Petrus Resources

FIRST QUARTER REPORT

For the three months ended March 31, 2023

Petrus Resources Ltd. ("Petrus" or the "Company") (TSX: PRQ) is pleased to report financial and operating results as at and for the three months ended March 31, 2023.

Q1 2023 HIGHLIGHTS:

- **Higher production –** Production was up 54% from 7,379 boe/d[(1)] in the first quarter of 2022 to 11,385 boe/d in the first quarter of 2023. The increase was primarily due to a full quarter of production realized from the wells drilled in the fourth quarter of 2022 as well as one month of production from the 3 (3.0 net) new wells brought on stream this quarter. Production was up 25% quarter over quarter from 9,113 boe/d during the fourth quarter of 2022.

- **Funds flow increased 58% –** Generated funds flow[(2)] of $26.2 million ($0.21 per share[(3)]) for the first quarter of 2023, 58% higher than funds flow of $16.6 million ($0.17 per share) in the first quarter of 2022, despite the realized price per boe being 23% lower.

- **Net income increased 58% –** Petrus reported net income of $17.3 million ($0.14 per share) during the first quarter, up 58% from the first quarter of 2022 ($10.9 million; $0.11 per share).

- **Increased capital activity –** Petrus invested $29.8 million of capital during the first quarter of 2023, a 484% increase from the first quarter of 2022. The majority of capital was allocated towards the drilling of 7 (7.0 net) new wells, of which 3 (3.0 net) were completed and brought on stream during the quarter.

- **Net debt to funds flow improvement –** The net debt[(2)] to annualized funds flow ratio[(3)] was 0.51 at March 31, 2023 in comparison to 0.75 at March 31, 2022, despite higher capital spending in the current quarter. The Company will continue to strengthen its balance sheet by further reducing net debt and maintaining a net debt to funds flow ratio of under 1x.

2023 CAPITAL BUDGET AND GUIDANCE[(4)]

The current price environment and outlook for the remainder of the year is materially lower than the assumptions used to develop the 2023 capital budget. As a result, the Company is re-evaluating the budget and has already deferred some of the planned capital spending. Completion activities for the four wells drilled near the end of the first quarter will be delayed until there is a more constructive price environment, possibly until the winter gas season. Petrus has elected not to provide updated guidance during this reporting cycle, but would like to reiterate that it remains committed to keeping capital spending within cash flow and only investing capital where it will generate exceptional returns. We look forward to providing further updates with second quarter results, if not sooner.

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

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the financial and operating results of Petrus Resources Ltd. ("Petrus" or the "Company") as at and for the three months ended March 31, 2023. This MD&A is dated May 10, 2023 and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2022 and 2021 and the Company's interim consolidated financial statements for the three months ended March 31, 2023 and 2022. The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS"). Readers are directed to the "Advisories" section at the end of this MD&A regarding forward-looking statements and boe presentation and to the section "Non-GAAP and Other Financial Measures" herein.

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

SELECTED FINANCIAL INFORMATION

OPERATIONS	Three months ended Mar. 31, 2023	Three months ended Mar. 31, 2022	Three months ended Dec. 31, 2022	Three months ended Sept. 30, 2022	Three months ended Jun. 30, 2022
Average Production					
Natural gas (mcf/d)	45,237	29,530	33,201	28,107	30,913
Oil (bbl/d)	2,192	1,250	2,458	957	1,073
NGLs (bbl/d)	1,654	1,207	1,121	997	1,055
Total (boe/d)	**11,385**	**7,379**	**9,113**	**6,639**	**7,280**
Total (boe)[1]	**1,024,645**	**664,010**	**838,375**	**610,722**	**662,456**
Light oil weighting	19 %	17 %	27 %	14 %	15 %
Realized Prices					
Natural gas ($/mcf)	3.78	5.20	6.04	5.02	7.74
Oil ($/bbl)	94.63	110.12	106.85	111.04	133.36
NGLs ($/bbl)	47.55	60.12	56.90	62.25	74.63
Total realized price ($/boe)	**40.16**	**49.31**	**57.81**	**46.62**	**63.33**
Royalty income	0.16	0.29	0.15	0.37	0.25
Royalty expense	(6.38)	(6.89)	(7.92)	(11.84)	(8.64)
Gain (loss) on risk management activities	1.45	—	(1.26)	(0.81)	(6.76)
Net oil and natural gas revenue ($/boe)	**35.39**	**42.71**	**48.78**	**34.34**	**48.18**
Operating expense	(7.26)	(6.76)	(6.86)	(8.47)	(7.92)
Transportation expense	(2.05)	(2.17)	(2.08)	(1.89)	(2.16)
Operating netback[2] ($/boe)	**26.08**	**33.78**	**39.84**	**23.98**	**38.10**
Realized gain (loss) on financial derivatives ($/boe)	1.77	(6.98)	2.89	1.00	—
Other income (cash)	0.16	0.07	0.22	0.05	0.04
General & administrative expense	(1.20)	(0.82)	(1.10)	(1.30)	(1.70)
Cash finance expense	(1.11)	(1.04)	(1.18)	(0.87)	(1.46)
Decommissioning expenditures	(0.13)	(0.02)	0.03	(0.29)	0.06
Funds flow & corporate netback ($/boe)[2]	**25.57**	**24.99**	**40.70**	**22.57**	**35.04**

FINANCIAL (000s except $ per share)	Three months ended Mar. 31, 2023	Three months ended Mar. 31, 2022	Three months ended Dec. 31, 2022	Three months ended Sept. 30, 2022	Three months ended Jun. 30, 2022
Oil and natural gas revenue	41,319	32,940	48,590	28,701	42,119
Net income	17,273	10,903	22,097	9,822	18,046
Net income per share					
Basic	0.14	0.11	0.18	0.08	0.16
Fully diluted	0.14	0.11	0.17	0.08	0.15
Funds flow[2]	26,216	16,601	34,117	13,789	23,208
Funds flow per share[2]					
Basic	0.21	0.17	0.28	0.11	0.21
Fully diluted	0.21	0.16	0.27	0.11	0.20
Capital expenditures	29,820	5,064	37,792	49,513	4,932
Acquisitions	—	15,200	—	16	364
Weighted average shares outstanding					
Basic	123,416	99,189	122,545	122,058	111,795
Fully diluted	127,358	103,250	127,600	126,822	117,203
As at period end					
Common shares outstanding					
Basic	123,239	106,907	123,239	122,197	122,017
Fully diluted	133,377	113,883	133,377	131,482	131,302
Total assets	403,276	308,744	381,057	356,050	302,472
Non-current liabilities	68,056	46,702	63,021	61,778	50,924
Net debt[2]	53,111	50,044	50,808	48,465	13,895

[1] Disclosure of production on a per boe basis consists of the constituent product types and their respective quantities. Refer to "BOE Presentation" for further details.
[2] Non-GAAP ratio or non-GAAP measure. Refer to "Non-GAAP and Other Financial Measures".

OPERATIONS UPDATE

First quarter average production by area was as follows:

For the three months ended March 31, 2023	Ferrier	North Ferrier	Foothills	Central Alberta	Kakwa	Total
Natural gas (mcf/d)	33,145	4,107	2,844	5,065	76	45,237
Oil (bbl/d)	1,683	156	83	257	12	2,191
NGLs (bbl/d)	1,378	117	11	142	6	1,654
Total (boe/d)	**8,586**	**957**	**568**	**1,243**	**31**	**11,385**

First quarter average production was 11,385 boe/d in 2023 compared to 7,379 boe/d in 2022. The increase in production was mainly a result of Petrus' capital program during 2022 and 3 (3.0 net) new 2023 drilled wells brought on stream in late February and early March.

CAPITAL EXPENDITURES

Capital expenditures (excluding acquisitions) totaled $29.8 million in the first quarter of 2023, compared to $5.1 million in the prior year comparative period. The Company drilled 7 gross (7.0 net) cardium wells in Ferrier during the first quarter of 2023, as compared to 2 gross (1.1 net) wells during the first quarter of 2022. The majority of capital spending during the current quarter was related to the drilling of these 7 wells, of which 3 (3.0 net) were completed and on stream.

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

Capital Expenditures ($000s)	Three months ended March 31, 2023	Three months ended March 31, 2022
Drill and complete	24,264	4,005
Oil and gas equipment	4,605	813
Geological	515	—
Land and lease	160	39
Office	17	—
Capitalized general and administrative expense	259	207
Total capital expenditures	**29,820**	**5,064**
Gross (net) wells spud	**7 (7.0)**	**2 (1.1)**

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

RESULTS OF OPERATIONS

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Three months ended Mar. 31, 2023	Three months ended Mar. 31, 2022	Three months ended Dec. 31, 2022	Three months ended Sept. 30, 2022	Three months ended Jun. 30, 2022
Average production					
Natural gas (mcf/d)	45,237	29,530	33,201	28,107	30,913
Oil (bbl/d)	2,192	1,250	2,458	957	1,073
NGLs (bbl/d)	1,654	1,207	1,121	997	1,055
Total (boe/d)	**11,385**	**7,379**	**9,113**	**6,639**	**7,280**
Total (boe)	**1,024,645**	**664,010**	**838,375**	**610,722**	**662,456**
Revenue ($000s)					
Natural gas	15,407	13,830	18,434	12,990	21,771
Oil	18,666	12,387	24,163	9,776	13,022
NGLs	7,077	6,528	5,869	5,708	7,162
Royalty revenue	169	195	124	227	164
Oil and natural gas revenue	**41,319**	**32,940**	**48,590**	**28,701**	**42,119**
Average realized prices					
Natural gas ($/mcf)	3.78	5.20	6.04	5.02	7.74
Oil ($/bbl)	94.63	110.12	106.85	111.04	133.36
NGLs ($/bbl)	47.55	60.12	56.90	62.25	74.63
Total realized price ($/boe)	40.16	49.31	57.81	46.62	63.33
Hedging gain (loss) ($/boe)	1.77	(6.98)	2.89	1.00	—
Gain (loss) on risk management ($/boe)	1.45	—	(1.26)	(0.81)	(6.76)
Total price including hedging ($/boe)	**43.38**	**42.33**	**59.44**	**46.81**	**56.57**

Average benchmark prices	Three months ended Mar. 31, 2023	Three months ended Mar. 31, 2022	Three months ended Dec. 31, 2022	Three months ended Sept. 30, 2022	Three months ended Jun. 30, 2022
Natural gas					
AECO 5A (C$/GJ)	3.05	4.49	4.85	3.95	6.86
AECO 7A (C$/GJ)	4.12	4.35	5.29	5.29	5.95
Crude oil and NGLs					
Mixed Sweet Blend Edm (C$/bbl)	99.87	117.57	108.14	115.94	134.99
WTI (US$/bbl)	76.13	94.29	82.65	91.56	108.41
Foreign exchange					
US$/C$	0.74	0.79	0.74	0.77	0.79

FUNDS FLOW AND NET INCOME

Petrus generated funds flow of $26.2 million in the first quarter of 2023 compared to $16.6 million in the first quarter of 2022. The 58% increase is due to higher production, despite lower commodity prices. In the first quarter Petrus' total realized price (before realized hedging and risk management) was $40.16/boe compared to $49.31/boe in the first quarter of 2022.

Petrus reported net income of $17.3 million in the first quarter of 2023, compared $10.9 million in the first quarter of 2022. The 58% increase in net income in the first quarter of 2023 is primarily due to higher production, net gain on financial derivatives of $6.1 million, gain on risk management activities of $1.5 million and other income of $1.4 million. During the prior year comparative period, Petrus recognized a net loss on financial derivatives of $2.1 million and no other income or gain on risk management activities.

($000s except per share)	Three months ended March 31, 2023	Three months ended March 31, 2022
Funds flow	**26,216**	**16,601**
Funds flow per share - basic	0.21	0.17
Funds flow per share - fully diluted	0.21	0.16
Net income	**17,273**	**10,903**
Net income per share - basic	0.14	0.11
Net income per share - fully diluted	0.14	0.11
Common shares outstanding (000s)		
Basic	123,239	106,907
Fully diluted	133,377	113,883
Weighted average shares outstanding (000s)		
Basic	123,416	99,189
Fully diluted	127,358	103,250

OIL AND NATURAL GAS REVENUE

First quarter oil and natural gas revenue in 2023 was $41.3 million compared to $32.9 million in 2022. The 25% increase is due to 54% higher production partially offset by lower prices.

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

Production Volume by Product (%)	Three months ended March 31, 2023	Three months ended March 31, 2022
Natural gas	66 %	67 %
Crude oil and condensate	19 %	17 %
Natural gas liquids	15 %	16 %
Total commodity sales from production	**100 %**	**100 %**

The following table presents oil and natural gas revenue by product and the change from the prior comparative periods:

Oil and Natural Gas Revenue ($000s)	Three months ended March 31, 2023	Three months ended March 31, 2022	% Change
Natural gas	15,407	13,830	11 %
Crude oil and condensate	18,666	12,387	51 %
Natural gas liquids	7,077	6,528	8 %
Royalty income	169	195	(13)%
Total oil and natural gas revenue	**41,319**	**32,940**	**25 %**

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

	Three months ended March 31, 2023	Three months ended March 31, 2022	% Change
Average benchmark prices			
Natural gas			
AECO 5A (C$/GJ)	3.05	4.49	(32)%
AECO 7A (C$/GJ)	4.12	4.35	(5)%
Crude oil and NGLs			
Mixed Sweet Blend Edm (C$/bbl)	99.87	117.57	(15)%
WTI (US$/bbl)	76.13	94.29	(19)%
Average realized prices			
Natural gas ($/mcf)	3.78	5.20	(27)%
Oil ($/bbl)	94.63	110.12	(14)%
NGLs ($/bbl)	47.55	60.12	(21)%
Total average realized price	**40.16**	**49.31**	**(19)%**

Natural gas

Natural gas revenue for the three months ended March 31, 2023 increased by 11% to $15.4 million, compared to revenue of $13.8 million in the prior year comparative period. This increase is due to higher production; 45,237 mcf/d in the first quarter of 2023 compared to 29,530 mcf/d in the prior year comparative period). Natural gas accounted for 37% of total oil and gas revenue for the quarter compared to 42% in the first quarter of 2022.

First quarter 2023 average realized natural gas price was $3.78/mcf, compared to $5.20/mcf in the first quarter of 2022, a 27% decrease. The decrease in realized pricing is due to lower natural gas market pricing; AECO 5A and 7A were 32% and 5% lower, respectively.

Crude oil and condensate

Oil and condensate revenue for the three months ended March 31, 2023 was up 51% to $18.7 million, compared to revenue of $12.4 million in the prior year comparative period. This increase is due to higher production; 2,192 bbl/d in the first quarter of 2023 compared to 1,250 bbl/d in the prior year comparative period. Oil and condensate accounted for 45% of total oil and gas revenue for the quarter compared to 38% in the first quarter of 2022.

The average realized oil and condensate price was $94.63/bbl in the first quarter of 2023 compared to $110.12/bbl in the first quarter of 2022. The 14% decrease is attributable to lower market oil pricing; Mixed Sweet Blend Edm was 15% lower.

Natural gas liquids (NGLs)

NGL revenue for the three months ended March 31, 2023 was up 8% to $7.1 million, compared to revenue of $6.5 million in the prior year comparative period. The increase is primarily due to higher production; 1,654 bbl/d in the first quarter of 2023 compared to 1,207 bbl/d in the prior year comparative period. NGLs accounted for 17% of total oil and natural gas revenue for the quarter compared to 20% in the first quarter of 2022.

In the first quarter of 2023, the Company's realized NGL price averaged $47.55/bbl, compared to $60.12/bbl in the prior year comparative period. The 21% decrease is attributed to lower market pricing.

The Company's NGL production mix consists of ethane, propane, butane and pentanes+. The pricing received for NGL production is based on annual contracts effective the first of April each year. The contract prices are based on the product mix, the fractionation process required and the demand for fractionation facilities. NGL pricing is benchmarked to WTI.

ROYALTY EXPENSE

Royalties are paid to the Government of Alberta and to gross overriding royalty owners. The following table shows the Company's royalty expense (net of royalty allowances and incentives) for the periods shown:

Royalty Expense ($000s)	Three months ended March 31, 2023	Three months ended March 31, 2022
Crown	4,186	2,807
Percent of production revenue	10 %	9 %
Gross overriding	2,348	1,769
Total	**6,534**	**4,576**

First quarter royalty expense increased from $4.6 million in 2022 to $6.5 million in 2023 primarily due to higher Crown royalties as a result of increased revenue (due to higher production). Gross overriding royalties in the first quarter of 2023 were higher than the prior year comparative period also due to higher revenue (due to increased production) in the first quarter of 2023.

OTHER INCOME

During the three months ended March 31, 2023 the Company recorded $1.4 million as other income ($0.2 million cash). This amount mainly relates to the recognition of carbon credits ($1.2 million) the Company earned from installing emission reduction equipment.

RISK MANAGEMENT

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

The impact of the contracts that were settled 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 financial derivative contracts for the periods shown:

Net Gain (Loss) on Financial Derivatives ($000s)	Three months ended March 31, 2023	Three months ended March 31, 2022
Realized hedging gain (loss)	1,814	(4,632)
Unrealized hedging gain	4,287	2,487
Net gain (loss) on derivatives	**6,101**	**(2,145)**

In the first quarter, the Company recognized a realized hedging gain of $1.8 million in 2023, compared to $4.6 million loss in the first quarter of 2022. The realized gain is due to lower commodity prices (relative to the respective contracts outstanding). The realized gain in the first quarter of 2023 increased the Company's total realized price by $1.77/boe, compared to a decrease of $6.98/boe in 2022.

During the first quarter of 2023, the Company recognized an unrealized gain of $4.3 million compared to $2.5 million in the first quarter of 2022. The gain during the quarter represents the change in the unrealized risk management net asset or liability position during the three months ended March 31, 2023.

The table below shows the gain on risk management activities related to physical commodity contracts for the periods shown:

Net Gain on Risk Management Activities ($000s)	Three months ended March 31, 2023	Three months ended March 31, 2022
Gain on physical commodity contracts	1,490	—
Net gain on risk management activities	**1,490**	**—**

During the first quarter of 2023, the Company recorded a gain of $1.5 million or $1.45/boe related to the settlement of its physical commodity contracts (three months ended March 31, 2022 - nil). The gain is a result of higher contract prices in comparison to benchmark prices during the period. The average volume of gas hedged through physical commodity contracts during the first quarter of 2023 was 14,000 GJ/d at an average price of $4.17/GJ. There was no gain or loss recorded during the three months ended March 31, 2022 as there were no contracts outstanding during the period. As at March 31, 2023, there are no physical commodity contracts outstanding and the Company does not anticipate entering any new physical commodity contracts going forward.

The Company's risk management contracts provide protection from significant changes in crude oil and natural gas commodity prices for 2023, 2024 and 2025. The Company endeavors to hedge approximately half of its forecasted production for up to 12 months forward, and approximately 10% to 25% of its forecasted production for 12 to 24 months forward. The Company's hedging strategy is intended to provide stability and sustainability to the Company's economic returns, funds flow and capital development plan. A summary of Petrus' risk management contracts as at March 31, 2023 is included in note 9 of the Company's interim financial statements as at and for the three months ended March 31, 2023. The 13,500 GJ/day of average natural gas hedged for 2023 represents 31% of first quarter 2023 average natural gas production. The 1,475 bbl/day of average oil hedged for 2023 represents 67% of first quarter 2023 average oil production (38% of first quarter 2023 average liquids production).

The following table summarizes the average and minimum and maximum cap and floor prices for the 2023 to 2025 oil and natural gas contracts outstanding as at the date of this report:

	2023					2024					2025				
	Q1	Q2	Q3	Q4	**Avg.[1]**	Q1	Q2	Q3	Q4	**Avg.[1]**	Q1	Q2	Q3	Q4	**Avg.[1]**
Oil hedged (bbl/d)	1,100	1,400	1,700	1,700	**1,475**	1,200	1,000	300	400	**725**	100	—	—	—	**25**
Avg. WTI cap price ($C/bbl)	112.23	109.98	105.37	105.18	**107.69**	98.83	99.09	92.75	92.16	**97.37**	87.85	—	—	—	**87.85**
Avg. WTI floor price ($C/bbl)	103.79	103.35	99.91	99.72	**101.39**	98.83	99.09	92.75	92.16	**97.37**	87.85	—	—	—	**87.85**
Natural gas hedged (GJ/d)	6,000	16,000	16,000	16,000	**13,500**	16,000	7,000	7,000	3,667	**8,417**	2,000	—	—	—	**500**
Avg. AECO 7A cap price ($C/GJ)	6.67	4.01	4.01	4.40	**4.42**	4.40	3.11	3.11	3.76	**3.79**	4.09	—	—	—	**4.09**
Avg. AECO 7A floor price ($C/GJ)	6.67	4.01	4.01	4.40	**4.42**	4.40	3.11	3.11	3.76	**3.79**	4.09	—	—	—	**4.09**

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

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

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

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

OPERATING EXPENSE

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

Operating Expense ($000s)	**Three months ended March 31, 2023**	**Three months ended March 31, 2022**
Fixed and variable operating expense	6,617	3,735
Processing, gathering and compression charges	1,181	1,016
Total gross operating expense	**7,798**	**4,751**
Overhead recoveries	(364)	(259)
Total net operating expense	**7,434**	**4,492**
Operating expense, net ($/boe)	**7.26**	**6.76**

For the three months ended March 31, 2023, net operating expense totaled $7.4 million, a 64% increase from $4.5 million during the prior year comparative period. Total operating expense is higher in the first quarter of 2023 due to higher production. On a per boe basis, net operating expense was 7% higher at $7.26 boe/d in the first quarter of 2023 compared to $6.76/boe in 2022 mainly due to an increase in costs due to inflationary pressures (mainly power, fuel and trucking costs).

TRANSPORTATION EXPENSE

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

Transportation Expense ($000s)	**Three months ended March 31, 2023**	**Three months ended March 31, 2022**
Transportation expense	2,102	1,440
Transportation expense ($/boe)	2.05	2.17

Petrus pays commodity and demand charges for transporting its gas on pipeline systems. The Company also incurs trucking costs on the portion of its oil and natural gas liquids production that is not pipeline connected. For the three months ended March 31, 2023 transportation expense was $2.1 million or $2.05/boe compared to $1.4 million or $2.17 /boe in the prior year comparative period. The increase in total transportation expense is due to higher production; specifically higher oil and NGL production. On a per boe basis, transportation expense was slightly lower.

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 ($000s)	Three months ended March 31, 2023	Three months ended March 31, 2022
Personnel, consultants and directors	879	736
Administrative expenses	435	405
Regulatory and professional expenses	444	229
Gross general and administrative expense	**1,758**	**1,370**
Capitalized general and administrative expense	(259)	(207)
Overhead recoveries	(269)	(620)
General and administrative expense	**1,230**	**543**
General and administrative expense ($/boe)	**1.20**	**0.82**

For the three months ended March 31, 2023, gross G&A expense was $1.8 million compared to $1.4 million in the prior year comparative period. The increase in total gross G&A is mainly due to increased professional fees as well as higher staffing costs as a result of the increase in capital activity.

First quarter net G&A expense in 2023 was $1.2 million or $1.20/boe, compared to $0.5 million or $0.82/boe in the first quarter of 2022. The net increase is attributed to the lower overhead recovery rate on Petrus operated wells.

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 March 31, 2023	Three months ended March 31, 2022
Gross share-based compensation expense	695	188
Capitalized share-based compensation expense	(209)	(56)
Share-based compensation expense	**486**	**132**

For the three months ended March 31, 2023, net share-based compensation expense was $0.5 million, which is 268% higher than the $0.1 million in the prior year comparative period. The increase in stock based compensation expense for the current period compared to the prior year comparative period is due to the Company's improved stock price resulting in higher value of stock options and a higher staffing level.

FINANCE EXPENSE

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

Finance Expense ($000s)	Three months ended March 31, 2023	Three months ended March 31, 2022
Interest expense	970	576
Finance fees	170	112
Deferred financing costs	138	60
Accretion on decommissioning obligations	323	173
Total finance expense	**1,601**	**921**

First quarter total finance expense was $1.6 million in 2023, comprised of $0.3 million of non-cash accretion of its decommissioning obligation, $1.0 million of cash interest expense, $0.2 million of finance fees, and $0.1 million of deferred financing fee amortization (related to the Company's revolving loan facility "RLF"). In the first quarter of 2022, the Company incurred total finance expense of $0.9 million, comprised of $0.2 million in non-cash accretion of its decommissioning obligation, $0.6 million cash interest expense, $0.1 million of finance fees, and $0.06 million of deferred financing fee amortization. The 74% increase in finance expense from the prior year comparative period is due to the increase in interest rate on the RLF (as a result of the rate increases to the Canada Prime rate by the Bank of Canada), and higher RLF and term loan balances than the prior year as a result of the increase in capital activity.

DEPLETION AND DEPRECIATION

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

Depletion and Depreciation Expense ($000s)	Three months ended March 31, 2023	Three months ended March 31, 2022
Depletion and depreciation expense	13,611	7,644
Depletion and depreciation expense ($/boe)	13.28	11.51

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

For the three months ended March 31, 2023, the Company recorded $13.6 million or $13.28/boe, compared to $7.6 million or $11.51/boe in the prior year comparative period. The increase in depletion and depreciation expense is attributed to higher production volume.

SHARE CAPITAL

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

Share Capital (000s)	Three months ended March 31, 2023	Three months ended March 31, 2022
Weighted average common shares outstanding		
Basic	123,416	99,189
Fully diluted	127,358	103,250
Common shares outstanding		
Basic	123,711	106,907
Fully diluted	133,916	113,883
Stock options outstanding	8,585	5,357
Deferred share units outstanding	1,619	1,619

At March 31, 2023 and as as the date of this MD&A, the Company had 123,711,355 common shares and 8,585,469 stock options outstanding.

Deferred share units

The Company has a deferred share unit plan in place whereby it may issue deferred share units ("DSUs") to directors of the Company. At March 31, 2023 and the date of this MD&A, 1,618,702 DSUs were issued and outstanding (December 31, 2022 – 1,618,702). Each DSU entitles the participants to receive, at the Company's discretion, either common shares or a cash equivalent to the number of DSUs multiplied by the current trading price of the equivalent number of common shares. All DSUs vest and become payable upon retirement of the director. The DSUs are included as equity as the Company does not intend to settle the DSUs for cash.

Rights Offering

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

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

Property Acquisition
During the first quarter of 2022, the Company completed an asset acquisition. The assets were acquired for share consideration of $15.2 million (10 million common shares of Petrus at $1.52 per share on closing date).

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2023, Petrus had two debt instruments outstanding; a reserve-based, secured operating revolving loan facility with an Alberta-based financial institution (the “Revolving Loan Facility” or “RLF”) and a second lien secured term facility (the "Second Lien Facility").

Revolving Loan Facility
At March 31, 2023, the RLF was comprised of a $30.0 million operating facility payable on demand by the lender. The amount of the RLF is subject to a borrowing base review performed on a semi-annual basis by the lender, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. The next semi-annual review is due on May 31, 2023.

At March 31, 2023, the Company had a $0.6 million letter of credit outstanding against the RLF (December 31, 2022 – $0.6 million) and had drawn $24.5 million against the RLF (December 31, 2022 – $4.6 million).

Second Lien Facility
At March 31, 2023 the Company had $25.0 million outstanding on the $25 million Second Lien Facility. The Second Lien Facility is a three-year term facility (maturity date May 31, 2025 with an option to the borrower to extend by an additional two years) with a fixed interest rate of 11% per annum and can be repaid at the discretion of the Company after the first year. The Second Lien Facility is a related party transaction with a major shareholder who owns approximately 21% of the outstanding shares of the Company (see note 20 of the Company's March 31, 2023 condensed interim consolidated financial statements). The total interest paid in 2022 to the major shareholder, related to the Second Lien facility, was $1.1 million.

Debt Settlement - Term Loan & Revolving Credit Facility
During 2022, the Company entered into agreements with new lenders to the Company, providing two new credit facilities, as described above, (the “New Credit Facilities”) totaling $55 million. The New Credit Facilities, together with the net proceeds of the Company's recently closed $20 million Rights Offering (described above), were used to repay in full all amounts owing under the Company's previous revolving credit facility. The New Credit Facilities closed in May 2022.

Financial Covenants
The key financial covenants as at March 31, 2023 are summarized in the following table. At March 31, 2023 the Company is in compliance with all financial covenants.

Financial Covenant Description	Required Ratio	As at March 31, 2023
Working Capital Ratio	Over 1.00	1.13

Liquidity
The following are the contractual maturities of financial liabilities as at March 31, 2023:

$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	24,186	24,186	—
Bank indebtedness	24,549	24,549	—
Lease obligations	545	244	301
Long term debt	25,000	—	25,000
Total	**74,280**	**48,979**	**25,301**

As at March 31, 2023, the Company had a working capital deficiency of $19.0 million, due to the $24.5 million RLF, which is payable on demand by the lender and is classified as a current liability. Excluding the RLF balance of $24.5 million, the Company had net working capital of $5.5 million. The Company expects the working capital deficiency to diminish over the balance of 2023 as the RLF is paid down by the cash flow from operations.

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

$000s	Total	< 1 year	1-5 years	> 5 years
Firm service transportation	**11,240**	**2,553**	**7,922**	**—**

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, inflation 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, 2023 condensed interim consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

($000s unless otherwise noted)	Mar. 31, 2023	Dec. 31, 2022	Sept. 30, 2022	Jun. 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sept. 30, 2021	Jun. 30, 2021
Average Production								
Natural gas (mcf/d)	45,237	33,201	28,107	30,913	29,530	23,494	23,942	24,291
Oil (bbl/d)	2,192	2,458	957	1,073	1,250	1,002	937	1,214
NGLs (bbl/d)	1,654	1,121	997	1,055	1,207	962	1,010	1,046
Total (boe/d)	**11,385**	**9,113**	**6,639**	**7,280**	**7,379**	**5,880**	**5,937**	**6,309**
Total (boe)	**1,024,645**	**838,375**	**610,722**	**662,456**	**664,010**	**540,924**	**546,227**	**574,084**
Financial Results								
Oil and natural gas revenue	41,319	48,590	28,701	42,119	32,940	25,070	20,306	19,553
Royalty expense	(6,534)	(6,636)	(7,228)	(5,721)	(4,576)	(3,429)	(2,150)	(2,794)
Gain (loss) on risk management activities	1,490	(1,056)	(497)	(4,476)	—	—	—	—
Net oil and natural gas revenue	**36,275**	**40,898**	**20,976**	**31,922**	**28,364**	**21,641**	**18,156**	**16,759**
Transportation expense	(2,102)	(1,743)	(1,155)	(1,434)	(1,440)	(1,010)	(991)	(1,057)
Operating expense	(7,434)	(5,753)	(5,171)	(5,249)	(4,492)	(2,715)	(3,042)	(3,903)
Operating netback	**26,739**	**33,402**	**14,650**	**25,239**	**22,432**	**17,916**	**14,123**	**11,799**
Realized gain (loss) on derivatives	1,814	2,421	610	—	(4,632)	(5,148)	(3,504)	(1,843)
Other income (cash)	169	186	30	28	47	21	12	1,018
General and administrative expense	(1,230)	(926)	(793)	(1,127)	(543)	(1,213)	(804)	(1,381)
Cash finance expense	(1,140)	(987)	(528)	(969)	(689)	(856)	(1,803)	(1,444)
Decommissioning expenditures	(136)	21	(180)	37	(14)	(302)	(150)	(79)
Corporate netback and funds flow	**26,216**	**34,117**	**13,789**	**23,208**	**16,601**	**10,418**	**7,874**	**8,070**
Oil and natural gas revenue	**41,319**	**48,590**	**28,701**	**42,119**	**32,940**	**25,070**	**20,306**	**19,553**
Per share - basic	0.33	0.40	0.24	0.38	0.33	0.26	0.37	0.39
Per share - fully diluted	0.32	0.38	0.23	0.36	0.32	0.24	0.35	0.39
Net income (loss)	**17,273**	**22,097**	**9,822**	**18,046**	**10,903**	**114,633**	**7,343**	**(4,265)**
Per share - basic	0.14	0.18	0.08	0.16	0.11	1.19	0.14	(0.09)
Per share - fully diluted	0.14	0.17	0.08	0.15	0.11	1.11	0.13	(0.09)
Common shares outstanding (000s)								
Basic	123,711	123,239	122,197	122,017	106,907	96,708	96,603	49,559
Fully diluted	133,916	133,377	131,482	131,302	113,883	103,889	100,074	49,559
Weighted average shares outstanding (000s)								
Basic	123,416	122,545	122,058	111,795	99,189	96,660	54,167	49,513
Fully diluted	127,358	127,600	126,822	117,203	103,250	102,868	57,638	49,513
Total assets	**403,276**	**381,057**	**356,050**	**302,472**	**308,744**	**290,492**	**173,101**	**176,629**

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

The oil and natural gas exploration and production industry is cyclical in nature. Petrus' financial position, results of operations and corporate netback are affected by commodity prices, exchange rates, Canadian commodity price differentials and production levels. Petrus' average quarterly production has increased from 6,309 boe/d in the second quarter of 2021 to 11,385 boe/d in the first quarter of 2023. The 80% production increase is attributable to Petrus' shift in focus back to sustainable production growth.

CRITICAL ACCOUNTING ESTIMATES

The timely preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of the financial statements are outlined below. The Company's critical accounting estimates can be read in note 2 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2022.

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

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

OTHER FINANCIAL INFORMATION

Significant accounting policies
The Company's significant accounting policies can be read in note 3 of the Company's audited consolidated financial statements as at and for the year ended December 31, 2022.

New standards and interpretations
The Company has not adopted any new standards and interpretations for the period ended March 31, 2023.

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, 2023 and ending on March 31, 2023 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

NON-GAAP AND OTHER FINANCIAL MEASURES

This MD&A makes reference to the terms "operating netback" (on an absolute and $/boe basis), "corporate netback" (on an absolute and $/boe basis), "funds flow" (on an absolute, per share (basic and fully diluted) and $/boe basis), "net debt" and "net debt to annualized funds flow ratio". These non-GAAP and other financial measures are not recognized measures under GAAP (IFRS) and do not have a standardized meaning prescribed by GAAP (IFRS). Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. These non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS as indicators of our performance. Management uses these non-GAAP and other financial measures for the reasons set forth below.

Operating Netback

Operating netback is a common non-GAAP financial measure used in the oil and natural gas industry which is a useful supplemental measure to evaluate the specific operating performance by product type at the oil and natural gas lease level. The most directly comparable GAAP measure to operating netback is oil and natural gas revenue. Operating netback is calculated as oil and natural gas revenue less royalty expenses, operating expenses, transportation expenses and loss on risk management activities. See below and under "Summary of Quarterly Results" for a reconciliation of operating netback to oil and natural gas revenue.

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

Corporate Netback and Funds Flow

Corporate netback or funds flow is a common non-GAAP financial measure used in the oil and natural gas industry which evaluates the Company's profitability at the corporate level. Corporate netback and funds flow are used interchangeably. Petrus analyzes these measures on an absolute value and on a per unit (boe) and per share (basic and fully diluted) basis as non-GAAP ratios. Management believes that funds flow and corporate netback provide information to assist a reader in understanding the Company's profitability relative to current commodity prices. They are calculated as the operating netback less general and administrative expense, cash finance expense, decommissioning expenditures, plus other income (cash) and the realized gain (loss) on financial derivatives. See below and under "Summary of Quarterly Results" for a reconciliation of funds flow and corporate netback to oil and natural gas revenue.
Corporate netback ($/boe) or funds flow ($/boe) is a non-GAAP ratio used in the oil and natural gas industry which evaluates the Company's profitability at the corporate level. Management believes that funds flow ($/boe) or corporate netback ($/boe) provide information to assist a reader in understanding the Company's profitability relative to current commodity prices. It is calculated as corporate netbacks or funds flow divided by weighted average daily production on a per boe basis. See below.

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

	Three months ended March 31, 2023		Three months ended March 31, 2022	
	$000s	**$/boe**	**$000s**	**$/boe**
Oil and natural gas revenue	41,319	40.33	32,940	49.61
Royalty expense	(6,534)	(6.38)	(4,576)	(6.89)
Gain on risk management activities	1,490	1.45	—	—
Net oil and natural gas revenue	**36,275**	**35.40**	**28,364**	**42.72**
Transportation expense	(2,102)	(2.05)	(1,440)	(2.17)
Operating expense	(7,434)	(7.26)	(4,492)	(6.76)
Operating netback	**26,739**	**26.09**	**22,432**	**33.79**
Realized gain (loss) on financial derivatives	1,814	1.77	(4,632)	(6.98)
Other income[1]	169	0.16	47	0.07
General & administrative expense	(1,230)	(1.20)	(543)	(0.82)
Cash finance expense	(1,140)	(1.11)	(689)	(0.26)
Decommissioning expenditures	(136)	(0.13)	(14)	(0.02)
Funds flow and corporate netback	**26,216**	**25.58**	**16,601**	**25.78**

[1]*Excludes non-cash government grant related to decommissioning expenditures.*

Net Debt

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

($000s)	As at March 31, 2023	As at December 31, 2022	As at September 30, 2022	As at June 30, 2022
Long-term debt	25,000	25,000	22,000	12,000
Current assets	(31,309)	(29,849)	(29,905)	(18,783)
Current liabilities	50,336	51,395	51,102	18,785
Current financial derivatives	9,328	4,502	5,503	2,124
Current portion of lease obligation	(244)	(240)	(235)	(231)
Net debt	**53,111**	**50,808**	**48,465**	**13,895**

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

ADVISORIES

Basis of Presentation

Financial data presented above has largely been derived from the Company's financial statements, prepared in accordance with 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 consolidated financial statements as at and for the twelve months ended December 31, 2022. The reporting and the measurement currency is the Canadian dollar. All financial information is expressed in Canadian dollars, unless otherwise stated.

Forward-Looking Statements

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to: that the Company will continue to strengthen its balance sheet by further reducing net debt and maintaining a net debt to funds flow ratio of under 1x; that the outlook for the price environment for the remainder of the year is materially lower than the assumptions used to develop the 2023 budget; that the Company is reevaluating the budget for the remainder of the year; that completion activities of the four wells drilled near the end of the first quarter are deferred until there is a more constructive price environment; that Petrus is committed to keeping capital spending within cash flow and only investing capital where the Company can generate exceptional returns; that the Company utilizes financial derivative contracts and physical commodity contracts to mitigate commodity price risk and provide stability and sustainability to the Company's economic returns, funds flow and capital development plan; and that the Company's risk management contracts provide protection from significant changes in crude oil and natural gas commodity prices for 2023, 2024 and 2025; that the Company endeavors to hedge approximately half of its forecasted production for up to 12 months forward, and approximately 10% to 25% of its forecasted production for 12 to 24 months forward; that the Company's hedging strategy is intended to provide stability and sustainability to the Company's economic returns, funds flow and capital development plan. 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; changes in interest rates and inflation rates; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition; the lack of availability of qualified personnel or management; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; ability to access sufficient capital from internal and external sources; and the other risks and uncertainties described in the AIF. With respect to forward-looking statements contained in this MD&A, Petrus has made assumptions regarding: future commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; future exchange rates; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment and services; effects of regulation by governmental agencies; the effects of inflation on our profitability; future interest rates; and future operating costs. Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide investors with a more complete perspective on Petrus' future operations and such information may not be appropriate for other purposes. Petrus' actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive therefrom. Readers are cautioned that the foregoing lists of factors are not exhaustive.

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

$000's	*thousand dollars*
$/bbl	*dollars per barrel*
$/boe	*dollars per barrel of oil equivalent*
$/GJ	*dollars per gigajoule*
$/mcf	*dollars per thousand cubic feet*
bbl	*barrel*
mbbl	*thousand barrel*
bbl/d	*barrels per day*
boe	*barrel of oil equivalent*
mboe	*thousand barrel of oil equivalent*
mmboe	*million barrel of oil equivalent*
boe/d	*barrel of oil equivalent per day*
GJ	*gigajoule*
GJ/d	*gigajoules per day*
mcf	*thousand cubic feet*
mcf/d	*thousand cubic feet per day*
mmcf/d	*million cubic feet per day*
bcf	*billion cubic feet*
NGLs	*natural gas liquids*
WTI	*West Texas Intermediate*

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Presented in 000's of Canadian dollars)

As at	March 31, 2023	December 31, 2022
ASSETS		
Current		
Cash	9	40
Inventory *(note 21)*	2,420	1,197
Deposits and prepaid expenses *(note 22)*	1,681	1,862
Accounts receivable *(note 14)*	17,871	22,248
Risk management asset *(note 9)*	9,328	4,502
Total current assets	**31,309**	**29,849**
Non-current		
Risk management asset *(note 9)*	81	619
Exploration and evaluation assets *(note 4)*	34,077	34,837
Property, plant and equipment *(note 5)*	337,809	315,752
Total non-current assets	**371,967**	**351,208**
Total assets	**403,276**	**381,057**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness *(note 6)*	24,549	4,607
Accounts payable and accrued liabilities *(note 14)*	24,186	45,191
Lease obligations *(note 7)*	244	240
Current portion of decommissioning obligation *(note 8)*	1,357	1,357
Total current liabilities	**50,336**	**51,395**
Non-current liabilities		
Long term debt *(note 6)*	25,000	25,000
Lease obligations *(note 7)*	301	363
Decommissioning obligation *(note 8)*	42,755	37,658
Total liabilities	**118,392**	**114,416**
Shareholders' equity		
Share capital *(note 10)*	492,640	492,241
Contributed surplus	29,632	29,061
Deficit	(237,388)	(254,661)
Total shareholders' equity	**284,884**	**266,641**
Total liabilities and shareholders' equity	**403,276**	**381,057**

Commitments (note 18)
See accompanying notes to the condensed interim consolidated financial statements

Approved by the Board of Directors,

(signed) "Don T. Gray"

Don T. Gray
Chairman

(signed) "Donald Cormack"

Donald Cormack
Director

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
REVENUE		
Oil and natural gas revenue *(note 19)*	**41,319**	**32,940**
Royalty expense	(6,534)	(4,576)
Gain on risk management activities *(notes 9 and 19)*	1,490	—
Net oil and natural gas revenue	**36,275**	**28,364**
Other income *(note 23)*	1,392	47
Net gain (loss) on financial derivatives *(note 9)*	6,101	(2,145)
Total income	**43,768**	**26,266**
EXPENSES		
Operating *(note 12)*	7,434	4,492
Transportation	2,102	1,440
General and administrative *(note 13)*	1,230	543
Share-based compensation *(note 10)*	486	132
Finance *(note 16)*	1,601	921
Exploration and evaluation *(note 4)*	31	191
Depletion and depreciation *(note 5)*	13,611	7,644
Total expenses	**26,495**	**15,363**
NET INCOME AND COMPREHENSIVE INCOME	**17,273**	**10,903**
Net income per common share		
Basic *(note 11)*	0.14	0.11
Diluted *(note 11)*	0.14	0.11

See accompanying notes to the condensed interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Presented in 000's of Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2021	**455,908**	**27,846**	**(315,529)**	**168,225**
Net income	—	—	10,903	10,903
Common shares issued for property acquisition *(note 3)*	15,200	—	—	15,200
Issuance of common shares *(note 10)*	83	(24)	—	59
Share issue costs *(note 10)*	(158)	—	—	(158)
Share-based compensation *(note 10)*	—	188	—	188
Balance, March 31, 2022	**471,033**	**28,010**	**(304,626)**	**194,417**
Balance, December 31, 2022	**492,241**	**29,061**	**(254,661)**	**266,641**
Net income	—	—	17,273	17,273
Issuance of common shares *(note 10)*	439	(124)	—	315
Share issue costs *(note 10)*	(40)	—	—	(40)
Share-based compensation *(note 10)*	—	695	—	695
Balance, March 31, 2023	**492,640**	**29,632**	**(237,388)**	**284,884**

See accompanying notes to the condensed interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Presented in 000's of Canadian dollars)

	Three months ended March 31, 2023	Three months ended March 31, 2022
OPERATING ACTIVITIES		
Net income	**17,273**	**10,903**
Adjust items not affecting cash:		
Share-based compensation *(note 10)*	487	131
Unrealized (gain) loss on financial derivatives *(note 9)*	(4,287)	(2,487)
Non-cash finance expenses *(note 16)*	461	233
Depletion and depreciation *(note 5)*	13,611	7,644
Exploration and evaluation expense *(note 4)*	31	191
Other income *(note 23)*	(1,223)	—
Decommissioning expenditures *(note 8)*	(136)	(14)
Funds flow	**26,217**	**16,601**
Change in operating non-cash working capital *(note 17)*	(12,930)	(2,226)
Cash flows from operating activities	**13,287**	**14,375**
FINANCING ACTIVITIES		
Share issue costs *(note 10)*	399	83
Draw down (repayment) of revolving credit facility	19,942	(4,500)
Transaction costs on debt	93	—
Repayment of lease liabilities *(note 7)*	(58)	(50)
Change in financing non-cash working capital *(note 17)*	—	12
Cash flows from (used in) financing activities	**20,376**	**(4,455)**
INVESTING ACTIVITIES		
Property and equipment acquisitions *(note 5)*	(50)	—
Other capital expenditures *(note 5)*	(16)	—
Exploration and evaluation asset acquisition *(note 4)*	(111)	—
Exploration and evaluation asset expenditures *(note 4)*	(33)	(52)
Petroleum and natural gas property expenditures *(note 5)*	(29,578)	(5,287)
Change in investing non-cash working capital *(note 17)*	(3,906)	(8,400)
Cash flows used in investing activities	**(33,694)**	**(13,739)**
Decrease in cash	(31)	(3,819)
Cash, beginning of period	40	4,928
Cash, end of period	**9**	**1,109**
Cash interest paid *(note 16)*	1,140	688

See accompanying notes to the condensed interim consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the periods ended March 31, 2023 and 2022

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,

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

These condensed interim consolidated financial statements, for the three month period ended March 31, 2023 and prior year comparative period, were approved by the Company's Board of Directors on May 10, 2023.

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 consolidated 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, 2022 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 annual audited financial statements for the year ended December 31, 2022. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the annual audited financial statements for the year ended December 31, 2022. These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency, except where otherwise noted.

Significant Accounting Policies and Critical Accounting Estimates
The Company's significant accounting policies and critical accounting estimates can be read in note 3 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2022.

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, shareholders' equity, revenue and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are continuously reviewed with the financial statement effect being recognized in the reporting period that the changes to estimates are made.

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

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

3. PROPERTY ACQUISITION

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

Given the close proximity of the acquired properties to the Company's existing assets and infrastructure, the acquired properties are synergistic to existing operations and complementary to current development plans. The assets were acquired for share consideration of $15.2 million (10 million common shares of Petrus at $1.52 per share on closing date). The Company applied the optional concentration test permitted under IFRS 3 to the acquisition which resulted in the acquired assets being accounted for as an asset acquisition. As such the purchase price was allocated to the identifiable assets and liabilities based on their relative fair values at the date of acquisition. Assets acquired in the transaction are included in the Ferrier CGU. Asset acquisition transaction costs of $0.4 million were capitalized as a cost of the asset.

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

$000s (except share and per share amounts)	
Net assets acquired:	
Cash & cash equivalents	433
Accounts receivable & other assets	496
Accounts payable & accrued liabilities	(405)
Property, plant and equipment	16,765
Decommissioning obligation	(2,089)
Net assets acquired	**15,200**
Purchase consideration:	
Common shares issued to partners	10,000,000
Price of Petrus common shares ($ per share) on close date	$1.52
Total purchase consideration	**15,200**

4. EXPLORATION AND EVALUATION ASSETS

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

$000s	
Balance, December 31, 2021	**35,634**
Acquisitions	1,349
Exploration and evaluation expense	(421)
Capitalized G&A	295
Capitalized share-based compensation	122
Transfers to property, plant and equipment *(note 5)*	(2,142)
Balance, December 31, 2022	**34,837**
Additions	111
Exploration and evaluation expense	(31)
Capitalized G&A	65
Capitalized share-based compensation *(note 10)*	52
Transfers to property, plant and equipment *(note 5)*	(957)
Balance, March 31, 2023	**34,077**

For the three months ended March 31, 2023, the Company incurred exploration and evaluation expense of $0.03 million (which relates to expired and nearly expired undeveloped, non-core land) (three months ended March 31, 2022 – $0.2 million).

During the three months ended March 31, 2023, the Company capitalized $0.1 million of general and administrative expenses (“G&A”) (three months ended March 31, 2022 – $0.1 million) and $0.05 million of non-cash share-based compensation directly attributable to exploration activities (three months ended March 31, 2022 – $0.02 million).

During the three months ended March 31, 2023, the Company transferred $1.0 million from E&E assets to PP&E assets, related to the Ferrier Cash Generating Unit ("CGU").

The Company did not identify any indicators of impairment or impairment reversal for the three months ended March 31, 2023.

5. PROPERTY, PLANT AND EQUIPMENT

The components of the Company's property, plant and equipment ("PP&E") assets are as follows:

$000s	Cost	Accumulated DD&A	Net book value
Balance, December 31, 2021	**852,834**	**(613,587)**	**239,247**
Additions	94,145	—	94,145
Property acquisitions *(note 3)*	16,765	—	16,765
Property (dispositions)	(71)	—	(71)
Capitalized G&A	884	—	884
Capitalized share based compensation	367	—	367
Transfer from exploration and evaluation assets *(note 4)*	2,142	—	2,142
Depletion & depreciation	—	(33,277)	(33,277)
Increase in decommissioning expenses	(4,450)	—	(4,450)
Balance, December 31, 2022	**962,616**	**(646,864)**	**315,752**
Additions	29,401	—	29,401
Property acquisition	50	—	50
Capitalized G&A	194	—	194
Capitalized share-based compensation *(note 10)*	156	—	156
Transfers from exploration and evaluation assets *(note 4)*	957	—	957
Depletion & depreciation	—	(13,611)	(13,611)
Increase in decommissioning provision *(note 8)*	4,910	—	4,910
Balance, March 31, 2023	**998,284**	**(660,475)**	**337,809**

At March 31, 2023, estimated future development costs of $519.8 million (December 31, 2022 – $519.8 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, 2023, the Company capitalized $0.2 million of general and administrative expenses ("G&A") (three months ended March 31, 2022 – $0.2 million) and non-cash share-based compensation of (three months ended March 31, 2022 – $0.04 million), directly attributable to development activities.

During the three months ended March 31, 2023, the Company transferred $1.0 million from E&E assets to PP&E assets, related to the Ferrier CGU.

The Company did not identify any indicators of impairment or impairment reversal for the three months ended March 31, 2023.

At March 31, 2023, the carrying balance of the right of use asset was $0.5 million.

6. DEBT

At March 31, 2023, Petrus had two debt instruments outstanding; a reserve-based, secured operating revolving loan facility with an Alberta-based financial institution (the "Revolving Loan Facility" or "RLF") and a second lien secured term facility (the "Second Lien Facility").

Revolving Loan Facility
At March 31, 2023, the RLF was comprised of a $30.0 million operating facility payable on demand by the lender. The amount of the RLF is subject to a borrowing base review performed on a semi-annual basis by the lender, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. The next semi-annual review is due on May 31, 2023.

At March 31, 2023, the Company had a $0.6 million letter of credit outstanding against the RLF (December 31, 2022 – $0.6 million) and had drawn $24.5 million against the RLF (December 31, 2022 – $4.6 million).

Second Lien Facility
At March 31, 2023 the Company had $25.0 million outstanding on the $25 million Second Lien Facility. The Second Lien Facility is a three-year term facility (maturity date May 31, 2025 with an option to the borrower to extend by an additional two years) with a fixed interest rate of 11% per annum and can be repaid at the discretion of the Company after the first year. The Second Lien Facility is a related party transaction with a major shareholder who owns approximately 21% of the outstanding shares of the Company (see note 20). The total interest paid in 2022 to the major shareholder, related to the Second Lien facility, was $1.1 million.

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

Financial Covenants
The Company's RLF is subject to certain financial covenants. For the financial covenants' definitions and calculation methodology refer to the Company's annual audited consolidated financial statements as at and for the year ended December 31, 2022.

The key financial covenants as at March 31, 2023 are summarized in the following table. At March 31, 2023 the Company is in compliance with all financial covenants.

Financial Covenant Description	Required Ratio	As at March 31, 2023
Working Capital Ratio	Over 1.00	1.13

7. LEASES

The Company's lease obligations are as follows:

$000s	
Balance, December 31, 2022	**603**
Finance expense	11
Lease payments	(69)
Balance, March 31, 2023	**545**

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

$000s	As at March 31, 2023
Less than 1 year	277
1 to 3 years	300
Total lease payments	577
Amounts representing finance expense	(32)
Present value of lease obligation	545
Current portion of lease obligation	244
Non-current portion of lease obligation	301

8. DECOMMISSIONING OBLIGATION

The decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The estimated future cash flows have been discounted using an average risk free rate of 3.03% and an inflation rate of 3.0% (3.31% and 3.0%, respectively at December 31, 2022). Changes in estimates in 2022 and 2023 are due to the changes in the risk free and inflation rates and changes in the estimated future cash flow to reclaim the wells and facilities. The Company has estimated the net present value of the decommissioning obligations to be $44.1 million as at March 31, 2023 ($39.0 million at December 31, 2022). The undiscounted, uninflated total future liability at March 31, 2023 is $44.4 million ($41.7 million at December 31, 2022). The payments are expected to be incurred over the operating lives of the assets.

The following table reconciles the decommissioning liability:

$000s	
Balance, December 31, 2021	**41,569**
Property acquisitions *(note 3)*	2,089
Property dispositions	(681)
Other adjustments	(441)
Liabilities incurred	1,231
Liabilities settled	(137)
Change in estimates	(5,681)
Accretion expense	1,066
Balance, December 31, 2022	**39,015**
Liabilities incurred	388
Liabilities settled	(136)
Change in estimates or discount rate	4,522
Accretion expense	323
Balance, March 31, 2023	**44,112**

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, 2023:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN$/GJ)
Natural Gas Swaps			
Apr. 1, 2023 to Oct. 31, 2023	Fixed price	16,000	$4.01
Nov. 1, 2023 to Mar. 31, 2024	Fixed price	16,000	$4.40
Apr. 1, 2024 to Oct. 31, 2024	Fixed price	7,000	$3.11
Nov. 1, 2024 to Mar. 31, 2025	Fixed price	2,000	$4.09

Contract Period	Type	Total Daily Volume (Bbl)	Average Price (CDN$/Bbl)
Crude Oil Swaps			
Apr. 1, 2023 to Jun. 30, 2023	Fixed price	700	$109.79
Apr. 1, 2023 to Dec. 31 2023	Fixed price	400	$102.09
Jul. 1, 2023 to Sept. 30 2023	Fixed price	100	$105.50
Jul. 1, 2023 to Dec. 31 2023	Fixed price	800	$102.05
Oct. 1, 2023 to Dec. 31, 2023	Fixed price	100	$102.15
Jan. 1 2024 to Mar. 31, 2024	Fixed price	100	$99.50
Jan. 1 2024 to Jun. 30, 2024	Fixed price	900	$99.60
Jan. 1, 2024 to Dec. 31 2024	Fixed price	100	$94.50
Jul. 1, 2024 to Dec. 31 2024	Fixed price	200	$91.88
Oct. 1, 2024 to Dec. 31, 2024	Fixed price	100	$90.40
Jan. 1, 2025 to Mar. 31, 2025	Fixed price	100	$87.85

Contract Period	Type	Total Daily Volume (Bbl)	Average Price (CDN$/Bbl)
Crude Oil Collars			
Jan. 1 2023 to Dec 31, 2023	Costless collar	300	$90.00-120.95

Risk management asset and liability:

$000s At March 31, 2023	**Asset**	**Liability**
Current commodity derivatives	9,328	—
Non-current commodity derivatives	81	—
	9,409	**—**
$000s At December 31, 2022		
Current commodity derivatives	4,502	—
Non-current commodity derivatives	619	—
	5,121	**—**

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

$000s	**Three months ended March 31, 2023**	**Three months ended March 31, 2022**
Realized gain (loss) on financial derivatives	1,814	(4,632)
Unrealized gain on financial derivatives	4,287	2,487
Net gain (loss) on financial derivatives	**6,101**	**(2,145)**

During the three months ended March 31, 2023, the Company realized a gain on risk management activities of $1.5 million (three months ended March 31, 2022 - nil).

10. SHARE CAPITAL

Authorized

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

Issued and Outstanding

Common shares ($000s)	**Number of Shares**	**Amount**
Balance, December 31, 2021	**96,707,912**	**455,908**
Common shares issued for property acquisition	10,000,000	15,200
Common shares issued in a rights offering	14,817,347	20,003
Common shares issued on exercise of stock options	1,713,269	1,427
Share issue costs	—	(297)
Balance, December 31, 2022	**123,238,528**	**492,241**
Common shares issued on exercise of stock options	472,827	439
Share issue costs	—	(40)
Balance, March 31, 2023	**123,711,355**	**492,640**

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, 2023, 8,585,469 (December 31, 2022 – 8,519,709) stock options were outstanding. The summary of stock option activity is presented below:

	Number of stock options	**Weighted average exercise price**
Balance, December 31, 2021	**5,562,549**	**$0.67**
Granted	4,677,500	$2.27
Expired	(7,071)	$0.74
Exercised	(1,713,269)	$0.60
Balance, December 31, 2022	**8,519,709**	**$1.56**
Granted	580,000	$2.09
Exercised	(472,827)	$0.66
Expired	(41,413)	$0.26
Balance, March 31, 2023	**8,585,469**	**$1.65**

The following table summarizes information about the stock options granted since inception:

Range of Exercise Price	**Stock Options Outstanding**		
	Number granted	**Weighted average exercise price**	**Weighted average remaining life (years)**
$0.23	236,294	$0.23	0.6
$0.51 - $0.80	2,409,402	$0.70	1.6
$0.81 - $0.89	682,273	$0.89	1.8
$1.78	1,020,000	$1.78	2.5
$2.09	580,000	$2.09	3.0
$2.25	2,602,500	$2.25	2.3
$2.81	1,055,000	$2.81	2.8
	8,585,469	**$1.65**	**2.4**

During the three months ended March 31, 2023, the Company granted 580,000 options which vest equally over three years, and upon vesting, expire 30 business days thereafter. The weighted average fair value of each option granted during the three months ended March 31, 2023 of $0.80 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2023	2022
Risk free interest rate	3.54% - 4.50%	2.46% - 4.34%
Expected life (years)	1.25 - 3.25	1.08 - 3.25
Estimated volatility of underlying common shares (%)	106%	100% to 113%
Estimated forfeiture rate	33%	33%
Expected dividend yield (%)	—%	—%

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

Deferred Share Unit ("DSU") Plan

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

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

The compensation expense was calculated as equity using the fair value method based on the trading price of the Company's shares on the grant date. At March 31, 2023, 1,618,702 DSUs were issued and outstanding (December 31, 2022 – 1,618,702).

Share-based Compensation

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

$000s	Three months ended March 31, 2023	Three months ended March 31, 2022
Expensed	486	132
Capitalized to exploration and evaluation assets	52	16
Capitalized to property, plant and equipment	156	42
Total share-based compensation	**694**	**190**

11. NET INCOME PER SHARE

Net income per share amounts are calculated by dividing the net income 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 March 31, 2023	Three months ended March 31, 2022
Net income for the period ($000s)	**17,273**	**10,903**
Weighted average number of common shares – basic (000s)	123,416	99,189
Weighted average number of common shares – diluted (000s)	127,358	103,250
Net income per common share – basic	**$0.14**	**$0.11**
Net income per common share – diluted	**$0.14**	**$0.11**

In computing diluted income per share for the three months ended March 31, 2023, 8,585,469 outstanding stock options and 1,618,702 DSUs were considered (December 31, 2022 – 2,717962 and 1,618,702 respectively). 8,585,469 stock options and 1,618,702 DSUs were included in calculating the number of diluted common shares.

12. OPERATING EXPENSES

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

$000s	Three months ended March 31, 2023	Three months ended March 31, 2022
Fixed and variable operating expenses	6,617	3,735
Processing, gathering and compression charges	1,181	1,016
Total gross operating expenses	**7,798**	**4,751**
Overhead recoveries	(364)	(259)
Total net operating expenses	**7,434**	**4,492**

13. GENERAL AND ADMINISTRATIVE EXPENSES

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

$000s	Three months ended March 31, 2023	Three months ended March 31, 2022
Gross general and administrative expense	1,758	1,370
Capitalized general and administrative expense	(259)	(207)
Overhead recoveries	(269)	(620)
General and administrative expense	**1,230**	**543**

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 $17.9 million of accounts receivable outstanding at March 31, 2023 (December 31, 2022 – $22.2 million), $10.8 million is owed from 2 parties (December 31, 2022 – $15.3 million from 2 parties), and the balances were received subsequent to the quarter end. The Company considers accounts receivable outstanding past 120 days to be 'past due'. At March 31, 2023, the Company had an allowance for doubtful accounts of $0.1 million (December 31, 2022 – $0.1 million). At March 31, 2023, 99.95% of Petrus' accounts receivable were aged less 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, 2023, the Company had a $30.0 million RLF, on which $24.5 million was drawn (December 31, 2022 – $4.6 million). For the period ended March 31, 2023 the Company generated funds flow of $26.2 million.

The following are the undiscounted contractual maturities of financial liabilities as at March 31, 2023:

$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	24,186	24,186	—
Bank indebtedness	24,549	24,549	—
Lease obligations	545	244	301
Long term debt	25,000	—	25,000
Total	**74,280**	**48,979**	**25,301**

Interest Rate Risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash, bank indebtedness and accounts receivable are not exposed to significant interest rate risk. The RLF is exposed to interest rate cash flow risk as the instrument is priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed to interest rate risk. A 1% increase in the Canadian prime interest rate during the three months ended March 31, 2023 would have increased/decreased net income by

approximately $0.1 million, which relates to interest expense on the average outstanding RLF during the period assuming that all other variables remain constant (March 31, 2022 – nil).

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, 2023, it was estimated that a $0.25/GJ decrease in the price of natural gas would have increased net income by $1.9 million (March 31, 2022 – nil). An opposite change in commodity prices would result in an opposite impact on net income for the period. As at March 31, 2023, it was estimated that a $5.00/CDN WTI/bbl decrease in the price of oil would have increased net income by $3.7 million (March 31, 2022 – nil). An opposite change in commodity prices would result in an opposite impact on net income for the period.

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 March 31, 2023**	**Three months ended March 31, 2022**
Cash:		
Interest	970	576
Finance fees	170	112
Total cash finance expenses	1,140	688
Non-cash:		
Deferred financing costs	138	60
Accretion on decommissioning obligations *(note 8)*	323	173
Total non-cash finance expenses	461	233
Total finance expenses	**1,601**	**921**

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 March 31, 2023	Three months ended March 31, 2022
Source (use) in non-cash working capital:		
Deposits and prepaid expenses	273	(134)
Transaction costs on debt	138	440
Inventory and others	(618)	—
Accounts receivable	4,377	(5,430)
Accounts payable and accrued liabilities	(21,005)	(5,490)
	(16,835)	**(10,614)**
Operating activities	(12,930)	(2,226)
Financing activities	—	12
Investing activities	(3,906)	(8,400)

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

$000s	Bank Indebtedness	Revolving Loan Facility	Term Loan	Total Liabilities from Financing Activities
Balance, December 31, 2022	—	**4,607**	**25,000**	**29,607**
Cash flows	—	19,942	—	19,942
Balance, March 31, 2023	—	**24,549**	**25,000**	**49,549**

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	11,240	2,553	7,922	—

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 March 31, 2023	Three months ended March 31, 2022
Production and royalty revenue		
Oil and condensate sales	18,666	12,387
Natural gas sales	15,407	13,830
Natural gas liquids sales	7,077	6,528
Royalty revenue	169	195
Total oil and natural gas revenue	**41,319**	**32,940**
Royalty expense	(6,534)	(4,576)
Gain on risk management activities	1,490	—
Net oil and natural gas revenue	**36,275**	**28,364**

20. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2022, the Company completed its debt restructuring transactions, which included the Second Lien Facility in the form of a promissory note held by a major shareholder, owning approximately 21% of the outstanding shares of the Company (see note 6).

During the year ended December 31, 2022, the Company closed an asset acquisition that was considered a related party transaction (see note 3).

During the year ended December 31, 2022, the Company entered into a standby purchase agreement with three investors (collectively, the "Stand-By Guarantors") who each own more than 20% of the outstanding shares of the Company. The Company entered into a standby purchase agreement with each of Don Gray, Stuart Gray and Glen Gray (collectively, the "Stand-By Guarantors"). The Rights Offering was oversubscribed by 84% and as a result, the Stand-By Guarantors did not acquire any Common Shares in connection with the Rights Offering pursuant to their stand-by commitments. The Company had approximately 121.7 million share outstanding following the Rights Offering with the Stand-By Guarantors owning approximately 71% of the outstanding shares.

21. INVENTORY

The components of the Company's inventory for the periods indicated are as follows:

$000s	As at March 31, 2023	As at December 31, 2022
Oil and gas equipment inventory	578	578
Carbon credits	1,842	619
Inventory	**2,420**	**1,197**

22. DEPOSITS AND PREPAID EXPENSES

The components of the Company's deposits and prepaid expenses for the periods indicated are as follows:

$000s	As at March 31, 2023	As at December 31, 2022
Prepaid interest and bank fees	92	229
Prepaid insurance	379	414
Prepaid operating expenses	10	19
Prepaid software	172	172
Deposits	1,028	1,028
Deposits and prepaid expenses	**1,681**	**1,862**

23. OTHER INCOME

The following table presents Petrus' other income by category:

$000s	Three months ended March 31, 2023	Three months ended March 31, 2022
Carbon credits	1,223	—
Government grant for decommissioning activities	—	—
Other	169	47
Other income	**1,392**	**47**

CORPORATE INFORMATION

OFFICERS & VICE PRESIDENTS

Ken Gray, P.Eng
President and
Chief Executive Officer

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

Matt Skanderup
Chief Operating Officer

Lindsay Hatcher
Vice President, Commercial & Corporate Development

DIRECTORS

Don T. Gray
Chairman
Scottsdale, Arizona

Ken Gray
Calgary, Alberta

Patrick Arnell
Calgary, Alberta

Donald Cormack
Calgary, Alberta

Peter Verburg
Calgary, Alberta

SOLICITOR

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITOR

Ernst & Young LLP
Chartered Professional Accountants
Calgary, Alberta

INDEPENDENT RESERVE EVALUATORS

InSite Petroleum Consultants Ltd.
Calgary, Alberta

BANKERS

ATB Financial
Calgary, Alberta

TRANSFER AGENT

Odyssey Trust Company
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