Weighted average shares are used for the average quarterly and annual production metrics as well as for cash flow growth; end-of-period shares outstanding are used for exit production and reserves growth performance metrics. The table below reconciles the debt-adjusted shares for the average year-over-year cash flow growth performance metric.

| ($000s, except per share amounts) | **Three months ended Jun. 30, 2015** | Three months ended Jun. 30, 2014 |
|---|---|---|
| Weighted average shares outstanding | 140,593 | 91,106 |
| Annualized funds from operations before interest | 62,480 | 55,568 |
| Ending net debt | (228,562) | 415 |
| Share equivalent on ending net debt | 219,619 | (121) |
| **Debt-adjusted shares** | **360,212** | **90,985** |

## FUNDS FROM OPERATIONS AND EARNINGS

Petrus generated funds from operations of $12.6 million during the quarter ended June 30, 2015 ($13.3 million during the second quarter of 2014). On a six month basis, funds from operations were $27.3 million compared to $26.8 million in the prior year. Funds flow growth was fueled by production growth, offset by significantly lower commodity prices from the prior year.

The Company incurred a net loss of $7.2 million in the second quarter of 2015 (compared to net income of $5.5 million in the second quarter of the prior year). On a six month basis, the Company incurred a net loss of $13.5 million in the first six months of 2015 compared to net income of $8.3 million in the comparable period of 2014. The following table provides detail on the Company's funds from operations on a barrel of oil equivalent ("boe") basis.

| | **Six months Ended Jun. 30, 2015** | | Six months ended Jun. 30, 2014 | | **Three months Ended Jun. 30, 2015** | | Three months ended Jun. 30, 2014 | |
|---|---|---|---|---|---|---|---|---|
| | **$000s** | **$/boe** | **$000s** | **$/boe** | **$000s** | **$/boe** | **$000s** | **$/boe** |
| Oil and natural gas revenue | 52,000 | 31.54 | 52,396 | 62.02 | 26,576 | 32.85 | 26,815 | 59.42 |
| Transportation | (3,121) | (1.89) | (1,850) | (2.19) | (1,561) | (1.93) | (979) | (2.17) |
| Net revenue | 48,879 | 29.65 | 50,546 | 59.83 | 25,015 | 30.92 | 25,836 | 57.25 |
| Royalty expense | (6,845) | (4.15) | (11,148) | (13.20) | (3,020) | (3.73) | (5,760) | (12.76) |
| Royalty revenue | 137 | 0.08 | 591 | 0.70 | 65 | 0.08 | 303 | 0.67 |
| **Net oil and natural gas revenue** | **42,171** | **25.58** | **39,989** | **47.33** | **22,060** | **27.27** | **20,379** | **45.16** |
| Operating expense (1) | (13,932) | (8.45) | (7,920) | (9.38) | (7,396) | (9.14) | (4,194) | (9.29) |
| Hedging gain (loss) | 7,775 | 4.72 | (2,932) | (3.47) | 2,894 | 3.58 | (1,496) | (3.32) |
| General & administrative (2) | (3,507) | (2.13) | (1,430) | (1.69) | (1,843) | (2.28) | (797) | (1.77) |
| Interest expense (3) | (5,227) | (3.17) | (946) | (1.12) | (3,166) | (3.91) | (614) | (1.35) |
| **Funds from operations** | **27,280** | **16.55** | **26,761** | **31.67** | **12,549** | **15.52** | **13,278** | **29.44** |

*(1) Operating expense is presented net of processing income and overhead recoveries.*
*(2) G&A expense is presented net of capitalized general & administrative costs. Please see the G&A section on page 10 in the June 30, 2015 MD&A.*
*(3) Interest expense is presented net of other income and non-cash deferred finance expense.*

| (000s except per share) | **Six months Ended Jun. 30, 2015** | Six months ended Jun. 30, 2014 | **Three months Ended Jun. 30, 2015** | Three months ended Jun. 30, 2014 |
|---|---|---|---|---|
| **Funds from operations** | **27,280** | 26,761 | **12,549** | 13,278 |
| Funds from operations/share | **0.19** | 0.30 | **0.09** | 0.15 |
| **Net Income (loss)** | **(13,523)** | 8,287 | **(7,239)** | 5,505 |
| Net income (loss)/share | **(0.10)** | 0.09 | **(0.05)** | 0.06 |
| Common shares | **140,593** | 101,748 | **140,593** | 101,748 |
| Weighted average shares | **140,593** | 88,754 | **140,593** | 91,106 |

## Performance Metrics

Petrus uses certain performance metrics as key indicators to demonstrate the Company's ability to generate shareholder value. From the second quarter of 2014 to the second quarter of 2015, on a debt-adjusted per share basis, funds from operations and average production decreased 69% and 50%, respectively. Weakened commodity prices and production curtailments directly impacted these metrics.

| | **Three months ended Jun. 30, 2015** | Three months ended Jun. 30, 2014 | **% Change** |
|---|---|---|---|
| **Funds from operations per debt-adjusted share[(1)] ($)** | **0.04** | 0.13 | (69) |
| **Production per debt-adjusted thousand shares (boe per day)** | **8.85** | 17.63 | (50) |

*[(1)] Funds from operations per debt-adjusted share is a non-GAAP measure and is reconciled to the nearest GAAP measure on pages 5 and 6 in the section heading "Non-GAAP" Measures. Debt adjusted calculation uses period ending debt.*
*[(2)] Variance percentages may not recalculate due to rounding.*

## RESULTS OF OPERATIONS

### Royalty Expenses

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

| **Royalty Expenses ($000s)** | **Six months ended Jun. 30, 2015** | Six months ended Jun. 30, 2014 | **Three months ended Jun. 30, 2015** | Three months ended Jun. 30, 2014 |
|---|---|---|---|---|
| Crown ($000s) | **3,884** | 10,558 | **1,945** | 5,469 |
| % of production revenue | **7%** | 20% | **7%** | 20% |
| Gross overriding | **2,961** | 589 | **1,075** | 290 |
| **Total (000s)** | **6,845** | 11,147 | **3,020** | 5,759 |

Total royalty expenses (net of royalty allowances and incentives) decreased from $5.5 million in the second quarter of 2014 to $2.0 million in the second quarter of 2015. On a six month basis, total royalties paid decreased from $10.6 million in 2014 to $3.9 million in 2015. The decreases are the result of lower royalties paid as a result of lower commodity prices, in addition to higher gas royalty allowance recovered.

Gross overriding royalties increased from $0.3 million in the second quarter of 2014 to $1.1 million in the second quarter of 2015. Similarly, the royalties increased from $0.6 million in the first six months of 2014 to $3.0 million in 2015. The increase is due to the properties acquired in the Central Alberta and Ferrier operating areas, which carry gross overriding royalty obligations.

**Financial Instruments**

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus has outstanding as at June 30, 2015:

| Natural Gas<br>Contract Period | Type | Daily Volume | Price (CAD$/GJ) |
|---|---|---|---|
| Jul. 1, 2015 to Oct. 31, 2015 | Fixed price | 3,000 GJ | $3.35/GJ |
| Jul. 1, 2015 to Oct. 31, 2015 | Fixed price | 2,000 GJ | $2.52/GJ |
| Jul. 1, 2015 to Oct. 31, 2015 | Fixed price | 6,000 GJ | $2.37/GJ |
| Jul. 1, 2015 to Oct. 31, 2015 | Fixed price | 4,000 GJ | $2.46/GJ |
| Jul. 1, 2015 to Dec. 31, 2015 | Fixed price | 4,000 GJ | $3.49/GJ |
| Jul. 1, 2015 to Dec. 31, 2015 | Costless Collar | 5,000 GJ | $3.50 – 3.63/GJ |
| Jul. 1, 2015 to Dec. 31, 2015 | Fixed price | 1,000 GJ | $2.97/GJ |
| Nov. 1, 2015 to Mar. 31, 2016 | Fixed price | 6,000 GJ | $3.74/GJ |
| Nov. 1, 2015 to Mar. 31, 2016 | Fixed price | 6,000 GJ | $2.87/GJ |
| Nov. 1, 2015 to Mar. 31, 2016 | Fixed price | 4,000 GJ | $2.96/GJ |
| Nov. 1, 2015 to Mar. 31, 2016 | Fixed price | 2,000 GJ | $3.03/GJ |
| Jan. 1, 2016 to Mar. 31, 2016 | Fixed price | 5,000 GJ | $3.26/GJ |
| Apr. 1, 2016 to Oct. 31, 2016 | Fixed price | 2,000 GJ | $2.93/GJ |
| Apr. 1, 2016 to Oct. 31, 2016 | Fixed price | 6,000 GJ | $2.75/GJ |
| Apr. 1, 2016 to Oct. 31, 2016 | Fixed price | 2,000 GJ | $2.85/GJ |
| Apr. 1, 2016 to Oct. 31, 2016 | Fixed price | 5,000 GJ | $2.91/GJ |
| Apr. 1, 2016 to Oct. 31, 2016 | Costless collar | 5,000 GJ | $2.50 – 3.15/GJ |
| Nov. 1, 2016 to Mar. 31, 2017 | Fixed price | 2,000 GJ | $3.38/GJ |
| Nov. 1, 2016 to Mar. 31, 2017 | Fixed price | 2,000 GJ | $3.31/GJ |
| Nov. 1, 2016 to Mar. 31, 2017 | Fixed price | 6,000 GJ | $3.21/GJ |
| Nov. 1, 2016 to Mar. 31, 2017 | Costless collar | 5,000 GJ | $2.75 – 3.75/GJ |
| Apr.1, 2017 to Oct. 31, 2017 | Fixed price | 7,000 GJ | $2.84/GJ |

| Crude Oil<br>Contract Period | Type | Daily Volume | Price ($/Bbl) |
|---|---|---|---|
| Jul. 1, 2015 to Dec. 31, 2015 | Fixed price | 200 Bbl | WTI $CAD100.00/Bbl |
| Jul. 1, 2015 to Dec. 31,2015 | Fixed Price | 100 Bbl | WTI $CAD 95.50/Bbl |
| Jul. 1, 2015 to Dec. 31, 2015 | Fixed Price | 250 Bbl | WTI $97.80/Bbl |
| Jul. 1, 2015 to Dec. 31, 2015 | Fixed Price | 250 Bbl | WTI $92.50-103.50/Bbl |
| Jul. 1, 2015 to Sep. 31, 2015 | Costless collar | 2,000 Bbl | WTI $USD45.00-66.00/Bbl |
| Oct. 1, 2015 to Dec. 31, 2015 | Costless collar | 700 Bbl | WTI $CAD39.00-70.00/Bbl |
| Jan. 1, 2016 to Dec. 31, 2016 | Costless collar | 700 Bbl | WTI $CAD70.00-75.75/Bbl |
| Oct. 1, 2015 to Dec. 31, 2015 | Costless collar | 500 Bbl | WTI $USD40.05-70.00/Bbl |
| Oct. 1, 2015 to Dec. 31, 2015 | Costless collar | 250 Bbl | WTI $USD40.00-71.00/Bbl |
| Jan. 1, 2016 to Mar. 31, 2016 | Costless collar | 250 Bbl | WTI $USD40.00-75.00/Bbl |
| Jan. 1, 2016 to Jun. 30, 2016 | Fixed Price | 250 Bbl | WTI $CAD77.70/Bbl |
| Jan. 1, 2016 to Jun. 30, 2016 | Costless collar | 250 Bbl | WTI $CAD70.00-83.40/Bbl |
| Jan. 1, 2016 to Dec. 31, 2016 | Costless collar | 250 Bbl | WTI $CAD70.00-82.30/Bbl |
| Jul. 1, 2016 to Sep. 30, 2016 | Costless collar | 250 Bbl | WTI $CAD70.00-84.00/Bbl |
| Oct. 1, 2016 to Dec. 31, 2016 | Costless collar | 250 Bbl | WTI $CAD70.00-85.00/Bbl |
| Jan. 1, 2017 to Mar. 31, 2017 | Costless collar | 500 Bbl | WTI $CAD70.00-78.00/Bbl |
| Jan. 1, 2017 to Jun. 30, 2017 | Costless collar | 500 Bbl | WTI $CAD70.00-78.40/Bbl |

| Electric Power<br>Contract Period | Type | Annual Volume | Price (CAD) |
|---|---|---|---|
| Jul. 1, 2015 to Dec. 31, 2015 | Fixed price | 12,264 MW | $50.00/MWH |

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

| **Gain (loss) on Financial Derivatives ($000s)** | **Six months ended Jun. 30, 2015** | Six months ended Jun. 30, 2014 | **Three months Ended Jun. 30, 2015** | Three months ended Jun. 30, 2014 |
|---|---|---|---|---|
| Realized hedging gain (loss) | **7,775** | (2,928) | **2,894** | (1,496) |
| Unrealized hedging gain (loss) | **(9,046)** | (3,266) | **(5,433)** | 1,094 |
| **Total gain (loss) on derivatives** | **(1,271)** | (6,194) | **(2,539)** | (402) |

Weak commodity prices resulted in a second quarter realized hedging gain of $2.9 million, compared to a $1.5 million loss realized in the comparative quarter of the prior year. The second quarter realized gain increased the Company's realized price by $3.58 per boe, compared to a decrease in the prior year comparative period of $3.32 per boe. On a six month basis the Company recorded a realized hedging gain of $7.8 million in 2015 relative to a $2.9 million realized loss in 2014.

For the three months ended June 30, 2015 the Company recorded a $5.4 million unrealized hedging loss compared to a $1.1 million gain in the prior comparative period. On a six month basis the Company recorded an unrealized loss of $9.0 million and $3.3 million for 2015 and 2014, respectively.

## Operating Expenses

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

| **Operating Expenses ($000s)** | **Six months Ended Jun. 30, 2015** | Six months Ended Jun. 30, 2014 | **Three months Ended Jun. 30, 2015** | Three months ended Jun. 30, 2014 |
|---|---|---|---|---|
| Operating expense, net [(1)] | **13,932** | 7,920 | **7,396** | 4,194 |
| Operating expense, net ($ per boe) | **8.45** | 9.38 | **9.14** | 9.29 |

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

Operating expenses totaled $7.4 million for the second quarter of 2015, a 76% increase from $4.2 million recorded in the second quarter of the prior year. Operating costs in the second quarter of 2015 of $9.14 per boe were negatively impacted by the TCPL related transportation curtailments due to amortization of the fixed operating cost component over lower sales volumes. Despite the lower sales volumes, operating costs declined 2%, from $9.29 per boe in the second quarter of 2014. On a six month basis operating expenses totaled $13.9 million in 2015 ($8.45 per boe) and $7.9 million ($9.38 per boe) in 2014. The decrease is attributed to investment in facilities designed to reduce operating costs. These facilities include water disposal injection sites in Berwyn and Tangent which contribute to a 50% reduction in operating costs in the Peace River area. Petrus is currently constructing a gas plant in the Ferrier area in order to control and reduce costs and increase processing revenue. The plant will be connected directly to a sales pipeline and will be capable of NGL refrigeration and recovery in order to reduce the Company's reliance on third parties. It is expected to be on stream in the fourth quarter of 2015.

## Transportation Expenses

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

| **Transportation Expenses ($000s)** | **Six months ended Jun. 30, 2015** | Six months Ended Jun. 30, 2014 | **Three months ended Jun. 30, 2015** | Three months Ended Jun. 30, 2014 |
|---|---|---|---|---|
| Transportation expense | **3,121** | 1,850 | **1,561** | 979 |
| Transportation expense ($ per boe) | **1.89** | 2.19 | **1.93** | 2.17 |

Petrus pays commodity and demand charges for transporting its gas on various pipeline systems. The Company also incurs trucking costs on the portion of its oil and natural gas liquids production that is not pipeline connected. Transportation expenses totaled $1.6 million or $1.93 per boe in the second quarter of 2015 ($0.9 million or $2.17 per boe for the comparative period of 2014). On a six month basis transportation expenses totaled $3.1 million in 2015 ($1.89 per boe) and $1.9 million ($2.19 per boe) in 2014.

## General and Administrative Expenses

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

| General and Administrative Expenses ($000s) | **Six months ended Jun. 30, 2015** | Six months ended Jun. 30, 2014 | **Three months ended Jun. 30, 2015** | Three months ended Jun. 30, 2014 |
|---|---|---|---|---|
| Gross general and administrative expense | **4,453** | 2,559 | **2,183** | 1,479 |
| Capitalized general and administrative | **(946)** | (1,128) | **(340)** | (683) |
| **Net general and administrative expense** | **3,507** | 1,431 | **1,843** | 797 |
| Share based compensation expense | **824** | 646 | **360** | 358 |
| Capitalized share based compensation | **(330)** | (323) | **(144)** | (179) |
| **Total general and administrative expense, net** | **4,001** | 1,754 | **2,059** | 976 |
| **Total ($ per boe)** | **2.43** | 1.69 | **2.54** | 1.77 |

Second quarter 2015 net general and administration expenses (excluding non-cash share based compensation), totaled $1.8 million or $2.28 per boe (compared to $0.8 million or $1.77 per boe in the second quarter of 2014). On a six month basis net general and administrative expenses totaled $3.5 million ($2.13 per boe) in 2015 and $1.8 million ($1.69 per boe) in 2014. The increase, on a per boe basis, is attributed to the Company's growth, combined with lower than expected second quarter production. G&A costs in the second quarter of 2015 were negatively impacted by the TCPL related transportation curtailments due to amortization of the fixed administrative cost component over lower sales volumes. G&A costs capitalized (directly attributable to the acquisition, exploration and development activities of the Company) are quantified in the table above.

## Finance

The following table illustrates the Company's finance expenses:

| Finance Expenses ($000s) | **Six months ended Jun. 30, 2015** | Six months ended Jun. 30, 2014 | **Three months ended Jun. 30, 2015** | Three months ended Jun. 30, 2014 |
|---|---|---|---|---|
| Interest expense | **5,299** | 950 | **3,211** | 614 |
| Non-cash deferred finance expense | **338** | — | **169** | — |
| Accretion | **598** | 255 | **310** | 143 |
| **Total finance expense** | **6,235** | 1,205 | **3,690** | 757 |

The Company incurs cash interest expense on its bank indebtedness (revolving credit facility) and long term debt (term loan). For the second quarter of 2015 the Company incurred $3.2 million of cash interest expense, compared to $0.6 million in the prior year. On a six month basis cash interest expense was $5.3 million in 2015 compared to $1.0 million in 2014. The increases are attributed to increased debt issued in the fourth quarter of 2014 in conjunction with the corporate acquisitions of Arriva and Ravenwood. The Company amortizes the upfront debt fees over the term of the debt (non-cash). For the three and six months ended June 30, 2015, the Company recorded $0.2 million and $0.3 million, respectively (nil for the three and six months ended June 30, 2014). Accretion expense is incurred to recognize the passage of time of the decommissioning obligation (non-cash). For the three and six months ended June 30, 2015, the Company recorded $0.3 million and $0.6 million, respectively, compared to $0.1 million and $0.3 million for the comparative periods of 2014. The increases are due to the increased decommissioning obligation associated with assets acquired and developed.

## Depletion and Depreciation

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

| Depletion and Depreciation ($000s) | **Six months ended Jun. 30, 2015** | Six months ended Jun. 30, 2014 | **Three months ended Jun. 30, 2015** | Three months ended Jun. 30, 2014 |
|---|---|---|---|---|
| Depletion | **30,089** | 11,340 | **14,754** | 6,117 |
| Depreciation | **64** | 16 | **38** | 10 |
| **Total** | **30,153** | 11,356 | **14,792** | 6,127 |
| Depletion ($ per boe) | **18.25** | 13.42 | **18.24** | 13.56 |
| Depreciation ($ per boe) | **0.04** | 0.02 | **0.05** | 0.02 |
| **Total ($ per boe)** | **18.29** | 13.44 | **18.29** | 13.58 |

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

Petrus recorded depletion expense in the second quarter of 2015 of $14.8 million or $18.24 per boe, compared to the second quarter of 2014, when $6.1 million or $13.56 per boe was recorded. On a six month basis depletion expense was $30.1 million ($18.25 per boe) in 2015 and $11.4 million ($13.42 per boe) in 2014. The Company's depletion expense has increased from the prior year due to the increased production and reserves base. Depreciation expense is not significant as most depreciable assets were fully depreciated in the prior year.

## SHARE CAPITAL

The authorized share capital consists of an unlimited number of common voting shares without par value. As at June 30, 2015 the Company had 6,620,000 and 6,407,603 stock options and performance warrants outstanding, respectively. As at June 30, 2015 the Company had 140,592,598 common shares outstanding. The following table details the number of issued and outstanding instruments for the financial periods shown:

| **(000s)** | **Six months ended Jun. 30, 2015** | Six months ended Jun. 30, 2014 | **Three months Ended Jun. 30, 2015** | Three months ended Jun. 30, 2014 |
|---|---|---|---|---|
| **Weighted average outstanding common shares** | | | | |
| Basic | **140,593** | 88,754 | **140,593** | 91,106 |
| Diluted[(1)] | **140,593** | 91,591 | **140,593** | 93,943 |
| **Outstanding instruments** | | | | |
| Common shares | **140,593** | 101,748 | **140,593** | 101,748 |
| Stock options | **6,620** | 5,050 | **6,620** | 5,050 |
| Warrants | **6,408** | 6,408 | **6,408** | 6,408 |

*[(1)] In order to calculate the diluted number of common shares outstanding for the three and six months ended June 30, 2015, all warrants and stock options were considered however no instruments were included as their impact is anti-dilutive. For the three and six months ended June 30, 2014, 768,027 warrants and 2,068,846 stock options were added to the calculation as their impact is dilutive.*

## LIQUIDITY AND CAPITAL RESOURCES

### (a) Bank Indebtedness

On May 31, 2015 the Company renewed its existing syndicated credit facility and structured a $200 million facility comprised of a $20 million operating facility, a $160 million syndicated term-out facility and a $20 million non-borrowing base facility, (altogether the "Revolving Credit Facility " or "RCF"). The term-out facility has a revolving period that ends July 29, 2016 at which time it will either be renewed or converted to a one-year term facility. The non-borrowing base facility requires the prior written consent of the lenders before amounts can be drawn by the Company; therefore, at June 30, 2015, the amount available under the RCF was $180 million (December 31, 2014 - $200 million). The RCF bears interest at Canadian bank prime, or at the Company's option, Canadian bankers' acceptances, plus applicable margin and stamping fee. The stamping fees range, depending on the Company's debt to EBITDA ratio (which is: earnings before interest, taxes, depreciation and amortization as defined in the banking agreement), between 100 bps and 250 bps on Canadian bank prime borrowings and between 200 bps and 350 bps on Canadian dollar bankers' acceptances. The undrawn portion of the RCF, are subject to a standby fee in the range of 50 bps to 87.50 bps. At June 30, 2015, the Company had a $2.4 million letter of credit outstanding against the RCF (December 31, 2014; Nil) and had drawn $138 million against the RCF (December 31, 2014; $100.0 million). Included in the Company's bank indebtedness is $4.0 million of overdraft cash.

The amount of the RCF 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. A decrease in the borrowing base could result in a reduction to the available credit under the RCF. The next scheduled review of the borrowing base is to take place on October 31, 2015. The Company has provided collateral by way of a $600 million debenture over all of the present and after acquired property of the Company.

The RCF carries a financial covenant which limits the Company's ability to borrow amounts greater than the RCF limit as well as:

(a) a financial covenant of PV10 to Net Secured Debt Ratio being less than 1.25 to 1.00 whereby Net Secured Debt (as defined by the banking agreement) means all amounts owing under the Credit Facility and any other secured debt of Petrus on a consolidated basis, minus restricted cash and cash equivalents and "PV10" means the discounted net present value (at a discount rate of 10%) of Petrus' proved reserves, as adjusted for commodity swaps then in effect and

(b) certain financial covenants only when any indebtedness under the Term Loan (note 6b) remain outstanding which are:
   a. The Working Capital Ratio will not be less than 1.00 to 1.00;
   b. The Proved Asset Coverage Ratio will not be less than 1.25 to 1.00; and
   c. The PDP Asset Coverage Ratio will not be less than 1.00 to 1.00.

Under the agreement, for purposes of the Working Capital Ratio, current assets are the current assets under IFRS plus any undrawn availability under the RCF, less any non-cash amount required to be included in current assets as the result of the application of IFRS including non-cash commodity and interest rate hedges assets and liabilities. Current liabilities are the current liabilities under IFRS, excluding (a) non-cash obligations under IFRS including non-cash commodity and interest rate hedges assets and liabilities, and (b) the current portion of long-term debt, including the term loan debt.

At June 30, 2015 the Company was in compliance with all covenants under the revolving credit facility.

**(b) Long Term Debt**

The Company has a $90 million second lien term loan facility (the "Term Loan") which matures and is repayable on October 1, 2016. Interest is due and payable monthly and accrues at a per annum rate of (three-month) the Canadian Dealer offered Rate (CDOR) plus 700 basis points. The Term Loan is subject to three financial covenants: (1) the same financial covenant of PV10 to Net Secured Debt Ratio being not less than 1.25 to 1.00 as the Revolving Credit Facility (note 6a); (2) a covenant that Petrus may not, as of the effective date of each annual independent engineering reserve report and each internally prepared semi-annual internally prepared reserve report, permit the PDP to Net Secured Debt Ratio to be less than 1.00 to 1.00 where "PDP" means the present value (discounted at 10.0%) of future net revenues attributable to Petrus' PDP reserves and (3) Petrus' working capital ratio (current assets to current liabilities will not be less than 1.0 to 1.0.

Under the agreement, current assets are the current assets under IFRS plus any undrawn availability under the Revolving Credit Facility, less any non-cash amount required to be included in current assets as the result of the application of IFRS including non-cash commodity and interest rate hedges assets and liabilities. Current liabilities are the current liabilities under IFRS, excluding (a) non-cash obligations under IFRS including non-cash commodity and interest rate hedges assets and liabilities, and (b) the current portion of long-term debt, including the term loan debt.

The Term Loan is secured with a $250 million second lien priority interest on the same collateral as the Credit Facilities and requires a certain level of production volume to be hedged in 2015 and 2016. At June 30, 2015 the Company was in compliance with all covenants of the term loan.

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

In the management of capital, Petrus includes share capital and total net debt, which is made up of debt and working capital (current assets less current liabilities). Petrus manages its capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Petrus may issue new equity, increase or decrease debt, adjust capital expenditures and acquire or dispose of assets. Petrus anticipates that it will have adequate liquidity to fund future working capital and forecasted capital expenditures in 2015 through a combination of cash flow, current working capital and use of its credit facility. Petrus is able to modify its capital program in response to changes in commodity prices and cash flows. Should the Company choose to expand its capital program, actual funding alternatives will be influenced by the then current market environment and the ability to access capital on reasonable terms, balanced with the investment opportunities presented.

## CAPITAL EXPENDITURES

Petrus invested $13.2 million in total capital expenditures in the second quarter of 2015 (compared to $9.3 million in the second quarter of the prior year). During the quarter Petrus drilled 3 wells (0.7 net). The investments were funded by cash flow from operations and the Company's credit facility. The Company's expenditures were invested in drilling and completions, workovers and tie-ins.

During the six month period ended June 30, 2015 Petrus invested $39.9 million. In the six month period ended June 30, 2014, $52.2 million was invested. The following table shows capital expenditures for the reporting periods indicated. All capital is presented before decommissioning obligations and settlements:

| **($000s)** | **Six months Ended Jun. 30, 2015** | Six months ended Jun. 30, 2014 | **Three months ended Jun. 30, 2015** | Three months Ended Jun. 30, 2014 |
|---|---|---|---|---|
| Drill and complete | **23,261** | 18,850 | **5,407** | 4,609 |
| Oil and gas equipment | **14,402** | 11,925 | **7,360** | 3,666 |
| Geological | **301** | 39 | **267** | (19) |
| Land and lease | **50** | 621 | **50** | 10 |
| Office | **(14)** | 204 | **(136)** | 147 |
| Capitalized general and administrative | **946** | 1,451 | **340** | 862 |
| **Total** | **38,946** | 33,090 | **13,288** | 9,275 |
| Acquisitions/(dispositions) | **938** | 19,119 | **(125)** | – |
| **Total capital** | **39,884** | 52,209 | **13,163** | 9,275 |
| Gross (net) wells spud | **6 (5.9)** | 13 (7.7) | **–** | 3 (0.7) |

## SUMMARY OF QUARTERLY RESULTS

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ($000s) except per share amounts | **Jun. 30, 2015** | **Mar. 31, 2015** | **Dec. 31, 2014** | **Sep. 30, 2014** | **Jun. 30, 2014** | **Mar. 31, 2014** | **Dec. 31, 2013** | **Sep. 30, 2013** |
| Oil and natural gas revenue | **26,576** | 25,423 | 35,574 | 23,592 | 26,815 | 25,581 | 16,939 | 14,634 |
| Transportation | **(1,561)** | (1,560) | (1,126) | (1,303) | (979) | (872) | (543) | (636) |
| Net revenue | **25,015** | **23,863** | **34,448** | **22,289** | **25,836** | **24,709** | **16,396** | **13,998** |
| Royalty expense (1) | (3,020) | (3,825) | (3,958) | (4,035) | (5,760) | (5,387) | (2,372) | (2,276) |
| Royalty income (1) | 65 | 72 | 423 | 128 | 303 | 288 | 155 | 107 |
| Net oil and natural gas revenue | 22,060 | 20,110 | 30,913 | 18,382 | 20,379 | 19,610 | 14,179 | 11,829 |
| Operating expense (2) | (7,396) | (6,536) | (5,815) | (4,395) | (4,194) | (3,727) | (3,716) | (2,460) |
| Hedging gain (loss) | 2,894 | 4,881 | 3,371 | (1,359) | (1,496) | (1,432) | (409) | (425) |
| General and administrative expense (3) | (1,843) | (1,664) | (2,117) | (1,446) | (797) | (634) | (582) | (571) |
| Interest expense (4) | (3,166) | (2,256) | (1,725) | (1,304) | (614) | (335) | (252) | (216) |
| Funds from operations | **12,549** | **14,535** | **24,627** | **9,878** | **13,278** | **13,482** | **9,220** | **8,157** |
| Per share – basic | 0.09 | 0.10 | 0.18 | 0.09 | 0.15 | 0.16 | 0.11 | 0.09 |
| Net income (loss) | **(7,239)** | **(6,312)** | **(63,308)** | **7,530** | **5,505** | **2,208** | **2,086** | **2,171** |
| Per share – basic | (0.05) | (0.05) | (0.45) | 0.07 | 0.06 | 0.03 | 0.02 | 0.03 |
| Common shares (000s) | **140,593** | **140,593** | **140,593** | **140,458** | **101,748** | **86,377** | **86,377** | **86,377** |
| Weighted average shares (000s) | 140,593 | 140,593 | 140,571 | 108,212 | 91,106 | 86,377 | 86,377 | 86,332 |
| Total assets | 627,808 | 641,547 | 647,304 | 549,248 | 259,110 | 257,245 | 211,952 | 201,208 |
| Net working capital (net debt) | **(228,562)** | **(227,607)** | **(215,049)** | **21,014** | **415** | **(51,638)** | **(22,288)** | **(21,558)** |

*(1) The Company re-classified gross overriding royalty expense from other income to royalty expenses in the Statement of Net Income and Comprehensive Income. The comparative information has been re-classified to conform to current presentation.*
*(2) Operating expenses are presented net of processing income and overhead recoveries.*
*(3) General and administrative expense is presented net of capitalized G&A.*
*(4) Interest expense is presented net of other income and non-cash deferred finance expense.*

The oil and natural gas exploration and production industry is cyclical in nature. Petrus' financial position, results of operations and cash flows are affected by commodity prices and production levels.

Petrus' production has continually grown over the last two years. Average quarterly production has increased, from 3,162 boe per day in the third quarter of 2013 to 8,890 boe per day in the second quarter of 2015. The production growth was equally attributable to the Company's exploration and development activities and acquisitions of producing properties.

The Company's funds from operations were $8.2 million in the third quarter of 2013 and $12.4 million in the second quarter of 2015. Funds from operations have increased over the two year time period with higher production levels despite weakened commodity prices in the current year. Commodity price improvements can enable higher reinvestment in exploration, development and acquisition activities in future periods as they increase the funds received from operations. Commodity price reductions reduce revenues received and can challenge the economics of the Company's development program as the quantity of reserves may not be economically recoverable. Petrus' reinvestment in future reserves will be dependent on its ability to obtain debt and equity financing as well as the funds it receives from operations.

## CRITICAL ACCOUNTING ESTIMATES

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

***Depletion and reserve estimates***

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

***Impairment indicators and cash-generating units***

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

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

***Technical feasibility and commercial viability of exploration and evaluation assets***

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

***Decommissioning obligation***

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

***Income taxes***

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

***Measurement of share-based compensation***

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

***Business combinations***

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

***Contingencies***

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

## ACCOUNTING POLICIES AND NEW STANDARDS

***Significant accounting policies***

The Company's significant accounting policies can be read in note 3 to the Company's audited financial statements as at and for the year ended December 31, 2014.

## ADVISORIES

***Basis of Presentation***

*Financial data presented below have largely been derived from the Company's financial statement, prepared in accordance with International Financial Reporting Standards ("IFRS"). Accounting policies adopted by the Company are set out in the notes to the audited financial statements as at and for the twelve months ended December 31, 2014. The reporting and the measurement currency is the Canadian dollar. All financial information is expressed in Canadian dollars, unless otherwise stated.*

***Forward Looking Statements***

*Certain information regarding Petrus set forth in this document, including management's assessment of the Company's future plans and operations, contains forward-looking statements WITHIN THE MEANING OF APPLICABLE SECURITIES LAW, that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such statements represent Petrus' internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment, anticipated future debt, production, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Petrus believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause Petrus' actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Petrus.*

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

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

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

***BOE Presentation***

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

***Abbreviations***

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

***Cover page photo credit: Alain Sleigher Photography***

**BALANCE SHEETS**
**(UNAUDITED)**

(Expressed in 000's of Canadian dollars)

| As at | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | — | 19,524 |
| Deposits and prepaid expenses | 1,148 | 1,042 |
| Accounts receivable *(note 13)* | 19,643 | 23,336 |
| Risk management asset *(note 8)* | 6,998 | 14,609 |
| | **27,789** | **58,511** |
| **Non-current** | | |
| Exploration and evaluation assets *(notes 3 and 4)* | 92,454 | 94,073 |
| Property, plant and equipment *(notes 3 and 5)* | 507,565 | 494,720 |
| | 600,019 | 588,793 |
| | **627,808** | **647,304** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | 17,890 | 69,831 |
| Risk management liability *(note 8)* | 1,632 | 197 |
| | **19,522** | **70,028** |
| **Non-Current** | | |
| Bank indebtedness *(note 6)* | 141,715 | 99,710 |
| Long term debt *(note 6)* | 89,747 | 89,409 |
| Decommissioning obligation *(note 7)* | 63,082 | 58,634 |
| Deferred income tax liability | 14,680 | 17,763 |
| | **328,747** | **335,544** |
| **Shareholders' Equity** | | |
| Share capital *(note 9)* | 346,106 | 346,106 |
| Contributed surplus | 6,269 | 5,445 |
| (Deficit) | (53,314) | (39,791) |
| | **299,061** | **311,760** |
| | **627,808** | **647,304** |

*Commitments (note 14)*
*Subsequent events (note 15)*
*See accompanying notes to the condensed interim financial statements*

Approved by the Board of Directors,

(signed) "Don T. Gray"

**Don T. Gray**
Chairman

(signed) "Donald Cormack"

**Donald Cormack**
Director

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

(Expressed in 000's of Canadian dollars, except for share information)

| | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Oil and natural gas revenue | **26,641** | **27,118** | **52,136** | **52,987** |
| Royalty expense | (3,020) | (5,760) | (6,845) | (11,147) |
| **Oil and natural gas revenue, net of royalties** | **23,621** | **21,358** | **45,291** | **41,840** |
| Other income | 45 | 8 | 73 | 8 |
| Gain (loss) on financial derivatives *(note 8)* | (2,539) | (402) | (1,271) | (6,194) |
| | **21,127** | **20,964** | **44,093** | **35,654** |
| **EXPENSES** | | | | |
| Operating *(note 11)* | 7,396 | 4,193 | 13,932 | 7,920 |
| Transportation | 1,562 | 979 | 3,121 | 1,850 |
| General and administrative *(note 12)* | 1,843 | 797 | 3,507 | 1,431 |
| Share-based compensation *(note 9)* | 216 | 179 | 495 | 323 |
| Finance | 3,690 | 757 | 6,235 | 1,205 |
| Exploration and evaluation *(note 4)* | 540 | — | 3,204 | — |
| Depletion and depreciation *(note 5)* | 14,792 | 6,127 | 30,153 | 11,356 |
| Loss on sale of assets *(note 3)* | — | — | 52 | — |
| | **30,039** | **13,032** | **60,700** | **24,085** |
| **NET INCOME (LOSS) BEFORE INCOME TAXES** | **(8,912)** | **7,932** | **(16,606)** | **11,569** |
| Current tax expense | — | — | — | — |
| Deferred income tax expense (recovery) | **(1,673)** | 2,427 | **(3,083)** | 3,282 |
| | **(1,673)** | **2,427** | **(3,083)** | **3,282** |
| **TOTAL NET INCOME (LOSS) AND COMPREHENSIVE INCOME(LOSS)** | **(7,239)** | **5,505** | **(13,523)** | **8,287** |
| **Net income (loss) per common share *(note 10)* Basic and diluted** | **(0.05)** | **0.06** | **(0.10)** | **0.09** |

*See accompanying notes to the condensed interim financial statements*

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**(UNAUDITED)**

(Expressed in 000's of Canadian dollars)

| | Share Capital | Contributed Surplus | Retained Earnings (Deficit) | Total |
|---|---|---|---|---|
| **Balance, December 31, 2013** | **144,339** | **3,962** | **7,701** | **156,002** |
| Net income (loss) | — | — | 8,287 | 8,287 |
| Issuance of common shares | 50,031 | — | — | 50,031 |
| Premium liability of flow-through shares | (75) | — | — | (75) |
| Share-based compensation | — | 646 | — | 646 |
| Share issue costs | (1,844) | — | — | (1,844) |
| Tax effect of share issue costs | 461 | — | — | 461 |
| **Balance, June 30, 2014** | **192,912** | **4,608** | **15,988** | **213,508** |
| | | | | |
| **Balance, December 31, 2014** | **346,106** | **5,445** | **(39,791)** | **311,760** |
| Net income (loss) | — | — | (13,523) | (13,523) |
| Share-based compensation *(note 9)* | — | 824 | — | 824 |
| **Balance, June 30, 2015** | **346,106** | **6,269** | **(53,314)** | **299,061** |

*See accompanying notes to the condensed interim financial statements*

**STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**

(Expressed in 000's of Canadian dollars)

| **Funds generated by (used in):** | **Three months ended June 30, 2015** | **Three months ended June 30, 2014** | **Six months ended June 30, 2015** | **Six months ended June 30, 2014** |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| **Net income (loss)** | **(7,239)** | **5,505** | **(13,523)** | **8,287** |
| Adjust items not affecting cash: | | | | |
| Share-based compensation | 216 | 179 | 495 | 323 |
| Unrealized hedging losses (gains) *(note 8)* | 5,433 | (1,094) | 9,046 | 3,265 |
| Non cash finance expenses | 479 | 134 | 936 | 255 |
| Depletion and depreciation *(note 5)* | 14,792 | 6,127 | 30,153 | 11,356 |
| Exploration and evaluation expense *(note 4)* | 540 | — | 3,204 | — |
| Loss on sale of assets *(note 3)* | — | — | 52 | — |
| Deferred income tax expense (recovery) | (1,673) | 2,427 | (3,083) | 3,282 |
| Decommissioning expenditures *(note 7)* | (202) | (333) | (571) | (349) |
| | **12,347** | **12,945** | **26,709** | **26,419** |
| Change in operating non-cash working capital | (18,958) | 1,382 | (31,563) | (1,171) |
| **Cash flows from (used in) operating activities** | **(6,611)** | **14,327** | **(4,854)** | **25,248** |
| **FINANCING ACTIVITIES** | | | | |
| Issuance of common shares *(note 9)* | — | 50,031 | — | 50,031 |
| Share issue costs *(note 9)* | — | (1,844) | — | (1,844) |
| Increase in bank indebtedness | 25,787 | (51,901) | 42,005 | (23,380) |
| **Cash flows from (used in) financing activities** | **25,787** | **(3,714)** | **42,005** | **24,807** |
| **INVESTING ACTIVITIES** | | | | |
| Property and equipment (acquisitions) *(note 3)* | — | — | (8,711) | (19,113) |
| Property and equipment dispositions *(note 3)* | — | — | 7,648 | — |
| Exploration and evaluation asset dispositions *(note 3)* | 125 | — | 125 | — |
| Exploration and evaluation asset expenditures *(note 4)* | (487) | 3,333 | (824) | (1,122) |
| Petroleum and natural gas property expenditures *(note 5)* | (12,937) | (12,273) | (38,136) | (31,464) |
| Other capital (expenditures) recoveries | 136 | (147) | 14 | (204) |
| Change in investing non-cash working capital | (6,013) | (907) | (16,791) | 2,468 |
| **Cash flows from (used in) investing activities** | **(19,176)** | **(9,994)** | **(56,675)** | **(49,435)** |
| **Increase (decrease) in cash** | — | 619 | (19,524) | 619 |
| **Cash, beginning of period** | — | — | 19,524 | — |
| **Cash, end of period** | **—** | **619** | **—** | **619** |
| Cash interest paid | 3,070 | 410 | 5,640 | 696 |
| Cash taxes paid | — | — | — | — |

*See accompanying notes to the financial statements*

**CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

## 1. NATURE OF THE ORGANIZATION

Petrus Resources Ltd. ("Petrus" or the "Company") is a privately held entity which was incorporated under the laws of the Province of Alberta on December 13, 2010. On October 8, 2014 Petrus amalgamated with its two wholly owned subsidiaries, Arriva Energy Inc. and Ravenwood Energy Corp.

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

These financial statements report the financial position and the results of operations for the three and six months ended June 30, 2015 and prior year comparative periods and were approved by the Company's Audit Committee on August 12, 2015.

## 2. BASIS OF PRESENTATION

### (a) Statement of Compliance

These condensed interim financial statements have been prepared by management on a historical basis, except for certain financial instruments that have been measured at fair value. These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting." Certain information and disclosures normally included in the notes to the annual financial statements have been condensed. Accordingly, these condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2014, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The preparation of these condensed interim financial statements requires the use of certain critical accounting estimates and also requires management to exercise judgment in applying the Company's accounting policies. In preparing these condensed interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended December 31, 2014. The condensed interim financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2014. These condensed interim financial statements are presented in Canadian dollars, except where otherwise noted.

## 3. ACQUISITIONS AND DISPOSITIONS

***Business combination***

On January 20, 2015 Petrus closed an acquisition of petroleum and natural gas assets in the Ferrier area of Alberta, for total cash consideration of $4.4 million, net of adjustments. The transaction was accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value. The acquisition was financed by way of the Company's revolving credit facility. Acquisition related costs, which relate to professional fees, are charged to finance expenses in the Statement of Net Income (Loss).

Petrus obtained resource tax pools equal to the total net assets acquired of $4.4 million. Neither deferred tax nor goodwill was recorded in conjunction with the acquisition.

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

| **Fair value of net assets acquired $000s** | |
|---|---|
| Exploration and evaluation assets | 1,136 |
| Petroleum and natural gas properties and equipment | 3,313 |
| Decommissioning obligations | (91) |
| **Total net assets acquired** | **4,358** |

***Property disposition***

On February 6, 2015 Petrus closed the disposition of non-core petroleum and natural gas assets in the Pembina area of Alberta for total cash consideration of $7.7 million after post-closing adjustments. The Company recorded a loss of $0.05 million on the divestiture during the six months ended June 30, 2015.

The following table summarizes the net assets disposed pursuant to the disposition:

| **Fair value of net assets disposed $000s** | |
|---|---|
| Exploration and evaluation assets | (92) |
| Petroleum and natural gas properties and equipment | (8,125) |
| Decommissioning obligations | 517 |
| Loss on sale of assets | 52 |
| **Total net assets disposed** | **(7,648)** |

***Business combination***

On February 6, 2015 Petrus closed an acquisition of petroleum and natural gas assets in the Ferrier area of Alberta for total cash consideration of $4.4 million, net of adjustments. The transaction was accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed were recorded at fair value. The acquisitions were financed by way of the Company's revolving credit facility. Acquisition related costs, which relate to professional fees, are charged to finance expenses in the Statement of Net Income (Loss).

Petrus obtained resource tax pools equal to the total net assets acquired of $4.4 million. Neither deferred tax nor goodwill was recorded in conjunction with the acquisition.

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

| **Fair value of net assets acquired $000s** | |
|---|---|
| Exploration and evaluation assets | 1,063 |
| Petroleum and natural gas properties and equipment | 3,921 |
| Decommissioning obligations | (631) |
| **Total net assets acquired** | **4,353** |

From the date of acquisition to June 30, 2015, the assets contributed approximately $0.3 million of revenue and $0.2 million of operating income. If the acquisition had taken place at January 1, 2015, the proforma incremental revenue and operating income (defined as revenue, net of royalties, less operating and transportations costs) of the Company for the six months ended June 30, 2015 would have been approximately $0.4 million and $0.3 million, respectively. The proforma information is not necessarily indicative of the results of operations that would have resulted had the acquisitions been effective on the dates indicated, or future results.

***Property disposition***

On May 7, 2015 Petrus closed the disposition of non-core exploration and evaluation assets in the Ferrier area of Alberta for total cash consideration of $0.1 million.

**4. EXPLORATION AND EVALUATION ASSETS**

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

| | |
|---|---|
| **Balance, December 31, 2013** | **50,529** |
| Additions | 5,753 |
| Property acquisitions | 16,310 |
| Corporate acquisitions | 21,514 |
| Exploration and evaluation expense | (1,158) |
| Capitalized G&A and share-based compensation | 1,272 |
| Transfers to property, plant and equipment | (147) |
| **Balance, December 31, 2014** | **94,073** |
| Additions | 351 |
| Property acquisitions *(note 3)* | 2,199 |
| Property (dispositions) *(note 3)* | (217) |
| Exploration and evaluation expense | (3,204) |
| Capitalized G&A and share-based compensation | 638 |
| Transfers to property, plant and equipment *(note 5)* | (1,386) |
| **Balance, June 30, 2015** | **92,454** |

Exploration and evaluation assets consist of Petrus' undeveloped land and exploration and development projects which are pending the determination of technical feasibility. Additions represent the Company's share of costs incurred on these assets during the period. Exploration and evaluation assets are not subject to depletion. For the three and six month periods ended June 30, 2015 the Company incurred exploration and evaluation expense in the Statement of Net Income (Loss) and Comprehensive Income (Loss) of $0.5 million and $3.2 million, respectively which relates to expiring undeveloped land in minor properties (three and six months ended June 30, 2014; $Nil and $Nil, respectively).

During the three and six month periods ended June 30, 2015 the Company capitalized $0.2 million and $0.6 million, respectively, of general & administrative expenses ("G&A") directly attributable to exploration activities (three and six months ended June 30, 2014; $0.4 million and $0.7 million, respectively). Included in this amount is non-cash share-based compensation for the three and six months ended June 30, 2015 of $0.07 million and $0.2 million, respectively (three and six months ended June 30, 2014; $0.09 million and $0.2 million, respectively).

**5. PROPERTY, PLANT AND EQUIPMENT**

| $000s | Cost | Accumulated DD&A | Net book value |
|---|---|---|---|
| **Balance, December 31, 2013** | **175,891** | **(25,678)** | **150,213** |
| Additions | 107,662 | — | 107,662 |
| Property acquisitions | 17,675 | — | 17,675 |
| Property (dispositions) | (2,880) | 816 | (2,064) |
| Corporate acquisitions | 317,935 | — | 317,935 |
| Capitalized G&A and share-based compensation | 1,272 | — | 1,272 |
| Transfers from exploration and evaluation assets | 147 | — | 147 |
| Depletion & depreciation | — | (36,850) | (36,850) |
| Increase in decommissioning provision | 43,492 | — | 43,492 |
| Impairment loss | — | (104,762) | (104,762) |
| **Balance, December 31, 2014** | **661,194** | **(166,474)** | **494,720** |
| Additions | 37,648 | — | 37,648 |
| Property acquisitions *(note 3)* | 6,512 | — | 6,512 |
| Property (dispositions) *(note 3)* | (10,781) | 3,173 | (7,608) |
| Capitalized G&A and share-based compensation | 638 | — | 638 |
| Transfers from exploration and evaluation assets *(note 4)* | 1,386 | — | 1,386 |
| Depletion & depreciation | — | (30,153) | (30,153) |
| Increase in decommissioning provision *(note 7)* | 4,422 | — | 4,422 |
| **Balance, June 30, 2015** | **701,019** | **(193,454)** | **507,565** |

At June 30, 2015 estimated future development costs of $199.4 million (December 31, 2014 - $199.4 million) associated with the development of the Company's proved plus probable undeveloped reserves were included with the costs subject to depletion. During the three and six month periods ended June 30, 2015, the Company capitalized $0.2 million and $0.6 million, respectively, of general & administrative expenses ("G&A") directly attributable to development activities (three and six months ended June 30, 2014; $0.4 million and $0.7 million, respectively). Included in this amount is non-cash share-based compensation for the three and six months ended June 30, 2015 of $0.07 million and $0.2 million, respectively (three and six months ended June 30, 2014; $0.09 million and $0.2 million, respectively).

**6. DEBT**

**(a) Bank Indebtedness**

On May 31, 2015 the Company renewed its existing syndicated credit facility and structured a $200 million facility comprised of a $20 million operating facility, a $160 million syndicated term-out facility and a $20 million non-borrowing base facility, (altogether the "Revolving Credit Facilty " or "RCF"). The term-out facility has a revolving period that ends July 29, 2016 at which time it will either be renewed or converted to a one-year term facility. The non-borrowing base facility requires the prior written consent of the lenders before amounts can be drawn by the Company; therefore, at June 30, 2015, the amount available under the RCF was $180 million (December 31, 2014 - $200 million). The RCF bears interest at Canadian bank prime, or at the Company's option, Canadian bankers' acceptances, plus applicable margin and stamping fee. The stamping fees range, depending on Petrus' debt to EBITDA ratio (which is: earnings before interest, taxes, depreciation and amortization as defined in the banking agreement), between 100 bps and 250 bps on Canadian bank prime borrowings and between 200 bps and 350 bps on Canadian dollar bankers' acceptances. The undrawn portion of the RCF, are subject to a standby fee in the range of 50 bps to 87.50 bps.

At June 30, 2015, the Company had a $2.4 million letter of credit outstanding against the RCF (December 31, 2014; Nil) and had drawn $138 million against the RCF (December 31, 2014; $100.0 million). Included in the Company's bank indebtedness is $4.0 million of overdraft cash.

The amount of the RCF 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. A decrease in the borrowing base could result in a reduction to the available credit under the RCF. The next scheduled review of the borrowing base is to take place on October 31, 2015. The Company has provided collateral by way of a $600 million debenture over all of the present and after acquired property of the Company.

The RCF carries a financial covenant which limits the Company's ability to borrow amounts greater than the RCF limit as well as:

(a) a financial covenant of PV10 to Net Secured Debt Ratio being less than 1.25 to 1.00 whereby Net Secured Debt (as defined by the banking agreement) means all amounts owing under the Credit Facility and any other secured debt of Petrus on a consolidated basis, minus restricted cash and cash equivalents and "PV10" means the discounted net present value (at a discount rate of 10%) of Petrus' proved reserves, as adjusted for commodity swaps then in effect and

(b) certain financial covenants only when any indebtedness under the Term Loan (note 6b) remain outstanding which are:

a. The Working Capital Ratio will not be less than 1.00 to 1.00;
b. The Proved Asset Coverage Ratio will not be less than 1.25 to 1.00; and
c. The PDP Asset Coverage Ratio will not be less than 1.00 to 1.00.

Under the agreement, for purposes of the Working Capital Ratio, current assets are the current assets under IFRS plus any undrawn availability under the RCF, less any non-cash amount required to be included in current assets as the result of the application of IFRS including non-cash commodity and interest rate hedges assets and liabilities. Current liabilities are the current liabilities under IFRS, excluding (a) non-cash obligations under IFRS including non-cash commodity and interest rate hedges assets and liabilities, and (b) the current portion of long-term debt, including the term loan debt.

At June 30, 2015 the Company was in compliance with all covenants under the revolving credit facility.

**(b) Long Term Debt**

The Company has a $90 million second lien term loan facility (the "Term Loan") which matures and is repayable on October 1, 2016. Interest is due and payable monthly and accrues at a per annum rate of (three-month) the Canadian Dealer offered Rate (CDOR) plus 700 basis points. The Term Loan is subject to three financial covenants: (1) the same financial covenant of PV10 to Net Secured Debt Ratio being not less than 1.25 to 1.00 as the Revolving Credit Facility (note 6a); (2) a covenant that Petrus may not, as of the effective date of each annual independent engineering reserve report and each internally prepared semi-annual internally prepared reserve report, permit the PDP to Net Secured Debt Ratio to be less than 1.00 to 1.00 where "PDP" means the present value (discounted at 10.0%) of future net revenues attributable to Petrus' PDP reserves and (3) Petrus' working capital ratio (current assets to current liabilities will not be less than 1.0 to 1.0.

Under the agreement, current assets are the current assets under IFRS plus any undrawn availability under the Revolving Credit Facility, less any non-cash amount required to be included in current assets as the result of the application of IFRS including non-cash commodity and interest rate hedges assets and liabilities. Current liabilities are the current liabilities under IFRS, excluding (a) non-cash obligations under IFRS including non-cash commodity and interest rate hedges assets and liabilities, and (b) the current portion of long-term debt, including the term loan debt.

The Term Loan is secured with a $250 million second lien priority interest on the same collateral as the Credit Facilities and requires a certain level of production volume to be hedged in 2015 and 2016. At June 30, 2015 the Company was in compliance with all covenants of the Term Loan.

**7. DECOMMISSIONING OBLIGATION**

The decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The estimated future cash flows have been discounted using an average risk free rate of 1.97 percent and an inflation rate of 2 percent (December 31, 2014; 2.33 percent and 2 percent, respectively). Changes in estimates in 2015 are due to the decrease in discount rate from 2.33 percent at December 31, 2014 to 1.97 percent at June 30, 2015 (change in estimates in 2014 due to the decrease in discount rate from 3 percent to 2.33 percent and changes in estimated well life). The Company has estimated the net present value of the decommissioning obligations to be $63.1 million as at June 30, 2015 ($58.6 million at December 31, 2014). The undiscounted, uninflated total future liability at June 30, 2015 is $60.9 million ($61.8 million at December 31, 2014). The payments are expected to be incurred over the operating lives of the assets. The following table reconciles the decommissioning liability:

| | |
|---|---|
| **Balance, December 31, 2013** | **15,547** |
| Property acquisitions | 7,086 |
| Corporate acquisitions | 22,498 |
| Liabilities incurred | 7,009 |
| Liabilities settled | (1,096) |
| Change in estimates | 6,899 |
| Accretion expense | 691 |
| **Balance, December 31, 2014** | **58,634** |
| Property acquisitions (note 3) | 723 |
| Property dispositions (note 3) | (517) |
| Liabilities incurred | 509 |
| Liabilities settled | (571) |
| Change in estimates | 3,707 |
| Accretion expense | 597 |
| **Balance, June 30, 2015** | **63,082** |

## 8. FINANCIAL RISK MANAGEMENT

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus has outstanding as at June 30, 2015:

| Natural Gas<br>Contract Period | Type | Daily Volume | Price (CAD$/GJ) |
|---|---|---|---|
| Jul. 1, 2015 to Oct. 31, 2015 | Fixed price | 3,000 GJ | $3.35/GJ |
| Jul. 1, 2015 to Oct. 31, 2015 | Fixed price | 2,000 GJ | $2.52/GJ |
| Jul. 1, 2015 to Oct. 31, 2015 | Fixed price | 6,000 GJ | $2.37/GJ |
| Jul. 1, 2015 to Oct. 31, 2015 | Fixed price | 4,000 GJ | $2.46/GJ |
| Jul. 1, 2015 to Dec. 31, 2015 | Fixed price | 4,000 GJ | $3.49/GJ |
| Jul. 1, 2015 to Dec. 31, 2015 | Costless collar | 5,000 GJ | $3.50 – 3.63/GJ |
| Jul. 1, 2015 to Dec. 31, 2015 | Fixed price | 1,000 GJ | $2.97/GJ |
| Nov. 1, 2015 to Mar. 31, 2016 | Fixed price | 6,000 GJ | $3.74/GJ |
| Nov. 1, 2015 to Mar. 31, 2016 | Fixed price | 6,000 GJ | $2.87/GJ |
| Nov. 1, 2015 to Mar. 31, 2016 | Fixed price | 4,000 GJ | $2.96/GJ |
| Nov. 1, 2015 to Mar. 31, 2016 | Fixed price | 2,000 GJ | $3.03/GJ |
| Jan. 1, 2016 to Mar. 31, 2016 | Fixed price | 5,000 GJ | $3.26/GJ |
| Apr. 1, 2016 to Oct. 31, 2016 | Fixed price | 2,000 GJ | $2.93/GJ |
| Apr. 1, 2016 to Oct. 31, 2016 | Fixed price | 6,000 GJ | $2.75/GJ |
| Apr. 1, 2016 to Oct. 31, 2016 | Fixed price | 2,000 GJ | $2.85/GJ |
| Apr. 1, 2016 to Oct. 31, 2016 | Fixed price | 5,000 GJ | $2.91/GJ |
| Apr. 1, 2016 to Oct. 31, 2016 | Costless collar | 5,000 GJ | $2.50 – 3.15/GJ |
| Nov. 1, 2016 to Mar. 31, 2017 | Fixed price | 2,000 GJ | $3.38/GJ |
| Nov. 1, 2016 to Mar. 31, 2017 | Fixed price | 2,000 GJ | $3.31/GJ |
| Nov. 1, 2016 to Mar. 31, 2017 | Fixed price | 6,000 GJ | $3.21/GJ |
| Nov. 1, 2016 to Mar. 31, 2017 | Costless collar | 5,000 GJ | $2.75 – 3.75/GJ |

| Crude Oil<br>Contract Period | Type | Daily Volume | Price ($/Bbl) |
|---|---|---|---|
| Jul. 1, 2015 to Dec. 31, 2015 | Fixed price | 200 Bbl | WTI $CAD100.00/Bbl |
| Jul. 1, 2015 to Dec. 31,2015 | Fixed price | 100 Bbl | WTI $CAD 95.50/Bbl |
| Jul. 1, 2015 to Dec. 31, 2015 | Fixed price | 250 Bbl | WTI $97.80/Bbl |
| Jul. 1, 2015 to Dec. 31, 2015 | Fixed price | 250 Bbl | WTI $92.50-103.50/Bbl |
| Jul. 1, 2015 to Sep. 31, 2015 | Costless collar | 2,000 Bbl | WTI $USD45.00-66.00/Bbl |
| Oct. 1, 2015 to Dec. 31, 2015 | Costless collar | 700 Bbl | WTI $CAD39.00-70.00/Bbl |
| Jan. 1, 2016 to Dec. 31, 2016 | Costless collar | 700 Bbl | WTI $CAD70.00-75.75/Bbl |
| Oct. 1, 2015 to Dec. 31, 2015 | Costless collar | 500 Bbl | WTI $USD40.05-70.00/Bbl |
| Oct. 1, 2015 to Dec. 31, 2015 | Costless collar | 250 Bbl | WTI $USD40.00-71.00/Bbl |
| Jan. 1, 2016 to Mar. 31, 2016 | Costless collar | 250 Bbl | WTI $USD40.00-75.00/Bbl |
| Jan. 1, 2016 to Jun. 30, 2016 | Fixed price | 250 Bbl | WTI $CAD77.70/Bbl |
| Jan. 1, 2016 to Jun. 30, 2016 | Costless collar | 250 Bbl | WTI $CAD70.00-83.40/Bbl |
| Jan. 1, 2016 to Dec. 31, 2016 | Costless collar | 250 Bbl | WTI $CAD70.00-82.30/Bbl |
| Jul. 1, 2016 to Sep. 30, 2016 | Costless collar | 250 Bbl | WTI $CAD70.00-84.00/Bbl |
| Oct. 1, 2016 to Dec. 31, 2016 | Costless collar | 250 Bbl | WTI $CAD70.00-85.00/Bbl |

| Electric Power<br>Contract Period | Type | Annual Volume | Price (CAD) |
|---|---|---|---|
| Jul. 1, 2015 to Dec. 31, 2015 | Fixed price | 12,264 MW | $50.00/MWH |

**Risk Management Asset and Liability**

| $000s At December 31, 2014 | Current Asset | Current Liability |
|---|---|---|
| Commodity derivatives | 14,609 | 197 |
| | **14,609** | **197** |

| $000s At June 30, 2015 | Current Asset | Current Liability |
|---|---|---|
| Commodity derivatives | 6,998 | 1,632 |
| | **6,998** | **1,632** |

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

| $000s | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|---|---|---|---|---|
| Realized gain (loss) | 2,894 | (1,496) | 7,775 | (2,928) |
| Unrealized gain (loss) | (5,433) | 1,094 | (9,046) | (3,265) |
| | **(2,539)** | **(402)** | **(1,271)** | **(6,194)** |

**9. SHARE CAPITAL**

***Authorized***

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

***Issued and Outstanding***

| Common shares $000s *except share amounts* | Number of Shares | Amount |
|---|---|---|
| **Balance, December 31, 2013** | **86,376,598** | **144,339** |
| Common shares issued under private placement (a) | 15,256,000 | 49,582 |
| Flow-through shares issued, net of premium (a) | 115,000 | 374 |
| Common shares issued under private placement (b) | 17,784,724 | 71,139 |
| Flow-through shares issued, net of premium (b) | 200,000 | 800 |
| Common shares issued under private placement (c) | 20,725,276 | 82,901 |
| Common shares issued under private placement (d) | 135,000 | 540 |
| Share issue costs | — | (4,759) |
| Tax effect of share issue costs | — | 1,190 |
| **Balance, December 31, 2014 & June 30, 2015** | **140,592,598** | **346,106** |

***Share Issuances***

(a) On June 2, 2014 the Company issued 15,256,000 common shares at a price of $3.25 per share and 115,000 flow-through shares at a price of $3.90 per share for total gross proceeds of $50.0 million. Of the issuance price, $0.65 per share or $0.1 million was determined to be the premium on the flow-through shares. The common shares issued were subject to a restricted hold period which expired on October 3, 2014.

(b) On September 5, 2014 the Company issued 17,784,724 common shares at a price of $4.00 per share and 200,000 flow-through shares at a price of $4.80 per share for total gross proceeds of $72.1 million. Of the issuance price, $0.80 per share or $0.2 million was determined to be the premium on the flow-through shares. The common shares issued are subject to a restricted hold period which expired on January 6, 2015.

(c) On September 23, 2014 the Company issued 20,725,276 common shares at a price of $4.00 per share for total gross proceeds of $82.9 million. The common shares issued are subject to a restricted hold period which expired on January 24, 2015.

(d) On October 15, 2014 the Company issued 135,000 common shares at a price of $4.00 per share for total gross proceeds of $0.5 million. The common shares issued are subject to a restricted hold period which expired on February 15, 2015.

**SHARE-BASED COMPENSATION**

***Performance Warrants***

The Company has issued performance warrants to employees, consultants and directors of the Company. Performance warrants were granted and vest based on three criteria, time (one third vest per year), market (one third vest as certain share price hurdles are achieved) and employment or service. The warrants expire five years from the date of issuance. Upon exercise of the warrants the Company may settle the obligation by issuing common shares of the Company. The shares to be offered consist of common shares of the Company`s authorized but unissued common shares. The aggregate number of shares issuable upon the exercise of all warrants granted shall not exceed 20% of the 32,113,016 issued and outstanding shares as at April 30, 2012. At June 30, 2015, 6,407,603 (December 31, 2014; 6,407,603) performance warrants were issued and outstanding.

| | Number of warrants outstanding | Weighted Average Exercise Price ($) |
|---|---|---|
| **Balance, December 31, 2013** | **6,422,603** | **$2.02** |
| Forfeited or expired | (15,000) | $2.00 |
| **Balance, December 31, 2014 & June 30, 2015** | **6,407,603** | **$2.02** |
| **Exercisable, June 30, 2015** | **3,799,564** | **$2.01** |

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

| Range of Exercise Price | Warrants Outstanding | | | Warrants Exercisable | | |
|---|---|---|---|---|---|---|
| | Number granted | Weighted average exercise price | Weighted average remaining life (years) | Number exercisable | Weighted average exercise price | Weighted average remaining life (years) |
| $2.00 - $2.25 | 6,407,603 | $2.02 | 2.09 | 3,799,564 | $2.01 | 2.03 |
| | **6,407,603** | **$2.02** | **2.09** | **3,799,564** | **$2.01** | **2.03** |

***Stock Options***

The Company has a stock option plan in place whereby it may issue stock options to employees, consultants and directors of the Company. The aggregate number of shares that may be acquired upon exercise of all Options granted pursuant to the plan shall, at any date or time of determination, be equal to ten percent (10%) of the number that is equal to (i) the number of the Company's basic Common shares then issued and outstanding; minus (ii) a number equal to five (5) times the number of Common Shares that are issuable upon exercise of the then outstanding Performance Warrants minus (iii) a number equal to fifty percent (50%) of the number of Common Shares that have previously been issued upon the exercise of Performance Warrants. The options vest based on time (one third vest per year starting on the date of grant) and expire five years from the date of issuance. At June 30, 2015, 6,620,000 (December 31, 2014; 6,115,000) stock options were outstanding. The summary of stock option activity is presented below:

| | Number of stock options | Weighted Average Exercise Price ($) |
|---|---|---|
| **Balance, December 31, 2013** | **4,355,000** | **$1.84** |
| Granted | 1,805,000 | $3.18 |
| Forfeited or expired | (45,000) | $1.75 |
| **Balance, December 31, 2014** | **6,115,000** | **$2.21** |
| Granted | 505,000 | $3.50 |
| **Balance, June 30, 2015** | **6,620,000** | **$2.30** |
| **Exercisable, June 30, 2015** | **4,133,333** | **$1.82** |

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

| Range of Exercise Price | Stock Options Outstanding | | | Stock Options Exercisable | | |
|---|---|---|---|---|---|---|
| | Number granted | Weighted average exercise price | Weighted average remaining life (years) | Number exercisable | Weighted average exercise price | Weighted average remaining life (years) |
| $1.75 - $2.00 | 3,875,000 | $1.75 | 1.97 | 3,741,667 | $1.75 | 1.97 |
| $2.01 - $2.75 | 1,050,000 | $2.38 | 3.60 | 309,999 | $2.38 | 3.60 |
| $2.76 - $4.00 | 1,695,000 | $3.50 | 4.24 | 81,667 | $3.25 | 3.83 |
| | **6,620,000** | **$2.30** | **2.81** | **4,133,333** | **$1.82** | **2.12** |

The weighted average fair value of each stock option granted of $1.24 for the six months ended June 30, 2015 (year ended December 31, 2014 - $1.12 per option) is estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

| | Six months ended June 30, 2015 | Twelve months ended December 31, 2014 |
|---|---|---|
| Risk free interest rate | 1.40% | 1.20% - 1.40% |
| Expected life (years) | 5 | 5 |
| Estimated volatility of underlying common shares (%) | 50% | 50% |
| Estimated forfeiture rate | 20% | 20% |
| Expected dividend yield (%) | 0% | 0% |

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

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

| $000s | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|---|---|---|---|---|
| Expensed in net income | 216 | 179 | 495 | 323 |
| Capitalized to exploration and evaluation assets | 72 | 89 | 164 | 161 |
| Capitalized to property, plant and equipment | 72 | 90 | 165 | 162 |
| **Total share-based compensation** | **360** | **358** | **824** | **646** |

**10. EARNINGS PER SHARE**

Earnings 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 June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|---|---|---|---|---|
| **Net income (loss) for the period ($000s)** | **(7,239)** | **5,505** | **(13,524)** | **8,287** |
| Weighted average number of common shares – basic (000s) | 140,593 | 91,106 | 140,593 | 88,754 |
| Weighted average number of common shares – diluted (000s) | 140,593 | 93,943 | 140,593 | 91,591 |
| **Net income (loss) per common share – basic** | **(0.05)** | **0.06** | **(0.10)** | **0.09** |
| **Net income (loss) per common share – diluted** | **(0.05)** | **0.06** | **(0.10)** | **0.09** |

In computing diluted earnings per share for the three and six months ended June 30, 2015, all warrants and stock options were considered however no instruments were added to the calculation as their impact is anti-dilutive. In computing diluted earnings per share for the three and six months ended June 30, 2014, 768,027 warrants and 2,068,846 stock options were added to the calculation as their impact is dilutive.

**11. OPERATING EXPENSES**

The Company's gross operating expenses for the three and six months ending June 30, 2015 were $8.0 million and $15.1 million, respectively (three and six months ended June 30, 2014; $4.5 million and $8.0 million respectively). For the three and six months ended June 30, 2015, this includes $1.7 million and $4.0 million of processing, gathering and compression charges, respectively (three and six months ended June 30, 2014; $1.7 million and $2.7 million, respectively).

The Company generated processing income recoveries of $0.6 million and $1.2 million for the three and six months ended June 30, 2015, respectively (three and six months ended June 30, 2014; $0.3 million and $0.03 million respectively) which reduced the Company's gross operating expenses to $7.4 million and $13.9 million for the three and six months ended June 30, 2015, respectively (three and six months ended June 30, 2014; $4.2 million and $7.9 million respectively).

**12. GENERAL AND ADMINISTRATIVE EXPENSES**

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

| $000s | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|---|---|---|---|---|
| Salaries and benefits | 1,229 | 901 | 2,409 | 1,693 |
| Subscriptions and licenses | 105 | — | 163 | — |
| Office costs | 432 | 172 | 1,014 | 460 |
| Legal, accounting and consulting | 417 | 406 | 867 | 406 |
| Capitalized general and administrative | (340) | (683) | (946) | (1,128) |
| | **1,843** | **796** | **3,507** | **1,431** |

**13. FINANCIAL INSTRUMENTS**

**Risks associated with Financial Instruments**

***Credit risk***

The Company may be exposed to certain losses in the event that counterparties to financial instruments fail to meet their obligations in accordance with agreed terms. The Company mitigates this risk by entering into transactions with highly rated major financial institutions and by routinely assessing the financial strength of its customers.

At June 30, 2015, financial assets on the balance sheet are comprised of cash, deposits, risk management assets and accounts receivable. The maximum credit risk associated with these financial instruments is the total carrying value.

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 $19.6 million of accounts receivable outstanding at June 30, 2015 (December 31, 2014; $23.3 million), $13.1 million is owed from 27 parties (December 31, 2014 - $16.6 million from 19 parties), and the majority of the balance was received subsequent to quarter end. The remaining amounts are expected to be collected and no allowance has been recorded. As at June 30, 2015 and December 31, 2014, over 90% of Petrus' accounts receivable were all aged less than 90 days and the Company does not anticipate any significant collection issues.

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

***Liquidity risk***

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

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a normal period. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on operated and non-operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th day of each month.

At June 30, 2015, the Company had a $200 million total credit facility, of which $35.6 million was available without further lender consent (December 31, 2014, the Company had a $200 million credit facility of which $100 million was available). Petrus anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available bank debt. The Company is exposed to the risk of reductions to its borrowing base for purposes of the revolving credit facility or term loan.

***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 and accounts receivable are not exposed to significant interest rate risk. The revolving credit facility and long term debt are exposed to interest rate cash flow risk as the instruments are priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed to interest rate risk. A 1% change in the Canadian prime interest rate in the three and six months ended June 30, 2015 would have changed income by approximately $0.5 million and $1.0 million, respectively, which relates to interest expense on the average outstanding revolving credit facility and long term debt during the period, assuming that all other variables remain constant (three and six months ended June 30, 2014; $0.1 million and $0.1 million, respectively).

***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.

For the three and six months ended June 30, 2015, it is estimated that a $0.25/mcf change in the price of natural gas would have changed net income by $0.8 million and $1.5 million, respectively (three and six months ended June 30, 2014; $0.4 million and $0.7 million, respectively). For the three and six month periods ended June 30, 2015, it is estimated that a $5.00/CDN WTI/bbl change in the price of oil would have changed net income by $1.1 million and $2.6 million, respectively (three and six months ended June 30, 2014; $0.9 million and $1.9 million, respectively).

**14. COMMITMENTS**

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

| $000s | Total | < 1 year | 1-5 years |
|---|---|---|---|
| Corporate office lease | 3,268 | 704 | 2,565 |
| **Total commitments** | **3,268** | **704** | **2,565** |

**15. SUBSEQUENT EVENTS**

***Financial Risk Management***

Subsequent to June 30, 2015, the Company entered into the following financial derivative contracts:

| Crude Oil<br>Contract Period | Type | Daily Volume | Price ($/Bbl) |
|---|---|---|---|
| Jan. 1, 2017 to Mar. 31, 2017 | Costless collar | 500 Bbl | WTI $CAD70.00-78.00/Bbl |
| Jan. 1, 2017 to Jun. 30, 2017 | Costless collar | 500 Bbl | WTI $CAD70.00-78.40/Bbl |

| Natural Gas<br>Contract Period | Type | Daily Volume | Price (CAD$/GJ) |
|---|---|---|---|
| Apr.1, 2017 to Oct. 31, 2017 | Fixed price | 7,000 GJ | $2.84/GJ |

**CORPORATE INFORMATION**

**OFFICERS**

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

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

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

**Peter Verburg**
Corporate Secretary

**DIRECTORS**

**Don T. Gray**
Chairman
Calgary, Alberta

**Kevin L. Adair**
Calgary, Alberta

**Patrick Arnell**
Calgary, Alberta

**Donald Cormack**
Calgary, Alberta

**Brian Minnehan**
Irving, Texas

**Peter Verburg**
Calgary, Alberta

**SOLICITOR**
Burnet, Duckworth & Palmer LLP
Calgary, Alberta

**AUDITOR**
Ernst & Young LLP
Chartered Accountants
Calgary, Alberta

**INDEPENDENT RESERVE EVALUATORS**
Sproule and Associates
Calgary, Alberta

**BANKERS**
Toronto Dominion Bank
Canadian Imperial Bank of Commerce
Royal Bank of Canada
HSBC Bank Canada
Union Bank, Canada Branch

Macquarie Bank Limited

**TRANSFER AGENT**
Valiant Trust Company
Calgary, Alberta

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

**WEBSITE**
www.petrusresources.com