SECOND QUARTER REPORT

For the three and six months ended June 30, 2016

Petrus Resources Ltd. (“Petrus” or the “Company”) (TSX: PRQ) is pleased to report operating and financial results for the second quarter of 2016. During the first half of 2016, Petrus has focused its business strategy on efficiently deploying a modest level of capital, reducing operating costs, mitigating exposure to commodity prices and reducing debt.

- The Company generated funds from operations in the second quarter of $7.7 million compared to $4.6 million in the first quarter of 2016, an increase of 67%. The corporate netback for the second quarter was $10.06 per boe compared to $5.68 per boe in the previous quarter. The increased profitability from the first quarter is attributed to a 34% increase in the Company’s light oil price, lower transportation costs, lower interest costs and the elimination of one time transaction costs which were incurred in the first quarter.

- Average production was 8,435 boe per day (35% oil and liquids) in the second quarter of 2016 compared to 8,890 boe per day (38% oil and liquids) reported for the second quarter of 2015. Seasonal turnaround activity at non-operated facilities reduced the second quarter production by approximately 500 boe per day.

- Operating expenses (net of processing income recoveries) totaled $7.65 per boe in the second quarter, compared to $9.14 per boe in the second quarter of the prior year which represents a 16% reduction. Petrus has invested in operated processing facilities and pipelines in the Ferrier area in order to reduce operating costs as well as reliance on third parties. Petrus is on track to realize continued cost reductions.

- The Company’s realized hedging gain in the second quarter increased the Company’s corporate netback by $6.87 per boe which is 92% higher than the $3.58 per boe hedging gain realized in second quarter of the prior year. In the second quarter of 2016 natural gas hedges were in place for 78% of gas production at an average natural gas floor price of $2.64 per GJ.

- In the first half of 2016 Petrus invested $12.0 million and drilled 2.7 net wells in the Ferrier area. The Company estimates that total capital costs for the operated drilling projects were 16% lower than the previous year and cycle time improved significantly. Petrus also invested in tie-in, facility and well equipment costs in order to optimize the Company’s new gas plant in the Ferrier area to reduce future third-party processing fees. In the second quarter operating costs in the Ferrier area decreased 10% from the previous quarter.

- Subsequent to the end of the second quarter, Petrus sold its oil and natural gas interests in the Peace River area of Alberta (the “Disposition”) for total consideration of $30.0 million subject to customary closing adjustments. In June 2016, production in the Peace River area averaged approximately 1,000 boe per day (54% oil and natural gas liquids), which comprised approximately 12% of the Company's total production. The Disposition is beneficial to the Company by reducing overall indebtedness, lowering per unit operating costs, and reducing future liabilities. Excluding Peace River from the second quarter 2016 results would have generated a 18% reduction in the Company's overall operating costs per boe. Following transfer of the assets, Petrus' liability management ratio (LMR) will improve from 2.6 to approximately 3.0.

- $8 million of the cash proceeds from the Disposition were used to repay a portion of the Company's Term Loan, reducing the amount outstanding to $42.0 million. The remaining cash was used to reduce the amount owing under the Company's revolving credit facilities. The borrowing capacity under the revolving credit facility was reduced as a result of the Disposition, from $120 million to $106 million. As a result of the first quarter financing activities as well as the Disposition, the Company's total net debt is expected to be reduced to approximately $124.0 million, down from $226.7 million at the end of 2015. Annual interest cost savings attributed to the debt reductions are estimated to be over $6.5 million.

- Petrus entered a definitive agreement for the previously announced cashless property swap transaction whereby Petrus will dispose of non-core assets with production of approximately 250 boe per day, associated land and a working interest in non-operated production facilities. In exchange Petrus expects to acquire production of approximately 400 boe per day and approximately 40% working interest in eight sections of predominantly undeveloped land in its Ferrier core area. Petrus expects to close the transaction in the third quarter.

- With the enhanced financial flexibility provided by the Disposition, the Petrus Board of Directors has approved a $17.5 million capital expenditure budget for the second half of 2016. Capital will be directed primarily to drilling in the Ferrier area, a Cardium resource play with a multi-year inventory of low-risk liquids rich gas and oil opportunities.

SELECTED FINANCIAL INFORMATION

(000s) except per boe amounts	Three months ended June 30, 2016	Three months ended June 30, 2015	Three months ended March 31, 2016	Three months ended December 31, 2015	Three months ended September 30, 2015
OPERATIONS					
Average Production					
Natural gas (mcf/d)	33,071	33,103	35,456	31,217	32,505
Oil (bbl/d)	2,200	2,811	2,218	2,380	2,616
NGLs (bbl/d)	723	560	694	590	634
Total (boe/d)	**8,435**	**8,890**	**8,821**	**8,172**	**8,668**
Total (boe)	**767,585**	**808,947**	**802,744**	**751,845**	**797,439**
Natural gas sales weighting	**65%**	**62%**	**67%**	64%	62%
Realized Sales Prices					
Natural gas ($/mcf)	1.64	2.90	2.01	2.79	2.92
Oil ($/bbl)	46.68	64.76	34.52	48.27	50.91
NGLs ($/bbl)	8.47	24.99	18.18	30.52	16.14
Total ($/boe)	19.32	32.85	18.18	26.90	27.48
Hedging gain ($/boe)	6.87	3.58	7.84	6.68	4.72
Operating Netback ($/boe)					
Effective price	26.19	36.43	26.02	33.58	32.20
Royalty income	0.12	0.08	0.13	0.32	0.10
Royalty expense	(2.26)	(3.73)	(3.08)	(3.74)	(2.89)
Operating expense	(7.65)	(9.14)	(8.52)	(11.00)	(7.87)
Transportation expense	(1.30)	(1.93)	(1.62)	(1.31)	(1.43)
Operating netback [1] ($/boe)	**15.10**	**21.71**	**12.93**	17.85	20.11
G & A expense [2]	(1.86)	(2.28)	(2.72)	(3.08)	(2.10)
Net interest expense [3]	(3.18)	(3.91)	(4.53)	(5.83)	(4.41)
Corporate netback [1] ($/boe)	**10.06**	**15.52**	**5.68**	8.94	13.60
FINANCIAL ($000s except per share)					
Oil and natural gas revenue	14,926	26,641	14,698	20,459	21,991
Funds from operations [1]	7,725	12,549	4,558	6,717	10,838
Funds from operations per share [1]	0.17	0.36	0.11	0.19	0.31
Net loss	(46,334)	(7,239)	(4,110)	(36,425)	(19,055)
Net loss per share	(1.02)	(0.21)	(0.10)	(1.04)	(0.54)
Capital expenditures	2,712	13,288	9,277	6,757	9,041
Net acquisitions (dispositions)	—	(125)	—	—	—
Common shares outstanding	45,349	35,148	45,349	35,148	35,148
Weighted average shares	45,349	35,148	41,762	35,148	35,148
As at quarter end ($000s)					
Net debt [1][4]	152,935	228,562	157,675	226,742	226,809
Bank debt outstanding	156,845	232,000	155,000	235,000	236,375
Bank debt available [5]	12,555	35,600	12,300	12,600	34,600
Shareholders' equity	267,573	299,061	313,936	243,904	280,118
Total assets	493,535	627,808	544,548	555,145	595,890

(1) Non-GAAP measures are defined in the Non-GAAP section of the June 30, 2016 MD&A.
(2) G&A expense is presented net of capitalized general & administrative costs.
(3) Interest expense is presented net of other income and non-cash deferred finance expense.
(4) Net debt includes working capital (deficiency).
(5) $120 million credit facility less: $105 million drawn, $0.6 million letter of credit and $1.8 million bank overdraft.

OPERATIONS UPDATE

The Petrus Board of Directors has approved a capital budget of $17.5 million for the second half of 2016. The capital budget includes the drilling of 9 gross (4.8 net) wells and other investments in infrastructure and maintenance capital. The capital budget will be primarily funded through cash flow.

Average second quarter production from the Company's four operating areas was as follows:

Average production for the quarter ended June 30, 2016	Foothills	Peace River	Ferrier	Central Alberta	Total
Average Production					
Natural gas (mcf/d)	7,672	2,990	12,426	9,983	33,071
Oil (bbl/d)	433	596	568	600	2,200
NGLs (bbl/d)	51	14	442	218	723
Total (boe/d)	**1,763**	**1,109**	**3,081**	**2,482**	**8,435**
Natural gas sales weighting	***73%***	***45%***	***67%***	***67%***	***65%***

DEVELOPMENT ACTIVITY

During the first half of 2016 Petrus invested $12.0 million of its $12.2 million first half budget, which was funded by funds from operations and working capital. The Company's capital development plan for the first half of 2016 was focused on the Ferrier area, where Petrus drilled 4 wells (2.7 net). Capital costs were significantly lower than the prior year due to improved efficiencies achieved as well as cost reductions due to lower demand for services. Total capital costs for the two operated Ferrier drilling projects were approximately 16% lower than comparable projects completed in 2015.

BUDGET UPDATE

With the enhanced financial flexibility provided by the Disposition, the Petrus Board of Directors has approved a $17.5 million capital expenditure budget for the second half of 2016. Capital will be directed primarily to drilling in the Ferrier area, a Cardium resource play with a multi-year inventory of low-risk liquids rich gas and oil opportunities. The Company has been primarily focused on Ferrier since acquiring assets in the area in 2014. To date, Petrus has drilled 13 gross (9.8 net) wells in Ferrier, acquired additional acreage and expanded its infrastructure, including construction of a 25 mmcf/d gas plant, providing the Company a competitive advantage through reduced operating costs and enhanced operational control over its production volumes.

The second quarter report for 2016 is available on the SEDAR filing system (www.sedar.com) as well as on the Company's website www.petrusresources.com).

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is management's discussion and analysis ("MD&A") of the financial and operating results of the Company as at and for the three and six month periods ended June 30, 2016. The report is dated August 10, 2016. This MD&A should be read in conjunction with the June 30, 2016 interim consolidated financial statements as well as the December 31, 2015 annual financial statements. Readers are directed to the advisories at the end of this report regarding forward-looking statements, BOE presentation and non-IFRS measures.

FINANCING TRANSACTIONS AND RECENT DEVELOPMENTS

To improve liquidity and refinance a portion of the Company's long term debt, Petrus has completed the following transactions during the six month period ended June 30, 2016:

Asset Disposition

On July 8, 2016 Petrus sold its oil and natural gas interests in the Peace River area of Alberta to a private company, for total consideration of $30.0 million subject to customary closing adjustments (the "Disposition"). The consideration is comprised of $29.0 million in cash and 1.0 million shares of the company at a deemed value of $1.00 per share. The Disposition closed on July 8, 2016.

In June 2016, production in the Peace River area averaged approximately 1,000 boe per day (54% oil and natural gas liquids), which comprised approximately 12% of the Company's total production. The Disposition includes facility interests and 85,530 net acres of undeveloped land. The Disposition is beneficial to the Company by reducing overall indebtedness, lowering per unit operating costs, and reducing future liabilities. Excluding Peace River from the second quarter 2016 results would have generated a 18% reduction in the Company's overall operating costs per boe. Following transfer of the assets, Petrus' liability management ratio (LMR) will improve from 2.6 to approximately 3.0.

Plan of Arrangement and Equity Financing

On November 29, 2015 Petrus entered into an arrangement agreement (the "Arrangement Agreement") with a company formerly named PhosCan Chemical Corp. (TSX: FOS) ("PhosCan"), Petrus Acquisition Corp. ("New Petrus") and a wholly-owned subsidiary of PhosCan ("Fox River Resources Corp.") whereby New Petrus will acquire all of the outstanding shares of each of Petrus and PhosCan by way of a plan of arrangement (the "Arrangement") under the Business Corporations Act (Alberta) (the "ABCA"). The consideration for the PhosCan shares was approximately $51 million of cash and cash equivalents ($45.5 million after adjusting for PhosCan shareholders who exercised dissent rights). Petrus announced a concurrent $30 million bought deal financing on November 29, 2015.

On February 2, 2016 Petrus closed the Arrangement Agreement which provided $45.5 million in incremental cash and cash equivalents, concurrently, the equity financing provided Petrus with an additional $30 million, for total gross proceeds of $75.5 million.

Pursuant to the Arrangement Agreement, Petrus Acquisition Corp. ("New Petrus") acquired all of the issued and outstanding common shares of Petrus ("Old Petrus") ("Old Petrus Shares") on the basis of 0.25 of a common share of New Petrus ("New Petrus Shares") for each Old Petrus Share, reflecting a notional 4 to 1 consolidation of the Old Petrus Shares. All share capital instruments have been adjusted to reflect the Arrangement Agreement which closed February 2, 2016. On close, the Company was renamed Petrus Resources Corp., New Petrus was renamed Petrus Resources Ltd., and PhosCan was renamed Petrus Resources Inc.

Public Listing

Petrus successfully listed its shares on the Toronto Stock Exchange ("TSX") under the symbol "PRQ" and commenced trading on the TSX on February 8, 2016. In the first quarter of 2016, Petrus incurred $1 million or $1.24 per boe in one-time transaction costs associated with financing activities.

Debt Repayments and Term Loan Extension

On March 22, 2016 Petrus amended and restated the credit agreement with the holder of the $90 million term loan. Concurrent with a $40 million pay down of the term loan, the instrument was extended to October 2017 at the same terms which include no prepayment penalty and an annual interest rate of the Canadian Dealer offered Rate (CDOR) plus 700 basis points. Approximately $8 million of the cash proceeds from the asset sale were used to repay the Term Loan, reducing the amount outstanding to $42.0 million. The remaining cash proceeds were used to reduce the amount owing under the RCF. The borrowing capacity under the revolving credit facility was reduced as a result of the Disposition, from $120 million to $106 million. As a result of the first quarter financing activities as well as the Disposition, the Company's total net debt is expected to be reduced to approximately $124.0 million, down from $226.7 million at the end of 2015. Annual interest costs attributed to the debt reductions are estimated to be over $6.5 million.

These financing transactions reduced and extended the term of the Company's second lien debt to October 8, 2017, reduced the first lien borrowings and provide Petrus with improved liquidity.

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Three months ended June 30, 2016	Three months ended June 30, 2015	Three months ended March 31, 2016	Three months ended December 31, 2015	Three months ended September 30, 2015
Quarterly average production					
Natural gas (mcf/d)	33,071	33,103	35,456	31,217	32,505
Oil (bbl/d)	2,200	2,811	2,218	2,379	2,616
NGLs (bbl/d)	723	560	694	590	634
Total (boe/d)	**8,435**	**8,890**	**8,821**	**8,172**	**8,668**
Total (boe)	767,585	808,947	802,744	751,845	797,439
Revenue (000s)					
Natural Gas	4,929	8,734	6,476	7,999	8,718
Oil	9,345	16,568	6,967	10,566	12,254
NGLs	558	1,274	1,148	1,655	942
Commodity revenue	14,832	26,576	14,591	20,220	21,914
Royalty revenue	94	65	107	239	77
Oil and natural gas revenue	14,926	26,641	14,698	20,459	21,991
Average realized prices					
Natural gas ($/mcf)	1.64	2.90	2.01	2.79	2.92
Oil ($/bbl)	46.68	64.76	34.52	48.27	50.91
NGLs ($/bbl)	8.47	24.99	18.18	30.52	16.14
Total ($/boe)	19.32	32.85	18.18	26.90	27.48
Hedging gain (loss)	6.87	3.58	7.84	6.68	4.72
Total realized ($/boe)	26.19	36.43	26.02	33.58	32.20

Average benchmark prices	Three months ended June 30, 2016	Three months ended June 30, 2015	Three months ended March 31, 2016	Three months ended December 31, 2015	Three months ended September 30, 2015
Natural gas					
AECO (C$/mcf)	1.45	2.64	1.84	2.47	2.91
Crude Oil					
Edm Lt. (C$/ bbl)	55.04	69.66	41.22	52.52	54.95
Foreign Exchange					
US$/C$	0.78	0.81	0.73	0.75	0.76

OIL AND NATURAL GAS REVENUE
Average production for the second quarter of 2016 was 8,435 boe per day (35% oil and liquids), compared to 8,890 boe per day (38% oil and liquids) for the second quarter of the prior year. Total commodity revenue decreased from $26.6 million in the second quarter of 2015 to $14.9 million in the second quarter of 2016.

Average production for the first six months of 2016 was 8,628 boe per day (66% natural gas), compared to 9,113 boe per day (59% natural gas) for the prior year comparative period. Due to decreased commodity prices, total commodity revenue decreased from $52.0 million in the first six months of 2015 to $29.6 million in the six months ended June 30, 2016.

Natural gas
During the three and six months ended June 30, 2016, the benchmark natural gas price in Canada (set at the AECO hub) decreased by 45% and 39% respectively from the prior year (average price of $1.45 per mcf in the second quarter compared to $2.64 per mcf in the second quarter of the prior year and $1.65 per mcf for the first six months of 2016, compared to $2.70 per mcf for the comparative period in 2015).

The Company's average realized natural gas price during the second quarter of 2016 was $1.64 per mcf compared to $2.90 per mcf in the prior year, which represents a 43% decrease. Natural gas revenue for the second quarter of 2016 was $4.9 million and production of 3,009,465 mcf accounted for approximately 65% of second quarter production volume and 33% of commodity revenue (compared to revenue of $8.7 million and production of 3,012,373 mcf for 62% of production volume and 33% of commodity revenue in the prior year). Natural gas revenue decreased from the prior year due to decreased commodity prices.

Natural gas revenue for the first six months of 2016 was $11.4 million and production of 6,236,006 mcf accounted for approximately 66% of production volume in the period and 39% of commodity revenue (compared to revenue of $17.6 million and production of 5,849,623 mcf for 59% of production volume and 34% of commodity revenue in the prior year comparative period).

Crude oil and condensate
Edmonton Light Sweet ("Edmonton") crude oil prices decreased 21% from the second quarter of 2015 to the second quarter of 2016 ($55.04 per bbl for the second quarter of 2016 compared to an average price of $69.66 per bbl for the prior period). Prices decreased 22% from the first six months of 2015 to the first six months of 2016 ($48.00 in 2016 compared to an average price of $61.23 for the prior period).

The average realized price of Petrus' crude oil and condensate was $46.68 per bbl for the second quarter of 2016 compared to $64.76 per bbl for the same period in the prior year. For the six month period, the average realized price of Petrus' crude oil and condensate was $40.58 for 2016 compared to $55.10 for the same period in 2015.

Oil and condensate revenue for the second quarter of 2016 was $9.3 million and production of 200,183 bbl accounted for approximately 26% of total production volume and 63% of commodity revenue (compared to revenue of $16.6 million and production of 255,801 bbl for 32% of total production volume and 62% of commodity revenue in the second quarter of the prior year).

Oil and condensate revenue for the first six months of 2016 was $16.3 million and production of 401,995 accounted for approximately 26% of total production volume and 55% of commodity revenue (compared to revenue of $31.7 million and production of 576,111 for 35% of total production volume and 61% of commodity revenue in the first six months of the prior year).

Oil and condensate revenue decreased from the prior year as a result of the decline in commodity prices and production volumes.

Natural gas liquids (NGLs)
The Company's NGL production mix consists of ethane, propane, butane, pentane and sulphur. The pricing received for NGL production is based on the product mix, the fractionation process required and the demand for fractionation facilities. In the second quarter of 2016, the overall realized NGL price averaged $8.47 per bbl compared to $24.99 per bbl in the prior year. In the first six months of 2016, the overall realized NGL price averaged $13.22 per bbl compared to $27.29 per bbl in the prior year.

NGL revenue for the second quarter of 2016 was $0.6 million and production of 65,825 bbl accounted for approximately 9% of production volume and 4% of commodity revenue in the second quarter (compared to revenue of $1.3 million and production of 50,960 bbl for 6% of production volume and 5% of commodity revenue for the second quarter of the prior year). NGL revenue for the first six months of 2016 was $1.7 million and production of 129,000 bbl accounted for approximately 8% of production volume and 6% of commodity revenue in the period (compared to revenue of $2.7 million and production of 97,670 bbl for 6% of production volume and 5% of commodity revenue in the first six months of the prior year.

The decrease in NGL revenue is due to the decline in commodity prices.

NON-GAAP MEASURES
Petrus uses key performance indicators and industry benchmarks such as "funds from operations", "funds from operations per share", and "net debt" to analyze financial and operating performance. These indicators are not defined by IFRS and therefore may not be comparable to performance

measures presented by other companies. Management believes that in addition to net income, the aforementioned non-IFRS measurements are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage and liquidity. Investors should be cautioned, however, that these measures should not be construed as an alternative to both net income and net cash from operating activities, which are determined in accordance with IFRS, as indicators of the Company's performance.

Funds from Operations

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

($000s)	**Six months ended June 30, 2016**	Six months ended June 30, 2015	**Three months ended June 30, 2016**	Three months ended June 30, 2015
Funds from (used in) operating activities	**16,609**	(4,854)	**6,502**	(6,611)
Changes in non-cash working capital	**(4,545)**	31,563	**1,150**	18,958
Decommissioning expenditures	**220**	571	**73**	202
Funds from operations	**12,284**	27,280	**7,725**	12,549

Operating Netback

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

Corporate Netback

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

Net Debt

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

($000s)	**As at June 30, 2016**	As at June 30, 2015
Current assets[(1)]	11,128	20,791
Less: current liabilities[(2)]	(7,218)	(17,891)
Less: bank debt	(156,845)	(231,462)
Working capital (net debt)	**(152,935)**	**(228,562)**

(1) Excluding risk management asset and assets held for sale.
(2) Excluding debt, risk management liability and liabilities related to assets held for sale.

FUNDS FROM OPERATIONS AND EARNINGS

Petrus generated funds from operations of $7.7 million during the quarter ended June 30, 2016 ($12.5 million during the second quarter of 2015). On a six month basis, funds from operations were $12.3 million compared to $27.3 million in the prior year. The quarterly average natural gas (AECO C$/mcf) price decreased 45% from the second quarter of 2015 to the second quarter of 2016 and 39% for the six month period. The quarterly average Edmonton crude (Edm. Lt. C$/bbl) price decreased 21% and 22% for the three and six month periods.

Petrus reported a net loss of $46.3 million in the second quarter of 2016 (compared to a net loss of $7.2 million in the second quarter of the prior year). On a six month basis, the Company incurred a net loss of $50.4 million in the first six months of 2016 compared to a net loss of $13.5 million in the comparable period of 2015. The losses were greater for the three and six month periods ended June 30, 2016 compared to the previous year due to impairment losses incurred during the second quarter of 2016. The following table provides detail on the Company's cash flow from operations on a barrel of oil equivalent ("boe") basis.

	Six months ended June 30, 2016		Six months ended June 30, 2015		**Three months ended June 30, 2016**		Three months ended June 30, 2015	
	$000s	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**
Oil and natural gas revenue	29,423	18.74	52,000	31.54	14,832	19.32	26,576	32.85
Transportation	(2,299)	(1.46)	(3,121)	(1.89)	(1,000)	(1.30)	(1,562)	(1.93)
Net revenue	27,124	17.28	48,879	29.65	13,832	18.02	25,014	30.92
Royalty expense	(4,209)	(2.68)	(6,845)	(4.15)	(1,734)	(2.26)	(3,020)	(3.73)
Royalty revenue	201	0.13	137	0.08	94	0.12	65	0.08
Net oil and natural gas revenue	**23,116**	**14.73**	**42,171**	**25.58**	**12,192**	**15.88**	**22,059**	**27.27**
Operating expense [(1)]	(12,710)	(8.09)	(13,932)	(8.45)	(5,872)	(7.65)	(7,396)	(9.14)
Hedging gain	11,568	7.37	7,775	4.72	5,273	6.87	2,894	3.58
General & administrative [(2)]	(3,608)	(2.30)	(3,507)	(2.13)	(1,426)	(1.86)	(1,843)	(2.28)
Interest expense [(3)]	(6,082)	(3.87)	(5,227)	(3.17)	(2,442)	(3.18)	(3,166)	(3.91)
Funds from operations	**12,284**	**7.84**	**27,280**	**16.55**	**7,725**	**10.06**	**12,549**	**15.52**

[(1)] Operating expense is presented net of processing income and overhead recoveries.
[(2)] G&A expense is presented net of capitalized general & administrative costs.
[(3)] Interest expense is presented net of other income and non-cash deferred finance expense.

(000s except per share)	**Six months ended June 30, 2016**	Six months ended June 30, 2015	**Three months ended June 30, 2016**	Three months ended June 30, 2015
Funds from operations	**12,284**	27,280	**7,725**	12,549
Funds from operations/share	**0.28**	0.78	**0.17**	0.36
Net loss	**(50,444)**	(13,523)	**(46,334)**	(7,239)
Net loss per share	**(1.16)**	(0.38)	**(1.02)**	(0.21)
Common shares	**45,349**	35,148	**45,349**	35,148
Weighted average shares	**43,556**	35,148	**45,349**	35,148

RESULTS OF OPERATIONS

Royalty Expenses

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

Royalty Expenses ($000s)	**Six months ended June 30, 2016**	Six months ended June 30, 2015	**Three months ended June 30, 2016**	Three months ended June 30, 2015
Crown ($000s)	**2,645**	3,884	**948**	1,945
% of production revenue	**9%**	7%	**6%**	7%
Gross overriding	**1,564**	2,961	**786**	1,075
Total (000s)	**4,209**	6,845	**1,734**	3,020

Total royalty expenses (net of royalty allowances and incentives) decreased from $3.0 million in the second quarter of 2015 to $1.7 million in the second quarter of 2016. On a six month basis, total royalties paid decreased from $6.8 million in 2015 to $4.2 million in 2016. The decreases are the result of lower royalties paid as a result of lower commodity prices.

Gross overriding royalties decreased from $1.1 million in the second quarter of 2015 to $0.8 million in the second quarter of 2016. Similarly, the royalties decreased from $3.0 million in the first six months of 2015 to $1.6 million in 2016. The decrease is due to lower commodity prices.

Risk Management

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility, increase the certainty of funds from operations and to protect acquisition and development economics. Petrus' risk management program is governed by guidelines approved by the Board of Directors. Petrus aims to hedge 60 to 70% of its 12 month production forecast and 30 to 40% of the following year production forecast. In the second quarter of 2016, the realized hedging gain increased the Company's effective realized commodity price by $6.87 per boe which is 92% higher than $3.58 per boe realized in the second quarter of the prior year.

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

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

Other Income ($000s)	**Six months ended June 30, 2016**	Six months ended June 30, 2015	**Three months ended June 30, 2016**	Three months ended June 30, 2015
Realized hedging gain	**11,567**	7,775	**5,273**	2,894
Unrealized hedging gain (loss)	**(11,511)**	(9,046)	**(16,397)**	(5,433)
Total gain on derivatives	**56**	(1,271)	**(11,124)**	(2,539)

Weakened commodity prices resulted in a realized hedging gain of $5.3 million during the second quarter of 2016, compared to a $2.9 million gain realized in the same quarter of the prior year. The second quarter realized gain increased the Company's total realized price by $6.87 per boe, compared to an increase of $3.58 per boe in the second quarter of the prior year.

The unrealized hedging loss of $11.5 million represents the change in the unrealized risk management net asset position during the period. This change is the result of both the realization of hedging gains in the quarter, changes related to contracts entered into during the quarter as well as changes to commodity prices. At quarter end, the unrealized risk management net asset mark-to-market value is $2.4 million.

The Company's risk management contracts provide protection from crude oil and natural gas prices for 2016 to 2018. For a complete listing of Petrus' risk management contracts see the Company's June 30, 2016 interim consolidated financial statements (Note 9). The table below summarizes Petrus' average crude oil and natural gas hedged volumes. The 1,600 bbl per day of oil hedged in the second quarter of 2016 represents 55% of second quarter average liquids (oil and NGL) production. The 27,634 GJ per day of natural gas hedged in the second quarter of 2016 represents 84% of second quarter average natural gas production.

	2016					**2017**					**2018**
	Q1	**Q2**	**Q3**	**Q4**	**Avg.**	**Q1**	**Q2**	**Q3**	**Q4**	**Avg.**	**Q1**
Oil hedged (bbl/d)	1,700	1,600	1,350	1,350	**1,500**	1,100	1,200	1,100	800	**1,050**	600
Average WTI cap price (C$/bbl)	82.15	76.97	76.94	77.13	**78.42**	77.55	71.71	66.35	71.08	**71.67**	68.81
Average WTI floor price (C$/bbl)	68.93	68.39	66.67	66.67	**67.77**	69.55	65.65	62.16	60.63	**64.80**	57.50
Natural gas hedged (GJ/d)	28,785	27,634	27,200	22,200	**26,455**	21,000	18,650	18,650	14,500	**18,200**	14,500
Average AECO cap price (C$/GJ)	3.07	2.76	2.76	3.02	**2.91**	3.20	2.68	2.68	2.85	**2.85**	2.94
Average AECO floor price (C$/GJ)	3.07	2.64	2.64	2.83	**2.80**	2.96	2.65	2.65	2.79	**2.76**	2.86

Operating Expenses

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

Operating Expenses ($000s)	**Six months ended June 30, 2016**	Six months ended June 30, 2015	**Three months ended June 30, 2016**	Three months ended June 30, 2015
Operating expense, net [(1)]	**12,710**	13,932	**5,872**	7,396
Operating expense, net ($ per boe)	**8.09**	8.45	**7.65**	9.14

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

Operating expenses totaled $5.9 million for the second quarter of 2016, a 21% decrease from $7.4 million recorded in the second quarter of the prior year. The decrease is attributed to investments in facilities designed to reduce third party processing fees. In addition, processing income generated from third parties contributed to the lower operating expenses(1). On a per boe basis, operating expenses were $7.65 in the second quarter which is 16% lower than the $9.14 per boe incurred in the prior year.

On a six month basis operating expenses totaled $12.7 million in 2016 ($8.09 per boe) and $13.9 million ($8.45 per boe) in 2015. The 4% decrease on a per boe basis is attributed to investment in facilities designed to reduce operating costs.

Transportation Expenses

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

Transportation Expenses ($000s)	**Six months ended June 30, 2016**	Six months ended June 30, 2015	**Three months ended June 30, 2016**	Three months ended June 30, 2015
Transportation expense	**2,299**	3,121	**1,000**	1,562
Transportation expense ($ per boe)	**1.46**	1.89	**1.30**	1.93

Petrus pays commodity and demand charges for transporting its gas on various pipeline systems. The Company also incurs trucking costs on the portion of its oil and natural gas liquids production that is not pipeline connected. Transportation expenses totaled $1.0 million or $1.30 per boe in the second quarter of 2016 ($1.6 million or $1.93 per boe for the comparative period of 2015). On a six month basis transportation expenses totaled $2.3 million in 2016 ($1.46 per boe) and $3.1 million ($1.89 per boe) in 2015.

General and Administrative Expenses

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

General and Administrative Expenses ($000s)	**Six months ended June 30, 2016**	Six months ended June 30, 2015	**Three months ended June 30, 2016**	Three months ended June 30, 2015
Gross general and administrative expense	4,405	4,453	1,822	2,183
Capitalized general and administrative	(797)	(946)	(396)	(340)
Net general and administrative expense	**3,608**	**3,507**	**1,426**	**1,843**
Share based compensation expense	380	824	171	360
Capitalized share based compensation	(152)	(330)	(68)	(144)
Total net general and administrative	**3,836**	**4,001**	**1,529**	**2,059**
Total ($ per boe)	**2.45**	**2.43**	**1.99**	**2.54**

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

$000s	**Six months ended June 30, 2016**	Six months ended June 30, 2015	**Three months ended June 30, 2016**	Three months ended June 30, 2015
Personnel, consultants and directors	2,304	2,829	1,171	1,515
Regulatory expenses	641	389	35	105
Office costs	1,087	1,026	568	426
Subscriptions & licenses	96	163	17	105
Public company expenses	248	—	31	—
Transaction costs	29	46	—	32
Capitalized general and administrative	(797)	(946)	(396)	(340)
	3,608	**3,507**	**1,426**	**1,843**

Second quarter 2016 net general and administrative expenses (excluding non-cash share based compensation), totaled $1.4 million or $1.86 per boe (compared to $1.8 million or $2.28 per boe in the second quarter of 2015). The decrease is due to reduced salaries and consulting fees paid compared to the prior year. As a result of the significant decline in commodity prices Petrus reorganized corporate and field personnel responsibilities subsequent to the second quarter of the prior year which led to a reduction in the number of employees and contractors. All other compensation was also reduced later in 2015.

Net general and administrative expenses for the six months ended June 30 totaled $3.6 million ($2.30 per boe) in 2016 and $3.5 million ($2.13 per boe) in 2015. Salaries and consulting fees were lower in the six month period ended June 30, 2016 as compared to the prior year due to staff and cost reductions implemented. The increase in total G&A expenses for the six month period ended June 30, 2016, is due to public company expenses and increased regulatory expenses including legal, audit, reserve reporting and transfer agency fees. These costs have increased from 2015 in conjunction with the Company's public listing status.

G&A costs capitalized (directly attributable to the acquisition, exploration and development activities of the Company) are quantified in the table above.

Finance

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

Finance Expenses ($000s)	**Six months ended June 30, 2016**	Six months ended June 30, 2015	**Three months ended June 30, 2016**	Three months ended June 30, 2015
Interest expense	6,033	5,866	2,428	3,191
Foreign exchange loss (gain)	49	(567)	14	20
Total cash finance expenses	**6,082**	**5,299**	**2,442**	**3,211**
Deferred financing costs	—	338	—	169
Accretion on decommissioning obligations	207	598	140	310
Total finance expense	**6,289**	**6,235**	**2,582**	**3,690**

The Company incurred total finance expenses of $2.6 million in the second quarter of 2016, comprised of $0.1 million of non-cash accretion of its decommissioning liability and $2.4 million of cash interest expense related to its credit facilities and term loan. In the second quarter of 2015, Petrus incurred total finance expenses of $3.7 million, comprised of $0.3 million of non-cash accretion expense, $3.2 million cash interest expense and $0.2 million in non-cash deferred financing costs. The significant decrease is due to debt reduction as a result of financing activities.

Depletion and Depreciation

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

Depletion and Depreciation ($000s)	**Six months ended June 30, 2016**	Six months ended June 30, 2015	**Three months ended June 30, 2016**	Three months ended June 30, 2015
Depletion	**24,827**	30,089	**12,290**	14,754
Depreciation	**55**	64	**28**	38
Total	**24,882**	**30,153**	**12,318**	**14,792**
Depletion ($ per boe)	**15.81**	18.25	**16.01**	18.24
Depreciation ($ per boe)	**0.04**	0.04	**0.04**	0.05
Total ($ per boe)	**15.85**	**18.29**	**16.05**	**18.29**

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

Petrus recorded depletion expense in the second quarter of 2016 of $12.3 million or $16.01 per boe, compared to the second quarter of 2015, when $14.8 million or $18.24 per boe was recorded. On a six month basis depletion expense was $24.8 million ($15.81 per boe) in 2016 and $30.1 million ($18.25 per boe) in 2015. Depreciation expense is not significant as most depreciable assets were fully depreciated in the prior year.

Impairment

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

Impairment ($000s)	**Six months ended June 30, 2016**	Six months ended June 30, 2015	**Three months ended June 30, 2016**	Three months ended June 30, 2015
Impairment	25,000	—	25,000	—
Total	**25,000**	**—**	**25,000**	**—**

As a result of entering into a definitive sales agreement subsequent to the second quarter of 2016, the Company classified certain assets located in the Peace River area of Alberta as assets held for sale. On July 8, 2016, the Peace River disposition closed for total proceeds of $30 million, subject to closing adjustments.

On June 30, 2016, these assets were recorded at the lesser of fair value less costs to sell and their carrying amount, resulting in an impairment loss of $25.0 million ($21.0 million recorded to Property, Plant and Equipment and $4.0 million recorded to Exploration & Evaluation Assets). The impairment has been recorded as an impairment loss on the Statements of Net Loss and Comprehensive Loss. Petrus recorded an impairment loss in the second quarter of 2016 of $25.0 million (six months ended June 30, 2016 – $25.0 million) compared to the three and six months ended June 30, 2015 when the Company did not recognize an impairment loss.

Assets and liabilities classified as held for sale consisted of the following:

000s	June 30, 2016	December 31, 2015
Assets held for sale		
Exploration and evaluation assets	7,000	
Property, plant and equipment	37,265	—
	44,265	—
Liabilities held for sale		
Decommissioning obligation	15,277	—
	15,277	—

SHARE CAPITAL

The authorized share capital consists of an unlimited number of common voting shares without par value. The following table details the number of issued and outstanding instruments for the periods shown:

(000s)	Six months ended June 30, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015
Weighted average outstanding common shares				
Basic	**43,556**	35,148	**45,349**	35,148
Diluted	**43,556**	35,148	**45,349**	35,148
Outstanding instruments				
Common shares	**45,349**	35,148	**45,349**	35,148
Stock options	**1,454**	1,655	**1,454**	1,655
Warrants	**1,569**	1,602	**1,569**	1,602

At June 30, 2016 the Company had 45,349,192 common shares, 1,453,750 stock options and 1,568,568 performance warrants outstanding, respectively. There have been no changes to the outstanding instruments as at the date of this MD&A.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2016 Petrus had two debt instruments outstanding. The first is a reserve-based, revolving credit facility with a syndicate of lenders. The total facility is comprised of an operating facility and a syndicated term-out facility (altogether the "Revolving Credit Facility" or "RCF"). The second is a second lien term loan (the "Term Loan").

(a) Revolving Credit Facility

At June 30, 2016 the Company's RCF was comprised of a $20 million operating facility and a $100 million syndicated term-out facility. The term-out facility has a revolving period that ends July 29, 2017 at which time it will either be renewed or converted to a one-year term facility. The Company has provided collateral by way of a $600 million debenture over all of the present and after acquired property of the Company.

At June 30, 2016, the Company had a $0.6 million letter of credit outstanding against the RCF (December 31, 2015 – $2.4 million), had drawn $105.0 million against the RCF (December 31, 2015 – $145 million) and used $1.8 million in bank overdraft (December 31, 2015 – $Nil).

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

(b) Term Loan

At June 30, 2016 the Company had a $50 million (December 31, 2015 – $90 million) Term Loan outstanding which is repayable on October 8, 2017. Interest is due and payable monthly and accrues at a per annum rate of the (three-month) Canadian Dealer offered Rate (CDOR) plus 700 basis points.

Subsequent to June 30, 2016 the Company sold assets in the Peace River area for total consideration of $30.0 million subject to customary closing adjustments. Approximately $8 million of the cash proceeds from the asset sale were used to repay the Term Loan, reducing the amount outstanding to $42.0 million. The remaining cash proceeds of approximately $20 million were used to reduce the amount owing under the RCF. The borrowing capacity under the RCF was reduced from $120 million to $106 million and lender consent is required for total borrowings against the RCF exceeding $100.5 million. $28.0 million was reclassified to Current Liabilities on the consolidated balance sheet as at June 30, 2016.

The Company is subject to certain financial covenants under its revolving credit facility and term loan. These types of financial covenants are typical for similar lending arrangements and include working capital, debt to EBITDA and asset coverage covenants, have not changed since December 31, 2015. At June 30, 2016 the Company was not in breach of any financial covenants.

CAPITAL EXPENDITURES

Capital expenditures, totaled $2.7 million in the second quarter of 2016 compared to $13.3 million in the second quarter of the prior year (excluding acquisitions and dispositions). In the six month period ended June 30, 2016 Petrus invested $12.0 million in capital expenditures, compared to $39.9 million in the prior year. In the six month period ended June 30, 2016, Petrus invested in facilities and infrastructure, as well as the drilling, completion and tie-in four (2.7 net) wells in the Ferrier area. The following table shows capital expenditures for the reporting periods indicated. All capital is presented before decommissioning obligations:

($000s)	**Six months ended June 30, 2016**	Six months ended June 30, 2015	**Three months ended June 30, 2016**	Three months ended June 30, 2015
Drill and complete	**7,386**	23,261	**963**	5,407
Oil and gas equipment	**3,667**	14,402	**1,244**	7,360
Geological	**—**	301	**—**	267
Land and lease	**139**	50	**109**	50
Office	**—**	(14)	**—**	(136)
Capitalized general and administrative	**797**	946	**396**	340
Total	**11,989**	**38,946**	**2,712**	**13,288**
Acquisitions/(dispositions)	**—**	938	**—**	(125)
Total capital	**11,989**	**39,884**	**2,712**	**13,163**
Gross (net) wells spud	**4 (2.7)**	**6 (5.9)**	**—**	**—**

SUMMARY OF QUARTERLY RESULTS

	Three months ended							
($000s) except per share & boe amounts	**Jun. 30, 2016**	**Mar. 31, 2016**	**Dec. 31, 2015**	**Sep. 30, 2015**	**Jun. 30, 2015**	**Mar. 31, 2015**	**Dec. 31, 2014**	**Sep. 30, 2014**
Average Production								
Natural gas (mcf/d)	33,071	35,456	31,217	32,505	31,103	31,525	34,626	17,557
Oil (bbl/d)	2,200	2,218	2,380	2,616	2,811	3,559	2,998	1,799
NGLs (bbl/d)	723	694	590	634	560	519	1,053	203
Total (boe/d)	**8,435**	**8,821**	**8,172**	**8,668**	**8,890**	**9,333**	**9,822**	**4,928**
Total (boe)	**767,585**	**802,744**	**751,845**	**797,439**	**808,947**	**839,927**	**903,620**	**453,359**
Financial Results								
Commodity revenue	14,832	14,591	20,221	21,914	26,576	25,423	35,575	23,592
Transportation	(1,000)	(1,298)	(986)	(1,142)	(1,561)	(1,560)	(1,126)	(1,303)
Net revenue	**13,832**	**13,293**	**19,235**	**20,772**	**25,015**	**23,863**	**34,449**	**22,289**
Royalty expense [1]	(1,734)	(2,475)	(2,809)	(2,308)	(3,020)	(3,825)	(3,958)	(4,035)
Royalty income [1]	94	107	238	77	65	72	423	128
Net oil and natural gas revenue	12,192	10,925	16,664	18,541	22,060	20,110	30,914	18,382
Operating expense [2]	(5,872)	(6,837)	(8,269)	(6,277)	(7,396)	(6,536)	(5,815)	(4,395)
Hedging gain (loss)	5,273	6,294	5,020	3,767	2,894	4,881	3,371	(1,359)
General and administrative expense [3]	(1,426)	(2,183)	(2,318)	(1,674)	(1,843)	(1,664)	(2,117)	(1,446)
Interest expense [4]	(2,442)	(3,641)	(4,380)	(3,519)	(3,166)	(2,256)	(1,744)	(1,304)
Funds from operations	**7,725**	**4,558**	**6,717**	**10,838**	**12,549**	**14,535**	**24,609**	**9,878**
Per share - basic	0.17	0.11	0.19	0.31	0.36	0.41	0.70	0.37
Net income (loss)	**(46,334)**	**(4,110)**	**(36,425)**	**(19,055)**	**(7,239)**	**(6,312)**	**(63,308)**	**7,529**
Per share - basic	(1.02)	(0.10)	(1.04)	(0.54)	(0.21)	(0.18)	(1.80)	0.28
Common shares (000s)	**45,349**	**45,349**	**35,148**	**35,148**	**35,148**	**35,148**	**35,148**	**35,115**
Weighted average shares (000s)	45,349	41,762	35,148	35,148	35,148	35,148	35,148	27,043
Total assets	493,535	544,548	555,145	595,890	627,808	641,547	647,304	549,248
Net working capital (net debt)	**(152,935)**	**(157,675)**	**(226,742)**	**(226,809)**	**(228,562)**	**(227,607)**	**(215,049)**	**21,014**

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

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

Petrus' average quarterly production has grown, from 4,928 boe per day in the third quarter of 2014 to 8,435 boe per day in the second quarter of 2016. The production growth is attributable to the Corporation's exploration and development activities as well as acquisitions of producing properties.

The Company's funds from operations were $9.9 million in the third quarter of 2014 and $7.7 million in the second quarter of 2016. Funds from operations decreased despite higher production levels due to a significant reduction in commodity prices over the two year period. Commodity price improvements can enable higher reinvestment in exploration, development and acquisition activities in future periods as they increase the funds received from operations. Commodity price reductions reduce revenues received and can challenge the economics of the Corporation's development program as the quantity of reserves may not be economically recoverable. Petrus' reinvestment in future reserves will be dependent on its ability to obtain debt and equity financing as well as the funds it receives from operations.

CRITICAL ACCOUNTING ESTIMATES

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

Depletion and reserve estimates

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

Impairment indicators and cash-generating units

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

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

Technical feasibility and commercial viability of exploration and evaluation assets

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

Decommissioning obligation

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

Income taxes

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

Measurement of share-based compensation

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

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

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

OTHER FINANCIAL INFORMATION

Significant accounting policies
The Company's significant accounting policies can be read in Note 3 to the Company's audited financial statements as at and for the year ended December 31, 2015.

New standards and interpretations
In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments". The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. IFRS 9 will be applied by Petrus on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. The standard is required to be adopted for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Petrus on January 1, 2018 and the Company is currently evaluating the impact of the standard on Petrus's statements.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on the Company's financial statements.

Internal controls over financial reporting
Petrus' Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, internal control over financial reporting (as defined in National Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. During the period beginning April 1, 2016 and ending June 30, 2016, no changes were made in the Company's internal control over financial reporting which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ADVISORIES
Basis of Presentation
Financial data presented below have largely been derived from the Company's financial statement, prepared in accordance with International Financial Reporting Standards ("IFRS"). Accounting policies adopted by the Company are set out in the notes to the audited financial statements as at and for the twelve months ended December 31, 2015. The reporting and the measurement currency is the Canadian dollar. All financial information is expressed in Canadian dollars, unless otherwise stated.

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

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

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

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

BOE Presentation

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

Abbreviations

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

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Expressed in 000's of Canadian dollars)

As at	June 30, 2016	December 31, 2015
ASSETS		
Current		
Cash	—	1,234
Deposits and prepaid expenses	1,630	1,109
Accounts receivable *(note 14)*	9,497	17,754
Risk management asset *(note 9)*	4,091	13,978
Assets held for sale *(note 4)*	44,265	—
	59,483	**34,075**
Non-current		
Risk management asset *(note 9)*	389	—
Exploration and evaluation assets *(notes 3 and 5)*	75,379	88,178
Property, plant and equipment *(notes 3 and 6)*	358,284	432,892
	434,052	**521,070**
	493,535	**555,145**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current portion of long term debt *(note 7)*	28,000	130,000
Accounts payable and accrued liabilities *(note 14)*	7,218	11,839
Risk management liability *(note 9)*	677	45
Liabilities related to assets held for sale *(note 4)*	15,277	—
	51,172	**141,884**
Non-Current Liabilities		
Long term debt *(note 7)*	128,845	105,000
Decommissioning obligation *(note 8)*	44,565	64,357
Risk management liability *(note 9)*	1,380	—
	225,962	**311,241**
Shareholders' Equity		
Share capital *(note 10)*	419,839	346,106
Contributed surplus	7,000	6,620
(Deficit)	(159,266)	(108,822)
	267,573	**243,904**
	493,535	**555,145**

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

Approved by the Board of Directors,

(signed) "Don T. Gray"

Don T. Gray
Chairman

(signed) "Donald Cormack"

Donald Cormack
Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

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

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
REVENUE				
Oil and natural gas revenue	**14,926**	**26,641**	**29,624**	**52,136**
Royalty expense	(1,734)	(3,020)	(4,209)	(6,845)
Oil and natural gas revenue, net of royalties	**13,192**	**23,621**	**25,415**	**45,291**
Other income	—	45	—	73
Net gain (loss) on financial derivatives *(note 9)*	(11,124)	(2,539)	56	(1,271)
	2,068	**21,127**	**25,471**	**44,093**
EXPENSES				
Operating *(note 12)*	5,872	7,396	12,710	13,932
Transportation	1,000	1,562	2,299	3,121
General and administrative *(note 13)*	1,426	1,843	3,608	3,507
Share-based compensation *(note 10)*	103	216	228	495
Finance *(note 16)*	2,582	3,690	6,289	6,235
Exploration and evaluation *(note 5)*	101	540	899	3,204
Depletion and depreciation *(note 6)*	12,318	14,792	24,882	30,153
Loss on sale of assets *(note 3)*	—	—	—	52
Impairment *(note 4)*	25,000	—	25,000	—
	48,402	**30,039**	**75,915**	**60,699**
NET LOSS BEFORE INCOME TAXES	**(46,334)**	**(8,912)**	**(50,444)**	**(16,606)**
Deferred income tax recovery	—	(1,673)	—	(3,083)
	—	**(1,673)**	**—**	**(3,083)**
NET LOSS AND COMPREHENSIVE LOSS	**(46,334)**	**(7,239)**	**(50,444)**	**(13,523)**
Net loss per common share				
Basic and diluted *(note 11)*	**(1.02)**	**(0.21)**	**(1.16)**	**(0.38)**

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Expressed in 000's of Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2014	**346,106**	**5,445**	**(39,791)**	**311,760**
Net loss	—	—	(13,523)	(13,523)
Share-based compensation *(note 10)*	—	824	—	824
Balance, June 30, 2015	**346,106**	**6,269**	**(53,314)**	**299,061**
Balance, December 31, 2015	**346,106**	**6,620**	**(108,822)**	**243,904**
Net loss	—	—	(50,444)	(50,444)
Issuance of common shares *(note 10)*	75,488	—	—	75,488
Share issue costs *(note 10)*	(1,755)	—	—	(1,755)
Share-based compensation *(note 10)*	—	380	—	380
Balance, June 30, 2016	**419,839**	**7,000**	**(159,266)**	**267,573**

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Expressed in 000's of Canadian dollars)

Funds generated by (used in):	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
OPERATING ACTIVITIES				
Net income loss	**(46,334)**	**(7,239)**	**(50,444)**	**(13,523)**
Adjust items not affecting cash:				
Share-based compensation *(note 10)*	103	216	228	495
Unrealized losses (gains) on financial derivatives (*note 9)*	16,397	5,433	11,512	9,046
Non-cash finance expenses *(note 16)*	140	479	207	936
Depletion and depreciation *(note 6)*	12,318	14,792	24,882	30,153
Impairment *(note 4)*	25,000	—	25,000	—
Exploration and evaluation expense *(note 5)*	101	540	899	3,204
Loss on sale of assets *(note 3)*	—	—	—	52
Deferred income tax expense (recovery)	—	(1,673)	—	(3,083)
Decommissioning expenditures *(note 8)*	(74)	(202)	(220)	(571)
	7,651	**12,346**	**12,064**	**26,709**
Change in operating non-cash working capital *(note 17)*	(1,150)	(18,958)	4,545	(31,563)
Cash flows from (used in) operating activities	**6,501**	**(6,612)**	**16,609**	**(4,854)**
FINANCING ACTIVITIES				
Issue of common shares *(note 10)*	—	—	75,488	—
Share issue costs *(note 10)*	(200)	—	(1,755)	—
Increase (decrease) in bank debt	1,845	25,787	(78,155)	42,005
Cash flows from (used in) financing activities	**1,645**	**25,787**	**(4,422)**	**42,005**
INVESTING ACTIVITIES				
Property and equipment (acquisitions) *(note 3)*	—	—	—	(8,711)
Property and equipment dispositions *(note 3)*	—	—	—	7,648
Exploration and evaluation asset dispositions *(note 3)*	—	125	—	125
Exploration and evaluation asset expenditures *(note 5)*	(136)	(487)	(265)	(824)
Petroleum and natural gas property expenditures *(note 6)*	(2,576)	(12,937)	(11,724)	(38,136)
Other capital (expenditures) recoveries	—	136	—	14
Change in investing non-cash working capital *(note 17)*	(7,326)	(6,013)	(1,432)	(16,791)
Cash flows used in investing activities	**(10,038)**	**(19,176)**	**(13,421)**	**(56,675)**
Increase (decrease) in cash	(1,892)	—	(1,234)	(19,524)
Cash, beginning of period	1,892	—	1,234	19,524
Cash, end of period	—	—	—	—
Cash interest paid	1,943	3,070	5,426	5,640
Cash taxes paid	—	—	—	—

See accompanying notes to the interim consolidated financial statements

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF THE ORGANIZATION

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

The principal undertaking of Petrus is the investment in energy business-related assets. The operations of the Company consist of the acquisition, development, exploration and exploitation of these assets. The Company’s head office is located at 2400, 240 - 4th Avenue SW, Calgary, Alberta Canada.

On February 2, 2016, New Petrus closed an equity financing involving a $30 million private placement and an arrangement agreement (the “Arrangement Agreement”) with PhosCan and Old Petrus. Pursuant to the Arrangement Agreement, Old Petrus shareholders exchanged their Old Petrus common shares for New Petrus common shares on the basis of 0.25 New Petrus common shares for each Old Petrus common share held, resulting in the issuance of approximately 4.1 million New Petrus shares.

At the time of the Arrangement Agreement, PhosCan did not have any assets or liabilities other than $45.5 million in cash. PhosCan shareholders exchanged their PhosCan common shares for New Petrus common shares on the basis of 0.0452672 New Petrus common shares for each PhosCan common share held, resulting in the issuance of approximately 6.1 million New Petrus common shares. This resulted in an increase to New Petrus’ cash and shareholders’ equity on a consolidated basis.

While New Petrus is the continuing legal entity, the economic substance of the Arrangement Agreement was two financings executed by Old Petrus. Accordingly Old Petrus is the continuing accounting entity following the Arrangement Agreement. These financial statements have therefore been presented on a continuity of interest basis, with the financial position, results of operations and cash flows for all periods before February 2, 2016 being those of Old Petrus.

Petrus’ legal share capital is that of Old Petrus to February 2, 2016 and continues as that of Petrus after that date. Common shares, performance warrants and stock options have been adjusted retrospectively for all periods presented for the 0.25 to 1 consolidation of shares referred to above.

These financial statements report the three and six months ended June 30, 2016 and prior year comparative periods were approved by the Company’s Audit Committee on August 10, 2016.

2. BASIS OF PRESENTATION

(a) 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 interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". Certain information and disclosures normally included in the notes to the annual financial statements have been condensed. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The preparation of these condensed interim consolidated financial statements requires the use of certain critical accounting estimates and also requires management to exercise judgment in applying the Company’s accounting policies. In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company’s accounting policies and key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended December 31, 2015. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2015. These condensed interim consolidated financial statements are presented in Canadian dollars, except where otherwise noted.

3. ACQUISITIONS AND DISPOSITIONS

Business combination

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

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

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

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

Property disposition

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

Business combination

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

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

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

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

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

Property disposition

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

4. ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities classified as held for sale consisted of the following:

000s	June 30, 2016	December 31, 2015
Assets held for sale		
Exploration and evaluation assets *(note 5)*	7,000	
Property, plant and equipment *(note 6)*	37,265	—
	44,265	**—**
Liabilities held for sale		
Decommissioning obligation *(note 8)*	15,277	—
	15,277	**—**

Subsequent to the end of the second quarter, the Company sold its oil and natural gas interests in the Peace River area of Alberta to a private company for total consideration of $30.0 million, subject to customary closing adjustments (the "Disposition"). The consideration is comprised of $29.0 million in cash and 1.0 million shares of the purchaser. The Disposition closed on July 8, 2016.

On June 30, 2016, these assets were recorded at the lesser of fair value less costs of disposal and their carrying amount, resulting in an impairment loss of $25.0 million ($21.0 million recorded to Property, Plant and Equipment and $4.0 million recorded to Exploration & Evaluation Assets). The impairment has been recorded as an impairment loss on the Statements of Net Loss and Comprehensive Loss.

5. EXPLORATION AND EVALUATION ASSETS

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

Balance, December 31, 2014	**94,073**
Additions	941
Property acquisitions	2,199
Corporate acquisitions	(217)
Exploration and evaluation expense	(6,275)
Capitalized G&A	417
Capitalized share-based compensation	130
Transfers to property, plant and equipment	(3,090)
Balance, December 31, 2015	**88,178**
Additions	66
Exploration and evaluation expense	(899)
Capitalized G&A	199
Capitalized share-based compensation *(note 10)*	38
Impairment loss on assets held for sale *(note 4)*	(4,000)
Transfers to assets held for sale *(note 4)*	(7,000)
Transfers to property, plant and equipment *(note 6)*	(1,203)
Balance, June 30, 2016	**75,379**

Exploration and evaluation assets consist of Petrus' undeveloped land and exploration and development projects which are pending the determination of technical feasibility. Additions represent the Company's share of costs incurred on these assets during the period. Exploration and evaluation assets are not subject to depletion. For the three and six month periods ended June 30, 2016, the Company incurred exploration and evaluation expense in the Statement of Net Loss and Comprehensive Loss of $0.1 million and $0.9 million, respectively which relates to expiring undeveloped land in minor properties (three and six months ended June 30, 2015 – $0.5 million and $3.2 million, respectively).

During the three and six month periods ended June 30, 2016, the Company capitalized $0.1 million and $0.2 million, respectively, of general & administrative expenses ("G&A") directly attributable to exploration activities (three and six months ended June 30, 2015 – $0.2 million and $0.6 million, respectively). Included in this amount is non-cash share-based compensation for the three and six months ended June 30, 2016, of $0.02 million and $0.04 million, respectively (three and six months ended June 30, 2015 – $0.07 million and $0.2 million, respectively).

6. PROPERTY, PLANT AND EQUIPMENT

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

$000s	Cost	Accumulated DD&A	Net book value
Balance, December 31, 2014	**661,194**	**(166,474)**	**494,720**
Additions	51,860	—	51,860
Property acquisitions	6,512	—	6,512
Property (dispositions)	(10,781)	3,173	(7,608)
Capitalized G&A	1,251	—	1,251
Capitalized share-based compensation	390	—	390
Transfers from exploration and evaluation assets *(note 5)*	3,090	—	3,090
Depletion & depreciation	—	(54,627)	(54,627)
Increase in decommissioning provision *(note 8)*	4,798	—	4,798
Impairment loss	—	(67,494)	(67,494)
Balance, December 31, 2015	**718,314**	**(285,422)**	**432,892**
Additions	11,126	—	11,126
Transfers from exploration and evaluation assets *(note 5)*	1,203	—	1,203
Capitalized G&A	598	—	598
Capitalized share-based compensation *(note 10)*	114	—	114
Depletion & depreciation	—	(24,882)	(24,882)
Decrease in decommissioning provision *(note 8)*	(4,502)	—	(4,502)
Impairment loss on assets held for sale *(note 4)*	—	(21,000)	(21,000)
Transfers to assets held for sale *(note 4)*	(97,890)	60,625	(37,265)
Balance, June 30, 2016	**628,963**	**(270,679)**	**358,284**

At June 30, 2016 estimated future development costs of $325.3 million (December 31, 2015 – $325.3 million) associated with the development of the Company's proved plus probable undeveloped reserves were included with the costs subject to depletion. During the three and six month periods ended June 30, 2016, the Company capitalized $0.2 million and $0.7 million, respectively, of general & administrative expenses ("G&A") directly attributable to development activities (three and six months ended June 30, 2015 – $0.2 million and $0.6 million, respectively). Included in this amount is non-cash share-based compensation for the three and six months ended June 30, 2016 of $0.05 million and $0.1 million, respectively (three and six months ended June 30, 2015 – $0.07 million and $0.2 million, respectively).

7. DEBT

At June 30, 2016 Petrus had two debt instruments outstanding. The first is a reserve-based, revolving credit facility with a syndicate of lenders. The total facility is comprised of an operating facility and a syndicated term-out facility (altogether the "Revolving Credit Facility" or "RCF"). The second is a second lien term loan (the "Term Loan").

(a) Revolving Credit Facility

At June 30, 2016 the Company's RCF was comprised of a $20 million operating facility and a $100 million syndicated term-out facility. The term-out facility has a revolving period that ends July 29, 2017 at which time it will either be renewed or converted to a one-year term facility. The Company has provided collateral by way of a $600 million debenture over all of the present and after acquired property of the Company.

At June 30, 2016, the Company had a $0.6 million letter of credit outstanding against the RCF (December 31, 2015 – $2.4 million), had drawn $105.0 million against the RCF (December 31, 2015 – $145 million) and used $1.8 million in bank overdraft (December 31, 2015 - $Nil).

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

(b) Term Loan

At June 30, 2016 the Company had a $50 million (December 31, 2015 – $90 million) Term Loan outstanding which is repayable on October 8, 2017. Interest is due and payable monthly and accrues at a per annum rate of the (three-month) Canadian Dealer offered Rate (CDOR) plus 700 basis points.

Subsequent to June 30, 2016 the Company sold assets in the Peace River area for total consideration of $30.0 million subject to customary closing adjustments. Approximately $8 million of the cash proceeds from the asset sale were used to repay the Term Loan, reducing the amount outstanding to $42.0 million. The remaining cash proceeds of approximately $20 million were used to reduce the amount owing under the RCF. The borrowing capacity under the RCF was reduced from $120 million to $106 million and lender consent is required for total borrowings against the RCF exceeding $100.5 million. $28.0 million was reclassified to Current Liabilities on the consolidated balance sheet as at June 30, 2016.

The Company is subject to certain financial covenants under its Revolving Credit Facility and Term Loan. These types of financial covenants are typical for similar lending arrangements and include working capital, debt to EBITDA and asset coverage covenants; these covenants have not changed since December 31, 2015. At June 30, 2016 the Company was not in breach of any financial covenants.

8. DECOMMISSIONING OBLIGATION

The decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The estimated future cash flows have been discounted using an average risk free rate of 1.86 percent and an inflation rate of 1.40 percent (December 31, 2015 – 2.04 percent and 2.00 percent, respectively). Changes in estimates in 2016 are due to the changes in the risk free rate and inflation rate (change in estimates in 2015 due to the decrease in discount rates and changes in estimated well life). The Company has estimated the net present value of the decommissioning obligations to be $44.6 million as at June 30, 2016 ($64.4 million at December 31, 2015). The undiscounted, uninflated total future liability at June 30, 2016 is $48.8 million ($64.8 million at December 31, 2015). The payments are expected to be incurred over the operating lives of the assets. The following table reconciles the decommissioning liability:

Balance, December 31, 2014	**58,634**
Property acquisitions	723
Property dispositions	(517)
Liabilities incurred	543
Liabilities settled	(335)
Change in estimates	4,048
Accretion expense	1,261
Balance, December 31, 2015	**64,357**
Liabilities incurred	174
Liabilities settled	(220)
Change in estimates	(4,676)
Transfers to liabilities related to assets held for sale *(note 4)*	(15,277)
Accretion expense	207
Balance, June 30, 2016	**44,565**

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 June 30, 2016:

Natural Gas Contract Period	Type	Daily Volume	Price (CAD$/GJ)
Jul. 1, 2016 to Oct. 31, 2016	Fixed price	2,000 GJ	$2.93/GJ
Jul. 1, 2016 to Oct. 31, 2016	Fixed price	2,000 GJ	$2.28/GJ
Jul. 1, 2016 to Oct. 31, 2016	Fixed price	6,000 GJ	$2.75/GJ
Jul. 1, 2016 to Oct. 31, 2016	Fixed price	2,000 GJ	$2.85/GJ
Jul. 1, 2016 to Oct. 31, 2016	Fixed price	5,000 GJ	$2.91/GJ
Jul. 1, 2016 to Oct. 31, 2016	Costless Collar	5,000 GJ	$2.50 – 3.15/GJ
Jul. 1, 2016 to Dec. 31, 2016	Fixed price	1,200 GJ	$1.77/GJ
Nov. 1, 2016 to Dec. 31, 2016	Fixed price	1,200 GJ	$2.33/GJ
Nov. 1, 2016 to Mar. 31, 2017	Fixed price	2,000 GJ	$3.38/GJ
Nov. 1, 2016 to Mar. 31, 2017	Fixed price	2,000 GJ	$3.31/GJ
Nov. 1, 2016 to Mar. 31, 2017	Fixed price	6,000 GJ	$3.21/GJ
Nov. 1, 2016 to Mar. 31, 2017	Costless Collar	5,000 GJ	$2.75 – 3.75/GJ
Nov. 1, 2016 to Mar. 31, 2017	Fixed price	2,000 GJ	$2.80/GJ
Jul. 1, 2016 to Mar. 31, 2017	Fixed price	4,000 GJ	$2.54/GJ
Apr. 1, 2017 to Oct. 31, 2017	Fixed price	5,000 GJ	$2.64/GJ
Apr. 1, 2017 to Oct. 31, 2017	Fixed price	7,000 GJ	$2.84/GJ
Apr. 1, 2017 to Oct. 31, 2017	Fixed price	2,650 GJ	$2.27/GJ
Apr. 1, 2017 to Oct. 31, 2017	Fixed price	2,000 GJ	$2.65/GJ
Apr. 1, 2017 to Oct. 31, 2017	Costless collar	2,000 GJ	$2.50 – 2.75/GJ
Nov. 1, 2017 to Mar. 31, 2018	Fixed price	5,000 GJ	$3.02/GJ
Nov. 1, 2017 to Mar. 31, 2018	Fixed price	4,500 GJ	$2.69/GJ
Nov. 1, 2017 to Mar. 31, 2018	Fixed price	3,000 GJ	$2.91/GJ
Nov. 1, 2017 to Mar. 31, 2018	Costless collar	2,000 GJ	$2.80 – 3.35/GJ

Crude Oil Contract Period	Type	Daily Volume	Price ($/Bbl)
Jul. 1, 2016 to Dec. 31, 2016	Costless Collar	250 Bbl	WTI $CAD70.00-82.30/Bbl
Jul. 1, 2016 to Dec. 31, 2016	Costless Collar	700 Bbl	WTI $CAD70.00-75.75/Bbl
Jul. 1, 2016 to Dec. 31, 2016	Costless collar	150 Bbl	WTI $CDN40.00-61.80/Bbl
Jul. 1, 2016 to Sep. 30, 2016	Costless Collar	250 Bbl	WTI $CAD70.00-84.00/Bbl
Oct. 1, 2016 to Dec. 31, 2016	Costless Collar	250 Bbl	WTI $CAD70.00-85.00/Bbl
Jan. 1, 2017 to Mar. 31, 2017	Costless Collar	500 Bbl	WTI $CAD70.00-78.00/Bbl
Jan. 1, 2017 to Mar. 31, 2017	Costless Collar	100 Bbl	WTI $CAD65.00-71.00/Bbl
Jan. 1, 2017 to Jun. 30, 2017	Costless Collar	500 Bbl	WTI $CAD70.00-78.40/Bbl
Apr. 1, 2017 to Jun. 30, 2017	Costless Collar	400 Bbl	WTI $CAD65.00-72.70/Bbl
Apr. 1, 2017 to Jun 30, 2017	Fixed price	300 Bbl	WTI $CDN59.25/Bbl
Jul. 1, 2017 to Sep. 30, 2017	Costless Collar	500 Bbl	WTI $CAD65.00-74.20/Bbl
Jul. 1, 2017 to Sep. 30, 2017	Fixed price	600 Bbl	WTI $CDN59.80/Bbl
Oct. 1, 2017 to Dec. 31, 2017	Costless Collar	400 Bbl	WTI $CAD65.00-75.85/Bbl
Oct. 1, 2017 to Mar. 31, 2018	Costless collar	300 Bbl	WTI $CDN55.00-64.02/Bbl
Oct. 1, 2017 to Dec. 31, 2017	Costless collar	100 Bbl	WTI $CDN60.00-73.20/Bbl
Jan. 1, 2018 to Mar. 31, 2018	Costless collar	300 Bbl	WTI $CDN60.00-73.60/Bbl

Risk Management Asset and Liability

$000s At December 31, 2015	Asset	Liability
Current commodity derivatives	13,978	45
Non-current commodity derivatives	—	—
	13,978	**45**

$000s At June 30, 2016	Asset	Liability
Current commodity derivatives	4,091	677
Non-current commodity derivatives	389	1,380
	4,480	**2,057**

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

$000s	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Realized gain (loss)	5,273	2,894	11,568	7,775
Unrealized gain (loss)	(16,397)	(5,433)	(11,512)	(9,046)
	(11,124)	**(2,539)**	**56**	**(1,271)**

10. SHARE CAPITAL

Authorized

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

Issued and Outstanding

Common shares ($000s *except number of shares*)	Number of Shares	Amount
Balance, December 31, 2014 and 2015	**35,148,150**	**346,106**
Common shares issued under equity financing (a)	4,054,250	30,000
Common shares issued under the arrangement agreement (b)	6,146,792	45,488
Share issue costs	—	(1,755)
Balance, June 30, 2016	**45,349,192**	**419,839**

Share Issuances

(a) On February 2, 2016 the Company issued 4,054,250 common shares at a price of $7.40 per share.

(b) On February 2, 2016 the Company issued 6,146,792 common shares at a price of $7.40 in conjunction with the Arrangement Agreement with PhosCan Chemical Corp. *(note 1)*

SHARE-BASED COMPENSATION

Performance Warrants

The Company has issued performance warrants to employees, consultants and directors of the Company. Performance warrants were granted and vest based on three criteria, time (one third vest per year), market (one third vest as certain share price hurdles are achieved) and employment or service. The warrants expire five years from the date of issuance. Upon exercise of the warrants the Company may settle the obligation by issuing common shares of the Company. The shares to be offered consist of common shares of the Company's authorized but unissued common shares. The aggregate number of shares issuable upon the exercise of all warrants granted shall not exceed 20% of the 32,113,016 issued and outstanding shares as at April 30, 2012. At June 30, 2016, 1,568,568 (December 31, 2015 – 1,568,568) performance warrants were issued and outstanding.

	Number of warrants outstanding	Weighted Average Exercise Price ($)
Balance, December 31, 2014	**1,601,901**	**$8.07**
Forfeited or expired	(33,333)	$8.00
Balance, December 31, 2015 and June 30, 2016	**1,568,568**	**$8.07**
Exercisable, June 30, 2016	**916,558**	**$8.33**

The following table summarizes information about the performance warrants granted since inception:

Range of Exercise Price	Warrants Outstanding			Warrants Exercisable		
	Number granted	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price	Weighted average remaining life (years)
$8.00 - $9.00	1,568,568	$8.07	0.75	916,558	$8.33	0.55
Total	**1,568,568**	**$8.07**	**0.75**	**916,558**	**$8.33**	**0.55**

No warrants were issued in the six months ended June 30, 2016 or the year ended December 31, 2015.

Stock Options

The Company has a stock option plan in place whereby it may issue stock options to employees, consultants and directors of the Company. The aggregate number of shares that may be acquired upon exercise of all Options granted pursuant to the plan shall, at any date or time of determination, be equal to ten percent (10%) of the number that is equal to (i) the number of the Company's basic Common shares then issued and outstanding; minus (ii) a number equal to five (5) times the number of Common Shares that are issuable upon exercise of the then outstanding Performance Warrants minus (iii) a number equal to fifty percent (50%) of the number of Common Shares that have previously been issued upon the exercise of Performance Warrants. The options vest based on time (one third vest per year starting on the date of grant) and expire five years from the date of issuance. At June 30, 2016, 1,453,750 (December 31, 2015 – 1,453,750) stock options were outstanding. The summary of stock option activity is presented below:

	Number of stock options	Weighted Average Exercise Price ($)
Balance, December 31, 2014	**1,528,750**	**$8.79**
Granted	126,250	$14.00
Forfeited or expired	(201,250)	$8.50
Balance, December 31, 2015 and June 30, 2016	**1,453,750**	**$9.19**
Exercisable, June 30, 2016	**1,018,750**	**$7.51**

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

Range of Exercise Price	Stock Options Outstanding			Stock Options Exercisable		
	Number granted	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price	Weighted average remaining life (years)
$7.00 - $8.00	918,750	$7.00	0.97	917,917	$7.00	0.96
$8.01 - $11.00	147,500	$9.61	2.59	44,583	$9.71	2.54
$11.01 - $16.00	387,500	$14.01	3.26	56,250	$14.04	3.17
	1,453,750	**$9.19**	**1.75**	**1,018,750**	**$7.51**	**1.16**

No options were granted during the six month period ended June 30, 2016. The weighted average fair value of each stock option granted in 2015 of $4.96 per option is estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2016	**2015**
Risk free interest rate	—	1.20% - 1.40%
Expected life (years)	—	5
Estimated volatility of underlying common shares (%)	—	50%
Estimated forfeiture rate	—	20%
Expected dividend yield (%)	—	0%

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

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

$000s	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Expensed in net loss	103	216	228	495
Capitalized to exploration and evaluation assets	17	72	38	164
Capitalized to property, plant and equipment	51	72	114	165
Total share-based compensation	**171**	**360**	**380**	**824**

11. EARNINGS PER SHARE

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

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net loss for the period ($000s)	**(46,334)**	**(7,239)**	**(50,444)**	**(13,523)**
Weighted average number of common shares – basic (000s)	45,349	35,148	43,556	35,148
Weighted average number of common shares – diluted (000s)	45,349	35,148	43,556	35,148
Net loss per common share – basic	**(1.02)**	**(0.21)**	**(1.16)**	**(0.38)**
Net loss per common share – diluted	**(1.02)**	**(0.21)**	**(1.16)**	**(0.38)**

In computing diluted earnings per share for the three and six months ended June 30, 2016, 1,568,568 (June 30, 2015 – 1,601,901) warrants and 1,453,750 (June 30, 2015 – 1,655,000) outstanding stock options were considered, however no instruments were added to the calculation as their impact is anti-dilutive.

12. OPERATING EXPENSES

The Company's gross operating expenses for the three and six months ending June 30, 2016 were $6.8 million and $14.4 million, respectively (three and six months ended June 30, 2015 – $8.0 million and $15.1 million respectively). For the three and six months ended June 30, 2016, this includes $2.2 million and $3.4 million of processing, gathering and compression charges, respectively (three and six months ended June 30, 2015 – $1.7 million and $4.0 million, respectively).

The Company generated processing income recoveries of $0.9 million and $1.7 million for the three and six months ended June 30, 2016, respectively (three and six months ended June 30, 2015 – $0.6 million and $1.2 million respectively) which reduced the Company's gross operating expenses to $5.9 million and $12.7 million for the three and six months ended June 30, 2016, respectively (three and six months ended June 30, 2015 – $7.4 million and $13.9 million respectively).

13. GENERAL AND ADMINISTRATIVE EXPENSES

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

$000s	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Personnel, consultants and directors	1,171	1,515	2,304	2,829
Regulatory expenses	35	105	641	389
Office costs	568	426	1,087	1,026
Subscriptions & licenses	17	105	96	163
Public company expenses	31	—	248	—
Transaction costs	—	32	29	46
Capitalized general and administrative	(396)	(340)	(797)	(946)
	1,426	**1,843**	**3,608**	**3,507**

14. FINANCIAL INSTRUMENTS

Risks associated with Financial Instruments

Credit risk

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

At June 30, 2016, financial assets on the balance sheet are comprised of cash, deposits, risk management assets and accounts receivable. The maximum credit risk associated with these financial instruments is the total carrying value.

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risk. Concentration of credit risk is mitigated by marketing the majority of the Company's production to reputable and financially sound purchasers under normal industry sale and payment terms. As is common in the petroleum and natural gas industry in western Canada, Petrus' receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Of the $9.5 million of accounts receivable outstanding at June 30, 2016 (December 31, 2015 – $17.8 million), $7.0 million is owed from 26 parties (December 31, 2015 – $15.7 million from 21 parties), and the majority of the balance was received subsequent to quarter end. At June 30, 2016, Petrus recorded a $0.3 million (December 31, 2015 – $0.2 million) allowance for doubtful accounts. As at June 30, 2016 and December 31, 2015, 90% of Petrus' accounts receivable were aged less than 90 days and the Company does not anticipate any significant collection issues.

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

Liquidity risk

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

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

At June 30, 2016, the Company had a $120 million RCF (note 7), of which $12.6 million was undrawn (December 31, 2015, the Company had a $160 million credit facility of which $12.6 million was undrawn). Subsequent to June 30, 2016 the Company sold assets in the Peace River area, the borrowing capacity under the RCF was reduced from $120 million to $106 million and lender consent is required for total borrowings against the RCF exceeding $100.5 million.

Petrus anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available bank room on its RCF. The Company is exposed to the risk of reductions to its borrowing base for purposes of the RCF or Term Loan. The next scheduled borrowing base redetermination date for the RCF is October 31, 2016.

The following are the contractual maturities of financial liabilities as at June 30, 2016:

$000s	**Total**	**< 1 year**	**1-5 years**
Accounts payable	7,218	7,218	—
Risk management liability	2,057	677	1,380
Bank debt	156,845	28,000	128,845
Total	**166,120**	**35,895**	**130,225**

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash and accounts receivable are not exposed to significant interest rate risk. The Revolving Credit Facility and Term Loan are exposed to interest rate cash flow risk as the instruments are priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed to interest rate risk. A 1% change in the Canadian prime interest rate in the three and six months ended June 30, 2016 would have changed net loss by approximately $0.4 million and $1.0 million, respectively, which relates to interest expense on the average outstanding RCF and Term Loan during the period, assuming that all other variables remain constant (three and six months ended June 30, 2015 – $0.5 million and $1.0 million, respectively).

Commodity Price Risk

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

For the three and six months ended June 30, 2016, it is estimated that a $0.25/mcf change in the price of natural gas would have changed net loss by $0.8 million and $1.6 million, respectively (three and six months ended June 30, 2015 – $0.8 million and $1.5 million, respectively). For the three and six months ended June 30, 2016, it is estimated that a $5.00/CDN WTI/bbl change in the price of oil would have changed net loss by $1.3 million and $2.7 million, respectively (three and six months ended June 30, 2015 – $1.1 million and $2.6 million, respectively).

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

In the management of capital, Petrus includes share capital and total net debt, which is made up of debt and working capital (current assets less current liabilities). Petrus manages its capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Petrus may issue new equity, increase or decrease debt, adjust capital expenditures and acquire or dispose of assets (refer to note 7 for restrictions).

16. FINANCE EXPENSES

The components of finance expenses are as follows:

$000s	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash:				
Interest	2,428	3,191	6,033	5,866
Foreign exchange	14	20	49	(567)
	2,442	**3,211**	**6,082**	**5,299**
Non-cash:				
Deferred financing costs	—	169	—	338
Accretion on decommissioning obligations (note 8)	140	310	207	598
Total finance expenses	**2,582**	**3,690**	**6,289**	**6,235**

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 June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Source (use) in non-cash working capital:				
Deposits and prepaid expenses	(634)	7,348	(521)	3,693
Accounts receivable	700	(217)	8,256	(106)
Accounts payable and accrued liabilities	(8,542)	(32,102)	(4,622)	(51,941)
	(8,476)	**(24,971)**	**3,113**	**(48,354)**
Operating activities	(1,150)	(18,958)	4,545	(31,563)
Investing activities	(7,326)	(6,013)	(1,432)	(16,791)

18. COMMITMENTS

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

$000s	Total	< 1 year	1-5 years	> 5 years
Corporate office lease	2,697	848	1,849	—
Firm service transportation	7,942	785	4,074	3,083
Total commitments	**10,639**	**1,633**	**5,923**	**3,083**

Asset Exchange Agreement

Petrus has entered into a definitive agreement for the previously announced cashless property swap transaction whereby Petrus will dispose of non-core assets with production of approximately 250 boe per day, associated land and a working interest in non-operated production facilities. In exchange, Petrus expects to acquire production of approximately 400 boe per day and approximately 40% working interest in eight sections of predominantly undeveloped land in its Ferrier core area. Petrus expects to close the transaction later in the third quarter.

CORPORATE INFORMATION

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

Cheree Stephenson, CA, CPA
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Chartered Professional Accountants
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