

## FIRST QUARTER REPORT

For the three months ended March 31, 2019

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Petrus Resources Ltd. ("Petrus" or the "Company") (TSX: PRQ) is pleased to report financial and operating results for the first quarter of 2019. Petrus is focused on organic growth and infrastructure control in its core area, Ferrier, Alberta. The Company is targeting light oil and 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.

The Company's development plan is strategically balanced between increasing its Cardium light oil weighting in the Ferrier area and continuing to improve its balance sheet. Petrus drilled 3 gross (1.6 net) Cardium light oil wells, increased its light oil weighting 18% from the fourth quarter of 2018 and reduced net debt<sup>(1)</sup> \$2.8 million or 2% since December 31, 2018. On a per share basis, the Company's funds flow for the first quarter of 2019 was \$0.23, or \$0.92 on an annualized basis. The Company's corporate netback<sup>(1)</sup> for the first quarter of 2019 was \$15.11 per boe<sup>(3)</sup>; its highest since the first quarter of 2015. Petrus plans to continue a balanced, disciplined approach for the remainder of 2019.

### HIGHLIGHTS

- **Light oil development** - In the first quarter of 2019, Petrus continued to focus on the development of its Cardium light oil inventory in Ferrier. Petrus drilled or participated in 3 gross (1.6 net) Cardium light oil wells during the first quarter of 2019 and these wells were brought on production in late March. Consistent with the 2018 drilling program, these wells utilized a significantly increased number of fracture stimulations in their completion operations. The wells drilled in the second half of 2018 were all on production by December 31, 2018 and contributed to a 25% increase in light oil production during the first quarter of 2019 compared to the fourth quarter of 2018. Petrus' Board of Directors has approved a second quarter 2019 capital budget of \$7 to \$8 million, which is expected to include completion activities for two previously drilled, non-operated wells, in addition to the drilling and completion of 1 to 2 net new wells.
- **Increased light oil weighting** - The Company's March 2019 light oil weighting has increased by 45% from January 2018. First quarter average production was 8,505 boe/d in 2019 compared to 7,934 boe/d in the fourth quarter of 2018. The 7% increase in total production is attributable to the Company's development program shifting focus to oil weighted wells in light of the current commodity price environment. The Company's first quarter operating netback increased 50% from \$12.22 per boe in the fourth quarter of 2018 to \$18.31 per boe in the first quarter of 2019 as a result of higher light oil production.
- **Funds flow** - Petrus generated funds flow of \$11.6 million in the first quarter of 2019 which is 130% higher than the \$5.0 million generated in the fourth quarter of 2018. The significant increase is due to higher liquids production, stronger Western Canadian light oil differential pricing and decreased operating expenses. On a per share basis, funds flow for the first quarter of 2019 was \$0.23 comparable to the \$0.10 per share generated in the fourth quarter of 2018.
- **Low operating costs** - First quarter operating expenses on a per boe basis decreased 29% from \$5.28 per boe in the fourth quarter of 2018 to \$3.76 per boe in the first quarter of 2019. The full year operating expenses of \$4.75 per boe in 2018 marked the third consecutive year of operating cost reductions. The Company continues to focus on optimizing its cost structure, particularly in the Ferrier area, through facility ownership and control.
- **Debt reduction** - Petrus continues to focus on improving its financial strength and during the first quarter of 2019 reduced net debt<sup>(1)</sup> by \$2.8 million or 2% since December 31, 2018. Since December 31, 2017, Petrus has reduced net debt<sup>(1)</sup> by \$11.7 million or 8%.
- **Commodity price risk mitigation** - Petrus utilizes financial derivative contracts to mitigate commodity price risk and provide stability and sustainability to the Company's economic returns, funds flow and capital development plan. During the first quarter of 2019, the Company recognized a \$0.5 million (\$0.67 per boe) realized hedging gain. As a percentage of first quarter 2019 production, Petrus has derivative contracts in place for 46%, at an average price of \$2.00 per mcf and 47% at an average price of \$68.80 per bbl, of its natural gas and oil and natural gas liquids production, respectively, for the balance of 2019<sup>(2)</sup>.

<sup>(1)</sup> Refer to "Non-GAAP Financial Measures" in the Management's Discussion & Analysis attached hereto.

<sup>(2)</sup> Refer to "Advisories - Forward-Looking Statements" in the Management's Discussion & Analysis attached hereto.

<sup>(3)</sup> Refer to "Advisories - BOE Presentation" in the Management's Discussion & Analysis attached hereto.

## SELECTED FINANCIAL INFORMATION

| OPERATIONS                                                          | Three months ended<br>Mar. 31, 2019         | Three months ended<br>Mar. 31, 2018         | Three months ended<br>Dec. 31, 2018         | Three months ended<br>Sept. 30, 2018         | Three months ended<br>Jun. 30, 2018         |
|---------------------------------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|----------------------------------------------|---------------------------------------------|
| <b>Average Production</b>                                           |                                             |                                             |                                             |                                              |                                             |
| Natural gas (mcf/d)                                                 | 32,145                                      | 45,543                                      | 30,480                                      | 33,461                                       | 39,126                                      |
| Oil (bbl/d)                                                         | 1,704                                       | 1,530                                       | 1,358                                       | 1,243                                        | 1,484                                       |
| NGLs (bbl/d)                                                        | 1,444                                       | 1,475                                       | 1,496                                       | 1,519                                        | 1,241                                       |
| <b>Total (boe/d)</b>                                                | <b>8,505</b>                                | <b>10,596</b>                               | <b>7,934</b>                                | <b>8,338</b>                                 | <b>9,246</b>                                |
| <b>Total (boe)</b>                                                  | <b>765,488</b>                              | <b>953,598</b>                              | <b>730,819</b>                              | <b>767,095</b>                               | <b>841,316</b>                              |
| Liquids sales weighting                                             | 37%                                         | 28%                                         | 36%                                         | 33%                                          | 29%                                         |
| <b>Realized Prices</b>                                              |                                             |                                             |                                             |                                              |                                             |
| Natural gas (\$/mcf)                                                | 2.44                                        | 2.18                                        | 1.95                                        | 1.50                                         | 1.24                                        |
| Oil (\$/bbl)                                                        | 55.10                                       | 73.91                                       | 52.26                                       | 77.24                                        | 75.29                                       |
| NGLs (\$/bbl)                                                       | 36.02                                       | 46.50                                       | 29.01                                       | 45.27                                        | 41.53                                       |
| <b>Total realized price (\$/boe)</b>                                | <b>26.36</b>                                | <b>26.50</b>                                | <b>21.91</b>                                | <b>25.79</b>                                 | <b>22.92</b>                                |
| Royalty income                                                      | 0.06                                        | 0.03                                        | 0.10                                        | 0.32                                         | 0.05                                        |
| Royalty expense                                                     | (3.08)                                      | (4.90)                                      | (3.34)                                      | (3.12)                                       | (2.54)                                      |
| <b>Net oil and natural gas revenue (\$/boe)</b>                     | <b>23.34</b>                                | <b>21.63</b>                                | <b>18.67</b>                                | <b>22.99</b>                                 | <b>20.43</b>                                |
| Operating expense                                                   | (3.76)                                      | (4.36)                                      | (5.28)                                      | (4.95)                                       | (4.57)                                      |
| Transportation expense                                              | (1.27)                                      | (1.26)                                      | (1.17)                                      | (0.98)                                       | (1.17)                                      |
| <b>Operating netback<sup>(1)</sup> (\$/boe)</b>                     | <b>18.31</b>                                | <b>16.01</b>                                | <b>12.22</b>                                | <b>17.06</b>                                 | <b>14.69</b>                                |
| Realized gain (loss) on derivatives (\$/boe)                        | 0.67                                        | 0.31                                        | (0.79)                                      | (2.69)                                       | (0.74)                                      |
| Other income                                                        | —                                           | —                                           | 0.37                                        | 0.08                                         | 0.12                                        |
| General & administrative expense                                    | (1.15)                                      | (1.50)                                      | (1.46)                                      | (1.72)                                       | (1.63)                                      |
| Cash finance expense                                                | (2.54)                                      | (1.96)                                      | (3.25)                                      | (2.53)                                       | (2.49)                                      |
| Decommissioning expenditures                                        | (0.18)                                      | (0.23)                                      | (0.21)                                      | (0.20)                                       | —                                           |
| <b>Funds flow &amp; corporate netback<sup>(1)(2)</sup> (\$/boe)</b> | <b>15.11</b>                                | <b>12.63</b>                                | <b>6.88</b>                                 | <b>10.00</b>                                 | <b>9.95</b>                                 |
| <b>FINANCIAL (000s except \$ per share)</b>                         | <b>Three months ended<br/>Mar. 31, 2019</b> | <b>Three months ended<br/>Mar. 31, 2018</b> | <b>Three months ended<br/>Dec. 31, 2018</b> | <b>Three months ended<br/>Sept. 30, 2018</b> | <b>Three months ended<br/>Jun. 30, 2018</b> |
| Oil and natural gas revenue                                         | 20,231                                      | 25,301                                      | 16,064                                      | 20,030                                       | 19,321                                      |
| Net income (loss)                                                   | (12,138)                                    | (5,684)                                     | 21,063                                      | (8,048)                                      | (10,615)                                    |
| Net income (loss) per share                                         |                                             |                                             |                                             |                                              |                                             |
| Basic                                                               | (0.25)                                      | (0.11)                                      | 0.43                                        | (0.16)                                       | (0.21)                                      |
| Fully diluted                                                       | (0.25)                                      | (0.11)                                      | 0.43                                        | (0.16)                                       | (0.21)                                      |
| Funds flow                                                          | 11,573                                      | 12,105                                      | 5,030                                       | 7,685                                        | 8,364                                       |
| Funds flow per share                                                |                                             |                                             |                                             |                                              |                                             |
| Basic                                                               | 0.23                                        | 0.24                                        | 0.10                                        | 0.16                                         | 0.17                                        |
| Fully diluted                                                       | 0.23                                        | 0.24                                        | 0.10                                        | 0.16                                         | 0.17                                        |
| Capital expenditures                                                | 8,483                                       | 6,056                                       | 12,660                                      | 3,637                                        | 1,745                                       |
| Net dispositions                                                    | —                                           | (123)                                       | (6)                                         | (50)                                         | (269)                                       |
| Weighted average shares outstanding                                 |                                             |                                             |                                             |                                              |                                             |
| Basic                                                               | 49,483                                      | 49,492                                      | 49,492                                      | 49,492                                       | 49,492                                      |
| Fully diluted                                                       | 49,483                                      | 49,492                                      | 49,492                                      | 49,492                                       | 49,492                                      |
| <b>As at period end</b>                                             |                                             |                                             |                                             |                                              |                                             |
| Common shares outstanding                                           |                                             |                                             |                                             |                                              |                                             |
| Basic                                                               | 49,469                                      | 49,492                                      | 49,492                                      | 49,492                                       | 49,492                                      |
| Fully diluted                                                       | 49,469                                      | 49,492                                      | 49,492                                      | 49,492                                       | 49,492                                      |
| Total assets                                                        | 336,974                                     | 343,161                                     | 341,820                                     | 322,335                                      | 330,359                                     |
| Non-current liabilities                                             | 176,093                                     | 174,634                                     | 171,646                                     | 170,908                                      | 172,757                                     |
| Net debt <sup>(1)</sup>                                             | 136,382                                     | 142,238                                     | 139,214                                     | 131,603                                      | 135,111                                     |

<sup>(1)</sup> Refer to "Non-GAAP Financial Measures" in the Management's Discussion & Analysis attached hereto.

<sup>(2)</sup> Corporate netback is equal to funds flow which is a directly comparable GAAP measure. Petrus analyzes these measures on an absolute value and per unit basis.

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

The following is Management's Discussion and Analysis ("MD&A") of the financial and operating results of Petrus Resources Ltd. ("Petrus" or the "Company") as at and for the three months ended March 31, 2019. This MD&A is dated May 6, 2019 and should be read in conjunction with the Company's March 31, 2019 interim consolidated financial statements and the December 31, 2018 audited 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" section at the end of this MD&A regarding forward-looking statements and boe presentation and to the section "Non-GAAP Financial Measures" herein.

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

### **ANNUAL GENERAL MEETING**

The Company's Annual General Meeting will be held at the Jamieson Place Conference Centre (3rd floor) 308, 4th Ave SW Calgary, Alberta, on Tuesday, May 7, 2019 at 2:00 p.m. (Calgary time).



## OPERATIONS UPDATE

### Production

First quarter average production by area was as follows:

| For the three months ended March 31, 2019 | Ferrier      | Foothills  | Central Alberta | Total        |
|-------------------------------------------|--------------|------------|-----------------|--------------|
| Natural gas (mcf/d)                       | 23,813       | 1,963      | 6,369           | 32,145       |
| Oil (bbl/d)                               | 1,127        | 165        | 412             | 1,704        |
| NGLs (bbl/d)                              | 1,260        | —          | 184             | 1,444        |
| <b>Total (boe/d)</b>                      | <b>6,356</b> | <b>492</b> | <b>1,657</b>    | <b>8,505</b> |
| <b>Liquids sales weighting</b>            | <b>38%</b>   | <b>33%</b> | <b>36%</b>      | <b>37%</b>   |

First quarter average production was 8,505 boe/d in 2019 compared to 10,596 boe/d in 2018. Part of the decrease in total production is attributable to the Company shifting its focus from gas wells to oil wells in light of the current commodity price environment. Furthermore, in the Foothills, the Company has approximately 800 boe/d of uneconomic dry gas production shut-in. Despite the 20% production decrease from the prior year, the Company's first quarter operating netback increased 14% from \$16.01 per boe in 2018 to \$18.31 per boe in 2019 as a result of the increase in light oil production. The Company's March 2019 light oil weighting increased by 45% from January 2018.

Petrus' Board of Directors approved a first quarter 2019 capital budget of \$8 to \$10 million, which included the repayment of \$1 to \$2 million of debt. In the first quarter of 2019, the Company invested capital of \$8.5 million and reduced net debt \$2.8 million during the quarter.

As part of the 2019 first quarter capital budget, Petrus drilled 3 gross (1.6 net) Cardium light oil wells. The wells finished drilling and offset the recently drilled 5 gross (2.9 net) wells from the fourth quarter 2018 drilling program. The 3 new first quarter 2019 wells had completion operations finished near the end of the first quarter and the wells were brought on production at the end of March.

Petrus' Board of Directors approved a second quarter 2019 capital budget of \$7 to \$8 million, based on a current forecast for commodity futures pricing, anticipated service costs and current activity levels<sup>(1)</sup>. The commodity price assumptions used for the second quarter 2019 capital budget were an average price of \$1.25 (CAD\$) per GJ for natural gas (AECO) and \$57.80 (US\$) per bbl for oil (WTI). Petrus' estimated second quarter average differential for Western Canadian light oil is estimated at \$7.40 (US\$) per bbl. The second quarter budget is expected to include the completion activities for two previously drilled, non-operated wells, the drilling and completion of 1 to 2 net new wells and allows for debt repayment of \$1 to \$2 million in the quarter<sup>(1)</sup>.

Petrus estimates the 2019 capital plan will maintain production year over year, increase its light oil and liquids weighting, and reduce debt throughout the year. Approximately 85% of the capital plan will be directed to development of Cardium light oil wells in the Ferrier area of Alberta, which we estimate will have payouts of less than one year and achieve its objective to increase its light oil weighting and fundsflow<sup>(1)</sup>.

<sup>(1)</sup> Refer to "Advisories - Forward-Looking Statements" in the Management's Discussion & Analysis attached hereto.

## RESULTS OF OPERATIONS

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

|                                               | Three months ended<br>Mar. 31, 2019 | Three months ended<br>Mar. 31, 2018 | Three months ended<br>Dec. 31, 2018 | Three months ended<br>Sept. 30, 2018 | Three months ended<br>Jun. 30, 2018 |
|-----------------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| <b>Average production</b>                     |                                     |                                     |                                     |                                      |                                     |
| Natural gas (mcf/d)                           | 32,145                              | 45,543                              | 30,480                              | 33,461                               | 39,126                              |
| Oil (bbl/d)                                   | 1,704                               | 1,530                               | 1,358                               | 1,243                                | 1,484                               |
| NGLs (bbl/d)                                  | 1,444                               | 1,475                               | 1,496                               | 1,519                                | 1,241                               |
| <b>Total (boe/d)</b>                          | <b>8,505</b>                        | <b>10,596</b>                       | <b>7,934</b>                        | <b>8,338</b>                         | <b>9,246</b>                        |
| <b>Total (boe)</b>                            | <b>765,488</b>                      | <b>953,598</b>                      | <b>730,819</b>                      | <b>767,095</b>                       | <b>841,316</b>                      |
| <b>Revenue (\$000s)</b>                       |                                     |                                     |                                     |                                      |                                     |
| Natural Gas                                   | 7,051                               | 8,918                               | 5,473                               | 4,630                                | 4,432                               |
| Oil                                           | 8,450                               | 10,175                              | 6,522                               | 8,828                                | 10,159                              |
| NGLs                                          | 4,681                               | 6,175                               | 3,993                               | 6,326                                | 4,692                               |
| Royalty revenue                               | 49                                  | 33                                  | 76                                  | 246                                  | 38                                  |
| <b>Oil and natural gas revenue</b>            | <b>20,231</b>                       | <b>25,301</b>                       | <b>16,064</b>                       | <b>20,030</b>                        | <b>19,321</b>                       |
| <b>Average realized prices</b>                |                                     |                                     |                                     |                                      |                                     |
| Natural gas (\$/mcf)                          | 2.44                                | 2.18                                | 1.95                                | 1.50                                 | 1.24                                |
| Oil (\$/bbl)                                  | 55.10                               | 73.91                               | 52.26                               | 77.24                                | 75.29                               |
| NGLs (\$/bbl)                                 | 36.02                               | 46.50                               | 29.01                               | 45.27                                | 41.53                               |
| Total realized price (\$/boe)                 | 26.36                               | 26.50                               | 21.91                               | 25.79                                | 22.92                               |
| Hedging gain (loss) (\$/boe)                  | 0.67                                | 0.31                                | (0.79)                              | (2.69)                               | (0.74)                              |
| <b>Total price including hedging (\$/boe)</b> | <b>27.03</b>                        | <b>26.81</b>                        | <b>21.12</b>                        | <b>23.10</b>                         | <b>22.18</b>                        |
| <b>Average benchmark prices</b>               |                                     |                                     |                                     |                                      |                                     |
| Natural gas                                   |                                     |                                     |                                     |                                      |                                     |
| AECO 5A (C\$/GJ)                              | 2.48                                | 1.97                                | 1.47                                | 1.13                                 | 1.12                                |
| AECO 7A (C\$/GJ)                              | 1.84                                | 1.76                                | 1.80                                | 1.28                                 | 0.97                                |
| Crude Oil                                     |                                     |                                     |                                     |                                      |                                     |
| Mixed Sweet Blend Edm (C\$/bbl)               | 67.46                               | 72.28                               | 48.12                               | 79.65                                | 78.91                               |
| Foreign Exchange                              |                                     |                                     |                                     |                                      |                                     |
| US\$/C\$                                      | 0.75                                | 0.80                                | 0.76                                | 0.77                                 | 0.78                                |



## FUNDS FLOW AND NET LOSS

Petrus generated funds flow of \$11.6 million in the first quarter of 2019 which is 4% lower than the \$12.1 million generated in the first quarter of 2018. Offsetting a 20% decrease in production during that time period, the Company's total liquids production weighting increased 32% from the first quarter of 2018 as a result of the Company's shift in focus to light oil. On a per share basis, funds flow for the first quarter of 2019 was \$0.23 comparable to the \$0.24 per share generated in the first quarter of 2018. The decrease is due to lower production and 7% lower light oil pricing (Edm CAD\$), largely offset by a 31% increase in total liquids weighting from the prior year comparative period and partially offset by 26% higher natural gas pricing (AECO 5A).

Petrus reported a net loss of \$12.1 million in the first quarter of 2019, compared to a net loss of \$5.7 million in the first quarter of 2018. The increase in net loss in the first quarter of 2019 is primarily due to the accounting for the unrealized hedging on financial derivatives. The accounting for the unrealized hedging on financial derivatives had a material impact on earnings; the Company recognized an unrealized loss of \$13.5 million for the three months ended March 31, 2019, compared to a \$5.5 million loss for the three months ended March 31, 2018.

| (\$000s except per share)                         | Three months ended<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|---------------------------------------------------|--------------------------------------|--------------------------------------|
| <b>Funds flow</b>                                 | <b>11,573</b>                        | <b>12,105</b>                        |
| Funds flow per share - basic                      | 0.23                                 | 0.24                                 |
| Funds flow per share - fully diluted              | 0.23                                 | 0.24                                 |
| <b>Net loss</b>                                   | <b>(12,138)</b>                      | <b>(5,684)</b>                       |
| Net loss per share - basic                        | (0.25)                               | (0.11)                               |
| Net loss per share - fully diluted                | (0.25)                               | (0.11)                               |
| <b>Common shares outstanding (000s)</b>           |                                      |                                      |
| Basic                                             | 49,469                               | 49,492                               |
| Fully diluted                                     | 49,469                               | 49,492                               |
| <b>Weighted average shares outstanding (000s)</b> |                                      |                                      |
| Basic                                             | 49,483                               | 49,492                               |
| Fully diluted                                     | 49,483                               | 49,492                               |

## OIL AND NATURAL GAS REVENUE

Average production for the first quarter of 2019 was 8,505 boe/d (63% natural gas), 20% lower than the 10,596 boe/d (72% natural gas) average production for the first quarter of the prior year. The 20% decrease is partially due to the Company's focus on increasing its light oil weighting, which provides more value rather than gas volume. The production decrease is also attributable to certain dry gas production in the Foothills area which was shut-in due to uneconomic gas prices. Total oil and natural gas revenue for the first quarter of 2019 was \$20.2 million compared to \$25.3 million in the first quarter of 2018. The 20% decrease is due to lower realized oil and natural gas liquids prices and lower production.

### Natural gas

During the three months ended March 31, 2019, the average benchmark natural gas price in Canada (AECO 5A monthly index) increased by 26% from the prior year comparative period (average price of \$2.62 per mcf in the first quarter of 2019 compared to \$2.08 per mcf in the first quarter of the prior year).

The Company's average realized natural gas price during the first quarter of 2019 was \$2.44 per mcf, compared to \$2.18 per mcf in the first quarter of 2018, which represents a 12% increase. Natural gas revenue for the first quarter of 2019 was \$7.1 million and production of 2,893,043 mcf accounted for approximately 63% of first quarter production volume and 35% of oil and natural gas revenue, compared to revenue of \$8.9 million and production of 4,098,881 mcf accounting for approximately 72% of first quarter production volume and 35% of oil and natural gas revenue in the prior year comparative period. Natural gas revenue decreased from the prior year due to lower natural gas production during the first quarter of 2019.

### Crude oil and condensate

Edmonton Light Sweet crude oil prices decreased 7% from the first quarter of 2018 to the first quarter of 2019 (an average price of \$67.46 per bbl for the first quarter of 2019 compared to an average price of \$72.28 per bbl for the prior year comparative period).

The average realized price of Petrus' crude oil and condensate was \$55.10 per bbl for the first quarter of 2019 compared to \$73.91 per bbl for the same period in the prior year. The Company's focus on Cardium light oil development has resulted in its light oil density increasing relative to the condensate stream previously produced through its Cardium liquids rich natural gas development.



Oil and condensate revenue for the first quarter of 2019 was \$8.5 million and production of 153,345 bbl accounted for approximately 20% of total production volume and 42% of oil and natural gas revenue, compared to revenue of \$10.2 million and production of 137,665 bbl accounting for approximately 14% of total production volume and 40% of oil and natural gas revenue in the first quarter 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 first quarter of 2019, the overall realized NGL price averaged \$36.02 per bbl, compared to \$46.50 per bbl in the prior year. The decrease is attributed to lower commodity prices.

NGL revenue for the first quarter of 2019 was \$4.7 million and production of 129,969 bbl accounted for approximately 17% of production volume and 23% of oil and natural gas revenue, compared to revenue of \$6.2 million and production of 132,786 bbl accounting for approximately 14% of production volume and 24% of oil and natural gas revenue for the first quarter of the prior year.

#### **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<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|-------------------------------|--------------------------------------|--------------------------------------|
| Crown                         | 913                                  | 2,175                                |
| Percent of production revenue | 5%                                   | 9%                                   |
| Gross overriding              | 1,446                                | 2,499                                |
| <b>Total</b>                  | <b>2,359</b>                         | <b>4,674</b>                         |

Total royalty expense (net of royalty allowances and incentives) decreased from \$4.7 million in the first quarter of 2018 to \$2.4 million in the first quarter of 2019 primarily due to 20% lower production and lower light oil pricing.

Gross overriding royalties decreased from \$2.5 million in the first quarter of 2018 to \$1.4 million in the first quarter of 2019, due to lower production and light oil pricing.

#### **RISK MANAGEMENT**

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

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

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

| Net Gain (Loss) on Financial Derivatives (\$000s) | Three months ended<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|---------------------------------------------------|--------------------------------------|--------------------------------------|
| Realized hedging gain                             | 513                                  | 298                                  |
| Unrealized hedging loss                           | (13,460)                             | (5,540)                              |
| <b>Net loss on derivatives</b>                    | <b>(12,947)</b>                      | <b>(5,242)</b>                       |

The Company recognized a realized hedging gain of \$0.5 million during the first quarter of 2019, compared to a \$0.3 million gain realized in the first quarter of the prior year. The realized gain in the current period is due to lower natural gas prices (relative to the respective contracts outstanding). The realized gain in the first quarter of 2019 increased the Company's total realized price by \$0.67 per boe, compared to the realized gain in the first quarter of the prior year, which increased the Company's total realized price by \$0.31 per boe.

The unrealized hedging loss of \$13.5 million for the three months ended March 31, 2019 represents the change in the unrealized net risk management position during the quarter. This change is a 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.



There was a significant change in the Company's net risk management position between the fourth quarter of 2018 and the first quarter of 2019 as a result of volatility in the quarter ending oil price, which is used to calculate the risk management asset or liability mark-to-market value. The WTI price increased by 33%, from 45.41 \$US/bbl as at December 31, 2018 to 60.19 \$US/bbl as at March 31, 2019. On December 31, 2018, the unrealized risk management net mark-to-market value was a \$9.5 million asset compared to March 31, 2019 when the unrealized risk management net mark-to-market value was a \$3.9 million liability, which resulted in the \$13.5 million unrealized hedging loss recorded in the first quarter of 2019.

The Company's risk management contracts provide protection from significant changes in crude oil and natural gas commodity prices for 2019, 2020 and 2021. The Company endeavors to hedge approximately 50 to 70% of its forecast production for the following year, and approximately 30 to 50% of its forecast production for the subsequent year. The Company's hedging strategy is intended to provide stability and sustainability to the Company's economic returns, funds flow and capital development plan. A summary of Petrus' risk management contracts is included in note 9 of the Company's interim consolidated financial statements as at and for the period ended March 31, 2019. The table below summarizes Petrus' average crude oil and natural gas hedged volumes. The average volume of oil hedged for the remainder of 2019 (1,483 bbl/d) represents 47% of first quarter 2019 average liquids (oil and NGL) production. The 15,667 GJ/day average natural gas hedged for the remainder of 2019 represents 46% of first quarter 2019 average natural gas production.

The following table summarizes the average and minimum and maximum cap and floor prices for the 2019 to 2021 oil and natural gas contracts outstanding as at the date of this MD&A:

|                                   | 2019   |        |        |        |                     | 2020   |       |       |       |                     | 2021  |       |       |       |                     |
|-----------------------------------|--------|--------|--------|--------|---------------------|--------|-------|-------|-------|---------------------|-------|-------|-------|-------|---------------------|
|                                   | Q1     | Q2     | Q3     | Q4     | Avg. <sup>(1)</sup> | Q1     | Q2    | Q3    | Q4    | Avg. <sup>(1)</sup> | Q1    | Q2    | Q3    | Q4    | Avg. <sup>(1)</sup> |
| Oil hedged (bbl/d)                | 1,650  | 1,400  | 1,400  | 1,650  | 1,525               | 1,450  | 1,050 | 850   | 650   | 1,000               | 400   | 300   | 300   | 300   | 325                 |
| Avg. WTI cap price (\$C/bbl)      | 68.46  | 67.13  | 69.26  | 70.45  | 68.88               | 73.23  | 77.01 | 77.66 | 76.18 | 75.64               | 74.08 | 74.02 | 72.80 | 72.80 | 73.48               |
| Avg. WTI floor price (\$C/bbl)    | 68.17  | 67.13  | 69.26  | 70.45  | 68.80               | 73.23  | 77.01 | 77.66 | 76.18 | 75.64               | 74.08 | 74.02 | 72.80 | 72.80 | 73.48               |
| Natural gas hedged (GJ/d)         | 21,000 | 16,000 | 16,000 | 15,000 | 17,000              | 14,500 | 6,500 | 6,500 | 4,167 | 7,917               | 3,000 | —     | —     | —     | 750                 |
| Avg. AECO 7A cap price (\$C/GJ)   | 2.47   | 1.70   | 1.70   | 1.75   | 1.95                | 1.77   | 1.53  | 1.53  | 1.50  | 1.64                | 1.48  | —     | —     | —     | 1.48                |
| Avg. AECO 7A floor price (\$C/GJ) | 2.47   | 1.70   | 1.70   | 1.75   | 1.95                | 1.77   | 1.53  | 1.53  | 1.50  | 1.64                | 1.48  | —     | —     | —     | 1.48                |

<sup>(1)</sup>The volumes and prices reported are the weighted average volumes and prices for the period.

## OPERATING EXPENSE

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

| Operating Expense (\$000s)                    | Three months ended<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|-----------------------------------------------|--------------------------------------|--------------------------------------|
| Fixed and variable operating expense          | 2,600                                | 3,431                                |
| Processing, gathering and compression charges | 502                                  | 985                                  |
| <b>Total gross operating expense</b>          | <b>3,102</b>                         | <b>4,416</b>                         |
| Processing income recoveries                  | (222)                                | (256)                                |
| <b>Total net operating expense</b>            | <b>2,880</b>                         | <b>4,160</b>                         |
| <b>Operating expense, net (\$/boe)</b>        | <b>3.76</b>                          | <b>4.36</b>                          |

Operating expense (net of processing income and overhead recoveries) totaled \$2.9 million for the first quarter of 2019, a 31% decrease from the \$4.2 million recorded in the first quarter of the prior year. On a per boe basis, operating expense for the first quarter was 14% lower at \$3.76 per boe in 2019 compared to \$4.36 per boe in 2018. The decreases are attributable to improved operating efficiencies (on total and per boe basis) as well as a 20% decrease in production over the same time period.

## TRANSPORTATION EXPENSE

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

| Transportation Expense (\$000s) | Three months ended<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|---------------------------------|--------------------------------------|--------------------------------------|
| Transportation expense          | 971                                  | 1,197                                |
| Transportation expense (\$/boe) | 1.27                                 | 1.26                                 |





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 \$1.0 million or \$1.27 per boe in the first quarter of 2019 (\$1.2 million or \$1.26 per boe for the prior year comparative period). The lower transportation expense, on a total basis, from the first quarter of 2018 to the first quarter of 2019 is due to the lower average quarterly production.

#### 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<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|----------------------------------------------------|--------------------------------------|--------------------------------------|
| Personnel, consultants and directors               | 1,059                                | 1,514                                |
| Administrative expenses                            | 372                                  | 475                                  |
| Regulatory and public company expenses             | 348                                  | 420                                  |
| Transaction costs                                  | 100                                  | —                                    |
| Gross general and administrative expense           | 1,879                                | 2,409                                |
| Capitalized general and administrative expense     | (435)                                | (588)                                |
| Overhead recoveries                                | (565)                                | (391)                                |
| <b>General and administrative expense</b>          | <b>879</b>                           | <b>1,430</b>                         |
| <b>General and administrative expense (\$/boe)</b> | <b>1.15</b>                          | <b>1.50</b>                          |

G&A expense (net of capitalized G&A expense and overhead recoveries) for the first quarter of 2019 totaled \$0.9 million or \$1.15 per boe, compared to \$1.4 million or \$1.50 per boe in the first quarter of 2018. Gross G&A expense (before capitalized G&A expense and overhead recoveries) was 22% lower than the prior year (\$1.9 million in the first quarter of 2019 compared to \$2.4 million in the first quarter of 2018). The decrease in G&A, on a total and per boe basis, is due to lower office rent which is now accounted for as finance and depreciation expense under IFRS 16 (refer to note 7 in the Company's March 31, 2019 interim consolidated financial statements) as well as lower office expenses and staffing costs.

#### 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<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|----------------------------------------------|--------------------------------------|--------------------------------------|
| Gross share-based compensation expense       | 153                                  | 190                                  |
| Capitalized share-based compensation expense | (61)                                 | (76)                                 |
| <b>Share-based compensation expense</b>      | <b>92</b>                            | <b>114</b>                           |

Share-based compensation expense (net of capitalized portion) was \$0.1 million for the first quarter of 2019, which is consistent with the \$0.1 million recognized in the first quarter of the prior year.

#### FINANCE EXPENSE

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

| Finance Expense (\$000s)                 | Three months ended<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|------------------------------------------|--------------------------------------|--------------------------------------|
| Interest expense                         | 1,945                                | 1,865                                |
| <b>Total cash finance expense</b>        | <b>1,945</b>                         | <b>1,865</b>                         |
| Deferred financing costs                 | 138                                  | 141                                  |
| Accretion on decommissioning obligations | 214                                  | 224                                  |
| <b>Total finance expense</b>             | <b>2,297</b>                         | <b>2,230</b>                         |

The Company incurred total finance expense of \$2.3 million in the first quarter of 2019, comprised of \$0.2 million of non-cash accretion of its decommissioning obligations, \$1.9 million of cash interest expense and \$0.1 million of deferred financing fee amortization, both of which are



related to the RCF and Term Loan (as each is defined herein). In the first quarter of 2018, the Company incurred total finance expense of \$2.2 million, comprised of \$0.2 million in non-cash accretion of its decommissioning obligation, \$1.9 million cash interest expense and \$0.1 million of deferred financing fee amortization.

## DEPLETION AND DEPRECIATION

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

| Depletion and Depreciation Expense (\$000s) | Three months ended<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|---------------------------------------------|--------------------------------------|--------------------------------------|
| Depletion and depreciation expense          | 9,296                                | 11,619                               |
| Depletion and depreciation expense (\$/boe) | 12.14                                | 12.18                                |

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 first quarter of 2019 of \$9.3 million or \$12.14 per boe, compared to the first quarter of 2018, when \$11.6 million or \$12.18 per boe was recorded. The decrease is due to lower production volume.

## 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<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|---------------------------------------------------|--------------------------------------|--------------------------------------|
| <b>Weighted average Common Shares outstanding</b> |                                      |                                      |
| Basic                                             | 49,483                               | 49,492                               |
| Fully diluted                                     | 49,483                               | 49,492                               |
| <b>Common Shares outstanding</b>                  |                                      |                                      |
| Basic                                             | 49,469                               | 49,492                               |
| Fully diluted                                     | 49,469                               | 49,492                               |
| Stock options outstanding                         | 3,035                                | 2,696                                |

At March 31, 2019, the Company had 49,469,358 Common Shares and 3,034,570 stock options outstanding.

The Company issued 390,000 stock options on March 22, 2019 at an exercise price of \$0.45.

The Company has a deferred share unit plan in place whereby it may issue deferred share units to directors of the Company. At March 31, 2019, 382,796 (December 31, 2018 – 382,796) deferred share units were issued and outstanding. Each DSU entitles the participants to receive, at the Company's discretion, either shares of the Company or cash equivalent to the number of DSUs multiplied by the current trading price of the equivalent number of Common Shares of the Company. All DSUs vest and become payable upon retirement of the director.

## LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2019, Petrus had two debt instruments outstanding. The first is a reserve-based, senior secured revolving credit facility with a syndicate of lenders, which is comprised of an operating facility and a syndicated term-out facility (together, the "Revolving Credit Facility" or "RCF"). The second is a subordinated secured term loan (the "Term Loan").

### (a) Revolving Credit Facility

At March 31, 2019, the RCF was comprised of a \$20 million operating facility and a \$90 million syndicated term-out facility. Consent from the syndicate of lenders and the Term Loan lender is required for total borrowings against the RCF exceeding \$105 million. The RCF has a revolving period that ends May 31, 2019 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 March 31, 2019, the Company had drawn \$97.0 million against the RCF and had a \$0.7 million letter of credit outstanding against the RCF (December 31, 2018 – \$97.0 million outstanding against the RCF and \$0.7 million letter of credit).

The amount of the RCF is subject to a borrowing base review performed on a semi-annual basis by the lenders, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. In addition, asset dispositions require unanimous lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2019.

#### (b) Term Loan

At March 31, 2019, the Company had a \$35 million (December 31, 2018 – \$35 million) Term Loan outstanding (excluding \$0.5 million of deferred finance fees), which is due October 8, 2020. 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 plus 700 basis points. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

#### Financial Covenants

The RCF and the Term Loan carry financial covenants that are described in note 8 of the Company's December 31, 2018 audited annual consolidated financial statements. The Company was in compliance with all financial covenants at March 31, 2019.

#### Liquidity Risk

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

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 March 31, 2019, the Company had a working capital deficiency (excluding risk management assets and liabilities and deferred share unit liabilities) of \$5.1 million. The Company plans to address this working capital deficiency by using its funds flow and available credit facilities. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2019.

The following are the contractual maturities of financial liabilities as at March 31, 2019:

| \$000s                                              | Total          | < 1 year      | 1-5 years      |
|-----------------------------------------------------|----------------|---------------|----------------|
| Accounts payable and accrued liabilities            | 20,550         | 20,550        | —              |
| Bank indebtedness and long term debt <sup>(1)</sup> | 132,000        | —             | 132,000        |
| <b>Total</b>                                        | <b>152,550</b> | <b>20,550</b> | <b>132,000</b> |

<sup>(1)</sup>Excludes deferred finance fees.

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

| \$000s                      | Total         | < 1 year     | 1-5 years     | > 5 years    |
|-----------------------------|---------------|--------------|---------------|--------------|
| Firm service transportation | 19,124        | 1,374        | 12,900        | 4,850        |
| <b>Total commitments</b>    | <b>19,124</b> | <b>1,374</b> | <b>12,900</b> | <b>4,850</b> |

#### Risk Management

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



For a more in-depth discussion of risk management, see notes 9 and 14 of the Company's March 31, 2019 interim consolidated financial statements.

## CAPITAL EXPENDITURES

Capital expenditures (excluding acquisitions and dispositions) totaled \$8.5 million in the first quarter of 2019, compared to \$6.1 million in the first quarter of the prior year. The increase in capital spending is related to increased capital activity to develop Cardium light oil in Ferrier.

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

| Capital Expenditures (\$000s)                  | Three months ended<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|------------------------------------------------|--------------------------------------|--------------------------------------|
| Drill and complete                             | 6,490                                | 2,427                                |
| Oil and gas equipment                          | 1,555                                | 1,631                                |
| Land and lease                                 | 3                                    | 1,466                                |
| Capitalized general and administrative expense | 435                                  | 532                                  |
| <b>Total capital expenditures</b>              | <b>8,483</b>                         | <b>6,056</b>                         |
| <b>Gross (net) wells spud</b>                  | <b>3 (1.6)</b>                       | <b>1 (0.5)</b>                       |

The following table summarizes the dispositions for the reporting periods indicated:

| Dispositions (\$000s)     | Three months ended<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|---------------------------|--------------------------------------|--------------------------------------|
| Dispositions              | —                                    | (123)                                |
| <b>Total dispositions</b> | <b>—</b>                             | <b>(123)</b>                         |

The Company did not have any acquisition and divestiture activity during the three months ended March 31, 2019, compared to the prior year period when a \$0.1 million disposition was recorded.

## SUMMARY OF QUARTERLY RESULTS

| (\$000s unless otherwise noted)                   | Mar. 31,<br>2019 | Dec. 31,<br>2018 | Sept. 30,<br>2018 | Jun. 30,<br>2018 | Mar. 31,<br>2018 | Dec. 31,<br>2017 | Sept. 30,<br>2017 | Jun. 30,<br>2017 |
|---------------------------------------------------|------------------|------------------|-------------------|------------------|------------------|------------------|-------------------|------------------|
| <b>Average Production</b>                         |                  |                  |                   |                  |                  |                  |                   |                  |
| Natural gas (mcf/d)                               | 32,145           | 30,480           | 33,461            | 39,126           | 45,543           | 46,625           | 45,550            | 42,392           |
| Oil (bbl/d)                                       | 1,704            | 1,358            | 1,243             | 1,484            | 1,530            | 1,854            | 1,877             | 2,015            |
| NGLs (bbl/d)                                      | 1,444            | 1,496            | 1,519             | 1,241            | 1,475            | 1,086            | 1,098             | 1,160            |
| <b>Total (boe/d)</b>                              | <b>8,505</b>     | <b>7,934</b>     | <b>8,338</b>      | <b>9,246</b>     | <b>10,596</b>    | <b>10,711</b>    | <b>10,567</b>     | <b>10,240</b>    |
| <b>Total (boe)</b>                                | <b>765,488</b>   | <b>730,819</b>   | <b>767,095</b>    | <b>841,316</b>   | <b>953,598</b>   | <b>985,388</b>   | <b>972,140</b>    | <b>931,821</b>   |
| <b>Financial Results</b>                          |                  |                  |                   |                  |                  |                  |                   |                  |
| Oil and natural gas revenue                       | 20,231           | 16,064           | 20,030            | 19,321           | 25,301           | 23,243           | 18,299            | 26,753           |
| Royalty expense                                   | (2,359)          | (2,436)          | (2,391)           | (2,137)          | (4,674)          | (3,000)          | (2,656)           | (4,306)          |
| <b>Net oil and natural gas revenue</b>            | <b>17,872</b>    | <b>13,628</b>    | <b>17,639</b>     | <b>17,184</b>    | <b>20,627</b>    | <b>20,243</b>    | <b>15,643</b>     | <b>22,447</b>    |
| Transportation expense                            | (971)            | (855)            | (749)             | (988)            | (1,197)          | (1,233)          | (1,255)           | (1,235)          |
| Operating expense                                 | (2,880)          | (3,851)          | (3,800)           | (3,841)          | (4,160)          | (4,744)          | (5,271)           | (5,155)          |
| <b>Operating netback</b>                          | <b>14,021</b>    | <b>8,922</b>     | <b>13,090</b>     | <b>12,355</b>    | <b>15,270</b>    | <b>14,266</b>    | <b>9,117</b>      | <b>16,057</b>    |
| Realized gain (loss) on derivatives               | 513              | (573)            | (2,061)           | (625)            | 298              | 1,210            | 1,829             | 212              |
| Other income                                      | —                | 268              | 69                | 103              | —                | —                | —                 | —                |
| General and administrative expense                | (879)            | (1,065)          | (1,317)           | (1,372)          | (1,430)          | (266)            | (1,059)           | (1,047)          |
| Cash finance expense                              | (1,945)          | (2,370)          | (1,941)           | (2,097)          | (1,865)          | (1,515)          | (1,936)           | (1,807)          |
| Decommissioning expenditures                      | (137)            | (152)            | (155)             | —                | (168)            | (611)            | (224)             | (957)            |
| <b>Corporate netback and funds flow</b>           | <b>11,573</b>    | <b>5,030</b>     | <b>7,685</b>      | <b>8,364</b>     | <b>12,105</b>    | <b>13,084</b>    | <b>7,727</b>      | <b>12,458</b>    |
| <b>Oil and natural gas revenue</b>                | <b>20,231</b>    | <b>16,064</b>    | <b>20,030</b>     | <b>19,321</b>    | <b>25,301</b>    | <b>23,243</b>    | <b>18,299</b>     | <b>26,753</b>    |
| Per share - basic                                 | 0.41             | 0.32             | 0.40              | 0.39             | 0.51             | 0.47             | 0.37              | 0.54             |
| Per share - fully diluted                         | 0.41             | 0.32             | 0.40              | 0.39             | 0.51             | 0.47             | 0.37              | 0.54             |
| <b>Net income (loss)</b>                          | <b>(12,138)</b>  | <b>21,063</b>    | <b>(8,048)</b>    | <b>(10,615)</b>  | <b>(5,684)</b>   | <b>(67,095)</b>  | <b>(50,696)</b>   | <b>(781)</b>     |
| Per share - basic                                 | (0.25)           | 0.43             | (0.16)            | (0.21)           | (0.11)           | (1.36)           | (1.03)            | (0.02)           |
| Per share - fully diluted                         | (0.25)           | 0.43             | (0.16)            | (0.21)           | (0.11)           | (1.36)           | (1.03)            | (0.02)           |
| <b>Common shares outstanding (000s)</b>           |                  |                  |                   |                  |                  |                  |                   |                  |
| Basic                                             | 49,469           | 49,492           | 49,492            | 49,492           | 49,492           | 49,492           | 49,428            | 49,428           |
| Fully diluted                                     | 49,469           | 49,492           | 49,492            | 49,492           | 49,492           | 49,492           | 49,428            | 49,428           |
| <b>Weighted average shares outstanding (000s)</b> |                  |                  |                   |                  |                  |                  |                   |                  |
| Basic                                             | 49,483           | 49,492           | 49,492            | 49,492           | 49,492           | 49,456           | 49,428            | 49,428           |
| Fully diluted                                     | 49,483           | 49,492           | 49,492            | 49,492           | 49,492           | 49,456           | 49,428            | 49,428           |
| Total assets                                      | 336,974          | 341,820          | 322,335           | 330,359          | 343,161          | 353,445          | 409,078           | 465,794          |
| Net debt                                          | (136,382)        | (139,214)        | (131,603)         | (135,111)        | (142,238)        | (148,066)        | (137,531)         | (137,069)        |

The oil and natural gas exploration and production industry is cyclical in nature. Petrus' financial position, results of operations and corporate netback are affected by commodity prices, exchange rates, Canadian price differentials and production levels. Petrus' average quarterly production decreased from 10,240 boe/d in the second quarter of 2017 to 8,505 boe/d in the first quarter of 2019. The 17% production decrease is attributable to Petrus' shift in focus to liquids production growth in order to maximize value in light of the current natural gas commodity price environment. In addition the decrease is due to certain production volume in the Foothills area being shut-in due to uneconomic natural gas pricing.

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



## **CRITICAL ACCOUNTING ESTIMATES**

The timely preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of the financial statements are outlined below. The Company's critical accounting estimates can be read in note 2 to the Company's consolidated financial statements as at and for the year ended December 31, 2018.

## **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, 2018.

### ***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 March 31, 2019.

### ***Internal Control over Financial Reporting***

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on January 1, 2019 and ending on March 31, 2019 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 natural gas industry which is a useful supplemental measure to evaluate the specific operating performance by product at the oil and natural gas lease level. The most directly comparable GAAP measure to operating netback is funds flow. Operating netback is calculated as oil and natural gas revenue less royalties, operating and transportation expenses. It is presented on an absolute value and per unit basis.

### ***Funds Flow and Corporate Netback***

Corporate netback is a common non-GAAP financial measure used in the oil and natural gas industry which evaluates the Company's profitability at the corporate level. Corporate netback is equal to funds flow which is a directly comparable GAAP measure. Petrus analyzes these measures on an absolute value and per unit basis. Management believes that funds flow and corporate netback provide information to assist a reader in understanding the Company's profitability relative to current commodity prices. It is calculated, in the following table, as the operating

netback less general and administrative expense, finance expense, decommissioning expenditures, plus other income and the net realized gain (loss) on financial derivatives.

|                                         | Three months ended<br>Mar. 31, 2019 |              | Three months ended<br>Mar. 31, 2018 |              |
|-----------------------------------------|-------------------------------------|--------------|-------------------------------------|--------------|
|                                         | \$000s                              | \$/boe       | \$000s                              | \$/boe       |
| Oil and natural gas revenue             | 20,231                              | 26.42        | 25,301                              | 26.53        |
| Royalty expense                         | (2,359)                             | (3.08)       | (4,674)                             | (4.90)       |
| <b>Net oil and natural gas revenue</b>  | <b>17,872</b>                       | <b>23.34</b> | <b>20,627</b>                       | <b>21.63</b> |
| Transportation expense                  | (971)                               | (1.27)       | (1,197)                             | (1.26)       |
| Operating expense                       | (2,880)                             | (3.76)       | (4,160)                             | (4.36)       |
| <b>Operating netback</b>                | <b>14,021</b>                       | <b>18.31</b> | <b>15,270</b>                       | <b>16.01</b> |
| Realized gain on financial derivatives  | 513                                 | 0.67         | 298                                 | 0.31         |
| General & administrative expense        | (879)                               | (1.15)       | (1,430)                             | (1.50)       |
| Cash finance expense                    | (1,945)                             | (2.54)       | (1,865)                             | (1.96)       |
| Decommissioning expenditures            | (137)                               | (0.18)       | (168)                               | (0.23)       |
| <b>Funds flow and corporate netback</b> | <b>11,573</b>                       | <b>15.11</b> | <b>12,105</b>                       | <b>12.63</b> |

### Net Debt

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

| (\$000s)                                          | As at March 31, 2019 | As at March 31, 2018 |
|---------------------------------------------------|----------------------|----------------------|
| Adjusted current assets <sup>(1)</sup>            | 15,500               | 10,906               |
| Less: adjusted current liabilities <sup>(1)</sup> | (20,377)             | (20,238)             |
| Less: long term debt                              | (131,505)            | (132,906)            |
| <b>Net debt</b>                                   | <b>(136,382)</b>     | <b>(142,238)</b>     |

<sup>(1)</sup> Adjusted for unrealized risk management assets, liabilities, right-of-use lease obligations, and unrealized deferred share units liabilities.

### 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, 2018, which includes disclosure of our oil and natural gas reserves and other oil and natural 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.

Management uses oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare Petrus' operations over time. Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented in this MD&A, should not be relied upon for investment.

### 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, 2018. The reporting and the measurement currency is the Canadian dollar. All financial information is expressed in Canadian dollars, unless otherwise stated.

#### Forward-Looking Statements

Certain information regarding Petrus set forth in this MD&A contains forward-looking statements within the meaning of applicable securities law, that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such statements represent Petrus'



internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment, anticipated future debt, production, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Petrus believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause Petrus' actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Petrus.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to: Petrus' business plan and capital expenditure program for 2019, including its second quarter capital budget and the funding of the same; Petrus' drilling plan, including the same being within funds flow; expected 2019 quarterly debt repayment; Petrus' liquid and light oil weighting and funds flow; the growth of Petrus; expectations regarding Petrus' balance sheet; expectations regarding the adequacy of Petrus' liquidity and the funding of its financial liabilities; expected year over year production and payout ratios; sources of and sufficient financing and the requirement therefor; the performance characteristics of the Company's crude oil, NGL and natural gas properties including estimated production and production dates; the development of the Company's Cardium light oil in Ferrier; future prospects; the focus of and timing of capital expenditures; access to debt and equity markets; projections of market prices and costs; the performance characteristics of the Company's crude oil, NGL and natural gas properties including estimated production; crude oil, NGL and natural gas production levels and product mix; Petrus' future operating and financial results; capital investment programs; supply and demand for crude oil, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; and treatment under governmental regulatory regimes and tax laws. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

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

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

#### ***BOE Presentation***

The oil 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>mboe</i>    | <i>barrel of oil equivalent</i>                 |
| <i>mmboe</i>   | <i>thousand barrel of oil equivalent</i>        |
| <i>boe/d</i>   | <i>million 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)**

(Presented in 000's of Canadian dollars)

| As at                                              | March 31, 2019 | December 31, 2018 |
|----------------------------------------------------|----------------|-------------------|
| <b>ASSETS</b>                                      |                |                   |
| <b>Current</b>                                     |                |                   |
| Cash                                               | 2,637          | 63                |
| Deposits and prepaid expenses                      | 970            | 1,297             |
| Accounts receivable (note 14)                      | 11,893         | 12,675            |
| Risk management asset (note 9)                     | —              | 6,786             |
| <b>Total current assets</b>                        | <b>15,500</b>  | <b>20,821</b>     |
| <b>Non-current</b>                                 |                |                   |
| Risk management asset (note 9)                     | 244            | 2,749             |
| Exploration and evaluation assets (notes 3 and 4)  | 41,598         | 42,410            |
| Property, plant and equipment (notes 3 and 5)      | 279,632        | 275,840           |
| <b>Total assets</b>                                | <b>336,974</b> | <b>341,820</b>    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>        |                |                   |
| <b>Current liabilities</b>                         |                |                   |
| Bank indebtedness (note 14)                        | —              | 380               |
| Accounts payable and accrued liabilities (note 14) | 20,550         | 21,646            |
| Risk management liability (note 9)                 | 3,941          | —                 |
| Lease obligations (note 7)                         | 226            | —                 |
| <b>Total current liabilities</b>                   | <b>24,717</b>  | <b>22,026</b>     |
| <b>Non-current liabilities</b>                     |                |                   |
| Long term debt (note 6)                            | 131,505        | 131,422           |
| Lease obligations (note 7)                         | 1,130          | —                 |
| Decommissioning obligation (note 8)                | 43,229         | 40,224            |
| Risk management liability (note 9)                 | 229            | —                 |
| <b>Total liabilities</b>                           | <b>200,810</b> | <b>193,672</b>    |
| <b>Shareholders' equity</b>                        |                |                   |
| Share capital (note 10)                            | 430,119        | 430,119           |
| Contributed surplus                                | 8,538          | 8,384             |
| Deficit                                            | (302,493)      | (290,355)         |
| <b>Total shareholders' equity</b>                  | <b>136,164</b> | <b>148,148</b>    |
| <b>Total liabilities and shareholders' equity</b>  | <b>336,974</b> | <b>341,820</b>    |

Commitments (note 18)

See accompanying notes to the interim consolidated financial statements

Approved by the Board of Directors,

(signed) "Don T. Gray"

**Don T. Gray**  
Chairman

(signed) "Donald Cormack"

**Donald Cormack**  
Director


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

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

|                                            | Three months ended<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|--------------------------------------------|--------------------------------------|--------------------------------------|
| <b>REVENUE</b>                             |                                      |                                      |
| Oil and natural gas revenue (note 19)      | 20,231                               | 25,301                               |
| Royalty expense                            | (2,359)                              | (4,674)                              |
| <b>Net oil and natural gas revenue</b>     | <b>17,872</b>                        | <b>20,627</b>                        |
| Net loss on financial derivatives (note 9) | (12,947)                             | (5,242)                              |
|                                            | <b>4,925</b>                         | <b>15,385</b>                        |
| <b>EXPENSES</b>                            |                                      |                                      |
| Operating (note 12)                        | 2,880                                | 4,160                                |
| Transportation                             | 971                                  | 1,197                                |
| General and administrative (note 13)       | 879                                  | 1,430                                |
| Share-based compensation (note 10)         | 92                                   | 114                                  |
| Finance (note 16)                          | 2,297                                | 2,230                                |
| Exploration and evaluation (note 4)        | 672                                  | 284                                  |
| Depletion and depreciation (note 5)        | 9,296                                | 11,619                               |
| Loss (gain) on sale of assets              | (24)                                 | 35                                   |
| <b>Total expenses</b>                      | <b>17,063</b>                        | <b>21,069</b>                        |
| <b>NET LOSS AND COMPREHENSIVE LOSS</b>     | <b>(12,138)</b>                      | <b>(5,684)</b>                       |
| <b>Net loss per common share</b>           |                                      |                                      |
| Basic and diluted (note 11)                | \$ (0.25)                            | \$ (0.11)                            |

See accompanying notes to the interim consolidated financial statements



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


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(Presented in 000's of Canadian dollars)

|                                   | Share<br>Capital | Contributed<br>Surplus | Deficit          | Total          |
|-----------------------------------|------------------|------------------------|------------------|----------------|
| <b>Balance, December 31, 2017</b> | <b>430,119</b>   | <b>7,680</b>           | <b>(287,071)</b> | <b>150,728</b> |
| Net loss                          | —                | —                      | (5,684)          | (5,684)        |
| Share-based compensation          | —                | 190                    | —                | 190            |
| <b>Balance, March 31, 2018</b>    | <b>430,119</b>   | <b>7,870</b>           | <b>(292,755)</b> | <b>145,234</b> |
| <b>Balance, December 31, 2018</b> | <b>430,119</b>   | <b>8,384</b>           | <b>(290,355)</b> | <b>148,148</b> |
| Net loss                          | —                | —                      | (12,138)         | (12,138)       |
| Share-based compensation          | —                | 154                    | —                | 154            |
| <b>Balance, March 31, 2019</b>    | <b>430,119</b>   | <b>8,538</b>           | <b>(302,493)</b> | <b>136,164</b> |

*See accompanying notes to the interim consolidated financial statements*



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

(Presented in 000's of Canadian dollars)

|                                                          | Three months ended<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|----------------------------------------------------------|--------------------------------------|--------------------------------------|
| <b>OPERATING ACTIVITIES</b>                              |                                      |                                      |
| <b>Net loss</b>                                          | <b>(12,138)</b>                      | <b>(5,684)</b>                       |
| Adjust items not affecting cash:                         |                                      |                                      |
| Share-based compensation (note 10)                       | 92                                   | 114                                  |
| Unrealized loss on financial derivatives (note 9)        | 13,460                               | 5,540                                |
| Non-cash finance expenses (note 16)                      | 352                                  | 365                                  |
| Depletion and depreciation (note 5)                      | 9,296                                | 11,619                               |
| Exploration and evaluation expense (note 4)              | 672                                  | 284                                  |
| Loss (gain) on sale of assets                            | (24)                                 | 35                                   |
| Decommissioning expenditures (note 8)                    | (137)                                | (168)                                |
| <b>Funds flow</b>                                        | <b>11,573</b>                        | <b>12,105</b>                        |
| Change in operating non-cash working capital (note 17)   | (78)                                 | (4,632)                              |
| <b>Cash flows from operating activities</b>              | <b>11,495</b>                        | <b>7,473</b>                         |
| <b>FINANCING ACTIVITIES</b>                              |                                      |                                      |
| Increase in revolving credit facility                    | —                                    | 1,971                                |
| Increase (repayment) in bank indebtedness                | (380)                                | 900                                  |
| Repayment of lease liabilities (note 7)                  | (95)                                 | —                                    |
| Change in financing non-cash working capital (note 17)   | (53)                                 | 128                                  |
| <b>Cash flows from (used in) financing activities</b>    | <b>(528)</b>                         | <b>2,999</b>                         |
| <b>INVESTING ACTIVITIES</b>                              |                                      |                                      |
| Property and equipment acquisitions (note 3)             | —                                    | (28)                                 |
| Property and equipment dispositions (note 3)             | —                                    | (1,293)                              |
| Exploration and evaluation asset expenditures (note 4)   | (109)                                | (147)                                |
| Petroleum and natural gas property expenditures (note 5) | (8,374)                              | (4,465)                              |
| Change in investing non-cash working capital (note 17)   | 90                                   | (4,561)                              |
| <b>Cash used in investing activities</b>                 | <b>(8,393)</b>                       | <b>(10,494)</b>                      |
| Increase (decrease) in cash                              | 2,574                                | (22)                                 |
| Cash, beginning of period                                | 63                                   | 24                                   |
| <b>Cash, end of period</b>                               | <b>2,637</b>                         | <b>2</b>                             |
| Cash interest paid (note 16)                             | 1,945                                | 1,865                                |

See accompanying notes to the interim consolidated financial statements



## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

*As at March 31, 2019 and for the three months ended March 31, 2019 and 2018*

### 1. NATURE OF THE ORGANIZATION

Petrus Resources Ltd. (the "Company" or "Petrus") was incorporated under the laws of the Province of Alberta on November 25, 2015. The principal undertaking of Petrus is the investment in energy business-related assets. The operations of the Company consist of the acquisition, development, exploration and exploitation of these assets. These consolidated financial statements reflect only the Company's proportionate interest in such activities and are comprised of the Company and its subsidiaries, Petrus Resources Corp. and Petrus Resources Inc.

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

These interim consolidated financial statements, for the three months ended March 31, 2019 and prior year comparative period, were approved by the Company's Audit Committee and Board of Directors on May 6, 2019.

### 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, 2018 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, 2018. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2018, other than the new accounting policies adopted below. 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, 2018.

#### **New standards and interpretations adopted on January 1, 2019**

##### *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 are 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. 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. Petrus had adopted IFRS 16 using the modified retrospective approach.

On initial adoption, the Company elected to use the following practical expedients permitted under the standard:

1. Apply a single discount rate to a portfolio of leases with similar characteristics;
2. Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
3. Account for lease payments as an expense and not recognize a right-of-use ("ROU") asset if the underlying asset is of low dollar value;

The Company has identified ROU assets which are included in property plant and equipment and lease liabilities primarily related to office space. The recognition of the present value of minimum lease payments resulted in an additional \$0.7 million of right-of-use assets and associated lease liabilities as initial transition



adjustment on January 1, 2019. The Company has recognized lease liabilities in relation to lease arrangements previously disclosed as operating lease commitments under IAS 17 that meet the criteria of a lease under IFRS 16. Upon recognition, the Company's weighted average incremental borrowing rate used in measuring lease liabilities was 7.5 percent. Refer to note 7 for additional information.

### 3. ACQUISITIONS AND DISPOSITIONS

#### **Asset exchange agreement**

On March 13, 2018, Petrus closed a property swap transaction to exchange assets with an arm's length party. The Company recorded a loss of \$0.1 million on the asset exchange, net of closing adjustments, during the three months ended March 31, 2018.

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

| <b>Net assets disposed \$000s</b>                           |              |
|-------------------------------------------------------------|--------------|
| Exploration and evaluation assets ("E&E assets")            | 1,086        |
| Petroleum and natural gas properties and equipment ("PP&E") | 3,231        |
| Decommissioning obligations                                 | (471)        |
| <b>Total net assets disposed</b>                            | <b>3,846</b> |

| <b>Fair value of net assets acquired \$000s</b>    |              |
|----------------------------------------------------|--------------|
| Exploration and evaluation assets                  | 1,013        |
| Petroleum and natural gas properties and equipment | 2,852        |
| Decommissioning obligations                        | (224)        |
| <b>Total net assets acquired</b>                   | <b>3,641</b> |

### 4. EXPLORATION AND EVALUATION ASSETS

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

| <b>\$000s</b>                                       |               |
|-----------------------------------------------------|---------------|
| <b>Balance, December 31, 2017</b>                   | <b>43,197</b> |
| Additions                                           | 1,057         |
| Property acquisitions (note 3)                      | 402           |
| Exploration and evaluation expense                  | (1,938)       |
| Capitalized G&A                                     | 429           |
| Capitalized share-based compensation                | 70            |
| Property disposition (note 3)                       | (58)          |
| Transfers to property, plant and equipment (note 5) | (749)         |
| <b>Balance, December 31, 2018</b>                   | <b>42,410</b> |
| Exploration and evaluation expense                  | (672)         |
| Capitalized G&A                                     | 109           |
| Capitalized share-based compensation (note 10)      | 15            |
| Transfers to property, plant and equipment (note 5) | (264)         |
| <b>Balance, March 31, 2019</b>                      | <b>41,598</b> |

For the three months ended March 31, 2019, the Company incurred exploration and evaluation expense of \$0.7 million, which relates to expired and near expiry undeveloped, non-core land (three months ended March 31, 2018 – \$0.3 million).

During the three months ended March 31, 2019, the Company capitalized \$0.1 million of general and administrative expenses ("G&A") (three months ended March 31, 2018 – \$0.1 million) and \$0.02 million of non-cash share-based compensation directly attributable to exploration activities (three months ended March 31, 2018 – \$0.02 million).

For the three months ended March 31, 2019, Company did not identify any indicators of impairment in the Company's exploration and evaluation assets.



## 5. PROPERTY, PLANT AND EQUIPMENT

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

| \$000s                                                     | Cost           | Accumulated<br>DD&A | Net book value |
|------------------------------------------------------------|----------------|---------------------|----------------|
| <b>Balance, December 31, 2017</b>                          | <b>779,298</b> | <b>(484,827)</b>    | <b>294,471</b> |
| Additions                                                  | 20,549         | —                   | 20,549         |
| Property acquisitions (note 3)                             | 2,935          | —                   | 2,935          |
| Property (dispositions) (note 3)                           | (3,503)        | —                   | (3,503)        |
| Capitalized G&A                                            | 1,288          | —                   | 1,288          |
| Capitalized share-based compensation                       | 212            | —                   | 212            |
| Transfers from exploration and evaluation assets (note 4)  | 749            | —                   | 749            |
| Depletion & depreciation                                   | —              | (40,423)            | (40,423)       |
| Decrease in decommissioning provision (note 8)             | (438)          | —                   | (438)          |
| <b>Balance, December 31, 2018</b>                          | <b>801,090</b> | <b>(525,250)</b>    | <b>275,840</b> |
| Additions                                                  | 8,047          | —                   | 8,047          |
| Transition adjustment of right of use asset <sup>(1)</sup> | 742            | —                   | 742            |
| Addition of right of use asset <sup>(1)</sup>              | 709            | (57)                | 652            |
| Capitalized G&A                                            | 326            | —                   | 326            |
| Capitalized share-based compensation (note 10)             | 47             | —                   | 47             |
| Transfers from exploration and evaluation assets (note 4)  | 264            | —                   | 264            |
| Depletion & depreciation                                   | —              | (9,239)             | (9,239)        |
| Increase in decommissioning provision (note 8)             | 2,953          | —                   | 2,953          |
| <b>Balance, March 31, 2019</b>                             | <b>814,178</b> | <b>(534,546)</b>    | <b>279,632</b> |

<sup>(1)</sup>Right of use asset pertains to corporate office lease.

At March 31, 2019, estimated future development costs of \$291.2 million (December 31, 2018 – \$291.2 million) associated with the development of the Company's proved plus probable undeveloped reserves were included with the costs subject to depletion. During the three months ended March 31, 2019, the Company capitalized \$0.3 million of general and administrative expenses ("G&A") (three months ended March 31, 2018 – \$0.4 million) and non-cash share-based compensation of \$0.05 million, respectively (three months ended March 31, 2018 – \$0.06 million), directly attributable to development activities.

The Company did not identify any indicators of impairment on any of its CGUs at March 31, 2019. At March 31, 2019, the carrying balance of the right of use asset was \$1,394.

## 6. DEBT

At March 31, 2019, Petrus had two debt instruments outstanding. The first is a reserve-based, senior secured revolving credit facility with a syndicate of lenders, which is comprised of an operating facility and a syndicated term-out facility (together, the "Revolving Credit Facility" or "RCF"). The second is a subordinated secured term loan (the "Term Loan").

### (a) Revolving Credit Facility

At March 31, 2019, the RCF was comprised of a \$20 million operating facility and a \$90 million syndicated term-out facility. Consent from the syndicate of lenders and the Term Loan lender is required for total borrowings against the RCF exceeding \$105 million. The RCF has a revolving period that ends May 31, 2019 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 March 31, 2019, the Company had a \$0.7 million letter of credit outstanding against the RCF (December 31, 2018 – \$0.7 million) and had drawn \$97.0 million against the RCF (December 31, 2018 – \$97.0 million).

The amount of the RCF is subject to a borrowing base review performed on a semi-annual basis by the lenders, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. In addition, asset dispositions require unanimous lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2019.

### (b) Term Loan

At March 31, 2019 the Company had a \$35 million (December 31, 2018 – \$35 million) Term Loan outstanding (excluding \$0.5 million of unamortized deferred financing costs), which is due October 8, 2020. 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 plus 700 basis points. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

#### Financial Covenants

The Company's RCF and Term Loan are subject to certain financial covenants. For the financial covenants' definitions and calculation methodology refer to the Company's Audited Consolidated Financial Statements as at and for the year ended December 31, 2018.

The key financial covenants as at March 31, 2019 are summarized in the following table.

| Financial Covenant Description             | Required Ratio | As at March 31, 2019 |
|--------------------------------------------|----------------|----------------------|
| Working Capital Ratio                      | Over 1.00      | 1.34                 |
| Proved Asset Coverage Ratio <sup>(1)</sup> | Over 1.25      | 2.38                 |
| PDP Asset Coverage Ratio <sup>(1)</sup>    | Over 1.00      | 1.37                 |
| Debt to EBITDA Ratio                       | Under 3.50     | 3.20                 |

<sup>(1)</sup>Calculations are based upon the Company's December 31, 2018 reserve report evaluated by Sproule Associates Ltd.

At March 31, 2019 the Company is in compliance with all financial covenants.

#### 7. LEASES

The Company's lease obligations are as follows:

| \$000s                          | As at March 31, 2019 |
|---------------------------------|----------------------|
| <b>Balance, January 1, 2019</b> | <b>742</b>           |
| Additions                       | 709                  |
| Finance expense                 | 26                   |
| Lease payments                  | (121)                |
| <b>Balance, March 31, 2019</b>  | <b>1,356</b>         |

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

| \$000s                                  | As at March 31, 2019 |
|-----------------------------------------|----------------------|
| Less than 1 year                        | 318                  |
| 1 to 3 years                            | 781                  |
| 4 to 5 years                            | 554                  |
| After 5 years                           | 23                   |
| Total lease payments                    | 1,676                |
| Amounts representing finance expense    | (320)                |
| Present value of lease obligation       | 1,356                |
| Current portion of lease obligation     | (226)                |
| Non-current portion of lease obligation | 1,130                |

#### 8. DECOMMISSIONING OBLIGATION

The decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The estimated future cash flows have been discounted using an average risk free rate of 1.83 percent and an inflation rate of 2.00 percent (December 31, 2018 – 2.13 percent and 2.00 percent, respectively). Changes in estimates in 2018 and 2019 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 \$43.2 million as at March 31, 2019 (\$40.2 million at December 31, 2018). The undiscounted, uninflated total future liability at March 31, 2019 is \$41.4 million (\$41.6 million at December 31, 2018). The payments are expected to be incurred over the operating lives of the assets.



The following table reconciles the decommissioning liability:

| <b>\$000s</b>                     |               |
|-----------------------------------|---------------|
| <b>Balance, December 31, 2017</b> | <b>40,654</b> |
| Property acquisitions             | 224           |
| Property dispositions             | (629)         |
| Liabilities incurred              | 393           |
| Liabilities settled               | (475)         |
| Change in estimates               | (830)         |
| Accretion expense                 | 887           |
| <b>Balance, December 31, 2018</b> | <b>40,224</b> |
| Property dispositions             | (24)          |
| Liabilities incurred              | 433           |
| Liabilities settled               | (137)         |
| Change in estimates               | 2,519         |
| Accretion expense                 | 214           |
| <b>Balance, March 31, 2019</b>    | <b>43,229</b> |

## 9. FINANCIAL RISK MANAGEMENT

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus had outstanding as at March 31, 2019:

| Contract Period               | Type        | Total Daily Volume (GJ) | Average Price (CDN\$/GJ) |
|-------------------------------|-------------|-------------------------|--------------------------|
| <b>Natural Gas Swaps</b>      |             |                         |                          |
| Apr. 1, 2019 to Oct. 31, 2019 | Fixed price | 14,000                  | \$1.73                   |
| Apr. 1, 2019 to Mar. 31, 2021 | Fixed price | 2,000                   | \$1.50                   |
| Nov. 1, 2019 to Mar. 31, 2020 | Fixed price | 9,000                   | \$1.91                   |
| Nov. 1, 2019 to Oct. 31, 2020 | Fixed price | 3,500                   | \$1.58                   |
| Apr. 1, 2020 to Mar. 31, 2021 | Fixed price | 1,000                   | \$1.44                   |

| Contract Period               | Type        | Total Daily Volume (Bbl) | Average Price (CDN\$/Bbl) |
|-------------------------------|-------------|--------------------------|---------------------------|
| <b>Crude Oil Swaps</b>        |             |                          |                           |
| Apr. 1, 2019 to Jun. 30, 2019 | Fixed price | 1,400                    | \$67.13                   |
| Jul. 1, 2019 to Sep. 30, 2019 | Fixed price | 700                      | \$70.94                   |
| Jul. 1, 2019 to Dec. 31, 2019 | Fixed price | 700                      | \$67.59                   |
| Oct. 1, 2019 to Dec. 31, 2019 | Fixed price | 600                      | \$70.13                   |
| Oct. 1, 2019 to Dec. 31, 2020 | Fixed price | 350                      | \$76.70                   |
| Jan. 1, 2020 to Mar. 31, 2020 | Fixed price | 800                      | \$70.20                   |
| Jan. 1, 2020 to Jun. 30, 2020 | Fixed price | 300                      | \$77.25                   |
| Apr. 1, 2020 to Jun. 30, 2020 | Fixed price | 400                      | \$77.11                   |
| Jul. 1, 2020 to Sep. 30, 2020 | Fixed price | 200                      | \$82.50                   |
| Jul. 1, 2020 to Dec. 31, 2020 | Fixed price | 300                      | \$75.57                   |
| Jan. 1, 2021 to Mar. 31, 2021 | Fixed price | 100                      | \$74.25                   |
| Jan. 1, 2021 to Jun. 30, 2021 | Fixed price | 300                      | \$74.02                   |
| Jul. 1, 2021 to Dec. 31, 2021 | Fixed price | 300                      | \$72.80                   |

| Contract Period                | Type       | Average Rate (%) | Notional Amount (000s CDN\$) |
|--------------------------------|------------|------------------|------------------------------|
| <b>Interest Rate Swaps</b>     |            |                  |                              |
| Jan. 31, 2019 to Dec. 31, 2022 | Fixed rate | 2.34             | \$20,000                     |

Risk management asset and liability:

|                                    | Asset        | Liability    |
|------------------------------------|--------------|--------------|
| <b>\$000s At March 31, 2019</b>    |              |              |
| Current commodity derivatives      | —            | 3,941        |
| Non-current commodity derivatives  | 244          | 229          |
|                                    | <b>244</b>   | <b>4,170</b> |
| <b>\$000s At December 31, 2018</b> |              |              |
| Current commodity derivatives      | 6,786        | —            |
| Non-current commodity derivatives  | 2,749        | —            |
|                                    | <b>9,535</b> | <b>—</b>     |

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

| \$000s                                   | Three months ended<br>Mar. 31, 2019 | Three months ended<br>Mar. 31, 2018 |
|------------------------------------------|-------------------------------------|-------------------------------------|
| Realized gain on financial derivatives   | 513                                 | 298                                 |
| Unrealized loss on financial derivatives | (13,460)                            | (5,540)                             |
| Net loss on financial derivatives        | <b>(12,947)</b>                     | <b>(5,242)</b>                      |

## 10. SHARE CAPITAL

### Authorized

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



### Issued and Outstanding

| Common shares (\$000s)                                  | Number of Shares  | Amount         |
|---------------------------------------------------------|-------------------|----------------|
| <b>Balance, December 31, 2017 and December 31, 2018</b> | <b>49,491,840</b> | <b>430,119</b> |
| Cancelled <sup>(1)</sup>                                | (22,482)          | —              |
| <b>Balance, March 31, 2019</b>                          | <b>49,469,358</b> | <b>430,119</b> |

<sup>(1)</sup>On February 4, 2019, 22,482 shares were cancelled pursuant to the Arrangement Agreement between Phoscan Chemical Corp. and Petrus Resources Ltd (and the 3 year sunset clause therein).

### SHARE-BASED COMPENSATION

#### Stock Options

The Company has a stock option plan in place whereby it may issue stock options to employees, consultants and directors of the Company. The aggregate number of shares that may be acquired upon exercise of all options granted pursuant to the plans shall, at any date or time of determination, be equal to ten percent (10%) of the number that is equal to (i) the number of the Company's basic common shares then issued and outstanding; minus (ii) a number equal to five (5) times the number of common shares that are issuable upon exercise of the then outstanding Performance Warrants, if any, minus (iii) a number equal to fifty percent (50%) of the number of common shares that have previously been issued upon the exercise of Performance Warrants, if any.

At March 31, 2019, 3,034,570 (December 31, 2018 – 3,082,880) stock options were outstanding. The summary of stock option activity is presented below:

|                                    | Number of stock options | Weighted average exercise price |
|------------------------------------|-------------------------|---------------------------------|
| <b>Balance, December 31, 2017</b>  | <b>2,914,930</b>        | <b>\$4.21</b>                   |
| Granted                            | 1,208,880               | \$1.14                          |
| Forfeited                          | (492,410)               | \$5.94                          |
| Expired                            | (548,520)               | \$3.43                          |
| <b>Balance, December 31, 2018</b>  | <b>3,082,880</b>        | <b>\$2.87</b>                   |
| Granted                            | 390,000                 | \$0.45                          |
| Expired                            | (438,310)               | \$4.14                          |
| <b>Balance, March 31, 2019</b>     | <b>3,034,570</b>        | <b>\$2.42</b>                   |
| <b>Exercisable, March 31, 2019</b> | <b>227,500</b>          | <b>\$14.32</b>                  |

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) |
| \$0.45 - \$0.86         | 1,048,980                 | \$0.69                          | 1.76                                    | —                         | —                               | —                                       |
| \$1.49 - \$2.33         | 1,758,090                 | \$2.01                          | 0.78                                    | —                         | —                               | —                                       |
| \$9.00 - \$16.00        | 227,500                   | \$14.32                         | 0.46                                    | 227,500                   | \$14.32                         | 0.46                                    |
|                         | <b>3,034,570</b>          | <b>\$2.42</b>                   | <b>1.10</b>                             | <b>227,500</b>            | <b>\$14.32</b>                  | <b>0.46</b>                             |

During the three months ended March 31, 2019 and the year ended December 31, 2018, 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 2019 of \$0.15 (2018 – \$0.30) was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

|                                                      | 2019          | 2018          |
|------------------------------------------------------|---------------|---------------|
| Risk free interest rate                              | 1.53% - 1.65% | 1.70% - 1.90% |
| Expected life (years)                                | 1.08 - 3.08   | 1.08 - 3.08   |
| Estimated volatility of underlying common shares (%) | 73%           | 63% - 65%     |
| 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.



### Deferred Share Unit ("DSU") Plan

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

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

The compensation expense was calculated using the fair value method based on the weighted average trading price of the Company's shares for the five trading days ending on the reporting period date. At March 31, 2019, 382,796 (December 31, 2018 – 382,796) Deferred Share Units were issued and outstanding.

The following table summarizes the change in accrued compensation liability related to DSUs:

| \$000s                                   |            |
|------------------------------------------|------------|
| <b>Balance, December 31, 2017</b>        | <b>244</b> |
| Change in accrued compensation liability | (45)       |
| <b>Balance, December 31, 2018</b>        | <b>199</b> |
| Change in accrued compensation liability | (26)       |
| <b>Balance, March 31, 2019</b>           | <b>173</b> |

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

| \$000s                                           | Three months ended<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|--------------------------------------------------|--------------------------------------|--------------------------------------|
| Expensed                                         | 92                                   | 114                                  |
| Capitalized to exploration and evaluation assets | 15                                   | 19                                   |
| Capitalized to property, plant and equipment     | 47                                   | 57                                   |
| <b>Total share-based compensation</b>            | <b>154</b>                           | <b>190</b>                           |

### 11. LOSS PER SHARE

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

|                                                           | Three months ended<br>March 31, 2019 | Three months ended<br>March 31, 2018 |
|-----------------------------------------------------------|--------------------------------------|--------------------------------------|
| <b>Net loss for the year (\$000s)</b>                     | <b>(12,138)</b>                      | <b>(5,684)</b>                       |
| Weighted average number of common shares – basic (000s)   | 49,483                               | 49,492                               |
| Weighted average number of common shares – diluted (000s) | 49,483                               | 49,492                               |
| <b>Net loss per common share – basic</b>                  | <b>(\$0.25)</b>                      | <b>(\$0.11)</b>                      |
| <b>Net loss per common share – diluted</b>                | <b>(\$0.25)</b>                      | <b>(\$0.11)</b>                      |

In computing diluted loss per share for the three months ended March 31, 2019, 3,034,570 outstanding stock options and 382,796 DSUs were considered (three months ended March 31, 2018 – 2,695,791 and nil, respectively). For the three months ended March 31, 2019, there were 3,034,570 stock options and 382,796 DSUs that were excluded from the calculation as their impact was anti-dilutive (three months ended March 31, 2018 – 2,695,791 and nil, respectively).



## 12. OPERATING EXPENSES

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

| \$000s                                        | Three months ended<br>Mar. 31, 2019 | Three months ended<br>Mar. 31, 2018 |
|-----------------------------------------------|-------------------------------------|-------------------------------------|
| Fixed and variable operating expenses         | 2,600                               | 3,431                               |
| Processing, gathering and compression charges | 502                                 | 985                                 |
| <b>Total gross operating expenses</b>         | <b>3,102</b>                        | <b>4,416</b>                        |
| Processing income recoveries                  | (222)                               | (256)                               |
| <b>Total net operating expenses</b>           | <b>2,880</b>                        | <b>4,160</b>                        |

## 13. GENERAL AND ADMINISTRATIVE EXPENSES

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

| \$000s                                         | Three months ended<br>Mar. 31, 2019 | Three months ended<br>Mar. 31, 2018 |
|------------------------------------------------|-------------------------------------|-------------------------------------|
| Gross general and administrative expense       | 1,879                               | 2,409                               |
| Capitalized general and administrative expense | (435)                               | (588)                               |
| Overhead recoveries                            | (565)                               | (391)                               |
| <b>General and administrative expense</b>      | <b>879</b>                          | <b>1,430</b>                        |

## 14. FINANCIAL INSTRUMENTS

### *Risks associated with financial instruments*

#### **Credit risk**

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risk. Concentration of credit risk is mitigated by marketing the majority of the Company's production to reputable and financially sound purchasers under normal industry sale and payment terms. As is common in the petroleum and natural gas industry in western Canada, Petrus' receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Of the \$11.9 million of accounts receivable outstanding at March 31, 2019 (December 31, 2018 – \$12.7 million), \$7.4 million is owed from 3 parties (December 31, 2018 – \$7.1 million from 4 parties), and the balances were received subsequent to quarter end. The Company considers accounts receivable outstanding past 120 days to be 'past due'. At March 31, 2019, the Company had an allowance for doubtful accounts of \$0.3 million (December 31, 2018 – \$0.2 million). At March 31, 2019, 97% of Petrus' accounts receivable were aged less than 120 days and 1% of Petrus' accounts receivable were aged greater than 120 days. The Company does not anticipate any material collection issues.

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

#### **Liquidity risk**

At March 31, 2019, the Company had a \$110 million RCF (lender consent is required for total borrowings against the RCF exceeding \$105 million, see note 6), on which \$97.0 million was drawn (December 31, 2018 – \$97.0 million). While the Company is exposed to the risk of reductions to the borrowing base of the RCF, the Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through funds flow and available credit capacity from its RCF. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2019.

The following are the contractual maturities of financial liabilities as at March 31, 2019:

| \$000s                                              | Total          | < 1 year      | 1-5 years      |
|-----------------------------------------------------|----------------|---------------|----------------|
| Accounts payable and accrued liabilities            | 20,550         | 20,550        | —              |
| Bank indebtedness and long term debt <sup>(1)</sup> | 132,000        | —             | 132,000        |
| <b>Total</b>                                        | <b>152,550</b> | <b>20,550</b> | <b>132,000</b> |

<sup>(1)</sup>Excludes deferred finance fees.

#### **Interest Rate Risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash, bank indebtedness and accounts receivable are not exposed to significant interest rate risk. The RCF and Term Loan are exposed to interest rate cash flow risk as the instruments are priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed



to interest rate risk. To manage exposure to interest rate volatility, the Company entered into interest rate swap contracts (note 9). A 1% increase in the Canadian prime interest rate during the three months ended March 31, 2019 would have increased net loss by approximately \$1.1 million which relates to interest expense on the average outstanding RCF and Term Loan, net of any interest rate swaps to fix the interest rate on loans, during the period assuming that all other variables remain constant (March 31, 2018 – increased net loss by \$1.3 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 9). The Company assesses the effects of movement in commodity prices on net loss. When assessing the potential impact of these commodity price changes, the Company believes a \$5/CDN WTI/bbl change in the price of oil and a \$0.25/GJ change in the price of natural gas are reasonable measures.

As at March 31, 2019, it was estimated that a \$0.25/GJ decrease in the price of natural gas would have increased net loss by \$1.9 million (March 31, 2018 – \$2.8 million). An opposite change in commodity prices would result in an opposite impact on net loss. As at March 31, 2019, it was estimated that a \$5.00/CDN WTI/bbl decrease in the price of oil would have increased net loss by \$4.6 million (March 31, 2018 – \$5.1 million). An opposite change in commodity prices would result in an opposite impact on net loss.

## **15. CAPITAL MANAGEMENT**

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

## **16. FINANCE EXPENSES**

The components of finance expenses are as follows:

| \$000s                                            | Three months ended<br>Mar. 31, 2019 | Three months ended<br>Mar. 31, 2018 |
|---------------------------------------------------|-------------------------------------|-------------------------------------|
| <b>Cash:</b>                                      |                                     |                                     |
| Interest                                          | 1,945                               | 1,865                               |
| <b>Non-cash:</b>                                  |                                     |                                     |
| Deferred financing costs                          | 138                                 | 141                                 |
| Accretion on decommissioning obligations (note 8) | 214                                 | 224                                 |
| Total non-cash finance expenses                   | 352                                 | 365                                 |
| <b>Total finance expenses</b>                     | <b>2,297</b>                        | <b>2,230</b>                        |

## **17. SUPPLEMENTAL CASH FLOW INFORMATION**

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

| \$000s                                           | Three months ended<br>Mar. 31, 2019 | Three months ended<br>Mar. 31, 2018 |
|--------------------------------------------------|-------------------------------------|-------------------------------------|
| <b>Source (use) in non-cash working capital:</b> |                                     |                                     |
| Deposits and prepaid expenses                    | 327                                 | 201                                 |
| Transaction costs on debt                        | (54)                                | —                                   |
| Accounts receivable                              | 782                                 | 1,912                               |
| Accounts payable and accrued liabilities         | (1,096)                             | (11,178)                            |
|                                                  | <b>(41)</b>                         | <b>(9,065)</b>                      |
| Operating activities                             | (78)                                | (4,632)                             |
| Financing activities                             | (53)                                | 128                                 |
| Investing activities                             | 90                                  | (4,561)                             |



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

| <b>\$000s</b>                     | <b>Bank Indebtedness</b> | <b>Revolving Credit Facility</b> | <b>Term Loan</b> | <b>Total Liabilities from Financing Activities</b> |
|-----------------------------------|--------------------------|----------------------------------|------------------|----------------------------------------------------|
| <b>Balance, December 31, 2018</b> | <b>380</b>               | <b>97,000</b>                    | <b>34,421</b>    | <b>131,801</b>                                     |
| Cash flows                        | (380)                    | —                                | —                | (380)                                              |
| Non-cash changes                  | —                        | —                                | 84               | 84                                                 |
| <b>Balance, March 31, 2019</b>    | <b>—</b>                 | <b>97,000</b>                    | <b>34,505</b>    | <b>131,505</b>                                     |



## 18. COMMITMENTS AND CONTINGENCIES

### COMMITMENTS

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

| \$000s                      | Total         | < 1 year     | 1-5 years     | > 5 years    |
|-----------------------------|---------------|--------------|---------------|--------------|
| Firm service transportation | 19,124        | 1,374        | 12,900        | 4,850        |
| <b>Total commitments</b>    | <b>19,124</b> | <b>1,374</b> | <b>12,900</b> | <b>4,850</b> |

### CONTINGENCIES

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

## 19. REVENUE

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

| \$000s                                              | Three months ended<br>Mar. 31, 2019 | Three months ended<br>Mar. 31, 2018 |
|-----------------------------------------------------|-------------------------------------|-------------------------------------|
| <b>Production Revenue</b>                           |                                     |                                     |
| Oil and condensate sales                            | 8,450                               | 10,175                              |
| Natural gas sales                                   | 7,051                               | 8,918                               |
| Natural gas liquids sales                           | 4,681                               | 6,175                               |
| <b>Total oil and natural gas production revenue</b> | <b>20,182</b>                       | <b>25,268</b>                       |
| Royalty revenue                                     | 49                                  | 33                                  |
| <b>Total oil and natural gas revenue</b>            | <b>20,231</b>                       | <b>25,301</b>                       |



## 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

Stephen White  
Calgary, Alberta

### SOLICITOR

Burnet, Duckworth & Palmer LLP  
Calgary, Alberta

### AUDITOR

Ernst & Young LLP  
Chartered Professional Accountants  
Calgary, Alberta

### INDEPENDENT RESERVE EVALUATORS

Sroule and Associates  
Calgary, Alberta

### BANKERS

TD Securities (Syndicate Lead Agent)  
Calgary, Alberta

Macquarie Bank Limited  
Houston, Texas

### TRANSFER AGENT

Computershare Trust Company  
Calgary, Alberta

### HEAD OFFICE

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

### WEBSITE

[www.petrusresources.com](http://www.petrusresources.com)

