

THIRD QUARTER REPORT

For the three and nine months ended September 30, 2017

Petrus Resources Ltd. (“Petrus” or the “Company”) (TSX: PRQ) is pleased to report financial and operating results for the third 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 in order to maximize the Company's return on investment.

HIGHLIGHTS

- Petrus generated funds flow of \$7.7 million in the third quarter of 2017, a 30% increase relative to the \$5.9 million generated in the third quarter of 2016. The 30% increase in funds flow is attributed to 49% higher production and 11% lower operating expenses (on a per boe basis) from the prior year. This production growth and lower cost structure reflects the Company's strategic shift to focus on developmental drilling and facility ownership and control in the Ferrier area.
- Third quarter average production was 10,567 boe/d in 2017 compared to 7,100 boe/d for the same period in 2016. The 49% increase is attributable to the Company's drilling program at Ferrier, where production has grown 110% since the third quarter of 2016.
- Total operating expenses have decreased 11% from \$6.04 per boe in the third quarter of 2016 to \$5.42 per boe in the third quarter of 2017. Due to facility constraints, a portion of the Company's Ferrier production was processed through third party facilities during the third quarter of 2017. Ferrier operating expenses are expected to decrease further in the fourth quarter as the Ferrier gas plant expansion is now complete⁽¹⁾.
- Petrus utilizes financial derivative contracts to mitigate commodity price risk. The Company's realized gain on financial derivatives in the third quarter of 2017 increased the Company's corporate netback⁽²⁾ by \$1.88 per boe. The realized hedging gain increased significantly from the \$0.23 per boe realized in the second quarter of 2017 to \$1.88 per boe in the third quarter of 2017. The increase is attributed to the recent volatility in commodity prices, natural gas in particular. As a percentage of third quarter 2017 production, Petrus has derivative contracts in place for 60% and 70% of its natural gas and oil and natural gas liquids production, respectively, up to the end of the next fiscal year.
- During the third quarter Petrus entered into a farm-in agreement (the “Farm-in Agreement”) to drill two extended reach horizontal (“ERH”) Cardium wells in Ferrier. Upon completion of these wells, Petrus will also earn a working interest in three additional sections of land in Ferrier. Subsequent to the end of the third quarter, the ERH wells were each drilled with a lateral length of approximately 2 sections. The Company estimates the Farm-in Agreement will contribute 16 gross (5.2 net) Cardium locations to its drilling inventory⁽¹⁾.
- In order to accommodate for the Farm-in Agreement, Petrus' Board of Directors approved a \$10 million increase to the Company's capital budget for 2017 to a range of \$60 to \$70 million, from the \$50 to \$60 million previously approved. The budget increase is expected to be funded through availability under the Company's existing credit facilities⁽¹⁾.
- During the third quarter of 2017, Petrus participated in or spud 6 gross (4.7 net) Cardium wells in the Ferrier area. The Ferrier gas plant expansion, increasing the plant's capacity from 30 mmcf/d to 60 mmcf/d, was completed in early October. With the new processing capacity available at the plant, the fracture stimulation operations for the new wells were scheduled for the fourth quarter. The wells are expected to be brought onstream later in the fourth quarter⁽¹⁾.
- Subsequent to the end of the third quarter of 2017 Petrus completed the semi-annual review of its revolving credit facility (“RCF”). The RCF syndicate of lenders increased the borrowing base from \$120 million to \$130 million. In addition, the Company's total debt borrowing limit was increased from \$141 million to \$155 million. Petrus' second lien term loan (“Term Loan”) has \$35 million outstanding therefore lender consent, from both the RCF syndicate and Petrus' Term Loan lender, is required for total borrowings against the RCF that exceed \$120 million.

⁽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 Sept. 30, 2017	Three months ended Sept. 30, 2016	Three months ended Jun. 30, 2017	Three months ended Mar. 31, 2017	Three months ended Dec. 31, 2016
Average Production					
Natural gas (mcf/d)	45,550	30,009	42,392	40,332	37,327
Oil (bbl/d)	1,877	1,419	2,015	1,542	1,452
NGLs (bbl/d)	1,098	680	1,160	1,067	922
Total (boe/d)	10,567	7,100	10,240	9,331	8,595
Total (boe)	972,140	653,215	931,821	839,746	790,806
Natural gas sales weighting	72%	70%	69%	72%	72%
Realized Prices					
Natural gas (\$/mcf)	1.66	2.53	3.29	2.85	3.29
Oil (\$/bbl)	51.23	44.50	59.02	62.62	59.42
NGLs (\$/bbl)	24.79	15.56	30.32	33.18	24.56
Total realized price (\$/boe)	18.82	21.06	28.69	26.48	26.97
Royalty income	0.01	0.07	0.03	0.05	0.10
Royalty expense	(2.73)	(2.99)	(4.62)	(3.94)	(3.52)
Net oil and natural gas revenue (\$/boe)	16.10	18.14	24.10	22.59	23.55
Operating expense	(5.42)	(6.04)	(5.53)	(4.50)	(3.63)
Transportation expense	(1.29)	(1.49)	(1.32)	(1.38)	(1.50)
Operating netback⁽¹⁾⁽²⁾ (\$/boe)	9.39	10.61	17.25	16.71	18.42
Realized gain on derivatives (\$/boe) ⁽²⁾	1.88	4.06	0.23	0.57	0.99
General & administrative expense	(1.09)	(1.69)	(1.12)	(1.05)	(3.78)
Cash finance expense	(1.99)	(3.85)	(1.94)	(2.07)	(2.58)
Decommissioning expenditures ⁽³⁾	(0.23)	(0.04)	(1.03)	(0.19)	(0.64)
Corporate netback⁽¹⁾⁽²⁾ (\$/boe)	7.96	9.09	13.39	13.97	12.41

FINANCIAL (000s except per share)	Three months ended Sept. 30, 2017	Three months ended Sept. 30, 2016	Three months ended Jun. 30, 2017	Three months ended Mar. 31, 2017	Three months ended Dec. 31, 2016
Oil and natural gas revenue	18,299	13,805	26,753	22,274	21,409
Net income (loss)	(50,696)	(4,702)	(781)	7,311	(11,842)
Net income (loss) per share					
Basic	(1.03)	(0.10)	(0.02)	0.16	(0.26)
Fully diluted	(1.03)	(0.10)	(0.02)	0.16	(0.26)
Funds flow ⁽³⁾	7,727	5,938	12,458	11,732	9,809
Funds flow per share ⁽³⁾					
Basic	0.16	0.13	0.25	0.25	0.22
Fully diluted	0.16	0.13	0.25	0.25	0.22
Capital expenditures	13,055	7,231	18,903	18,907	10,026
Net acquisitions (dispositions)	(4,866)	(29,718)	—	8,818	—
Weighted average shares outstanding					
Basic	49,428	45,349	49,428	46,754	45,349
Fully diluted	49,428	45,349	49,428	46,989	45,349
As at period end					
Common shares outstanding					
Basic	49,428	45,349	49,428	49,428	45,349
Fully diluted	49,428	45,349	49,428	52,664	45,349
Total assets	409,078	448,404	465,794	460,095	439,967
Non-current liabilities	191,145	169,714	170,580	165,104	118,934
Net debt ⁽¹⁾	137,531	124,310	137,069	130,624	124,915

⁽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 third quarter production by area was as follows:

For the three months ended September 30, 2017	Ferrier	Foothills	Central Alberta	Total
Natural gas (mcf/d)	30,014	8,123	7,413	45,550
Oil (bbl/d)	1,157	237	483	1,877
NGLs (bbl/d)	846	28	223	1,097
Total (boe/d)	7,007	1,627	1,933	10,567
Natural gas sales weighting	71%	83%	64%	72%

Third quarter average production was 10,567 boe/d (72% natural gas) in 2017 compared to 7,100 boe/d (70% natural gas) in the third quarter of 2016. The 49% increase is attributable to the Company's drilling program in its core operating area, Ferrier, where production has grown 110% since the third quarter of 2016.

Commodity Pricing

During the third quarter of 2017, Petrus realized high volatility in the market price of its natural gas revenue as a result of weakness and volatility in the Alberta natural gas commodity price market. In particular, there was high volatility in the daily average natural gas spot price (AECO 5A index) which is the index on which Petrus sold all of its natural gas in the third quarter of 2017. Due to market factors outside the Company's control, the AECO 5A natural gas price averaged \$1.38 per GJ during the third quarter of 2017, which is 28% lower than the third quarter 2017 average forward monthly (AECO 7A index) natural gas price of \$1.93 per GJ. During the third quarter of 2017 Petrus' realized natural gas price was \$1.66 per mcf which is 50% lower than the \$3.29 per mcf realized in the second quarter of 2017. Beginning in November 2017, Petrus has elected for approximately half of its natural gas production to be paid on the forward monthly natural gas price (AECO 7A index) in an attempt to reduce the Company's exposure to daily natural gas price volatility.

Ferrier Farm-In

During the third quarter Petrus entered into a farm-in agreement (the "Farm-in Agreement") to drill two extended reach horizontal ("ERH") Cardium wells in Ferrier, the Company's core operating area. Upon completion of these wells, Petrus will earn a working interest in three additional sections of land in Ferrier. Subsequent to the end of the third quarter, the ERH wells were drilled with a lateral length of approximately two sections. The Company estimates that the Farm-in Agreement will contribute 16 gross (5.2 net) Cardium locations to its drilling inventory⁽¹⁾.

Capital Development

In order to accommodate for the Farm-in Agreement, Petrus' Board of Directors approved a \$10 million increase to the Company's capital budget for 2017 to \$60 to \$70 million, from the \$50 to \$60 million previously approved. The budget increase is expected to be funded through availability under the Company's existing credit facilities. The Company's capital expenditure program anticipates drilling 16 gross (11.8 net) Cardium wells in Ferrier. The capital expenditure program also provides for investment in facility expansion⁽¹⁾.

Petrus has spud or participated in 6 gross (4.7 net) Cardium wells in the Ferrier area since the end of the second quarter of 2017. The Ferrier gas plant expansion, increasing the plant's capacity from 30 mmcf/d to 60 mmcf/d, was completed in early October. With the new processing capacity available at the plant, the fracture stimulation operations for the new wells were scheduled for the fourth quarter. The wells are expected to be brought onstream later in the fourth quarter⁽¹⁾.

Property Acquisition & Disposition Activity

On August 15, 2017 Petrus closed the disposition of its working interest in certain non-core oil and natural gas properties in the Company's Foothills area for cash consideration of \$4.9 million. The assets disposed of included approximately 150 boe/d of production along with related land and infrastructure. The proceeds were utilized to repay indebtedness under the Company's credit facilities.

Petrus has initiated a non-core asset divestiture process for its Central Alberta (Thorsby) and Foothills areas, and has engaged GMP Securities L.P. ("GMP FirstEnergy") as its exclusive financial advisor to assist with the process. Through the divestiture process, the Company's Board of Directors determined its Foothills assets' characteristics do not fit within the strategic objectives of the Company. As a result, Petrus recognized an impairment loss of \$45.0 million related to the Foothills Cash Generating Unit ("CGU") for the three and nine month periods ended September 30, 2017. The divestiture of these non-core assets is expected to further enhance Petrus' balance sheet and continue to strengthen the focus on the Company's core operating area, Ferrier⁽¹⁾.

Credit Review

Subsequent to the end of the third quarter of 2017 Petrus completed the semi-annual review of its revolving credit facility ("RCF"). The RCF syndicate of lenders increased the borrowing base from \$120 million to \$130 million. In addition, the Company's total debt borrowing limit was increased from \$141 million to \$155 million. Petrus' Term Loan has \$35 million outstanding therefore lender consent, from both the RCF syndicate and Petrus' Term Loan lender, is required for total borrowings against the RCF that exceed \$120 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 Petrus Resources Ltd. ("Petrus" or "the Company") as at and for the three and nine months ended September 30, 2017. The report is dated November 8, 2017 and should be read in conjunction with the Company's September 30, 2017 interim consolidated financial statements and 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 Sept. 30, 2017	Three months ended Sept. 30, 2016	Three months ended Jun. 30, 2017	Three months ended Mar. 31, 2017	Three months ended Dec. 31, 2016
Average production					
Natural gas (mcf/d)	45,550	30,009	42,392	40,332	37,327
Oil (bbl/d)	1,877	1,419	2,015	1,542	1,452
NGLs (bbl/d)	1,098	680	1,160	1,067	922
Total (boe/d)	10,567	7,100	10,240	9,331	8,595
Total (boe)	972,140	653,215	931,821	839,746	790,806
Revenue (\$000s)					
Natural Gas	6,939	6,975	12,708	10,359	11,304
Oil	8,848	5,809	10,822	8,690	7,939
NGLs	2,504	973	3,199	3,186	2,084
Royalty revenue	8	47	24	39	82
Oil and natural gas revenue	18,299	13,804	26,753	22,274	21,409
Average realized prices					
Natural gas (\$/mcf)	1.66	2.53	3.29	2.85	3.29
Oil (\$/bbl)	51.23	44.50	59.02	62.62	59.42
NGLs (\$/bbl)	24.79	15.56	30.32	33.18	24.56
Total (\$/boe)	18.82	21.06	28.69	26.48	26.97
Hedging gain (\$/boe)	1.88	4.06	0.23	0.57	0.99
Total realized (\$/boe)	20.70	25.12	28.92	27.05	27.96
Average benchmark prices					
	Three months ended Sept. 30, 2017	Three months ended Sept. 30, 2016	Three months ended Jun. 30, 2017	Three months ended Mar. 31, 2017	Three months ended Dec. 31, 2016
Natural gas					
AECO 5A (\$/GJ)	1.38	2.20	2.64	2.55	2.93
AECO 7A (\$/GJ)	1.93	2.09	2.63	2.79	2.67
Crude Oil					
Edm Lt. (\$/bbl)	57.08	54.26	60.36	64.76	60.70
Foreign Exchange					
US\$/C\$	0.80	0.76	0.74	0.76	0.75

FUNDS FLOW AND NET LOSS

Petrus generated funds flow of \$7.7 million in the third quarter of 2017; a 30% increase relative to the \$5.9 million generated in the third quarter of 2016. The increase is due to 49% higher production and 11% lower operating expenses (on a per boe basis). On a nine month basis, funds flow was 77% higher, \$31.9 million in 2017 compared to \$18.0 million in the prior year. The increase is due to 24% higher production and 31% lower operating expenses (on a per boe basis).

Petrus reported a net loss of \$50.7 million in the third quarter of 2017, compared to a net loss of \$4.7 million in the third quarter of the prior year. On a nine month basis, the Company realized a net loss of \$44.2 million in 2017 compared to a net loss of \$55.1 million in the comparable period of 2016. The increase in net loss for the three month period ended September 30, 2017 compared to the same period in the prior year is mainly attributed to the impairment loss recorded in 2017.

(\$000s except per share)	Three months ended Sept. 30, 2017	Three months ended Sept. 30, 2016	Nine months ended Sept. 30, 2017	Nine months ended Sept. 30, 2016
Funds flow ⁽¹⁾	7,727	5,938	31,918	18,002
Funds flow per share - basic ⁽¹⁾	0.16	0.13	0.66	0.28
Funds flow per share - fully diluted ⁽¹⁾	0.16	0.13	0.65	0.28
Net loss	(50,696)	(4,702)	(44,167)	(55,146)
Net loss per share - basic	(1.03)	(0.10)	(0.92)	(1.25)
Net loss per share - fully diluted	(1.03)	(0.10)	(0.92)	(1.25)
Common shares outstanding (000s)				
Basic	49,428	45,349	49,428	45,349
Fully diluted	49,428	45,349	49,428	45,349
Weighted average shares outstanding (000s)				
Basic	49,428	45,349	48,098	44,158
Fully diluted	49,428	45,349	49,098	44,158

⁽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 third quarter of 2017 was 10,567 boe/d (72% natural gas), 49% higher than the 7,100 boe/d (70% natural gas) average production for the third 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. Total oil and natural gas revenue for the third quarter of 2017 increased from \$13.8 million in 2016 to \$18.3 million in 2017 which represents a 33% increase, due to higher production offset by lower realized commodity prices.

Average production for the first nine months of 2017 was 10,050 boe per day (71% natural gas), compared to 8,115 boe per day (67% natural gas) for the prior year comparative period, which represents a 24% increase. Total oil and natural gas revenue increased 55% from \$43.4 million in the first nine months of 2016 to \$67.3 million in the nine months ended September 30, 2017 due to increased production and improved oil prices.

Natural gas

During the three and nine months ended September 30, 2017, the average benchmark natural gas price in Canada (AECO 5A) decreased by 38% and increased by 25%, respectively, from prior year comparative periods (average price of \$1.45 per mcf in the third quarter of 2017 compared to \$2.32 per mcf in the third quarter of the prior year and \$2.31 per mcf for the first nine months of 2017, compared to \$1.85 per mcf for the comparative period in 2016).

The Company's average realized natural gas price during the third quarter of 2017 was \$1.66 per mcf, compared to \$2.53 per mcf in the third quarter of 2016, which represents a 34% decrease. Natural gas revenue for the third quarter of 2017 was \$6.9 million and production of 4,190,541 mcf accounting for approximately 72% of third quarter production volume and 38% of oil and natural gas revenue (compared to revenue of \$7.0 million and production of 2,760,858 mcf accounting for approximately 70% of third quarter production volume and 51% of commodity revenue in the prior year comparative period). Natural gas revenue decreased slightly from the prior year due to lower natural gas prices during the third quarter of 2017 partially offset by continued growth in production in the Ferrier area.

Natural gas revenue for the first nine months of 2017 was \$30.0 million and production of 11,678,072 mcf accounted for approximately 72% of production volume in the period and 45% of commodity revenue (compared to revenue of \$18.4 million and production of 8,996,864 mcf accounting for approximately 67% of production volume and 43% of commodity revenue in the prior year comparative period). The increase is due to increased production and improved realized natural gas prices.



Crude oil and condensate

Edmonton Light Sweet crude oil prices increased 5% from the third quarter of 2016 to the third quarter of 2017 (an average price of \$57.08 per bbl for the third quarter of 2017 compared to an average price of \$54.26 per bbl for the prior year comparative period). Prices increased 21% from the first nine months of 2016 to the first nine months of 2017 (\$60.73 per bbl in 2017 compared to an average of \$50.19 per bbl in the prior year comparative period).

Similarly, the average realized price of Petrus' crude oil and condensate was \$51.23 per bbl for the third quarter of 2017 compared to \$44.50 per bbl for the same period in the prior year. Petrus' realized oil price was lower than the corresponding marker due to changes in oil quality and quantity, which resulted in changes in pricing differentials.

Oil and condensate revenue for the third quarter of 2017 was \$8.8 million and production of 172,705 bbl accounted for approximately 18% of total production volume and 48% of oil and natural gas revenue, compared to revenue of \$5.8 million and production of 130,529 bbl accounted for approximately 20% of total production volume and 42% of commodity revenue in the third quarter of the prior year.

Oil and condensate revenue for the first nine months of 2017 was \$28.4 million and production of 494,826 accounted for approximately 18% of total production volume and 42% of commodity revenue, compared to revenue of \$22.1 million and production of 532,524 bbl accounted for approximately 24% of total production volume and 51% of commodity revenue in the first nine 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 third quarter of 2017, the overall realized NGL price averaged \$24.79 per bbl, compared to \$15.56 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 third quarter of 2017 was \$2.5 million and production of 101,010 bbl accounted for approximately 10% of production volume and 14% of oil and natural gas revenue, compared to revenue of \$1.0 million and production of 62,544 bbl accounted for approximately 10% of production volume and 7% of commodity revenue for the third quarter of the prior year. NGL revenue for the first nine months of 2017 was \$8.9 million and production of 302,535 bbl accounted for approximately 11% of production volume and 13% of oil and natural gas revenue in the period, compared to revenue of \$2.7 million and production of 191,543 bbl accounted for approximately 9% of production volume and 6% in the first nine 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 September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Crown	819	555	4,315	3,201
% of production revenue	5%	4%	6%	7%
Gross overriding	1,836	1,396	5,955	2,959
Total	2,655	1,951	10,270	6,160

Total royalty expense (net of royalty allowances and incentives) increased from \$2.0 million in the third quarter of 2016 to \$2.7 million in the third quarter of 2017. On a nine month basis, total royalties paid increased from \$6.2 million to \$10.3 million. The increases are attributable to increased production.

Gross overriding royalties increased from \$3.0 million for the nine months ended September 30, 2016, to \$6.0 million for the nine months ended September 30, 2017. Gross overriding royalties increased from \$1.4 million in the third quarter of 2016 to \$1.8 million in the third quarter of 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 to 70% of its annual production forecast and approximately 30 to 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 September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Realized hedging gain	1,829	2,652	2,523	14,220
Unrealized hedging gain (loss)	3,715	(796)	12,139	(12,307)
Net gain on derivatives	5,544	1,856	14,662	1,913

The Company recognized a realized hedging gain of \$1.8 million during the third quarter of 2017, compared to a \$2.7 million gain realized in the same quarter of the prior year. The lower realized gain in the current period is due to strengthened crude oil prices offset by lower natural gas prices. The third quarter realized gain increased the Company's total realized price by \$1.88 per boe, compared to an increase of \$4.06 per boe in the third quarter of the prior year.

The Company recognized a realized hedging gain of \$2.5 million during the nine months ended September 30, 2017, compared to a \$14.2 million gain realized in the same period of the prior year. The lower gain in the current year is due to strengthened crude oil prices.

The unrealized hedging gain of \$3.7 million for the three months ended September 30, 2017 represents the change in the unrealized risk management net asset position during the quarter. The unrealized hedging gain of \$12.1 million for the nine months ended September 30, 2017 represents the change in the unrealized risk management net asset position during the first nine 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 September 30, 2017, the unrealized risk management net asset mark-to-market value was \$4.6 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 September 30, 2017 (note 8). The table below summarizes Petrus' average crude oil and natural gas hedged volumes. The 1,550 bbl/d of oil hedged in the third quarter of 2017 represents 52% of third quarter average liquids (oil and NGL) production. The 24,650 GJ/day of natural gas hedged in the third quarter of 2017 represents 54% of third 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	Q3	Q4	Avg.
Oil hedged (bbl/d)	1,500	1,400	1,550	2,550	1,750	2,300	1,950	1,950	1,600	1,950	1,350	1,100	800	800	1,013
Avg. WTI cap price (\$/bbl)	74.99	71.69	65.68	66.08	69.61	65.80	66.24	66.44	64.20	65.67	62.39	63.25	63.54	63.46	63.16
Avg. WTI floor price (\$/bbl)	68.42	65.74	62.03	62.19	64.60	62.16	65.06	66.10	63.89	64.30	62.03	63.25	63.54	63.46	63.07
Natural gas hedged (GJ/d)	23,000	24,650	24,650	30,550	25,713	35,500	27,000	27,000	24,333	28,458	19,000	10,000	10,000	3,333	10,583
Avg. AECO 7A cap price (\$/GJ)	3.18	2.66	2.66	2.80	2.83	2.77	2.26	2.26	2.38	2.42	2.52	1.85	1.85	1.85	2.01
Avg. AECO 7A floor price (\$/GJ)	2.96	2.64	2.64	2.77	2.75	2.74	2.26	2.26	2.38	2.41	2.52	1.85	1.85	1.85	2.01

OPERATING EXPENSE

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

Operating Expense (\$000s)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Operating expense, net ⁽¹⁾	5,271	3,945	14,206	16,655
Operating expense, net (\$/boe)	5.42	6.04	5.18	7.49

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

Operating expense (presented net of processing income and overhead recoveries) totaled \$5.3 million for the third quarter of 2017, a 34% increase from the \$3.9 million recorded in the third quarter of the prior year. The increase is attributable to the significant growth in production (49%).

Ferrier production has grown 110% since the third 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 11% from \$6.04 per boe in the third quarter of 2016 to \$5.42 per boe in the third 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 in the fourth quarter of 2017 as the Ferrier gas plant expansion is now complete.



For the nine months ended September 30, 2017, operating expenses (presented net of processing income and overhead recoveries) totaled \$14.2 million, a 15% decrease from the \$16.7 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.

TRANSPORTATION EXPENSE

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

Transportation Expense (\$000s)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Transportation expense	1,255	971	3,647	3,270
Transportation expense (\$/boe)	1.29	1.49	1.33	1.47

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 \$1.3 million or \$1.29 per boe in the third quarter of 2017 (\$1.0 million or \$1.49 per boe for the prior year comparative period).

On a nine month basis, transportation expense totaled \$3.6 million, or \$1.33 per boe, which is 12% higher or 10% lower, respectively, than the costs incurred (\$3.3 million or \$1.47 per boe) in the prior year comparative period.

Overall, total transportation expense was higher during the third quarter of 2017 than the prior year comparative period due to increased production and trucking costs. Transportation expense on a per boe basis was lower in the third quarter and during the first nine months of 2017 in comparison to the same prior year periods due to reduced transportation costs as firm service volume commitments were met.

GENERAL AND ADMINISTRATIVE EXPENSE

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

General and Administrative Expense (\$000s)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Gross general and administrative expense	2,388	1,477	7,108	5,882
Capitalized general and administrative	(579)	(370)	(1,670)	(1,167)
Overhead recoveries	(750)	—	(2,450)	—
General and administrative expense	1,059	1,107	2,988	4,715
General and administrative (\$/boe)	1.09	1.83	1.09	2.26

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

General and Administrative Expense (\$000s)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Personnel, consultants and directors	1,514	1,003	4,488	3,308
Office costs	804	474	2,092	1,656
Public company expenses	—	—	58	248
Regulatory expenses	70	—	470	641
Transaction costs	—	—	—	29
Capitalized general and administrative and overhead recoveries	(1,329)	(370)	(4,120)	(1,167)
General and administrative expense	1,059	1,107	2,988	4,715

Third quarter 2017 G&A expense totaled \$1.1 million or \$1.09 per boe, compared to \$1.1 million or \$1.83 per boe in the third quarter of 2016. The decrease was due to higher overhead recoveries.

On a nine month basis, G&A expense for the period ended September 30, 2017 totaled \$3.0 million or \$1.09 per boe compared to \$4.7 million or \$2.26 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 \$19.2 million for the nine months ended September 30, 2016 to \$49.8 million for the nine month period ended September 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 September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Gross share-based compensation expense	209	142	545	523
Capitalized share-based compensation	(84)	(57)	(218)	(209)
Share-based compensation expense	125	85	327	314

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

On a nine month basis, share-based compensation expense (net of capitalized portion) was \$0.3 million which is also consistent with the prior year comparative period (\$0.3 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 September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Interest expense	1,936	2,512	5,478	8,545
Foreign exchange loss (gain)	—	—	1	49
Total cash finance expense	1,936	2,512	5,479	8,594
Accretion on decommissioning obligations	240	44	724	251
Total finance expense	2,176	2,556	6,203	8,845

The Company incurred total finance expense of \$2.2 million in the third quarter of 2017, comprised of \$0.2 million of non-cash accretion of its decommissioning obligations and \$1.9 million of cash interest expense related to its revolving credit facility and term loan. In the third quarter of 2016, the Company incurred total finance expense of \$2.6 million, comprised of \$0.04 million in non-cash accretion of its decommissioning obligation and \$2.5 million cash interest expense

The Company incurred total finance expense of \$6.2 million for the nine month period ended September 30, 2017, compared to \$8.8 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 September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Depletion and depreciation expense	15,029	12,207	39,960	34,496
Depletion and depreciation (\$/boe)	15.46	15.28	14.56	15.51

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 third quarter of 2017 of \$15.0 million or \$15.46 per boe, compared to the third quarter of 2016, when \$12.2 million or \$15.28 per boe was recorded. For the nine month period ended September 30, 2017, the Company recorded \$40.0 million or \$14.56 per boe, compared to \$34.5 million or \$15.51 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. In addition, the decrease is attributed to the disposition of the Peace River assets which had a higher depletion rate per boe.



Impairment

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

Impairment (\$000s)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Impairment	45,000	—	45,000	25,000
Total	45,000	—	45,000	25,000

Petrus recognized an impairment loss of \$45.0 million for the three and nine months ended September 30, 2017, compared to the prior year comparative periods where an impairment loss of \$nil and \$25.0 million, respectively, was recorded.

At the end of the third quarter of 2017, management determined that certain CGUs were no longer considered to be core to the Company. As such, a process was initiated to potentially divest of the Company's Foothills and Central Alberta CGUs. Based on interest in the Foothills assets and information obtained through the divestiture process to date, the Company determined there were indicators of impairment. The Company recorded an impairment loss of \$45.0 million on its property, plant and equipment and exploration and evaluation assets related to the Foothills CGU during the three and nine months ended September 30, 2017. At September 30, 2017, management has not identified any indicators of impairment on its Ferrier and Central Alberta CGUs.

Petrus recorded an impairment loss of \$25.0 million during the nine months ended September 30, 2016 in conjunction with classification of certain assets located in the Peace River area of Alberta as assets held for sale. The disposition closed during the third quarter of 2016.

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 September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Weighted average common shares outstanding				
Basic	49,428	45,349	48,098	44,158
Fully diluted	49,428	45,349	48,098	44,158
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	2,772	1,454	2,772	1,454
Performance warrants outstanding	86	1,569	86	1,569

At September 30, 2017, the Company had 49,427,900 Common Shares, 2,772,070 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 September 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 1,470,900 stock options during the nine months ended September 30, 2017 as follows:

- 999,900 stock options were issued on March 17, 2017 at an exercise price of \$2.25.
- 450,000 stock options were issued on June 22, 2017 at an exercise price of \$2.22.
- 21,000 stock options were issued on August 17, 2017 at an exercise price of \$2.19.

LIQUIDITY AND CAPITAL RESOURCES

At September 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 (together, the "Revolving Credit Facility" or "RCF"). The second is a subordinated term loan (the "Term Loan").



(a) Revolving Credit Facility

At September 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 September 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 \$92.9 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 September 30, 2017, the Company had a \$35 million (December 31, 2016 – \$42 million) Term Loan outstanding (excluding \$0.8 million of deferred finance fees), which is due October 8, 2019. The Term Loan bears interest which 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 September 30, 2017 interim consolidated financial statements. The Company was in compliance with all covenants at September 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 September 30, 2017, the Company had a working capital deficiency of \$6.0 million, primarily related to the \$16.3 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. In addition, Petrus completed the semi-annual review of its revolving credit facility subsequent to the end of the third quarter, whereby the syndicate of lenders increased the facility from \$120 to \$130 million. In addition, the Company's total debt borrowing limit was increased from \$141 million to \$155 million. Petrus' Term Loan has \$35 million outstanding therefore lender consent, from both the RCF syndicate and Petrus' Term Loan lender, is required for total borrowings against the RCF that exceed \$120 million. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2018. 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 September 30, 2017:

\$000s	Total	< 1 year	1-5 years
Accounts payable	16,325	16,325	—
Risk management liability	24	0	23
Bank indebtedness and long term debt	131,144	4,036	127,900
Total	147,493	20,361	127,131

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

\$000s	Total	< 1 year	1-5 years	> 5 years
Corporate office lease	1,670	716	954	—
Firm service transportation	24,799	1,180	11,576	12,043
Total commitments	26,469	1,896	12,530	12,043



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

CAPITAL EXPENDITURES

Capital expenditures (excluding acquisitions and dispositions) totaled \$13.1 million in the third quarter of 2017, compared to \$7.2 million in the third quarter of the prior year. For the nine month period ended September 30, capital expenditures totaled \$49.8 million in 2017 and \$19.2 million in 2016. The increase in capital spending in both the three and nine month periods of 2017 is related to increased capital activity, all in the Company's core operating area Ferrier. In the nine month period ended September 30, 2017, Petrus drilled 16 gross (11.8 net) wells (September 30, 2016 – 6 gross (4.7 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 September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Drill and complete	7,672	4,003	33,946	11,389
Oil and gas equipment	4,872	2,838	13,905	6,505
Geological	225	—	225	—
Land and lease	22	20	317	159
Capitalized general and administrative	264	370	1,448	1,167
Total Capital Expenditures	13,055	7,231	49,841	19,220
Gross (net) wells spud	5 (3.7)	2 (2.0)	16 (11.8)	6 (4.7)

On August 15, 2017, Petrus closed the disposition of its working interest in certain non-core oil and natural gas properties in the Company's Foothills area for cash consideration of \$4.9 million. The assets disposed of included approximately 150 boe/d of production along with related land and infrastructure.

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.

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. Also 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.

The following table summarizes the acquisitions and dispositions for the reporting periods indicated.

Acquisitions and Dispositions (\$000s)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Acquisitions	—	—	8,818	—
Dispositions	(4,866)	(29,718)	(4,866)	(29,718)
Total Acquisitions/(Dispositions)	(4,866)	(29,718)	3,952	(29,718)



SUMMARY OF QUARTERLY RESULTS

(\$000s unless otherwise noted)	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015
Average Production								
Natural gas (mcf/d)	45,550	42,392	40,332	37,327	30,009	33,071	35,456	31,217
Oil (bbl/d)	1,877	2,015	1,542	1,452	1,419	2,200	2,218	2,380
NGLs (bbl/d)	1,098	1,160	1,067	922	680	723	694	590
Total (boe/d)	10,567	10,240	9,331	8,595	7,100	8,435	8,821	8,172
Total (boe)	972,140	931,821	839,746	790,806	653,215	767,585	802,744	751,845
Financial Results								
Oil and natural gas revenue	18,299	26,753	22,274	21,409	13,805	14,926	14,698	20,459
Royalty expense ⁽¹⁾	(2,656)	(4,306)	(3,309)	(2,787)	(1,951)	(1,734)	(2,475)	(2,809)
Net oil and natural gas revenue	15,643	22,447	18,965	18,622	11,854	13,192	12,223	17,650
Transportation expense	(1,255)	(1,235)	(1,157)	(1,187)	(971)	(1,000)	(1,298)	(986)
Operating expense	(5,271)	(5,155)	(3,780)	(2,867)	(3,945)	(5,872)	(6,837)	(8,269)
Operating netback ⁽²⁾	9,117	16,057	14,028	14,568	6,938	6,320	4,088	8,395
Realized gain on derivatives	1,829	212	482	783	2,652	5,273	6,294	5,020
General & administrative expense	(1,059)	(1,047)	(882)	(2,991)	(1,107)	(1,426)	(2,183)	(2,318)
Cash finance expense	(1,936)	(1,807)	(1,736)	(2,043)	(2,512)	(2,442)	(3,641)	(4,510)
Decommissioning expenditures	(224)	(957)	(160)	(508)	(28)	(74)	(146)	(236)
Corporate netback ⁽²⁾	7,727	12,458	11,732	9,809	5,943	7,651	4,412	6,351
Oil and natural gas revenue	18,299	26,753	22,274	21,409	13,805	14,926	14,698	20,459
Per share - basic	0.37	0.54	0.48	0.48	0.30	0.33	0.35	0.58
Per share - fully diluted	0.37	0.54	0.47	0.48	0.30	0.33	0.35	0.58
Net income (loss)	(50,696)	(781)	7,311	(11,842)	(4,702)	(46,334)	(4,110)	(36,425)
Per share - basic	(1.03)	(0.02)	0.15	(0.27)	(0.10)	(1.02)	(0.10)	(1.04)
Per share - fully diluted	(1.03)	(0.02)	0.16	(0.27)	(0.10)	(1.02)	(0.10)	(1.04)
Common shares outstanding (000s)								
Basic	49,428	49,428	49,428	45,349	45,349	45,349	45,349	35,148
Fully diluted	49,428	49,428	52,664	45,349	45,349	45,349	45,349	35,148
Weighted avg. shares outstanding (000s)								
Basic	49,428	49,428	46,754	44,429	45,349	45,349	41,762	35,148
Fully diluted	49,428	49,428	46,989	44,429	45,349	45,349	41,762	35,148
Total assets	409,078	465,794	460,095	439,967	448,404	493,535	544,548	555,145
Net debt ⁽²⁾	(137,531)	(137,069)	(130,624)	(124,915)	(124,310)	(152,935)	(157,675)	(226,742)

⁽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 increased from 8,172 boe/d in the fourth quarter of 2015 to 10,567 boe/d in the third quarter of 2017. This 29% 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.

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. The Company's critical accounting estimate can be read in note 2 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2016.

OTHER FINANCIAL INFORMATION

Significant accounting policies

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

New standards and interpretations

The Company's discussion on new standards and interpretations can be read in note 2 of the Company's interim financial statements as at and for the period ended September 30, 2017.

Internal Control over Financial Reporting

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on July 1, 2017 and ended on September 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

NON-GAAP FINANCIAL MEASURES

This MD&A makes reference to the terms "operating netback", "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 Sept. 30, 2017		Three months ended Sept. 30, 2016		Nine months ended Sept. 30, 2017		Nine months ended Sept. 30, 2016	
	\$000s	\$/boe	\$000s	\$/boe	\$000s	\$/boe	\$000s	\$/boe
Oil and natural gas revenue	18,299	18.83	13,805	21.13	67,326	24.54	43,429	19.53
Royalty expense	(2,656)	(2.73)	(1,951)	(2.99)	(10,270)	(3.74)	(6,160)	(2.77)
Net oil and natural gas revenue	15,643	16.10	11,854	18.14	57,056	20.80	37,269	16.76
Transportation expense	(1,255)	(1.29)	(971)	(1.49)	(3,647)	(1.33)	(3,270)	(1.47)
Operating expense	(5,271)	(5.42)	(3,945)	(6.04)	(14,206)	(5.18)	(16,655)	(7.49)
Operating netback	9,117	9.39	6,938	10.61	39,203	14.29	17,344	7.80
Realized gain on financial derivatives	1,829	1.88	2,652	4.06	2,523	0.92	14,220	6.40
General & administrative expense	(1,059)	(1.09)	(1,107)	(1.69)	(2,988)	(1.09)	(4,715)	(2.12)
Cash finance expense	(1,936)	(1.99)	(2,517)	(3.85)	(5,479)	2.00	(8,599)	(3.87)
Decommissioning expenditures	(224)	(0.23)	(28)	(0.04)	(1,341)	(0.48)	(248)	(0.11)
Corporate netback and funds flow	7,727	7.96	5,938	9.09	31,918	15.64	18,002	8.10

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 September 30, 2017	As at September 30, 2016
Current assets adjusted for unrealized financial instruments	9,938	17,334
Less: current liabilities adjusted for unrealized financial instruments	(20,361)	(14,377)
Less: long term debt	(127,108)	(127,267)
Net debt	(137,531)	(124,310)

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. 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.

This MD&A discloses drilling locations, which are unbooked locations based on Petrus' prospective acreage and internal estimates as to the number of wells that can be drilled per section. Unbooked locations do not have attributed reserves or resources (including contingent and prospective). Unbooked locations have been identified by management as an estimation of the Company's multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information.

There is no certainty that the Company will drill any unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which the Company will actually drill wells, including the number and timing thereof is ultimately dependent upon the availability of funding, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, the majority of other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

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.

There are no assurances or guarantees that the non-core asset divestiture process will result in a sale of such assets or, if a sale is undertaken, what the terms or timing of such a sale will be.

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

BOE Presentation

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



Abbreviations

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



**CONSOLIDATED BALANCE SHEETS
(UNAUDITED)**

(Expressed in 000's of Canadian dollars)

As at	September 30, 2017	December 31, 2016
ASSETS		
Current		
Cash	188	280
Deposits and prepaid expenses	1,634	1,111
Accounts receivable (note 13)	8,116	11,527
Risk management asset (note 8)	4,426	22
Total current assets	14,364	12,940
Non-current		
Risk management asset (note 8)	138	—
Exploration and evaluation assets (notes 3 and 4)	53,417	64,824
Property, plant and equipment (notes 3 and 5)	341,159	362,203
Total assets	409,078	439,967
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 13)	4,036	—
Current portion of long term debt (note 6)	—	42,000
Accounts payable and accrued liabilities (note 13)	16,325	22,066
Risk management liability (note 8)	—	5,696
Total current liabilities	20,361	69,762
Non-current liabilities		
Long term debt (note 6)	127,108	73,767
Decommissioning obligation	43,653	43,243
Risk management liability (note 8)	23	1,924
Total liabilities	191,145	188,696
Shareholders' equity		
Share capital (note 9)	429,955	419,671
Contributed surplus	7,955	7,410
Deficit	(219,977)	(175,810)
Total shareholders' equity	217,933	251,271
Total liabilities and shareholders' equity	409,078	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 LOSS AND COMPREHENSIVE LOSS
(UNAUDITED)**

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

	Three months ended Sept. 30, 2017	Three months ended Sept. 30, 2016	Nine months ended Sept. 30, 2017	Nine months ended Sept. 30, 2016
REVENUE				
Oil and natural gas revenue	18,299	13,805	67,326	43,429
Royalty expense	(2,656)	(1,951)	(10,270)	(6,160)
Net oil and natural gas revenue	15,643	11,854	57,056	37,269
Other expense	—	(5)	—	(5)
Net gain on financial derivatives (note 8)	5,544	1,856	14,662	1,913
	21,187	13,705	71,718	39,177
EXPENSES				
Operating (note 11)	5,271	3,945	14,206	16,655
Transportation	1,255	971	3,647	3,270
General and administrative (note 12)	1,059	1,107	2,988	4,715
Share-based compensation (note 9)	125	85	327	314
Finance (note 15)	2,176	2,556	6,203	8,845
Exploration and evaluation (note 4)	1,049	644	2,635	1,543
Depletion and depreciation (note 5)	15,029	9,615	39,960	34,497
Loss (gain) on sale of assets (note 3)	919	(516)	919	(516)
Impairment (notes 4 and 5)	45,000	—	45,000	25,000
Total expenses	71,883	18,407	115,885	94,323
NET LOSS AND COMPREHENSIVE LOSS	(50,696)	(4,702)	(44,167)	(55,146)
Net loss per common share				
Basic and diluted (note 10)	(1.03)	(0.10)	(0.92)	(1.25)

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, September 30, 2016	419,839	7,000	(159,266)	267,573
Balance, December 31, 2016	419,671	7,410	(175,810)	251,271
Net loss	—	—	(44,167)	(44,167)
Issuance of common shares <i>(note 9)</i>	10,319	—	—	10,319
Share issue costs <i>(note 9)</i>	(35)	—	—	(35)
Share-based compensation <i>(note 9)</i>	—	545	—	545
Balance, September 30, 2017	429,955	7,955	(219,977)	217,933

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 Sept. 30, 2017	Three months ended Sept. 30, 2016	Nine months ended Sept. 30, 2017	Nine months ended Sept. 30, 2016
OPERATING ACTIVITIES				
Net loss	(50,696)	(4,702)	(44,167)	(55,146)
Adjust items not affecting cash:				
Share-based compensation (note 9)	125	85	327	314
Unrealized loss (gain) on financial derivatives (note 8)	(3,715)	796	(12,139)	12,307
Non-cash finance expenses (note 15)	240	44	724	251
Depletion and depreciation (note 5)	15,029	9,615	39,960	34,497
Impairment (notes 4 and 5)	45,000	—	45,000	25,000
Exploration and evaluation expense (note 4)	1,049	644	2,635	1,543
Loss (gain) on sale of assets (note 3)	919	(516)	919	(516)
Decommissioning expenditures (note 7)	(224)	(28)	(1,341)	(248)
Funds flow	7,727	5,938	31,918	18,002
Change in operating non-cash working capital (note 16)	(5,126)	500	(4,133)	5,045
Cash flows from operating activities	2,601	6,438	27,785	23,047
FINANCING ACTIVITIES				
Issue of common shares (note 9)	—	—	10,319	75,488
Share issue costs (note 9)	—	200	(35)	(1,555)
Repayment of term loan	—	(8,000)	(7,000)	(48,000)
Issuance (repayment) of revolving credit facility	2,900	(21,578)	19,133	(59,733)
Increase in bank indebtedness	2,181	—	4,036	—
Transaction costs on debt	98	—	(792)	—
Change in financing non-cash working capital (note 16)	(775)	—	(992)	—
Cash flows from (used in) financing activities	4,404	(29,378)	24,669	(33,800)
INVESTING ACTIVITIES				
Property and equipment (acquisitions) (note 3)	—	—	(8,818)	—
Property and equipment dispositions (note 3)	4,866	29,718	4,866	29,718
Exploration and evaluation asset expenditures (note 4)	(144)	(93)	(727)	(358)
Petroleum and natural gas property expenditures (note 5)	(12,866)	(7,138)	(49,942)	(18,862)
Other capital expenditures (note 5)	(44)	—	(197)	—
Change in investing non-cash working capital (note 16)	1,371	5,514	2,272	4,082
Cash flows (used in) investing activities	(6,817)	28,001	(52,546)	14,580
Increase (decrease) in cash	188	5,062	(92)	3,828
Cash, beginning of period	—	—	280	1,234
Cash, end of period	188	5,062	188	5,062
Cash interest paid	1,677	2,239	5,704	7,665

See accompanying notes to the interim consolidated financial statements



NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at September 30, 2017 and for the three and nine months ended September 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 nine months ended September 30, 2017 and prior year comparative periods, were approved by the Company's Audit Committee and Board of Directors on November 8, 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, which is the Company's functional currency, except where otherwise noted.

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

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. IFRS 9 will be applied by Petrus on January 1, 2018. IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in OCI rather than the statement of operations, unless this creates an accounting mismatch.

In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also contains a new model to be applied for hedge accounting, aligning hedge accounting more closely with risk management. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9.

Based on its analysis completed to date, the Company does not anticipate the adoption of IFRS 9 will have a material impact on its consolidated financial statements, but will finalize its analysis during the fourth quarter of 2017.

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 standard 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. Based on its analysis of customer contracts performed to date, the Company does not anticipate any material adjustments from the adoption of IFRS 15, but will finalize its analysis during the fourth quarter of 2017.

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 January 1, 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 2018, Petrus plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

3. ACQUISITIONS AND DISPOSITIONS

Property disposition - non-core

On August 15, 2017 Petrus closed the disposition of its working interest in certain non-core oil and natural gas properties in the Company's Foothills area for cash consideration of \$4.9 million. The assets disposed of included approximately 150 boe/d of production along with related land and infrastructure. The proceeds were utilized to repay indebtedness under the Company's credit facilities. The Company recorded a loss of \$0.9 million related to the disposition during the quarter ended September 30, 2017.

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

Fair value of net assets disposed \$000s	
Exploration and evaluation assets	1,438
Petroleum and natural gas properties and equipment	5,579
Decommissioning obligations	(1,232)
Total net assets disposed	5,785

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. The Company recorded a gain of \$0.4 million on the asset exchange during the nine months ended September 30, 2016.

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. Petrus recorded a gain related to the dispositions of \$0.1 million during the nine months ended September 30, 2016.

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	(2,635)
Capitalized G&A	417
Capitalized share-based compensation (note 9)	55
Property disposition (note 3)	(1,438)
Transfers to property, plant and equipment (note 5)	(4,398)
Impairment loss	(11,718)
Balance, September 30, 2017	53,417

For the three and nine months ended September 30, 2017, the Company incurred exploration and evaluation expense of \$1.0 million and \$2.6 million, respectively, which relates to expired and near expiry undeveloped, non-core land (three and nine months ended September 30, 2016 – \$0.6 million and \$1.5 million respectively).

During the three and nine months ended September 30, 2017, the Company capitalized \$0.1 million and \$0.4 million, respectively, of general and administrative expenses ("G&A") (three and nine months ended September 30, 2016 – \$0.1 million and \$0.3 million respectively) and \$0.02 million and \$0.06 million of non-cash share-based compensation directly attributable to exploration activities (three and nine months ended September 30, 2016 – \$0.01 million and \$0.05 million respectively).



At the end of the third quarter of 2017, management determined that certain CGUs were no longer considered to be core to the Company. As such, a process was initiated to potentially divest of the Company's Foothills and Central Alberta CGUs. Based on interest in the Foothills assets and information obtained through the divestiture process to date, the Company determined there were indicators of impairment and estimated the recoverable amounts of the Foothills exploration and evaluation assets to be \$3.0 million as at September 30, 2017. The Company recorded an impairment loss of \$11.7 million during the three and nine months ended September 30, 2017.

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	48,888	—	48,888
Property acquisitions (note 3)	969	—	969
Property dispositions (note 3)	(14,899)	9,320	(5,579)
Capitalized G&A	1,251	—	1,251
Capitalized share-based compensation (note 9)	164	—	164
Transfers from exploration and evaluation assets (note 4)	4,398	—	4,398
Depletion & depreciation	—	(40,210)	(40,210)
Increase in decommissioning provision	2,357	—	2,357
Impairment loss	—	(33,282)	(33,282)
Balance, September 30, 2017	757,137	(415,978)	341,159

At September 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 nine months ended September 30, 2017, the Company capitalized \$0.4 million and \$1.3 million, respectively, of general and administrative expenses ("G&A") (three and nine months ended September 30, 2016 – \$0.3 million and \$1.0 million respectively) and non-cash share-based compensation of \$0.06 million and \$0.16 million, respectively, directly attributable to development activities (three and nine months ended September 30, 2016 – \$0.04 million and \$0.2 million respectively).

During the nine months ended September 30, 2017, the Company acquired developed oil and natural gas assets of \$1.0 million (note 3). The Company also sold developed oil and natural gas assets in the Foothills area for total cash consideration of \$4.9 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.

At the end of the third quarter of 2017, management determined that certain CGUs were no longer considered to be core to the Company. As such, a process was initiated to potentially divest of the Company's Foothills and Central Alberta CGUs. Based on interest in the Foothills assets and information obtained through the divestiture process to date, the Company determined there were indicators of impairment and estimated the recoverable amounts of the Foothills property plant and equipment and exploration and evaluation assets to be as follows as at September 30, 2017.

\$000s	Recoverable Amount
Exploration and evaluation assets	3,000
Property, plant and equipment	12,000
Total	15,000

The Company recorded an impairment loss of \$33.3 million on the Foothills CGU during the three and nine months ended September 30, 2017. At September 30, 2017, management has not identified any indicators of impairment on its Ferrier and Central Alberta CGUs.

6. DEBT

At September 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 September 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 September 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 \$92.9 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 September 30, 2017 the Company had a \$35 million (December 31, 2016 – \$42 million) Term Loan outstanding (excluding \$0.8 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 September 30, 2017 are summarized in the following table.

Covenant Description	Required Ratio	As at September 30, 2017
Working Capital Ratio	Over 1.00	1.80
Proved Asset Coverage Ratio ⁽¹⁾	Over 1.25	2.09
PDP Asset Coverage Ratio ⁽¹⁾	Over 1.00	1.41
Debt to EBITDA Ratio	Under 3.50	2.52

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

At September 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 2.40 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 \$43.7 million as at September 30, 2017 (\$43.2 million at December 31, 2016). The undiscounted, uninflated total future liability at September 30, 2017 is \$46.4 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	241
Property disposition (<i>note 3</i>)	(1,232)
Liabilities incurred	2,296
Liabilities settled	(1,341)
Change in estimates	(278)
Accretion expense	724
Balance, September 30, 2017	43,653

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 September 30, 2017:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN\$/GJ)
Natural Gas Swaps			
Oct. 1, 2017 to Oct. 31, 2017	Fixed price	20,650	\$2.62
Oct. 1, 2017 to Dec. 31, 2017	Fixed price	2,000	\$2.99
Nov. 1, 2017 to Mar. 31, 2018	Fixed price	27,500	\$2.85
Nov. 1, 2017 to Oct. 31, 2018	Fixed price	2,000	\$2.52
Apr. 1, 2018 to Oct. 31, 2018	Fixed price	19,000	\$2.34
Nov. 1, 2018 to Mar. 31, 2019	Fixed price	12,000	\$2.57
Natural Gas Collars			
Oct. 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			
Oct. 1, 2017 to Dec. 31, 2017	Fixed price	1,550	\$62.96
Jan. 1, 2018 to Mar. 31, 2018	Fixed price	500	\$64.44
Apr. 1, 2018 to Jun. 30, 2018	Fixed price	600	\$68.44
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	1,000	\$63.76
Oct. 1, 2018 to Jun. 30, 2019	Fixed price	300	\$61.60
Jan. 1, 2019 to Mar. 31, 2019	Fixed price	800	\$61.78
Apr. 1, 2019 to Jun. 30, 2019	Fixed price	200	\$62.10
Crude Oil Collars			
Oct. 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 Dec. 31, 2017	Costless collar	100	\$60.00-65.10
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
Jan. 1, 2018 to Jun. 30, 2018	Costless collar	100	\$60.00-65.25
Apr. 1, 2018 to Jun. 30, 2018	Costless collar	100	\$60.00-67.25
Jul. 1, 2018 to Sep. 30, 2018	Costless collar	100	\$60.00-66.65
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 September 30, 2017	Asset	Liability
Current commodity derivatives	4,426	—
Non-current commodity derivatives	138	23
	4,564	23
\$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 Sept. 30, 2017	Three months ended Sept. 30, 2016	Nine months ended Sept. 30, 2017	Nine months ended Sept. 30, 2016
Realized gain on financial derivatives	1,829	2,652	2,523	14,220
Unrealized gain (loss) on financial derivatives	3,715	(796)	12,139	(12,307)
Net gain on financial derivatives	5,544	1,856	14,662	1,913

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

Natural Gas Contract Period	Type	Daily Volume (GJ)	Price (CAD\$/GJ)
Jan. 1, 2018 to Oct. 31, 2018	Fixed price	2,000	\$2.01
Jan. 1, 2018 to Oct. 31, 2018	Fixed price	2,000	\$2.05
Nov. 1, 2018 to Mar. 31, 2019	Fixed price	2,000	\$2.43
Nov. 1, 2018 to Mar. 31, 2019	Fixed price	2,000	\$2.41
Apr. 1, 2019 to Oct. 31, 2019	Fixed price	2,000	\$1.86
Apr. 1, 2019 to Oct. 31, 2019	Fixed price	4,000	\$1.84
Apr. 1, 2019 to Oct. 31, 2019	Fixed price	4,000	\$1.85
Nov. 1, 2018 to Mar. 31, 2019	Fixed price	2,000	\$2.39

Crude Oil Contract Period	Type	Daily Volume (Bbl)	Price (CAD\$/Bbl)
Jul. 1, 2018 to Sep. 30, 2018	Fixed price	200	\$68.00
Oct. 1, 2018 to Dec. 31, 2018	Fixed price	200	\$67.25
Jan. 1, 2019 to Mar. 31, 2019	Fixed price	200	\$64.20
Apr. 1, 2019 to Jun. 30, 2019	Fixed price	600	\$64.45
Jul. 1, 2019 to Sep. 30, 2019	Fixed price	300	\$64.05
Jul. 1, 2019 to Dec. 31, 2019	Fixed price	200	\$63.20
Jul. 1, 2019 to Dec. 31, 2019	Fixed price	300	\$63.25
Oct. 1, 2019 to Dec. 31, 2019	Fixed price	300	\$63.85

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, September 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 September 30, 2017, 2,772,070 (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	1,470,900	\$2.27
Forfeited or expired	(675,410)	\$6.67
Balance, September 30, 2017	2,772,070	\$4.27
Exercisable, September 30, 2017	518,750	\$12.60

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	2,214,570	\$2.15	4.41	—	—	—
\$9.00 - \$16.00	557,500	\$12.70	1.82	518,750	\$12.60	1.78
	2,772,070	\$4.27	3.89	518,750	\$12.60	1.78

On February 28, 2017, June 22, 2017 and August 17, 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 September 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, September 30, 2017	86,000	\$8.29
Exercisable, September 30, 2017	49,120	\$8.17

The following table summarizes information about the Performance Warrants outstanding at September 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	0.82	49,120	\$8.17	0.25
Total	86,000	\$8.29	0.82	49,120	\$8.17	0.25

No Performance Warrants were issued in the nine months ended September 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 Sept. 30, 2017	Three months ended Sept. 30, 2016	Nine months ended Sept. 30, 2017	Nine months ended Sept. 30, 2016
Expensed	125	85	327	314
Capitalized to exploration and evaluation assets	22	14	55	52
Capitalized to property, plant and equipment	63	43	164	157
Total share-based compensation	210	142	546	523

10. EARNINGS PER SHARE

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

	Three months ended Sept. 30, 2017	Three months ended Sept. 30, 2016	Nine months ended Sept. 30, 2017	Nine months ended Sept. 30, 2016
Net loss for the period (\$000s)	(50,696)	(4,702)	(44,167)	(55,146)
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	48,098	43,556
Net loss per common share – basic	\$ (1.03)	\$ (0.10)	\$ (0.92)	\$ (1.27)
Net loss per common share – diluted	\$ (1.03)	\$ (0.10)	\$ (0.92)	\$ (1.27)

In computing diluted earnings per share for the three and nine months ended September 30, 2017, 86,000 (September 30, 2016 – 1,568,568) warrants and 2,772,070 (September 30, 2016 – 1,453,750) outstanding stock options were considered. For the three month period ended September 30, 2017 there were 86,000 warrants and 2,772,070 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 nine months ended September 30, 2017 were \$5.6 million and \$15.0 million, respectively, (three and nine months ended September 30, 2016 – \$4.6 million and \$19.2 million). For the three and nine months ended September 30, 2017, this includes \$2.0 million and \$4.4 million, respectively, of processing, gathering and compression charges (three and nine months ended September 30, 2016 – \$1.1 million and \$4.3 million).



The Company generated processing income recoveries of \$0.3 million and \$0.8 million for the three and nine months ended September 30, 2017 (three and nine months ended September 30, 2016 – \$0.7 million and \$2.5 million), which reduced the Company's gross operating expenses to \$5.3 million and \$14.2 million for the three and nine months ended September 30, 2017 (three and nine months ended September 30, 2016 – \$3.9 million and \$16.7 million).

12. GENERAL AND ADMINISTRATIVE EXPENSES

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

\$000s	Three months ended Sept. 30, 2017	Three months ended Sept. 30, 2016	Nine months ended Sept. 30, 2017	Nine months ended Sept. 30, 2016
Personnel, consultants and directors	1,514	1,003	4,488	3,308
Office costs	804	474	2,092	1,656
Public company expenses	—	—	58	248
Regulatory expenses	70	—	470	641
Transaction costs	—	—	—	29
Capitalized general and administrative and overhead recoveries	(1,329)	(370)	(4,120)	(1,167)
General and administrative expense	1,059	1,107	2,988	4,715

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 \$8.1 million of accounts receivable outstanding at September 30, 2017 (December 31, 2016 – \$11.5 million), \$5.9 million is owed from 4 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 September 30, 2017, the Company had an allowance for doubtful accounts of \$0.04 million (nil at December 31, 2016). As at September 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 September 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 \$26.8 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. Furthermore, subsequent to the end of the third quarter of 2017 Petrus completed the semi-annual review of its revolving credit facility ("RCF"). The RCF syndicate of lenders increased the borrowing base from \$120 million to \$130 million. In addition, the Company's total borrowing limit was increased from \$141 million to \$155 million. Petrus' Term Loan has \$35 million outstanding therefore lender consent, from both the RCF syndicate and Petrus' Term Loan lender, is required for total borrowings against the RCF that exceed \$120 million. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2018.

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

\$000s	Total	< 1 year	1-5 years
Accounts payable	16,325	16,325	—
Risk management liability	24	—	23
Bank indebtedness and long term debt	131,144	4,036	127,108
Total	147,493	20,361	127,131

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 nine months ended September 30, 2017 would have decreased net loss by approximately \$0.3 million and \$0.9 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 nine months ended September 30, 2016 – \$0.4 million and \$1.4 million). A 1% decrease in the Canadian prime interest rate during the period would result in an opposite impact on net loss.

Commodity Price Risk

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

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

As at September 30, 2017, it is estimated that a \$0.25/GJ decrease in the price of natural gas would have decreased net loss by \$3.1 million (September 30, 2016 – \$3.0 million). An opposite change in commodity prices would result in an opposite impact on net loss. As at September 30, 2017, it is estimated that a \$5.00/CDN WTI/bbl decrease in the price of oil would have decreased net loss by \$4.9 million, while a \$5.00/CDN WTI/bbl increase in the price of oil would have increased net loss by \$4.3 million (September 30, 2016 – \$1.7 million and \$1.5 million respectively).

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 Sept. 30, 2017	Three months ended Sept. 30, 2016	Nine months ended Sept. 30, 2017	Nine months ended Sept. 30, 2016
Cash:				
Interest	1,936	2,512	5,478	8,545
Foreign exchange	—	—	1	49
Total cash finance expenses	1,936	2,512	5,479	8,594
Non-cash:				
Accretion on decommissioning obligations (note 7)	240	44	724	251
Total non-cash finance expenses	240	44	724	251
Total finance expenses	2,176	2,556	6,203	8,845

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 Sept. 30, 2017	Three months ended Sept. 30, 2016	Nine months ended Sept. 30, 2017	Nine months ended Sept. 30, 2016
Source (use) in non-cash working capital:				
Deposits and prepaid expenses	237	54	(523)	(467)
Investments	—	—	—	(1,000)
Accounts receivable	2,701	(199)	3,411	8,057
Accounts payable and accrued liabilities	(7,468)	7,159	(5,741)	2,537
	(4,530)	7,014	(2,853)	9,127
Operating activities	(5,126)	500	(4,133)	5,045
Financing activities	(775)	—	(992)	—
Investing activities	1,371	5,514	2,272	4,082



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	1,670	716	954	—
Firm service transportation	24,799	1,180	11,576	12,043
Total commitments	26,469	1,896	12,530	12,043

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.

19. SUBSEQUENT EVENT

Credit Review

Subsequent to the end of the third quarter of 2017 Petrus completed the semi-annual review of its revolving credit facility ("RCF"). The RCF syndicate of lenders increased the borrowing base from \$120 million to \$130 million. In addition, the Company's total borrowing limit was increased from \$141 million to \$155 million. Petrus' Term Loan has \$35 million outstanding therefore lender consent, from both the RCF syndicate and Petrus' Term Loan lender, is required for total borrowings against the RCF that exceed \$120 million.

CORPORATE INFORMATION

OFFICERS

Neil Korchinski, P. Eng.
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

DIRECTORS

Don T. Gray
Chairman
Scottsdale, Arizona

Neil Korchinski
Calgary, Alberta

Patrick Arnell
Calgary, Alberta

Donald Cormack
Calgary, Alberta

Brian Minnehan
Irving, Texas

Jeff Zlotky
Irving, Texas

Stephen White
Calgary, Alberta

SOLICITOR

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITOR

Ernst & Young LLP
Chartered Professional Accountants
Calgary, Alberta

INDEPENDENT RESERVE EVALUATORS

Sproule and Associates
Calgary, Alberta

BANKERS

TD Securities
Calgary, Alberta

Macquarie Bank Limited
Houston, Texas

TRANSFER AGENT

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