SECOND QUARTER REPORT

For the three and six months ended June 30, 2017

Petrus Resources Ltd. ("Petrus" or the "Company") (TSX: PRQ) is pleased to report financial and operating results for the second quarter of 2017. Petrus is focused on organic growth and infrastructure control in its core area, Ferrier, Alberta. The Company is targeting liquids rich natural gas in the Cardium formation as well as investing in infrastructure in Ferrier to control operations and maximize the Company's return on investment.

- Petrus generated funds flow of $12.5 million in the second quarter of 2017, a 63% increase relative to the $7.7 million generated in the second quarter of 2016. The second quarter marked a milestone for the Company as its first fiscal quarter to exceed production of 10,000 boe/d. The 63% increase in funds flow is attributed to 21% higher production, 28% lower operating expenses (on a per boe basis) and improved commodity prices. This production growth and lower cost structure reflects the Company's strategic shift to focus on developmental drilling, including facility ownership and control in the Ferrier area, and divest non-core assets.

- Petrus' second quarter funds flow of $12.5 million is 6% higher than the $11.7 million generated in the first quarter of 2017. Production increased by 10% since the prior quarter which is attributed to the Company's drilling program in the Ferrier area. During the second quarter, Petrus recognized two non-routine reductions to funds flow; a $0.8 million decommissioning expenditure as well as a $0.9 million royalty adjustment related to its Gas Cost Allowance.

- Petrus reduced its net debt by 10% from the second quarter of 2016 to the second quarter of 2017, including a $15 million reduction in the Company's second lien term loan, from $50 million to $35 million. Net debt to funds flow(2) was 2.7 times for the second quarter of 2017 and has decreased 45% since the second quarter of 2016. The Company continues to focus on decreasing its leverage and is targeting net debt to funds flow(2) of less than 2.3 times by the end of 2017(1).

- Second quarter average production was 10,240 boe/d in 2017 compared to 8,435 boe/d in 2016. The 21% increase is attributable to the Company's drilling program at Ferrier, where production has grown 98% since the second quarter of 2016.

- In the second quarter of 2017, 3 gross (2.2 net) wells were drilled in the Ferrier area. All new wells are now on production and have contributed to the 10% increased production since the first quarter of 2017. Due to facility constraints, Petrus' current productive capability in the Ferrier area is higher than the Company's current production. These facility constraints are expected to be alleviated later in 2017 with the expansion of the Company's gas processing facilities.

- Petrus has transformed its operating cost structure through the construction of a natural gas processing plant in Ferrier and the divestiture of higher cost assets. As a result, total operating expenses have decreased 28% from $7.65 per boe in the second quarter of 2016 to $5.53 per boe in the second quarter of 2017. Due to facility constraints, a portion of the Company's Ferrier production is currently being processed through third party facilities. Ferrier operating expenses are expected to decrease once the Ferrier gas plant expansion is complete which is scheduled for the fourth quarter of 2017(1).

- Petrus utilizes financial derivative contracts to mitigate commodity price risk. The Company's realized gain on financial derivatives in the second quarter of 2017 increased the Company's corporate netback(2) by $0.23 per boe. As a percentage of second quarter 2017 production, Petrus has derivative contracts in place for 60% and 54% of its natural gas and oil & natural gas liquids production, respectively, for the remainder of fiscal 2017.

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

SELECTED FINANCIAL INFORMATION

OPERATIONS	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Three months ended Mar. 31, 2017	Three months ended Dec. 31, 2016	Three months ended Sept. 30, 2016
Average Production					
Natural gas (mcf/d)	42,392	33,071	40,332	37,327	30,009
Oil (bbl/d)	2,015	2,200	1,542	1,452	1,419
NGLs (bbl/d)	1,160	723	1,067	922	680
Total (boe/d)	**10,240**	**8,435**	**9,331**	**8,595**	**7,100**
Total (boe)	**931,821**	**767,585**	**839,746**	**790,806**	**653,215**
Natural gas sales weighting	69%	65%	72%	72%	70%
Realized Prices					
Natural gas ($/mcf)	3.29	1.64	2.85	3.29	2.53
Oil ($/bbl)	59.02	46.68	62.62	59.42	44.50
NGLs ($/bbl)	30.32	8.47	33.18	24.56	15.56
Total realized price ($/boe)	**28.69**	**19.32**	**26.48**	**26.97**	**21.06**
Royalty income	0.03	0.12	0.05	0.10	0.07
Royalty expense	(4.62)	(2.26)	(3.94)	(3.52)	(2.99)
Net oil and natural gas revenue ($/boe)	**24.10**	**17.18**	**22.59**	**23.55**	**18.14**
Operating expense	(5.53)	(7.65)	(4.50)	(3.63)	(6.04)
Transportation expense	(1.32)	(1.30)	(1.38)	(1.50)	(1.49)
Operating netback [1][2] ($/boe)	**17.25**	**8.23**	**16.71**	**18.42**	**10.61**
Realized gain on derivatives ($/boe) [2]	0.23	6.87	0.57	0.99	4.06
General & administrative expense	(1.12)	(1.86)	(1.05)	(3.78)	(1.69)
Cash finance expense	(1.94)	(3.18)	(2.07)	(2.58)	(3.85)
Decommissioning expenditures [3]	(1.03)	(0.10)	(0.19)	(0.64)	(0.04)
Corporate netback [1][2] ($/boe)	**13.39**	**9.96**	**13.97**	**12.41**	**9.09**

FINANCIAL (000s except per share)	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Three months ended Mar. 31, 2017	Three months ended Dec. 31, 2016	Three months ended Sept. 30, 2016
Oil and natural gas revenue	26,753	14,926	22,274	21,409	13,805
Net income (loss)	(781)	(46,334)	7,311	(11,842)	(4,702)
Net income (loss) per share					
Basic	(0.02)	(1.02)	0.16	(0.26)	(0.10)
Fully diluted	(0.02)	(1.02)	0.16	(0.26)	(0.10)
Funds flow [3]	12,458	7,652	11,732	9,809	5,938
Funds flow per share [3]					
Basic	0.25	0.17	0.25	0.22	0.13
Fully diluted	0.25	0.17	0.25	0.22	0.13
Capital expenditures	18,903	2,712	18,907	10,026	7,231
Net acquisitions (dispositions)	—	—	8,818	—	(29,718)
Weighted average shares outstanding					
Basic	49,428	45,349	46,754	45,349	45,349
Fully diluted	49,428	45,349	46,989	45,349	45,349
As at period end					
Common shares outstanding					
Basic	49,428	45,349	49,428	45,349	45,349
Fully diluted	49,428	45,349	52,664	45,349	45,349
Total assets	465,794	493,535	460,095	439,967	448,404
Non-current liabilities	170,580	225,962	165,104	118,934	169,714
Net debt [1]	137,069	152,935	130,624	124,915	124,310

[1] Refer to "Non-GAAP Financial Measures" in the Management's Discussion & Analysis attached hereto.
[2] In prior periods Petrus included realized gain on derivatives (hedging gain (loss)) in the calculation of operating netback. The amount is included in the calculation of corporate netback. The comparative information has been re-classified to conform to current presentation.
[3] In prior periods Petrus excluded decommissioning expenditures from the calculation of funds flow. The comparative information has been re-classified to conform to current presentation.

OPERATIONS UPDATE

Production

Average second quarter production by area was as follows:

Average production for the three months ended June 30, 2017	Ferrier	Foothills	Central Alberta	Total
Natural gas (mcf/d)	27,803	7,025	7,564	42,392
Oil (bbl/d)	1,288	252	475	2,015
NGLs (bbl/d)	953	18	189	1,160
Total (boe/d)	**6,875**	**1,441**	**1,924**	**10,240**
Natural gas sales weighting	***67%***	***81%***	***66%***	***69%***

Second quarter average production was 10,240 boe/d (69% natural gas) in 2017 compared to 8,435 boe/d (65% natural gas) in the 2016. The 21% increase is attributable to the Company's drilling program at Ferrier, where production has grown 98% since the second quarter of 2016. The second quarter marked a milestone for the Company as its first fiscal quarter to exceed production of 10,000 boe/d.

The Company's natural gas sales weighting was higher in the second quarter of 2017 relative to the second quarter of 2016 due to the divestiture of the Peace River assets in 2016, and the timing of its Ferrier development.

In the second quarter of 2017, 3 gross (2.2 net) wells were drilled in the Ferrier area. Each of those wells came on production during the second quarter.

Capital Development

Petrus' Board of Directors approved a $50 to $60 million capital budget for 2017 (excluding acquisitions and dispositions) which provides for the drilling of 16 gross (11.7 net) Cardium wells in the Ferrier area. The Company's 2017 capital program also provides for investment in facilities. Petrus expects the processing and compression capability of the Ferrier gas plant to double, reaching a capacity of approximately 60 mmcf/d by the fourth quarter of 2017.[1]

Credit Review

On May 31, 2017 Petrus completed the annual review of its revolving credit facility ("RCF"). The RCF syndicate of lenders unanimously agreed to increase the borrowing base from $106 million to $120 million. Lender consent from the RCF syndicate as well as the second lien term loan lender, is required for total borrowings against the RCF exceeding $106 million.

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

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 months ended June 30, 2017. The report is dated August 10, 2017 and should be read in conjunction with the June 30, 2017 interim consolidated financial statements as well as the December 31, 2016 annual consolidated financial statements. The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS"). Readers are directed to the advisories at the end of this report regarding forward-looking statements and boe presentation and to the section "Non-GAAP Financial Measures" herein.

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

RESULTS OF OPERATIONS

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Three months ended Mar. 31, 2017	Three months ended Dec. 31, 2016	Three months ended Sept. 30, 2016
Average production					
Natural gas (mcf/d)	42,392	33,071	40,332	37,327	30,009
Oil (bbl/d)	2,015	2,200	1,542	1,452	1,419
NGLs (bbl/d)	1,160	723	1,067	922	680
Total (boe/d)	**10,240**	**8,435**	**9,331**	**8,595**	**7,100**
Total (boe)	931,821	767,585	839,746	790,806	653,215
Revenue ($000s)					
Natural Gas	12,708	4,929	10,359	11,304	6,975
Oil	10,822	9,345	8,690	7,939	5,809
NGLs	3,199	558	3,186	2,084	973
Royalty revenue	24	94	39	82	47
Oil and natural gas revenue	26,753	14,926	22,274	21,409	13,805
Average realized prices					
Natural gas ($/mcf)	3.29	1.64	2.85	3.29	2.53
Oil ($/bbl)	59.02	46.68	62.62	59.42	44.50
NGLs ($/bbl)	30.32	8.47	33.18	24.56	15.56
Total ($/boe)	28.69	19.32	26.48	26.97	21.06
Hedging gain ($/boe)	0.23	6.87	0.57	0.99	4.06
Total realized ($/boe)	28.92	26.19	27.05	27.96	25.12

Average benchmark prices	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Three months ended Mar. 31, 2017	Three months ended Dec. 31, 2016	Three months ended Sept. 30, 2016
Natural gas					
AECO ($/mcf)	2.77	1.45	2.94	3.09	2.21
Crude Oil					
Edm Lt. ($/ bbl)	60.36	55.04	64.76	60.70	54.26
Foreign Exchange					
US$/C$	0.74	0.78	0.76	0.75	0.76

FUNDS FLOW AND NET INCOME (LOSS)

Petrus generated funds flow of $12.5 million in the second quarter of 2017; a 63% increase relative to the $7.7 million generated in the second quarter of 2016. The increase is due to 21% higher production, 28% lower operating expenses (on a per boe basis) and improved commodity prices. On a six month basis, funds flow was $24.2 million compared to $12.1 million in the prior year. The increase is due to 13% higher production, 38% lower operating expenses (on a per boe basis), and improved commodity prices. During the second quarter, Petrus recognized two non-routine reductions to funds flow; a $0.8 million decommissioning expenditure as well as a $0.9 million royalty adjustment related to its Gas Cost Allowance.

Petrus reported a net loss of $0.8 million in the second quarter of 2017, compared to a net loss of $46.3 million in the second quarter of the prior year. On a six month basis, the Company realized net income of $6.5 million in 2017 compared to a net loss of $50.4 million in the comparable period of 2016. The increase for the three and six month periods ended June 30, 2017 compared to the same periods in the prior year are due to increased production, lower operating costs and lower general and administrative costs, as well as impairment losses incurred during the second quarter of 2016.

($000s except per share)	**Three months ended Jun. 30, 2017**	Three months ended Jun. 30, 2016	**Six months ended Jun. 30, 2017**	Six months ended Jun. 30, 2016
Funds flow (1)	**12,458**	7,652	**24,190**	12,064
Funds flow per share - basic (1)	0.25	0.17	0.49	0.28
Funds flow per share - fully diluted (1)	0.25	0.17	0.49	0.28
Net income (loss)	**(781)**	(46,334)	**6,530**	(50,444)
Net income (loss) per share - basic	(0.02)	(1.02)	0.14	(1.16)
Net income (loss) per share - fully diluted	(0.02)	(1.02)	0.14	(1.16)
Common shares outstanding (000s)				
Basic	49,428	45,349	49,428	45,349
Fully diluted	49,428	45,349	49,429	45,349
Weighted average shares outstanding (000s)				
Basic	49,428	45,349	48,098	43,556
Fully diluted	49,428	45,349	48,140	43,556

(1) In prior periods Petrus excluded decommissioning expenditures from the calculation of funds flow. The comparative information has been re-classified to conform to current presentation.

OIL AND NATURAL GAS REVENUE

Average production for the second quarter of 2017 was 10,240 boe/d (69% natural gas), 21% higher than the 8,435 boe/d (65% natural gas) average production for the second quarter of the prior year. The increase is attributable to the Company's drilling program at Ferrier which was funded by funds flow as well as utilization of the Company's revolving credit facility. The Company has generated production growth of 44% since the divestiture of its Peace River area assets on July 8, 2016. Total oil and natural gas revenue for the second quarter of 2017 increased from $14.9 million in 2016 to $26.8 million in 2017 due to higher production and improved commodity prices.

Average production for the first six months of 2017 was 9,788 boe per day (70% natural gas), compared to 8,628 boe per day (66% natural gas) for the prior year comparative period. Total oil and natural gas revenue increased from $29.6 million in the first six months of 2016 to $49.0 million in the six months ended June 30, 2017 due to increased production and improved commodity prices.

Natural gas

During the three and six months ended June 30, 2017, the average benchmark natural gas price in Canada (set at the AECO hub) increased by 91% and 73% respectively from prior year comparative periods (average price of $2.77 per mcf in the second quarter of 2017 compared to $1.45 per mcf in the second quarter of the prior year and $2.86 per mcf for the first six months of 2017, compared to $1.65 per mcf for the comparative period in 2016).

The Company's average realized natural gas price during the second quarter of 2017 was $3.29 per mcf, compared to $1.64 per mcf in the second quarter of 2016, which represents a 101% increase. Natural gas revenue for the second quarter of 2017 was $12.7 million and production of 3,857,621 mcf accounted for approximately 69% of second quarter production volume and 48% of oil and natural gas revenue (compared to revenue of $4.9 million and production of 3,226,541 mcf for 67% of production volume and 44% of oil and natural gas revenue in the prior year comparative period). Natural gas revenue increased from the prior year due to improved commodity prices during the second quarter of 2017 and continued growth in production in the Ferrier area.

Natural gas revenue for the first six months of 2017 was $23.1 million and production of 7,487,531 mcf accounted for approximately 70% of production volume in the period and 47% of commodity revenue (compared to revenue of $11.4 million and production of 6,236,006 mcf for 66% of production volume and 39% of oil and natural gas revenue in the prior year comparative period). The increase is due to increased production and improved commodity prices.

Crude oil and condensate

Edmonton Light Sweet crude oil prices increased 10% from the second quarter of 2016 to the second quarter of 2017 (an average price of $60.36 per bbl for the second quarter of 2017 compared to an average price of $55.04 per bbl for the prior year comparative period). Prices increased 30% from the first six months of 2016 to the first six months of 2017 ($62.56 per bbl in 2017 compared to an average of $48.00 per bbl in the prior year comparative period).

Similarly, the average realized price of Petrus' crude oil and condensate was $59.02 per bbl for the second quarter of 2017 compared to $46.68 per bbl for the same period in the prior year.

Oil and condensate revenue for the second quarter of 2017 was $10.8 million and production of 183,352 bbl accounted for approximately 20% of total production volume and 40% of oil and natural gas revenue, compared to revenue of $9.3 million and production of 200,183 bbl for 26% of total production volume and 62% of oil and natural gas revenue in the second quarter of the prior year.

Oil and condensate revenue for the first six months of 2017 was $19.5 million and production of 322,121 accounted for approximately 18% of total production volume and 40% of commodity revenue (compared to revenue of $16.3 million and production of 401,995 for 26% of total production volume and 55% of oil and natural gas 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 2017, the overall realized NGL price averaged $30.32 per bbl, compared to $8.47 per bbl in the prior year. The increase is attributed to improved commodity prices as well as a change in the composition of the Company's NGLs.

NGL revenue for the second quarter of 2017 was $3.2 million and production of 105,533 bbl accounted for approximately 11% of production volume and 12% of oil and natural gas revenue (compared to revenue of $0.6 million and production of 65,825 bbl for 9% of production volume and 4% of oil and natural gas revenue for the second quarter of the prior year). NGL revenue for the first six months of 2017 was $6.4 million and production of 201,524 bbl accounted for approximately 11% of production volume and 13% of oil and natural gas revenue in the period (compared to revenue of $1.7 million and production of 129,000 bbl for 8% of production volume and 6% of oil and natural gas revenue in the first six months of the prior year.

The increase in NGL revenue is due to the increase in production and commodity prices.

ROYALTY EXPENSES

Royalties are paid to the Government of Alberta and to gross overriding royalty owners. The following table shows the Company's royalty expenses for the periods shown:

Royalty Expenses ($000s)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Crown	**2,042**	948	**3,496**	2,645
% of production revenue	**16%**	6%	**7%**	9%
Gross overriding	**2,264**	786	**4,119**	1,564
Total	**4,306**	**1,734**	**7,615**	**4,209**

Total royalty expense (net of royalty allowances and incentives) increased from $1.7 million in the second quarter of 2016 to $4.3 million in the second quarter of 2017. On a six month basis, total royalties paid increased from $4.2 million to $7.6 million. The increases are attributable to increased production. In addition, the Company recognizes its annual Gas Cost Allowance ("GCA") adjustment when received from the Government of Alberta. In the second quarter of 2017 Petrus recognized a $0.9 million GCA adjustment which increased royalty expense in the current period.

Gross overriding royalties increased from $0.8 million in the second quarter of 2016 to $2.3 million in the second quarter of 2017. Gross overriding royalties increased from $1.6 million for the six months ended June 30, 2016 to $4.1 million for the six months ended June 30, 2017. The increases are due to additional wells being drilled on land with gross overriding royalty burdens.

RISK MANAGEMENT

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility, increase the certainty of cash flows from operating activities and to protect acquisition and development economics. Petrus' risk management program is governed by guidelines approved by its Board of Directors. Petrus aims to hedge approximately 50 - 70% of its 12 month production forecast and approximately 30 - 40% of the following year production forecast.

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

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

Net Gain (Loss) on Financial Derivatives ($000s)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Realized hedging gain	**212**	5,273	**694**	11,567
Unrealized hedging gain (loss)	**376**	(16,397)	**8,424**	(11,511)
Total gain (loss) on derivatives	**588**	**(11,124)**	**9,118**	**56**

The Company recognized a realized hedging gain of $0.2 million during the second quarter of 2017, compared to a $5.3 million gain realized in the same quarter of the prior year. The lower realized gain in the current period is due to strengthened commodity prices. The second quarter realized gain increased the Company's total realized price by $0.23 per boe, compared to an increase of $6.87 per boe in the second quarter of the prior year.

The Company recognized a realized hedging gain of $0.7 million during the six months ended June 30, 2017, compared to a $11.6 million gain realized in the same period of the prior year. The lower gain in the current year is due to strengthened commodity prices.

The unrealized hedging gain of $0.4 million for the three months ended June 30, 2017 represents the change in the unrealized risk management net asset position during the quarter. The unrealized hedging gain of $8.4 million for the six months ended June 30, 2017 represents the change in the unrealized risk management net asset position during the first six months of 2017. The changes are the result of both the realization of hedging gains in the period, changes related to contracts entered into during the period as well as changes to commodity prices. On June 30, 2017, the unrealized risk management net asset mark-to-market value was $2.4 million.

The Company's risk management contracts provide protection from crude oil and natural gas prices in 2017, 2018 and 2019. For a complete listing of Petrus' risk management contracts see the Company's interim consolidated financial statements as at and for the period ended June 30, 2017 (note 8). The table below summarizes Petrus' average crude oil and natural gas hedged volumes. The 72 bbl/d of oil hedged in the second quarter of 2017 represents 44% of second quarter average liquids (oil and NGL) production. The 3 GJ/day of natural gas hedged in the second quarter of 2017 represents 58% of second quarter average natural gas production.

The following table summarizes the average cap and floor prices for the 2017 to 2019 oil and natural gas contracts in place as at the date of this report:

	2017					**2018**					**2019**		
	Q1	**Q2**	**Q3**	**Q4**	**Avg.**	**Q1**	**Q2**	**Q3**	**Q4**	**Avg.**	**Q1**	**Q2**	**Avg.**
Oil hedged (bbl/d)	1,500	1,400	1,550	1,850	**1,575**	1,600	1,350	1,250	1,200	**1,350**	650	300	**475**
Average WTI cap price ($/bbl)	74.99	71.69	65.68	67.46	**69.96**	67.16	67.40	66.65	64.12	**66.33**	62.15	61.60	**61.88**
Average WTI floor price ($/bbl)	68.42	65.74	62.03	62.36	**64.64**	62.26	66.61	66.65	63.71	**64.81**	61.42	61.60	**61.51**
Natural gas hedged (GJ/d)	23,000	24,650	24,650	25,883	**24,546**	24,500	16,000	16,000	10,667	**16,792**	8,000	—	**8,000**
Average AECO cap price ($/GJ)	3.18	2.66	2.66	2.87	**2.84**	2.97	2.42	2.42	2.54	**2.59**	2.60	—	**2.60**
Average AECO floor price ($/GJ)	2.96	2.64	2.64	2.83	**2.77**	2.93	2.42	2.42	2.54	**2.58**	2.60	—	**2.60**

OPERATING EXPENSE

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

Operating Expense ($000s)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Operating expense, net (1)	**5,156**	5,872	**8,935**	12,710
Operating expense, net ($/boe)	**5.53**	7.65	**5.04**	8.09

(1) *Operating expense is presented net of processing income and overhead recoveries*.

Operating expense (presented net of processing income and overhead recoveries) totaled $5.2 million for the second quarter of 2017, a 12% decrease from the $5.9 million recorded in the second quarter of the prior year. The decrease is attributable to the impact of investments in facilities designed to reduce third party processing fees. The divestiture of Petrus' Peace River assets, in the third quarter of 2016, and processing income generated from third party production contributed to the lower net operating expense. On a per boe basis, operating expense was $5.53 in the second quarter, which was 28% lower than the $7.65 per boe incurred in the second quarter of the prior year.

Ferrier production has grown 98% since the second quarter of 2016. Petrus has transformed its operating cost structure through the construction of a natural gas processing plant in Ferrier and the divestiture of higher cost assets. As a result, total operating expenses have decreased 28% from $7.65

per boe in the second quarter of 2016 to $5.53 per boe in the second quarter of 2017. Due to facility constraints, a portion of the Company's Ferrier production is currently being processed through third party facilities. Ferrier operating expenses are expected to decrease once the Ferrier gas plant expansion is complete which is scheduled for the fourth quarter of 2017.

For the six months ended June 30, 2017, operating expenses (presented net of processing income and overhead recoveries) totaled $8.9 million, a 30% decrease from the $12.7 million incurred in the comparable period of the prior year. The decrease is attributable to the divestiture of the Peace River assets which closed in July 2016, and processing income generated from third party operators. During the first six months of 2017, Petrus incurred $1.2 million of non-routine workover expense, the majority of which was incurred in the Foothills operating area, which offset the decrease attributed to the improved operating cost structure.

TRANSPORTATION EXPENSE

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

Transportation Expense ($000s)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Transportation expense	**1,235**	1,000	**2,392**	2,299
Transportation expense ($/boe)	**1.32**	1.30	**1.35**	1.46

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 expense totaled $1.2 million or $1.32 per boe in the second quarter of 2017 ($1.0 million or $1.30 per boe for the prior year comparative period).

On a six month basis, transportation expense totaled $2.4 million, or $1.35 per boe, which is 4% higher or 8% lower, respectively, than the costs incurred ($2.3 million or $1.46 per boe) in the prior year comparative period.

Overall, total transportation expense was slightly higher during the second quarter of 2017 than the prior year comparative period due to increased production and trucking costs. Transportation expense on a per boe basis was slightly higher in the second quarter of 2017 in comparison to the same prior year period due to increased trucking costs, while the transportation expense on a per boe basis was lower during the first six months of 2017 due to increased production in comparison to the same prior year period.

GENERAL AND ADMINISTRATIVE EXPENSE

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

General and Administrative Expense ($000s)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Gross general and administrative expense	**2,495**	1,822	**4,720**	4,405
Capitalized general and administrative	**(568)**	(396)	**(1,091)**	(797)
Overhead recoveries	**(880)**	—	**(1,700)**	—
General and administrative expense	**1,047**	**1,426**	**1,929**	**3,608**
General and administrative ($/boe)	**1.12**	**1.86**	**1.09**	**2.30**

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

General and Administrative Expense ($000s)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Personnel, consultants and directors	**1,562**	1,171	**2,974**	2,304
Regulatory expenses	**154**	35	**377**	641
Office costs	**760**	585	**963**	1,183
Public company expenses	**16**	31	**403**	248
Transaction costs	**3**	—	**3**	29
Capitalized general and administrative	**(568)**	(396)	**(1,091)**	(797)
Overhead recoveries	**(880)**	—	**(1,700)**	—
Total general and administrative expense	**1,047**	**1,426**	**1,929**	**3,608**

Second quarter 2017 G&A expense totaled $1.0 million or $1.12 per boe, compared to $1.4 million or $1.86 per boe in the second quarter of 2016. The decrease was due to higher overhead recoveries.

On a six month basis, G&A expense for the period ending June 30, 2017 totaled $1.9 million or $1.09 per boe compared to $3.6 million or $2.30 per boe for the prior year comparative period. The decrease in 2017 is attributed to higher overhead recoveries and lower regulatory expenses, offset by higher compensation costs attributed to accrued annual incentive compensation. The higher overhead recoveries are attributed to increased capital activity. The Company's capital expenditures increased from $12.0 million for the six months ended June 30, 2016 to $37.8 million for the six month period ended June 30, 2017.

SHARE-BASED COMPENSATION EXPENSE

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

Share-Based Compensation Expense ($000s)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Gross share-based compensation expense	**194**	171	**335**	380
Capitalized share-based compensation	**(78)**	(68)	**(134)**	(152)
Share-based compensation expense	**116**	**103**	**201**	**228**

Share-based compensation expense (net of capitalized portion) was $0.1 million for the second quarter of 2017, which is consistent with the $0.1 million recognized in the second quarter of the prior year.

On a six month basis, share-based compensation expense (net of capitalized portion) was $0.2 million which is also consistent with the prior year comparative period ($0.2 million).

FINANCE EXPENSE

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

Finance Expense ($000s)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Interest expense	**1,807**	2,428	**3,543**	6,033
Foreign exchange loss (gain)	**—**	14	**—**	49
Total cash finance expense	**1,807**	**2,442**	**3,543**	**6,082**
Deferred financing costs	**—**	—	**—**	—
Accretion on decommissioning obligations	**246**	140	**484**	207
Total finance expense	**2,053**	**2,582**	**4,027**	**6,289**

The Company incurred total finance expense of $2.1 million in the second quarter of 2017, comprised of $0.2 million of non-cash accretion of its decommissioning obligations and $1.8 million of cash interest expense related to its revolving credit facility and term loan. In the second quarter of 2016, the Company incurred total finance expense of $2.6 million, comprised of $0.1 million in non-cash accretion of its decommissioning obligation and $2.4 million cash interest expense

The Company incurred total finance expense of $4.0 million for the six month period ending June 30, 2017, compared to $6.3 million for the prior year comparative period. The significant decrease in 2017 are due to lower debt outstanding as a result of financing proceeds and the Peace River asset disposition proceeds used to repay bank indebtedness.

DEPLETION AND DEPRECIATION

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

Depletion and Depreciation ($000s)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Depletion and depreciation expense	**13,314**	12,318	**24,931**	24,882
Depletion and depreciation ($/boe)	**14.29**	16.05	**14.07**	15.85

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

Petrus recorded depletion and depreciation expense in the second quarter of 2017 of $13.3 million or $14.29 per boe, compared to the second quarter of 2016, when $12.3 million or $16.05 per boe was recorded. For the six month period ending June 30, 2017, the Company recorded $24.9 million or

$14.07 per boe, compared to $24.9 million or $15.85 per boe for the prior year. The Company's depletion and depreciation expense decreased on a per boe basis from the prior year comparative periods due to higher production as a result of organic growth in the Ferrier area.

SHARE CAPITAL

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

Share Capital (000s)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Weighted average common shares outstanding				
Basic	**49,428**	45,349	**48,098**	43,556
Fully diluted	**49,428**	45,349	**48,140**	43,556
Common shares outstanding				
Basic	**49,428**	45,349	**49,428**	45,349
Fully diluted	**49,428**	45,349	**49,429**	45,349
Stock options outstanding	**2,751**	1,454	**2,751**	1,454
Performance warrants outstanding	**86**	1,569	**86**	1,569

At June 30, 2017, the Company had 49,427,900 Common Shares, 2,751,070 stock options and 86,000 performance warrants outstanding. On February 28, 2017, the Company closed a non-brokered private placement of 4,078,708 Common Shares at a purchase price of $2.53 per Common Share, for aggregate gross proceeds of $10.3 million. The Chairman of the Company acquired 1,585,000 Common Shares at a price of $2.53 per Common Share, pursuant to the private placement (see note 9 of the Company's interim consolidated financial statements as at and for the period ended June 30, 2017). The total consideration paid by the Chairman for the acquisition of the 1,585,000 Common Shares was $4,010,050.

The Company issued a total of 1,449,400 stock options during the six month period ended June 30, 2017 as follows:

(a) 999,900 stock options were issued on March 17, 2017 at an exercise price of $2.25.
(b) 450,000 stock options were issued on June 22, 2017 at an exercise price of $2.22.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2017, Petrus had two debt instruments outstanding. The first is a reserve-based, revolving credit facility with a syndicate of lenders. The total facility is comprised of an operating facility and a syndicated term-out facility (altogether the “Revolving Credit Facility” or “RCF”). The second is a subordinated term loan (the “Term Loan”).

(a) Revolving Credit Facility

At June 30, 2017, the Company’s RCF was comprised of a $20 million operating facility and an $100 million syndicated term-out facility. Lender consent is required for total borrowings against the RCF exceeding $106 million. The term-out facility has a revolving period that ends May 31, 2018 at which time it will either be renewed or converted to a one-year term facility. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

At June 30, 2017, the Company had a $0.3 million letter of credit outstanding against the RCF (December 31, 2016 – $0.3 million) and had drawn $90.0 million against the RCF (December 31, 2016 – $73.8 million).

The amount of the RCF is subject to a borrowing base review performed on a semi-annual basis by the lenders, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. In addition, asset dispositions require majority lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF.

(b) Term Loan

At June 30, 2017, the Company had a $35 million (December 31, 2016 – $42 million) Term Loan outstanding (excluding $0.9 million of deferred finance fees), which is due October 8, 2019. The Term Loan bears interest is due and payable monthly and accrues at a per annum rate of the (three-month) Canadian Dealer offered Rate (CDOR) plus 700 basis points.

Covenants
The RCF and the Term Loan carry covenants that are described in note 6 of the Company's June 30, 2017 interim consolidated financial statements. The Company was in compliance with all covenants at June 30, 2017.

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, long term debt and risk management liabilities. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds flow.

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.

As at June 30, 2017, the Company had a working capital deficiency of $12.2 million, primarily related to the $23.8 million in accounts payable. The Company plans to address this working capital deficiency by using its funds flow and available credit facilities.

Petrus anticipates it will continue to have adequate liquidity to fund its financial liabilities through cash flows from operating activities and available credit capacity from its RCF. Further, Petrus completed its semi-annual review of its revolving credit facility on May 31, 2017, whereby the syndicate of lenders unanimously agreed to increase the facility to $120 million. Lender consent from the RCF syndicate as well as the second lien term loan lender, is required for total borrowings against the RCF exceeding $106 million. The next scheduled borrowing base redetermination date for the RCF is on or before October 31, 2017. The Company believes that it will have adequate cash flows from operating activities to satisfy its financial liabilities with respect to its bank debt.

The following are the contractual maturities of financial liabilities as at June 30, 2017:

$000s	**Total**	**< 1 year**	**1-5 years**
Accounts payable	23,793	23,793	—
Risk management liability	1,616	1,146	470
Bank debt	126,855	1,855	125,000
Total	**152,264**	**26,794**	**125,470**

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

$000s	**Total**	**< 1 year**	**1-5 years**	**> 5 years**
Corporate office lease	1,849	715	1,133	—
Firm service transportation	7,098	815	4,074	2,210
Total commitments	**8,947**	**1,530**	**5,207**	**2,210**

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

For a further and more in-depth discussion of risk management, see notes 8 and 13 of the Company's June 30, 2017 interim consolidated financial statements.

CAPITAL EXPENDITURES

Capital expenditures (excluding acquisitions and dispositions) totaled $18.9 million in the second quarter of 2017, compared to $2.7 million in the second quarter of the prior year. For the six month period ended June 30, capital expenditures totaled $37.8 million in 2017 and $12.0 million in 2016. The increase in capital spending in both the three and six month periods of 2017 is related to increased capital budgets. In the six month period ended June 30, 2017, Petrus drilled 11 gross (8.1 net) wells (June 30, 2016 – 4 gross (2.7 net) wells) and invested in the expansion of the Ferrier gas plant. The following table shows capital expenditures for the reporting periods indicated. All capital is presented before decommissioning obligations.

Capital Expenditures ($000s)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Drill and complete	**11,332**	963	**26,274**	7,386
Oil and gas equipment	**6,460**	1,244	**9,770**	3,667
Land and lease	**451**	109	**583**	139
Office	**92**	—	**128**	—
Capitalized general and administrative	**568**	396	**1,056**	797
Total Capital Expenditures	**18,903**	**2,712**	**37,811**	**11,989**
Gross (net) wells spud	**3 (2.2)**	**—**	**11 (8.1)**	**4 (2.7)**

On February 28, 2017, Petrus closed an acquisition of oil and natural gas interests in the Ferrier area for total consideration of $8.8 million after post-closing adjustments. Petrus acquired a minor amount of production as well as a 100% working interest in a drilled and completed Cardium horizontal well which had been tied in during the second quarter of 2017. In addition, Petrus acquired a 100% working interest in approximately 3,360 net acres (5.25 net sections) of undeveloped Cardium land in its Ferrier core area.

Acquisition ($000s)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Acquisition	**—**	—	**8,818**	—

SUMMARY OF QUARTERLY RESULTS

($000s unless otherwise noted)	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015
Average Production								
Natural gas (mcf/d)	42,392	40,332	37,327	30,009	33,071	35,456	31,217	32,505
Oil (bbl/d)	2,015	1,542	1,452	1,419	2,200	2,218	2,380	2,616
NGLs (bbl/d)	1,160	1,067	922	680	723	694	590	634
Total (boe/d)	**10,240**	**9,331**	**8,595**	**7,100**	**8,435**	**8,821**	**8,172**	**8,668**
Total (boe)	**931,821**	**839,746**	**790,806**	**653,215**	**767,585**	**802,744**	**751,845**	**797,439**
Financial Results								
Oil and natural gas revenue	26,753	22,274	21,409	13,805	14,926	14,698	20,459	21,991
Royalty expense [1]	(4,306)	(3,309)	(2,787)	(1,951)	(1,734)	(2,475)	(2,809)	(2,308)
Net oil and natural gas revenue	**22,447**	**18,965**	**18,622**	**11,854**	**13,192**	**12,223**	**17,650**	**19,683**
Transportation expense	(1,235)	(1,157)	(1,187)	(971)	(1,000)	(1,298)	(986)	(1,142)
Operating expense	(5,155)	(3,780)	(2,867)	(3,945)	(5,872)	(6,837)	(8,269)	(6,277)
Operating netback [2]	**16,057**	**14,028**	**14,568**	**6,938**	**6,320**	**4,088**	**8,395**	**12,264**
Realized gain (loss) on derivatives	212	482	783	2,652	5,273	6,294	5,020	3,767
General & administrative expense	(1,047)	(882)	(2,991)	(1,107)	(1,426)	(2,183)	(2,318)	(1,674)
Cash finance expense	(1,807)	(1,736)	(2,043)	(2,512)	(2,442)	(3,641)	(4,510)	(3,519)
Decommissioning expenditures	(957)	(160)	(508)	(28)	(74)	(146)	(236)	—
Corporate netback [2]	**12,458**	**11,732**	**9,809**	**5,943**	**7,651**	**4,412**	**6,351**	**10,838**
Oil and natural gas revenue	**26,753**	**22,274**	**21,409**	**13,805**	**14,926**	**14,698**	**20,459**	**21,991**
Per share - basic	0.54	0.48	0.48	0.30	0.33	0.35	0.58	0.63
Per share - fully diluted	0.54	0.47	0.48	0.30	0.33	0.35	0.58	0.63
Net income (loss)	**(781)**	**7,311**	**(11,842)**	**(4,702)**	**(46,334)**	**(4,110)**	**(36,425)**	**(1,906)**
Per share - basic	(0.02)	0.15	(0.27)	(0.10)	(1.02)	(0.10)	(1.04)	(0.54)
Per share - fully diluted	(0.02)	0.16	(0.27)	(0.10)	(1.02)	(0.10)	(1.04)	(0.54)
Common shares outstanding (000s)								
Basic	49,428	49,428	45,349	45,349	45,349	45,349	35,148	35,148
Fully diluted	49,428	52,664	45,349	45,349	45,349	45,349	35,148	35,148
Weighted avg shares outstanding (000s)								
Basic	49,428	46,754	44,429	45,349	45,349	41,762	35,148	35,148
Fully diluted	49,428	46,989	44,429	45,349	45,349	41,762	35,148	35,148
Total assets	465,794	460,095	439,967	448,404	493,535	544,548	555,145	595,890
Net debt [2]	**(137,069)**	**(130,624)**	**(124,915)**	**(124,310)**	**(152,935)**	**(157,675)**	**(226,742)**	**(226,809)**

[1] *The Company re-classified gross overriding royalty expense from other income to royalty expenses in the Statement of Net Loss and Comprehensive Loss. The comparative information has been re-classified to conform to current presentation.*

[2] *See "Non-GAAP Financial Measures". Note in prior periods Petrus excluded decommissioning expenditures from the calculation of corporate netback. The comparative information has been re-classified to conform to current presentation.*

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, exchange rates, Canadian price differentials and production levels. Petrus' average quarterly production has increased from 8,668 boe/d in the third quarter of 2015 to 10,240 boe/d in the second quarter of 2017. The 18% production increase is attributable to the Company's drilling program in the Ferrier area, partially offset by the disposition of the Company's assets in the Peace River area during the third quarter of 2016.

The Company's total oil and natural gas revenue was $22.0 million in the third quarter of 2015 and $26.8 million in the second quarter of 2017. Total oil and natural gas revenue has increased due to an increase in production in the Ferrier area, offset by a decrease in commodity prices over the two year period. Commodity price improvements enable higher reinvestment in exploration, development and acquisition activities in future periods as they increase the cash flows from operating activities. Commodity price reductions reduce revenues received and can challenge the economics of the

Company's development program as the quantity of reserves may not be economically recoverable. Petrus' investment in its assets, and its ability to replace and grow reserve volumes, will be dependent on its ability to obtain debt and equity financing as well as the funds it receives from operations.

CRITICAL ACCOUNTING ESTIMATES

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

Depletion and reserve estimates
Petroleum and natural gas assets are depleted on a unit of production basis at a rate calculated by reference to proven 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 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.

OTHER FINANCIAL INFORMATION

Significant accounting policies

The Company's significant accounting policies can be read in note 3 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2016.

New standards and interpretations

IFRS 9 Financial Instruments

IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. The Company currently does not apply hedge accounting to its financial instruments and does not currently intend to apply hedge accounting to any of its financial instruments upon adoption of IFRS 9. Upon initial assessment, the Company does not expect that the adoption of IFRS 9 will have a material effect on the Company.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. This standards applies to new contracts dated on or after the effective date and to existing contracts not yet completed as of the effective date. IFRS 15 will be applied by Petrus on January 1, 2018. The Company will not early adopt this standard. The Company has identified all existing customer contracts that are within the scope of the new guidance and has begun to analyze individual contracts or groups of contracts to identify any significant differences and the impact on revenues as a result of implementing the new standard. As the Company continues its contract analysis, it will also quantify the impact, if any, on prior period revenues. The Company will address any system and process changes necessary to compile the information to meet the disclosure requirements of the new standard. As the Company is currently evaluating the impact of this standard, it has not yet determined the effect on its consolidated financial statements.

IAS 7 Disclosure Initiative – Amendments to IAS 7

Effective for annual periods beginning on or after January 1, 2017. The amendments to IAS 7 Statement of Cash Flows require disclosure that enable financial statement users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2017, Petrus plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

Internal Control over Financial Reporting

The Company is required to comply with National Instrument 52-109 *Certification of Disclosure on Issuers' Annual and Interim Filings* ("NI 52-109"). NI 52-109 requires that the Company disclose in its interim MD&A any material weaknesses in the Company's internal control over financial reporting ("ICFR") and any changes in the Company's ICFR that occurred during the period that have materially affected, or are reasonably likely to materially affect the Company's ICFR. The Company confirms that no material weaknesses or such changes were identified in the Company's ICFR during the three months ended June 30, 2017.

NON-GAAP FINANCIAL MEASURES

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

Operating Netback

Operating netback is a common non-GAAP financial measure used in the oil and gas industry which is a useful supplemental measure to evaluate the specific operating performance by product at the oil and gas lease level. The most directly comparable GAAP measure to operating netback is funds flow. Operating netback is calculated as oil and natural gas revenue less royalties, operating and transportation expenses. It is presented on an absolute value and per unit basis.

Corporate Netback

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

	Three months ended Jun. 30, 2017		Three months ended Jun. 30, 2016		**Six months ended June 30, 2017**		Six months ended June 30, 2016	
	$000s	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**
Oil and natural gas revenue	26,753	28.72	14,926	19.44	49,027	27.67	29,624	18.87
Royalty expense	(4,306)	(4.62)	(1,734)	(2.26)	(7,615)	(4.30)	(4,209)	(2.68)
Net oil and natural gas revenue	**22,447**	**24.10**	**13,192**	**17.18**	**41,412**	**23.37**	**25,415**	**16.19**
Transportation expense	(1,235)	(1.32)	(1,000)	(1.30)	(2,392)	(1.35)	(2,299)	(1.46)
Operating expense	(5,155)	(5.53)	(5,872)	(7.65)	(8,935)	(5.04)	(12,710)	(8.09)
Operating netback	**16,057**	**17.25**	**6,320**	**8.23**	**30,085**	**16.98**	**10,406**	**6.64**
Realized gain on financial derivatives	212	0.23	5,273	6.87	694	0.39	11,568	7.37
General & administrative expense	(1,047)	(1.12)	(1,426)	(1.86)	(1,929)	(1.09)	(3,608)	(2.30)
Cash finance expense	(1,807)	(1.94)	(2,442)	(3.18)	(3,543)	2.00	(6,082)	(3.87)
Decommissioning expenditures	(957)	(1.03)	(74)	(0.10)	(1,117)	(0.63)	(220)	(0.14)
Corporate netback and funds flow	**12,458**	**13.39**	**7,651**	**9.96**	**24,190**	**17.65**	**12,064**	**7.70**

Net Debt

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

($000s)	**As at June 30, 2017**	As at June 30, 2016
Current assets adjusted for unrealized financial instruments	**12,688**	11,128
Less: current liabilities adjusted for unrealized financial instruments	**(25,648)**	(7,218)
Less: long term debt	**(124,109)**	(156,845)
Net debt	**(137,069)**	**(152,935)**

Net Debt to Funds Flow

Net debt to funds flow is calculated as the period ending net debt divided by the trailing quarter funds flow (annualized).

OIL AND GAS DISCLOSURES

Our oil and gas reserves statement for the year ended December 31, 2016, which includes disclosure of our oil and gas reserves and other oil and gas information in accordance with NI 51-101, is contained in the AIF. The recovery and reserve estimates contained herein are estimates only and there is no guarantee that the estimated reserves will be recovered.

ADVISORIES

Basis of Presentation

Financial data presented above has largely been derived from the Company's financial statements, prepared in accordance with GAAP which require publicly accountable enterprises to prepare their financial statements using IFRS. Accounting policies adopted by the Company are set out in the notes to the audited financial statements as at and for the twelve months ended December 31, 2016. The reporting and the measurement currency is the Canadian dollar. All financial information is expressed in Canadian dollars, unless otherwise stated.

Forward Looking Statements

Certain information regarding Petrus set forth in this MD&A contains forward-looking statements within the meaning of applicable securities law, that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such statements represent Petrus' internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment, anticipated future debt, production, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance, including targets for debt to funds flow. 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 availability of cash flows from operating activities; expected timing of completion of the expansion of the Ferrier gas plant and the resulting processing and compression capacity at the Ferrier gas plant and expectations of decreased operating expense; sources of financing and the requirement therefor; the growth of Petrus and the availability of the full amount of the revolving credit facility; the treatment of the revolving credit facility following the end of the revolving period; Petrus' ability to fund its financial liabilities; 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 timing for bringing new wells on production; 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 including estimated production; 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; and treatment under governmental regulatory regimes and tax laws. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

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 & gas industry commonly expresses production volumes and reserves on a barrel of oil equivalent ("boe") basis whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved measurement of results and comparisons with other industry participants. Petrus uses the 6:1 boe measure which is the approximate energy equivalency of the two commodities at the burner tip. 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	*dollars per barrel*
$/boe	*dollars per barrel of oil equivalent*
$/GJ	*dollars per gigajoule*
$/mcf	*dollars per thousand cubic feet*
bbl	*barrel*
bbl/d	*barrels per day*
boe	*barrel of oil equivalent*
boe/d	*barrel of oil equivalent per day*
GJ	*gigajoule*
GJ/d	*gigajoules per day*
mcf	*thousand cubic feet*
mcf/d	*thousand cubic feet per day*
mmcf/d	*million cubic feet per day*
NGLs	*natural gas liquids*
WTI	*West Texas Intermediate*

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Expressed in 000's of Canadian dollars)

As at	June 30, 2017	December 31, 2016
ASSETS		
Current		
Cash	—	280
Deposits and prepaid expenses	1,871	1,111
Accounts receivable *(note 13)*	10,817	11,527
Risk management asset *(note 8)*	1,882	22
Total current assets	**14,570**	**12,940**
Non-current		
Risk management asset *(note 8)*	560	—
Exploration and evaluation assets *(notes 3 and 4)*	68,656	64,824
Property, plant and equipment *(notes 3 and 5)*	382,008	362,203
Total assets	**465,794**	**439,967**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness *(note 13)*	1,855	—
Current portion of long term debt *(note 6)*	—	42,000
Accounts payable and accrued liabilities *(note 13)*	23,793	22,066
Risk management liability *(note 8)*	1,146	5,696
Total current liabilities	**26,794**	**69,762**
Non-current liabilities		
Long term debt *(note 6)*	124,109	73,767
Decommissioning obligation *(note 7)*	46,001	43,243
Risk management liability *(note 8)*	470	1,924
Total liabilities	**197,374**	**188,696**
Shareholders' equity		
Share capital *(note 9)*	429,955	419,671
Contributed surplus	7,745	7,410
Deficit	(169,280)	(175,810)
Total shareholders' equity	**268,420**	**251,271**
Total liabilities and shareholders' equity	**465,794**	**439,967**

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

Approved by the Board of Directors,

(signed) "Don T. Gray"

Don T. Gray
Chairman

(signed) "Donald Cormack"

Donald Cormack
Director

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

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
REVENUE				
Oil and natural gas revenue	**26,753**	**14,926**	**49,027**	**29,624**
Royalty expense	(4,306)	(1,734)	(7,615)	(4,209)
Net oil and natural gas revenue	**22,447**	**13,192**	**41,412**	**25,415**
Net gain (loss) on financial derivatives *(note 8)*	588	(11,124)	9,118	56
	23,035	**2,068**	**50,530**	**25,471**
EXPENSES				
Operating *(note 11)*	5,155	5,872	8,935	12,710
Transportation	1,235	1,000	2,392	2,299
General and administrative *(note 12)*	1,047	1,426	1,929	3,608
Share-based compensation *(note 9)*	116	103	201	228
Finance *(note 15)*	2,053	2,582	4,027	6,289
Exploration and evaluation *(note 4)*	896	101	1,585	899
Depletion and depreciation *(note 5)*	13,314	12,318	24,931	24,882
Impairment *(note 5)*	—	25,000	—	25,000
Total expenses	**23,816**	**48,402**	**44,000**	**75,915**
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**(781)**	**(46,334)**	**6,530**	**(50,444)**
Net income (loss) per common share				
Basic and diluted *(note 10)*	**(0.02)**	**(1.02)**	**0.14**	**(1.16)**

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Expressed in 000's of Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2015	**346,106**	**6,620**	**(108,822)**	**243,904**
Net loss	—	—	(50,444)	(50,444)
Issuance of common shares	75,488	—	—	75,488
Share issue costs	(1,755)	—	—	(1,755)
Share-based compensation	—	380	—	380
Balance, June 30, 2016	**419,839**	**7,000**	**(159,266)**	**267,573**
Balance, December 31, 2016	**419,671**	**7,410**	**(175,810)**	**251,271**
Net income	—	—	6,530	6,530
Issuance of common shares *(note 9)*	10,319	—	—	10,319
Share issue costs *(note 9)*	(35)	—	—	(35)
Share-based compensation *(note 9)*	—	335	—	335
Balance, June 30, 2017	**429,955**	**7,745**	**(169,280)**	**268,420**

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Expressed in 000's of Canadian dollars)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
OPERATING ACTIVITIES				
Net income (loss)	**(781)**	**(46,334)**	**6,530**	**(50,444)**
Adjust items not affecting cash:				
Share-based compensation *(note 9)*	116	103	201	228
Unrealized gain (loss) on financial derivatives (*note 8)*	(376)	16,397	(8,424)	11,512
Non-cash finance expenses *(note 15)*	246	140	484	207
Depletion and depreciation *(note 5)*	13,314	12,318	24,931	24,882
Impairment *(notes 4 and 5)*	—	25,000	—	25,000
Exploration and evaluation expense *(note 4)*	896	101	1,585	899
Decommissioning expenditures *(note 7)*	(957)	(74)	(1,117)	(220)
Funds flow	**12,458**	**7,651**	**24,190**	**12,064**
Change in operating non-cash working capital *(note 16)*	3,246	(1,150)	993	4,545
Cash flows from operating activities	**15,704**	**6,501**	**25,183**	**16,609**
FINANCING ACTIVITIES				
Issue of common shares *(note 9)*	—	—	10,319	75,488
Share issue costs *(note 9)*	—	(200)	(35)	(1,755)
Repayment of term loan	—	—	(7,000)	—
Issuance (repayment) of revolving credit facility	4,164	1,845	16,233	(78,155)
Increase in bank indebtedness	1,855	—	1,855	—
Transaction costs on debt	(500)	—	(891)	—
Change in financing non-cash working capital *(note 16)*	(100)	—	(216)	—
Cash flows from (used in) financing activities	**5,419**	**1,645**	**20,265**	**(4,422)**
INVESTING ACTIVITIES				
Property and equipment acquisitions *(note 3)*	—	—	(8,818)	—
Exploration and evaluation asset expenditures *(note 4)*	(451)	(136)	(583)	(265)
Petroleum and natural gas property expenditures *(note 5)*	(18,346)	(2,576)	(37,076)	(11,724)
Other capital expenditures	(106)	—	(152)	—
Change in investing non-cash working capital *(note 16)*	(5,171)	(7,326)	901	(1,432)
Cash flows (used in) investing activities	**(24,074)**	**(10,038)**	**(45,728)**	**(13,421)**
Increase in cash	(2,951)	(1,892)	(280)	(1,234)
Cash, beginning of period	2,951	1,892	280	1,234
Cash, end of period	—	—	—	—
Cash interest paid	1,807	1,943	4,027	5,426

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at June 30, 2017 and for the three and six months ended June 30, 2017 and 2016

1. NATURE OF THE ORGANIZATION

Petrus Acquisition Corp. ("New Petrus") was incorporated under the laws of the Province of Alberta on November 25, 2015. On February 2, 2016, New Petrus changed its name to Petrus Resources Ltd. ("Petrus" or the "Company"). The Company has two subsidiaries, Petrus Resources Corp. (formerly Petrus Resources Ltd. ("Old Petrus")) and Petrus Resources Inc. (formerly PhosCan Chemical Corp. ("PhosCan")).

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 interim consolidated financial statements, for the three and six months ended June 30, 2017 and prior year comparative periods, were approved by the Company's Audit Committee and Board of Directors on August 9, 2017.

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared by management on a historical basis, except for certain financial instruments that have been measured at fair value. These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting." Certain information and disclosures normally included in the notes to the annual financial statements have been condensed. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2016 which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The preparation of these condensed interim consolidated financial statements requires the use of certain critical accounting estimates and also requires management to exercise judgment in applying the Company's accounting policies. In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended December 31, 2016. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2016. These condensed interim consolidated financial statements are presented in Canadian dollars, except where otherwise noted.

3. ACQUISITIONS AND DISPOSITIONS

Property acquisition

On February 28, 2017 Petrus closed the acquisition of oil and natural gas assets for total cash consideration of $8.8 million net of closing adjustments. The acquisition included approximately 3,200 undeveloped Cardium leases in is Ferrier core area, approximately 40 boe/d of production and a non-producing well. The purchase price was allocated as:

Fair value of net assets acquired $000s	
Exploration and evaluation assets	8,000
Petroleum and natural gas properties and equipment	969
Decommissioning obligations	(151)
Total net assets acquired	**8,818**

Property disposition - Peace River

On July 8, 2016 Petrus closed the disposition of its oil and gas interests in the Peace River area of Alberta for total consideration of $29.4 million after post-closing adjustments, comprised of $28.4 million in cash and 1.0 million shares of the purchaser. The Company recorded a gain of $0.2 million related to the disposition during the year ended December 31, 2016.

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

Net assets disposed $000s	
Exploration and evaluation assets	7,000
Petroleum and natural gas properties and equipment	37,496
Decommissioning obligations	(15,277)
Total net assets disposed	**29,219**

Asset Exchange Agreement

On September 30, 2016, Petrus closed a property swap transaction disposing of non-core assets in its Foothills area for assets in its Ferrier core area for the swap assets. No gain or loss was realized on the transaction.

The following tables summarize the net assets disposed of and acquired pursuant to the swap:

Net assets disposed $000s	
Exploration and evaluation assets	3,509
Petroleum and natural gas properties and equipment	10,847
Decommissioning obligations	(2,773)
Total net assets disposed	**11,583**

Fair value of net assets acquired $000s	
Petroleum and natural gas properties and equipment	12,388
Decommissioning obligations	(805)
Total net assets acquired	**11,583**

Property dispositions
During the third quarter of 2016, Petrus closed other dispositions of non-core exploration and evaluation assets and petroleum and natural gas properties and equipment for total cash consideration of $0.5 million. No gain or loss was realized on these transactions.

4. EXPLORATION AND EVALUATION ASSETS

The components of the Company's exploration and evaluation assets are as follows:

$000s	
Balance, December 31, 2015	**88,178**
Additions	3
Exploration and evaluation expense	(2,426)
Capitalized G&A	629
Capitalized share-based compensation	51
Impairment loss on assets held for sale	(4,000)
Property dispositions	(10,767)
Transfers to property, plant and equipment	(6,845)
Balance, December 31, 2016	**64,824**
Additions	310
Property acquisition *(note 3)*	8,000
Exploration and evaluation expense	(1,585)
Capitalized G&A	273
Capitalized share-based compensation *(note 9)*	33
Transfers to property, plant and equipment *(note 5)*	(3,199)
Balance, June 30, 2017	**68,656**

For the three and six months ended June 30, 2017, the Company incurred exploration and evaluation expense in the Consolidated Statement of Net Income (Loss) of $0.9 million and $1.6 million, respectively, which relates to expired and near expiry undeveloped, non-core land (three and six months ended June 30, 2016 – $0.1 million and $0.9 million respectively). The Company acquired $8.0 million of undeveloped land in the Ferrier area during the six months ended June 30, 2017 (note 3).

During the three and six months ended June 30, 2017, the Company capitalized $0.1 million and $0.3 million, respectively, of general and administrative expenses ("G&A") (three and six months ended June 30, 2016 – $0.1 million and $0.2 million respectively) and $0.02 million and $0.03 million of non-cash share-based compensation directly attributable to exploration activities (three and six months ended June 30, 2016 – $0.02 million and $0.04 million respectively).

In accordance with IFRS, an impairment test is performed if the Company identifies an indicator of impairment. At June 30, 2017, the Company determined that no indicators of impairment existed on its exploration and evaluation assets; therefore, an impairment test was not performed. At December 31, 2016, the Company determined that indicators of impairment existed on certain exploration and evaluation assets representing undeveloped land in the Foothills CGU. The indicators of impairment included the results of recent crown land sale in the area. Petrus determined that the fair value of its Foothills undeveloped land exceeded the carrying value and therefore no impairment loss was realized. The Company determined fair value by analyzing the geological characteristics of the land, in addition to a review of market land sale information as it relates specifically to Petrus' Foothills undeveloped land.

5. PROPERTY, PLANT AND EQUIPMENT

The components of the Company's property, plant and equipment assets are as follows:

$000s	Cost	Accumulated DD&A	Net book value
Balance, December 31, 2015	**718,314**	**(285,422)**	**432,892**
Additions	26,861	—	26,861
Property acquisitions	12,387	—	12,387
Property (dispositions)	(50,172)	—	(50,172)
Capitalized G&A	1,844	—	1,844
Capitalized share-based compensation	211	—	211
Transfers from exploration and evaluation assets	6,845	—	6,845
Depletion & depreciation	—	(45,384)	(45,384)
Decrease in decommissioning provision	(2,281)	—	(2,281)
Impairment loss	—	(21,000)	(21,000)
Balance, December 31, 2016	**714,009**	**(351,806)**	**362,203**
Additions	36,409	—	36,409
Property acquisitions *(note 3)*	969	—	969
Capitalized G&A	818	—	818
Capitalized share-based compensation *(note 9)*	101	—	101
Transfers from exploration and evaluation assets *(note 4)*	3,199	—	3,199
Depletion & depreciation	—	(24,931)	(24,931)
Increase in decommissioning provision *(note 7)*	3,240	—	3,240
Balance, June 30, 2017	**758,745**	**(376,737)**	**382,008**

At June 30, 2017, estimated future development costs of $269.1 million (December 31, 2016 – $269.1 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 months ended June 30, 2017, the Company capitalized $0.4 million and $0.8 million, respectively, of general and administrative expenses ("G&A") (three and six months ended June 30, 2016 – $0.2 million and $0.7 million respectively) and non-cash share-based compensation of $0.06 million and $0.10 million, respectively, directly attributable to development activities (three and six months ended June 30, 2016 – $0.05 million and $0.1 million respectively).

During the six months ended June 30, 2017, the Company acquired developed oil and natural gas assets of $1.0 million (note 3).

During the third quarter of 2016, the Company sold its oil and natural gas interests in the Peace River area of Alberta to a private company for total consideration of $30.0 million, subject to customary closing adjustments (see note 3 - Property Disposition - Peace River). On July 8, 2016 Petrus closed the disposition of its oil and gas interests in the Peace River area of Alberta for total consideration of $29.5 million after post-closing adjustments, comprised of $28.5 million in cash and 1.0 million shares of the purchaser. The Company sold the shares during the fourth quarter of 2016 for $1.07 million. $1.0 million was recorded as cash proceeds for the disposition and the Company recognized a gain of $0.1 million related to the disposition of shares during the year ended December 31, 2016. On June 30, 2016, these assets were recorded at the lesser of fair value less costs of disposal and their carrying amount, resulting in an impairment loss of $25.0 million ($21.0 million recorded to Property, Plant and Equipment and $4.0 million recorded to Exploration & Evaluation Assets). The impairment was recorded as an impairment loss on the Consolidated Statements of Net Loss.

In accordance with IFRS, an impairment test is performed on a Cash Generating Unit ("CGU") if the Company identifies any indicators of impairment. At June 30, 2017, the Company determined that there were no indicators of impairment on any of its CGUs; therefore, an impairment test was not performed. For the year ended December 31, 2016, the Company determined there to be indicators of impairment regarding the Foothills and Central Alberta CGUs, based on the decline in oil and gas forward prices that had affected the economic values of PP&E as well as the fact the carrying amount of the Company's net assets exceed its market capitalization. The Company performed an impairment test for these CGUs, and no impairment charge was recorded as the recoverable amount of each CGU exceeded its carrying value. The recoverable amounts of the Company's CGUs were estimated at fair value less costs of disposal.

6. DEBT

At June 30, 2017 Petrus had two debt instruments outstanding. The first is a reserve-based, revolving credit facility with a syndicate of lenders. The total facility is comprised of an operating facility and a syndicated term-out facility (altogether the "Revolving Credit Facility" or "RCF"). The second is a subordinated term loan (the "Term Loan").

(a) Revolving Credit Facility

At June 30, 2017 the Company's RCF was comprised of a $20 million (December 31, 2016 - $20 million) operating facility and a $100 million (December 31, 2016 - $86 million) syndicated term-out facility. Lender consent is required for total borrowings against the RCF exceeding $106 million. The term-out facility has a revolving period that ends May 31, 2018 at which time it will either be renewed or converted to a one-year term facility. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

At June 30, 2017, the Company had a $0.3 million letter of credit outstanding against the RCF (December 31, 2016 – $0.3 million) and had drawn $90.0 million against the RCF (December 31, 2016 – $73.8 million).

The amount of the RCF is subject to a borrowing base review performed on a semi-annual basis by the lenders, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. In addition, asset dispositions require majority lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF.

(b) Term Loan

At June 30, 2017 the Company had a $35 million (December 31, 2016 – $42 million) Term Loan outstanding (excluding $0.9 million of deferred financing costs), which is due October 8, 2019. The Term Loan bears interest that is due and payable monthly and accrues at a per annum rate of the (three-month) Canadian Dealer offered Rate (CDOR) plus 700 basis points.

Covenants

The Company's RCF and Term Loan are subject to certain financial covenants. For the financial covenants' definitions and calculation methodology refer to the Company's Audited Consolidated Financial Statements as at and for the year ended December 31, 2016.

The key financial covenants as at June 30, 2017 are summarized in the following table.

Covenant Description	Required Ratio	As at June 30, 2017
Working Capital Ratio	Over 1.00	1.66
Proved Asset Coverage Ratio (1)	Over 1.25	2.14
PDP Asset Coverage Ratio (1)	Over 1.00	1.44
Debt to EBITDA Ratio	Under 3.50	2.62

(1) Calculations are based upon the Company's December 31, 2016 reserve report evaluated by Sproule Associates Ltd.

At June 30, 2017 the Company is in compliance with all debt covenants.

7. DECOMMISSIONING OBLIGATION

The decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The estimated future cash flows have been discounted using an average risk free rate of 2.07 percent and an inflation rate of 2.00 percent (December 31, 2016 – 2.24 percent and 2.00 percent, respectively). Changes in estimates in 2016 and 2017 are due to the changes in the risk free rate and changes in the estimated future cash flow to reclaim the wells and facilities. The Company has estimated the net present value of the decommissioning obligations to be $46.0 million as at June 30, 2017 ($43.2 million at December 31, 2016). The undiscounted, uninflated total future liability at June 30, 2017 is $48.5 million ($46.0 million at December 31, 2016). The payments are expected to be incurred over the operating lives of the assets.

The following table reconciles the decommissioning liability:

$000s	
Balance, December 31, 2015	**64,357**
Property acquisitions	805
Property dispositions	(19,854)
Liabilities incurred	1,555
Liabilities settled	(756)
Change in estimates	(3,837)
Accretion expense	973
Balance, December 31, 2016	**43,243**
Property acquisitions *(note 3)*	151
Liabilities incurred	688
Liabilities settled	(1,117)
Change in estimates	2,552
Accretion expense	484
Balance, June 30, 2017	**46,001**

8. FINANCIAL RISK MANAGEMENT

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus had outstanding as at June 30, 2017:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN$/GJ)
Natural Gas Swaps			
Jul. 1, 2017 to Oct. 31, 2017	Fixed price	20,650	$2.62
Jul. 1, 2017 to Dec. 31, 2017	Fixed price	2,000	$2.99
Nov. 1, 2017 to Mar. 31, 2018	Fixed price	20,500	$2.98
Nov. 1, 2017 to Oct. 31, 2018	Fixed price	2,000	$2.52
Apr. 1, 2018 to Oct. 31, 2018	Fixed price	14,000	$2.40
Nov. 1, 2018 to Mar. 31, 2019	Fixed price	8,000	$2.60
Natural Gas Collars			
Jul. 1, 2017 to Oct. 31, 2017	Costless collar	2,000	$2.50 – 2.75
Nov. 1, 2017 to Mar. 31, 2018	Costless collar	2,000	$2.80 – 3.35

Contract Period	Type	Total Daily Volume (Bbl)	Average Price (CDN$/Bbl)
Crude Oil Swaps			
Jul. 1, 2017 to Sep. 30, 2017	Fixed price	750	$60.47
Oct. 1, 2017 to Dec. 31, 2017	Fixed price	350	$68.93
Jan. 1, 2018 to Mar. 31, 2018	Fixed price	100	$71.85
Apr. 1, 2018 to Jun. 30, 2018	Fixed price	400	$71.15
Apr. 1, 2018 to Dec. 31, 2018	Fixed price	50	$70.75
Jul. 1, 2018 to Sep. 30, 2018	Fixed price	400	$70.85
Jan. 1, 2018 to Dec. 31, 2018	Fixed price	700	$64.73
Jan. 1, 2019 to Mar. 31, 2019	Fixed price	100	$61.50
Crude Oil Collars			
Jul. 1, 2017 to Sep. 30, 2017	Costless collar	500	$65.00-74.20
Jul. 1, 2017 to Jun. 30, 2018	Costless collar	100	$65.00-75.55
Oct. 1, 2017 to Dec. 31, 2017	Costless collar	400	$65.00-75.85
Oct. 1, 2017 to Dec. 31, 2017	Costless collar	100	$60.00-73.20
Oct. 1, 2017 to Mar. 31, 2018	Costless collar	300	$55.00-64.02
Jan. 1, 2018 to Mar. 31, 2018	Costless collar	300	$60.00-73.60
Oct. 1, 2018 to Dec. 31, 2018	Costless collar	50	$60.00-70.00
Jan. 1, 2019 to Mar. 31, 2019	Costless collar	50	$60.00-69.50

Risk management asset and liability:

$000s At June 30, 2017	Asset	Liability
Current commodity derivatives	1,882	1,146
Non-current commodity derivatives	560	470
	2,442	**1,616**

$000s At December 31, 2016	Asset	Liability
Current commodity derivatives	22	5,696
Non-current commodity derivatives	—	1,924
	22	**7,620**

Earnings Impact of Realized and Unrealized Gains (Losses) on Financial Derivatives:

$000s	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Six months ended Jun. 30, 2017	Six months ended Jun. 30, 2016
Realized gain on financial derivatives	212	5,273	694	11,568
Unrealized gain (loss) on financial derivatives	376	(16,397)	8,424	(11,512)
Net gain (loss) on financial derivatives	**588**	**(11,124)**	**9,118**	**56**

Subsequent to June 30, 2017, the Company entered into the following financial derivative contracts:

Crude Oil Contract Period	Contract Type	Daily Volume (Bbl)	Price (CAD$/Bbl)
Oct. 1, 2017 to Dec. 31, 2017	Fixed price	200	$60.00
Jul. 1, 2017 to Sep. 30, 2017	Fixed price	200	$59.00
Oct. 1, 2017 to Dec. 31, 2017	Fixed price	100	$60.50
Oct. 1, 2017 to Dec. 31, 2017	Fixed price	100	$60.50
Oct. 1, 2017 to Dec. 31, 2017	Fixed price	200	$60.75
Jan. 1, 2018 to Dec. 31, 2018	Fixed price	100	$61.22
Oct. 1, 2018 to Jun. 30, 2019	Fixed price	300	$61.60
Jan. 1, 2019 to Mar. 31, 2019	Fixed price	200	$61.45

9. SHARE CAPITAL

Authorized

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

Issued and Outstanding

Common shares ($000s *except number of shares*)	Number of Shares	Amount
Balance, December 31, 2015	**35,148,150**	**346,106**
Common shares issued under equity financing	4,054,250	30,000
Common shares issued under the arrangement agreement	6,146,792	45,487
Share issue costs	—	(1,922)
Balance, December 31, 2016	**45,349,192**	**419,671**
Common shares issued under equity financing (a)	4,078,708	10,319
Share issue costs	—	(35)
Balance, June 30, 2017	**49,427,900**	**429,955**

Share Issuances

(a) On February 28, 2017 the Company issued 4,078,708 common shares at a price of $2.53 per share through a non-brokered private placement.

SHARE-BASED COMPENSATION

Stock Options

The Company has a stock option plan in place whereby it may issue stock options to employees, consultants and directors of the Company. The aggregate number of shares that may be acquired upon exercise of all options granted pursuant to the plans shall, at any date or time of determination, be equal to ten percent (10%) of the number that is equal to (i) the number of the Company's basic common shares then issued and outstanding; minus (ii) a number equal to five (5) times the number of common shares that are issuable upon exercise of the then outstanding Performance Warrants 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.

At June 30, 2017, 2,751,070 (December 31, 2016 – 1,976,580) total stock options were outstanding. The summary of stock option activity is presented below:

	Number of stock options	Weighted average exercise price
Balance, December 31, 2015	**1,453,750**	**$9.28**
Granted	791,580	$1.98
Forfeited or expired	(268,750)	$7.00
Balance, December 31, 2016	**1,976,580**	**$6.56**
Granted	1,449,900	$2.24
Forfeited or expired	(675,410)	$6.67
Balance, June 30, 2017	**2,751,070**	**$4.29**
Exercisable, June 30, 2017	**431,667**	**$12.31**

The following table summarizes 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)
$1.98 - $2.25	2,193,570	$2.15	4.65	—	—	—
$9.00 - $16.00	557,500	$12.70	2.07	431,667	$12.31	2.02
	2,751,070	**$4.29**	**4.13**	**431,667**	**$12.31**	**2.02**

On February 28, 2017 and June 22, 2017, the Company granted options which vest equally over three (3) years, and upon vesting, expire 30 business days thereafter. The weighted average fair value of each option granted in 2017 of $0.64 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2017	2016
Risk free interest rate	0.80% - 0.95%	0.67% - 0.73%
Expected life (years)	1.08 - 3.08	1.08 - 3.08
Estimated volatility of underlying common shares (%)	65%	55%
Estimated forfeiture rate	20%	20%
Expected dividend yield (%)	0%	0%

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

Performance Warrants

The Company has issued performance warrants to employees, consultants and directors of the Company ("Performance Warrants"). 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 Performance Warrants expire five years from the date of issuance. Upon exercise of the Performance 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 Performance Warrants granted shall not exceed 20% of the 8.0 million issued and outstanding common shares as at April 30, 2012.

At June 30, 2017, 86,000 (December 31, 2016 – 429,667) Performance Warrants were issued and outstanding and are summarized in the table below.

	Number of warrants outstanding	Weighted Average Exercise Price ($)
Balance, December 31, 2015	**1,568,568**	**$8.07**
Forfeited or expired	(1,138,901)	$8.02
Balance, December 31, 2016	**429,667**	**$8.14**
Forfeited or expired	(343,667)	$8.10
Balance, June 30, 2017	**86,000**	**$8.29**
Exercisable, June 30, 2017	**49,120**	**$8.17**

The following table summarizes information about the Performance Warrants outstanding at June 30, 2017:

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)**
$8.00 - $9.00	86,000	$8.29	1.07	49,120	$8.17	0.50
Total	**86,000**	**$8.29**	**1.07**	**49,120**	**$8.17**	**0.50**

No Performance Warrants were issued in the six months ended June 30, 2017 or in the year ended December 31, 2016**.**

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

$000s	**Three months ended Jun. 30, 2017**	**Three months ended Jun. 30, 2016**	**Six months ended Jun. 30, 2017**	**Six months ended Jun. 30, 2016**
Expensed	116	103	201	228
Capitalized to exploration and evaluation assets	19	17	33	38
Capitalized to property, plant and equipment	59	51	101	114
Total share-based compensation	**194**	**171**	**335**	**380**

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 Jun. 30, 2017	**Three months ended Jun. 30, 2016**	**Six months ended Jun. 30, 2017**	**Six months ended Jun. 30, 2016**
Net income (loss) for the period ($000s)	**(781)**	**(46,334)**	**6,530**	**(50,444)**
Weighted average number of common shares – basic (000s)	49,428	45,349	48,098	43,556
Weighted average number of common shares – diluted (000s)	49,428	45,349	48,140	43,556
Net income (loss) per common share – basic	**(0.02)**	**(1.02) $**	**0.14 $**	**(1.16)**
Net income (loss) per common share – diluted	**(0.02)**	**(1.02) $**	**0.14 $**	**(1.16)**

In computing diluted earnings per share for the three and six months ended June 30, 2017, 86,000 (June 30, 2016 – 1,568,568) warrants and 2,751,070 (June 30, 2016 – 1,453,750) outstanding stock options were considered. There were 86,000 warrants and 1,995,400 stock options that were excluded from the calculation as their impact is anti-dilutive.

11. OPERATING EXPENSES

The Company's gross operating expenses for the three and six months ended June 30, 2017 were $5.4 million and $9.4 million, respectively, (three and six months ended June 30, 2016 – $6.8 million and $14.4 million). For the three and six months ended June 30, 2017, this includes $1.6 million and $2.6 million, respectively, of processing, gathering and compression charges (three and six months ended June 30, 2016 – $2.2 million and $3.4 million).

The Company generated processing income recoveries of $0.3 million and $0.5 million for the three and six months ended June 30, 2017 (three and six months ended June 30, 2016 – $0.9 million and $1.7 million), which reduced the Company's gross operating expenses to $5.2 million and $8.9 million for the three and six months ended June 30, 2017 (three and six months ended June 30, 2016 – $5.9 million and $12.7 million).

12. GENERAL AND ADMINISTRATIVE EXPENSES

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

$000s	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Six months ended Jun. 30, 2017	Six months ended Jun. 30, 2016
Personnel, consultants and directors	1,562	1,171	2,974	2,304
Office costs	760	585	1,282	1,183
Public company expenses	16	31	58	248
Regulatory expenses	154	35	403	641
Transaction costs	3	—	3	29
Capitalized general and administrative and overhead recoveries	(568)	(396)	(1,091)	(797)
General and administrative expense	**1,927**	**1,426**	**3,629**	**3,608**

13. FINANCIAL INSTRUMENTS

Risks associated with financial instruments

Credit risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risk. Concentration of credit risk is mitigated by marketing the majority of the Company's production to reputable and financially sound purchasers under normal industry sale and payment terms. As is common in the petroleum and natural gas industry in western Canada, Petrus' receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Of the $10.8 million of accounts receivable outstanding at June 30, 2017 (December 31, 2016 – $11.5 million), $9.3 million is owed from 9 parties (December 31, 2016 – $10.5 million from 10 parties), and the balances were received subsequent to quarter end. The Company considers accounts receivable outstanding past 120 days to be 'past due'. At June 30, 2017, the Company had an allowance for doubtful accounts of $0.04 million (nil at December 31, 2016). As at June 30, 2017, 98% of Petrus' accounts receivable were aged less than 120 days and 2% of Petrus' accounts receivable were aged greater than 120 days. The Company does not anticipate any significant collection issues.

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

Liquidity risk

At June 30, 2017, the Company had a $120 million RCF (lender consent is required for total borrowings against the RCF exceeding $106 million see note 6), of which $29.7 million was undrawn (December 31, 2016 – $31.9 million was undrawn). While the Company is exposed to the risk of reductions to the borrowing base of the RCF, the Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through cash flows from operating activities and available credit capacity from its RCF. Further, Petrus completed its semi-annual review of its revolving credit facility on May 31, 2017, whereby the syndicate of lenders unanimously agreed to increase the facility to $120 million. The next scheduled borrowing base redetermination date for the RCF is on or before October 31, 2017.

The following are the contractual maturities of financial liabilities as at June 30, 2017:

$000s	Total	< 1 year	1-5 years
Accounts payable	23,793	23,793	—
Risk management liability	1,616	1,146	470
Bank debt	126,855	1,855	125,000
Total	**152,264**	**26,794**	**125,470**

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash, bank indebtedness and accounts receivable are not exposed to significant interest rate risk. The RCF and Term Loan are exposed to interest rate cash flow risk as the instruments are priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed to interest rate risk. A 1% increase in the Canadian prime interest rate during the three and six months ended June 30, 2017 would have decreased net income by approximately $0.3 million and 0.6 million, respectively, which relates to interest expense on the average outstanding RCF and Term Loan during the period assuming that all other variables remain constant (three and six months ended June 30, 2016 – $0.4 million and $1.0 million). A 1% decrease in the Canadian prime interest rate during the period would result in an opposite impact on net income.

Commodity Price Risk

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

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

For the three and six months ended June 30, 2017, it is estimated that a $0.25/GJ change in the price of natural gas would have changed net income by $2.9 million and $6.1 million, respectively (three and six months ended June 30, 2016 – $3.1 million and $6.7 million). For the three and six months ended June 30, 2017, it is estimated that a $5.00/CDN WTI/bbl change in the price of oil would have changed net income by $2.5 million and $4.2 million, respectively (three and six months ended June 30, 2016 – $2.0 million and $5.1 million). An opposite change in commodity prices would result in an opposite impact on net income.

14. CAPITAL MANAGEMENT

The Company's general capital management policy is to maintain a sufficient capital base in order to manage its business to enable the Company to increase the value of its assets and therefore its underlying share value. In the management of capital, the Company includes share capital and total net debt, which is made up of debt and working capital (current assets less current liabilities). The Company manages its capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Petrus may issue new equity, increase or decrease debt, adjust capital expenditures and acquire or dispose of assets.

15. FINANCE EXPENSES

The components of finance expenses are as follows:

$000s	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Six months ended Jun. 30, 2017	Six months ended Jun. 30, 2016
Cash:				
Interest	1,807	2,428	3,543	6,033
Foreign exchange	—	14	—	49
Total cash finance expenses	1,807	2,442	3,543	6,082
Non-cash:				
Accretion on decommissioning obligations *(note 7)*	246	140	484	207
Total non-cash finance expenses	246	140	484	207
Total finance expenses	**2,053**	**2,582**	**4,027**	**6,289**

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

$000s	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Six months ended Jun. 30, 2017	Six months ended Jun. 30, 2016
Source (use) in non-cash working capital:				
Deposits and prepaid expenses	(787)	(634)	(760)	(521)
Accounts receivable	(186)	700	710	8,256
Accounts payable and accrued liabilities	(1,052)	(8,542)	1,727	(4,622)
	(2,025)	**(8,476)**	**1,677**	**3,113**
Operating activities	3,246	(1,150)	993	4,545
Financing activities	(100)	—	(216)	—
Investing activities	(5,171)	(7,326)	901	(1,432)

17. COMMITMENTS

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

$000s	Total	< 1 year	1-5 years	> 5 years
Corporate office lease	1,849	715	1,133	—
Firm service transportation	7,098	815	4,074	2,210
Total commitments	**8,947**	**1,530**	**5,207**	**2,210**

18. RELATED PARTY TRANSACTIONS

On February 28, 2017, the Chairman of the Company acquired 1,585,000 common shares ("Common Shares") of Petrus Resources Ltd. at a price of $2.53 per Common Share, pursuant to a non-brokered private placement of Common Shares (see note 9). The total consideration paid by the Chairman for the acquisition of the 1,585,000 Common Shares was $4,010,050.

CORPORATE INFORMATION

OFFICERS

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President and
Chief Executive Officer

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

Marcus Schlegel, P. Eng.
Vice President, Engineering

Brett Booth, BA
Vice President, Land

Ross Keilly, BSc, MSc
Vice President, Exploration

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Neil Korchinski
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Patrick Arnell
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Donald Cormack
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Brian Minnehan
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Jeff Zlotky
Irving, Texas

Stephen White
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Calgary, Alberta

AUDITOR
Ernst & Young LLP
Chartered Professional Accountants
Calgary, Alberta

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