Petrus Resources

SECOND QUARTER REPORT

For the three and six months ended June 30, 2019

Petrus Resources Ltd. ("Petrus" or the "Company") (TSX: PRQ) is pleased to report financial and operating results for the second quarter of 2019. Petrus is focused on organic growth and infrastructure control in its core area, Ferrier, Alberta. In order to maximize return on investment, the Company is targeting light oil and liquids rich natural gas in the Cardium formation as well as investing in infrastructure in Ferrier to control operations.

Over the past four years, Petrus has dramatically improved its business to enhance sustainability and mitigate commodity price risk. The Company has repaid $96.1 million or 43% of its net debt since December 31, 2015 and expects to repay another $2 to $4 million in the second half of 2019[2]. The Company's Ferrier Cardium asset provides optionality between natural gas and light oil so the Company's development program can respond to commodity price fluctuations. Due to the natural gas price environment in Canada, the Company's primary objectives are to reduce debt and to increase its light oil and total liquids weighting.

Since January 1, 2018 the Company has drilled 13 gross (6 net) Cardium light oil wells in Ferrier, each with a significantly higher number of multi-stage fracs than previously used. The Company's light oil and total liquids production weighting have increased 46% and 36%, respectively since the beginning of 2018. The Company's development plan is strategically balanced between increasing its Cardium light oil weighting in the Ferrier area and continuing to improve its balance sheet. Petrus drilled 3 gross (1.6 net) Cardium light oil wells in the first half of 2019, increased its light oil weighting 13% from the fourth quarter of 2018 and reduced net debt[1] $8.6 million or 6% since December 31, 2018.

HIGHLIGHTS

- **Debt reduction** - Petrus continues to focus on improving its financial strength and during the second quarter of 2019 reduced net debt by $5.8 million. Combined with the $2.8 million debt repayment in the first quarter, Petrus has reduced its net debt by $8.6 million or 6% since December 31, 2018. Petrus plans to continue a balanced, disciplined approach for the remainder of 2019, targeting debt repayment of $2 to $4 million[2].

  The Company intends to continue its disciplined focus on balance sheet improvement and capital deployment in 2020. The capital plan targets modest cash flow and production growth while directing in excess of $10 million toward debt reduction in 2020[2].

- **Increased light oil weighting** - The Company's second quarter 2019 light oil weighting increased 46% from the beginning of 2018. Second quarter average production was 8,647 boe/d in 2019 compared to 8,505 boe/d in the first quarter of 2019. Petrus drilled or participated in 3 gross (1.6 net) Cardium light oil wells during the first half of 2019 and these wells were all brought on production during the first quarter. The Company did not drill additional wells during the second quarter of 2019 due to its focus on debt repayment and balance sheet improvement. In the second half of 2019, Petrus plans to drill or participate in approximately 1.5 net Cardium light oil wells per quarter[2].

- **Funds flow** - Petrus generated funds flow of $8.4 million in the second quarter of 2019, which is consistent with the $8.4 million generated in the second quarter of 2018. The Company's increased liquids weighting and lower cash costs offset the impact of lower oil and natural gas liquids pricing relative to the prior year. Funds flow for the second quarter of 2019 was $0.17 per share or $0.68 on an annualized basis, which is consistent with the prior year despite lower light oil pricing.

- **Low operating costs** - Second quarter operating expenses on a per boe basis decreased 5% from $4.57 per boe in the second quarter of 2018 to $4.33 per boe in the second quarter of 2019. The Company continues to focus on optimizing its cost structure, particularly in the Ferrier area, through facility ownership and control.

- **Commodity price risk mitigation** - Petrus utilizes financial derivative contracts to mitigate commodity price risk and provide stability and sustainability to the Company's economic returns, funds flow and capital development plan. As a percentage of second quarter 2019 production, Petrus has derivative contracts in place for 46%, at an average price of $1.81 per mcf and 47% at an average price of $69.86 (CAD) per bbl of its natural gas and oil and natural gas liquids production, respectively, for the balance of 2019.

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

SELECTED FINANCIAL INFORMATION

OPERATIONS	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2018	Three months ended Mar. 31, 2019	Three months ended Dec. 31, 2018	Three months ended Sept. 30, 2018
Average Production					
Natural gas (mcf/d)	32,350	39,126	32,145	30,480	33,461
Oil (bbl/d)	1,679	1,484	1,704	1,358	1,243
NGLs (bbl/d)	1,576	1,241	1,444	1,496	1,519
Total (boe/d)	**8,647**	**9,246**	**8,505**	**7,934**	**8,338**
Total (boe)	**786,819**	**841,316**	**765,488**	**730,819**	**767,095**
Liquids sales weighting	38%	29%	37%	36%	33%
Realized Prices					
Natural gas ($/mcf)	1.30	1.24	2.44	1.95	1.50
Oil ($/bbl)	70.96	75.29	55.10	52.26	77.24
NGLs ($/bbl)	19.91	41.53	36.02	29.01	45.27
Total realized price ($/boe)	**22.29**	**22.92**	**26.36**	**21.91**	**25.79**
Royalty income	0.15	0.05	0.06	0.10	0.32
Royalty expense	(1.72)	(2.54)	(3.08)	(3.34)	(3.12)
Net oil and natural gas revenue ($/boe)	**20.72**	**20.43**	**23.34**	**18.67**	**22.99**
Operating expense	(4.33)	(4.57)	(3.76)	(5.28)	(4.95)
Transportation expense	(1.22)	(1.17)	(1.27)	(1.17)	(0.98)
Operating netback[1] ($/boe)	**15.17**	**14.69**	**18.31**	**12.22**	**17.06**
Realized gain (loss) on derivatives ($/boe)	(1.02)	(0.74)	0.67	(0.79)	(2.69)
Other income	0.10	0.12	—	0.37	0.08
General & administrative expense	(0.67)	(1.63)	(1.15)	(1.46)	(1.72)
Cash finance expense	(2.70)	(2.49)	(2.54)	(3.25)	(2.53)
Decommissioning expenditures	(0.24)	—	(0.18)	(0.21)	(0.20)
Funds flow & corporate netback[1][2] ($/boe)	**10.64**	**9.95**	**15.11**	**6.88**	**10.00**

FINANCIAL (000s except $ per share)	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2018	Three months ended Mar. 31, 2019	Three months ended Dec. 31, 2018	Three months ended Sept. 30, 2018
Oil and natural gas revenue	17,652	19,321	20,231	16,064	20,030
Net income (loss)	2,863	(10,615)	(12,138)	21,063	(8,048)
Net income (loss) per share					
Basic	0.06	(0.21)	(0.25)	0.43	(0.16)
Fully diluted	0.06	(0.21)	(0.25)	0.43	(0.16)
Funds flow	8,366	8,364	11,573	5,030	7,685
Funds flow per share					
Basic	0.17	0.17	0.23	0.10	0.16
Fully diluted	0.17	0.17	0.23	0.10	0.16
Capital expenditures	2,505	1,745	8,483	12,660	3,637
Net dispositions	—	(269)	—	(6)	(50)
Weighted average shares outstanding					
Basic	49,469	49,492	49,483	49,492	49,492
Fully diluted	49,469	49,492	49,483	49,492	49,492
As at period end					
Common shares outstanding					
Basic	49,469	49,492	49,469	49,492	49,492
Fully diluted	49,469	49,492	49,469	49,492	49,492
Total assets	328,912	330,359	336,974	341,820	322,335
Non-current liabilities	81,249	172,757	176,093	171,646	170,908
Net debt[1]	130,619	135,111	136,382	139,214	131,603

[1] *Refer to "Non-GAAP Financial Measures" in the Management's Discussion & Analysis attached hereto.*
[2] *Corporate netback is equal to funds flow which is a comparable additional GAAP measure. Petrus analyzes these measures on an absolute value and per unit basis.*

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the financial and operating results of Petrus Resources Ltd. ("Petrus" or the "Company") as at and for the three and six months ended June 30, 2019. This MD&A is dated August 6, 2019 and should be read in conjunction with the Company's June 30, 2019 interim consolidated financial statements and the December 31, 2018 audited consolidated financial statements. The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS"). Readers are directed to the "Advisories" section at the end of this MD&A regarding forward-looking statements and boe presentation and to the section "Non-GAAP Financial Measures" herein.

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

OPERATIONS UPDATE

Production

Second quarter average production by area was as follows:

For the three months ended June 30, 2019	Ferrier	Foothills	Central Alberta	Total
Natural gas (mcf/d)	24,244	1,698	6,408	32,350
Oil (bbl/d)	1,139	146	394	1,679
NGLs (bbl/d)	1,401	3	172	1,576
Total (boe/d)	**6,581**	**432**	**1,634**	**8,647**
Liquids sales weighting	***39%***	***35%***	***35%***	***38%***

Second quarter average production was 8,647 boe/d in 2019 compared to 8,505 boe/d in the first quarter of 2019. The Company did not drill additional wells during the second quarter of 2019 due to its focus on debt repayment and balance sheet improvement. During the second quarter of 2019, the Company reduced net debt by $5.8 million[(1)]. Combined with the $2.8 million debt repayment in the first quarter, Petrus has reduced its net debt by $8.6 million or 6% since December 31, 2018. During the second quarter, the Company's revolving credit facility ("RCF") was reclassified to current due to the inter-creditor relationship between the RCF and the Company's Term Loan which is due October 8, 2020. The reclassification has no impact on its debt covenants and the Company remains in compliance with each of its covenants. Management is actively engaged with the RCF syndicate of lenders and the Term Loan lender and believes that the RCF and Term Loan will each be extended prior to the respective maturity dates.

Since January 1, 2018 the Company has drilled 13 gross (6 net) Cardium light oil wells in Ferrier, each with a significantly higher number of multi-stage fracs than previously used. The Company’s light oil and total liquids production weighting have increased 46% and 36%, respectively since the beginning of 2018. The Company's development plan is strategically balanced between increasing its Cardium light oil weighting in the Ferrier area and continuing to improve its balance sheet. During the first half of 2019, Petrus drilled 3 gross (1.6 net) Cardium light oil wells, increased its light oil weighting 13% from the fourth quarter of 2018 and reduced net debt[(1)] $8.6 million or 6% since December 31, 2018.

Petrus’ Board of Directors has approved a third quarter 2019 capital budget of $7 million, based on a current forecast for commodity futures pricing, anticipated service costs and current activity levels[(2)]. The third quarter budget is expected to include the drilling and completion activities for 3 gross (1.5 net) Cardium light oil wells and excess cash flow of $1.5 to $2 million will be directed toward debt repayment[(2)].

Petrus estimates the 2019 capital plan will maintain production year over year, increase its light oil and liquids weighting, and reduce debt. Approximately 85% of the capital plan will be directed to development of Cardium light oil wells in the Ferrier area of Alberta, which we estimate will have payouts of less than one year and achieve the objective to increase the Company's light oil weighting and funds flow[(2)].

Petrus believes that it is unique in the junior E&P company space, as few gas-weighted companies are able to repay debt and grow production and cash flow all within cash from operations. Over the past four years, Petrus has dramatically improved its business in order to increase its sustainability as well as mitigate commodity price risk. Operating costs have been reduced by 51% since 2015 and Petrus’ total cash costs of $8.92 per boe are consistently one of the lowest amongst its peers. The Company intends to continue its disciplined focus on balance sheet improvement and capital deployment in 2020. The capital plan targets modest cash flow and production growth while directing in excess of $10 million toward debt reduction in 2020[(2)].

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

RESULTS OF OPERATIONS

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2018	Three months ended Mar. 31, 2019	Three months ended Dec. 31, 2018	Three months ended Sept. 30, 2018
Average production					
Natural gas (mcf/d)	32,350	39,126	32,145	30,480	33,461
Oil (bbl/d)	1,679	1,484	1,704	1,358	1,243
NGLs (bbl/d)	1,576	1,241	1,444	1,496	1,519
Total (boe/d)	**8,647**	**9,246**	**8,505**	**7,934**	**8,338**
Total (boe)	**786,819**	**841,316**	**765,488**	**730,819**	**767,095**
Revenue ($000s)					
Natural Gas	3,839	4,432	7,051	5,473	4,630
Oil	10,841	10,159	8,450	6,522	8,828
NGLs	2,855	4,692	4,681	3,993	6,326
Royalty revenue	117	38	49	76	246
Oil and natural gas revenue	**17,652**	**19,321**	**20,231**	**16,064**	**20,030**
Average realized prices					
Natural gas ($/mcf)	1.30	1.24	2.44	1.95	1.50
Oil ($/bbl)	70.96	75.29	55.10	52.26	77.24
NGLs ($/bbl)	19.91	41.53	36.02	29.01	45.27
Total realized price ($/boe)	22.29	22.92	26.36	21.91	25.79
Hedging gain (loss) ($/boe)	(1.02)	(0.74)	0.67	(0.79)	(2.69)
Total price including hedging ($/boe)	**21.27**	**22.18**	**27.03**	**21.12**	**23.10**

Average benchmark prices	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2018	Three months ended Mar. 31, 2019	Three months ended Dec. 31, 2018	Three months ended Sept. 30, 2018
Natural gas					
AECO 5A (C$/GJ)	0.98	1.12	2.48	1.47	1.13
AECO 7A (C$/GJ)	1.11	0.97	1.84	1.80	1.28
Crude Oil					
Mixed Sweet Blend Edm (C$/bbl)	72.66	78.91	67.46	48.12	79.65
Natural Gas Liquids					
Propane Conway (US$/bbl)	20.60	30.16	24.40	29.11	31.97
Butane Edmonton (C$/bbl)	24.43	41.15	5.91	13.52	31.52
Foreign Exchange					
US$/C$	0.75	0.78	0.75	0.76	0.77

FUNDS FLOW AND NET INCOME (LOSS)

Petrus generated funds flow of $8.4 million in the second quarter of 2019 which is consistent with the $8.4 million generated in the second quarter of 2018. Offsetting a 6% decrease in production during the period, the Company's total liquids production weighting increased 28% from the second quarter of 2018 as a result of the Company's shift in focus to light oil development. On a per share basis, funds flow for the second quarter of 2019 was $0.17, consistent to the $0.17 per share generated in the second quarter of 2018.

Petrus reported net income of $2.9 million in the second quarter of 2019, compared to a net loss of $10.6 million in the second quarter of 2018. The net income in the second quarter of 2019 is primarily due to the accounting for the unrealized hedging on financial derivatives. The accounting for the unrealized hedging on financial derivatives had a material impact on earnings; the Company recognized an unrealized gain of $4.5 million for the three months ended June 30, 2019, compared to a $8.3 million loss for the three months ended June 30, 2018. On a six month basis, the Company generated a net loss of $9.3 million for the six months ended June 30, 2019 compared to a net loss of $16.3 million for the six months ended June 30, 2018. The differences are due to changes in commodity prices at June 30 of the respective years which impacted the mark to market of the Company's unrealized hedging on financial derivatives.

($000s except per share)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Funds flow	**8,366**	**8,364**	**19,939**	**20,469**
Funds flow per share - basic	0.17	0.17	0.40	0.41
Funds flow per share - fully diluted	0.17	0.17	0.40	0.41
Net income (loss)	**2,863**	**(10,615)**	**(9,275)**	**(16,299)**
Net income (loss) per share - basic	0.06	(0.21)	(0.19)	(0.33)
Net income (loss) per share - fully diluted	0.06	(0.21)	(0.19)	(0.33)
Common shares outstanding (000s)				
Basic	49,469	49,492	49,469	49,492
Fully diluted	49,469	49,492	49,469	49,492
Weighted average shares outstanding (000s)				
Basic	49,469	49,492	49,474	49,492
Fully diluted	49,469	49,492	49,474	49,492

OIL AND NATURAL GAS REVENUE

Average production for the second quarter of 2019 was 8,647 boe/d (38% liquids), 6% lower than the 9,245 boe/d (29% liquids) average production for the second quarter of the prior year. The 6% decrease is partially due to the Company's focus on increasing its light oil weighting, which provides more value in the current commodity price environment despite lower total volume attributed to natural gas weighted development. The production decrease is also attributable to certain dry gas production in the Foothills area which was shut-in due to uneconomic gas prices. Total oil and natural gas revenue for the second quarter of 2019 was $17.7 million compared to $19.3 million in the second quarter of 2018. The 8% decrease is due to lower realized oil and natural gas liquids prices and lower production.

Average production for the first six months of 2019 was 8,576 boe/d (37% liquids), compared to 9,918 boe per day (29% liquids) for the prior year comparative period. Total oil and natural gas revenue decreased from $44.6 million in the first six months of 2018 to $37.9 million in the six months ended June 30, 2019 mainly due to lower oil and natural gas pricing.

Natural gas

During the three and six months ended June 30, 2019, the average benchmark natural gas price in Canada (AECO 5A monthly index) decreased by 13% and 12%, respectively, from the prior year comparative period (average price of $1.03 per mcf in the second quarter of 2019 compared to $1.18 per mcf in the second quarter of the prior year, and $1.83 per mcf for the first six months of 2019, compared to $2.08 per mcf for the prior year comparative period).

The Company’s average realized natural gas price during the second quarter of 2019 was $1.30 per mcf, compared to $1.24 per mcf in the second quarter of 2018, which represents a 5% increase. Natural gas revenue for the second quarter of 2019 was $3.8 million and production of 2,943,828 mcf, which accounted for approximately 62% of second quarter production volume and 22% of oil and natural gas revenue, compared to revenue of $4.4 million and production of 3,560,488 mcf accounting for approximately 71% of second quarter production volume and 23% of oil and natural gas revenue in the prior year comparative period. Natural gas revenue decreased from the prior year due to lower natural gas production during the second quarter of 2019 and the Company's shift in focus to increase liquids weighting.

Natural gas revenue for the first six months of 2019 was $10.9 million and production of 5,836,871 mcf, which accounted for approximately 63% of production volume in the period and 29% of oil and natural gas revenue, compared to revenue of $13.4 million and production of

7,659,369 mcf for 71% of production volume and 30% of oil and natural gas revenue in the prior year comparative period. The decrease is due to decreased natural gas prices and the Company's shift in focus to increase liquids weighting.

Crude oil and condensate

Edmonton Light Sweet crude oil prices decreased 8% from the second quarter of 2018 to the second quarter of 2019 (an average price of $72.66 per bbl for the second quarter of 2019 compared to an average price of $78.91 per bbl for the prior year comparative period). Prices decreased 7% from the first six months of 2018 to the first six months of 2019 ($70.06 per bbl in 2019 compared to an average of $75.60 per bbl in the prior year comparative period).

The average realized price of Petrus' crude oil and condensate was $70.96 per bbl for the second quarter of 2019 compared to $75.29 per bbl for the same period in the prior year. The Company's focus on Cardium light oil development has resulted in its light oil density increasing relative to the condensate stream previously produced through its Cardium liquids rich natural gas development.

Oil and condensate revenue for the second quarter of 2019 was $10.8 million and production of 152,769 bbl accounted for approximately 19% of total production volume and 62% of oil and natural gas revenue, compared to revenue of $10.2 million and production of 134,933 bbl accounting for approximately 16% of total production volume and 53% of oil and natural gas revenue in the second quarter of the prior year.

Oil and condensate revenue for the first six months of 2019 was $19.3 million and production of 306,115 bbl, which accounted for approximately 20% of total production volume and 51% of oil and natural gas revenue, compared to revenue of $20.3 million and production of 272,598 bbl, which accounted for approximately 15% of total production volume and 46% of oil and natural gas revenue in the first six months of the prior year.

Natural gas liquids (NGLs)

The Company's NGL production mix consists of ethane, propane, butane, pentane and sulphur. The pricing received for NGL production is based on the product mix, the fractionation process required and the demand for fractionation facilities. In the second quarter of 2019, the overall realized NGL price averaged $19.91 per bbl, compared to $41.53 per bbl in the prior year. The decrease is attributed to lower market prices for the NGL byproducts in the liquids mix. Pricing for propane at Conway decreased 32% for the three months ended June 30, 2019 relative to the prior year and pricing for butane at Edmonton decreased 41% over the same period.

NGL revenue for the second quarter of 2019 was $2.9 million, and production of 143,411 bbl accounted for approximately 18% of production volume and 16% of oil and natural gas revenue, compared to revenue of $4.7 million and production of 112,968 bbl accounting for approximately 13% of production volume and 24% of oil and natural gas revenue for the second quarter of the prior year.

NGL revenue for the first six months of 2018 was $7.5 million and production of 273,381 bbl, which accounted for approximately 17% of production volume and 20% of oil and natural gas revenue in the period, compared to revenue of $10.9 million and production of 272,598 bbl accounted for approximately 15% of production volume and 24% of oil and natural gas revenue in the first six months of the prior year.

ROYALTY EXPENSES

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

Royalty Expenses ($000s)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Crown	**555**	334	**1,467**	2,509
Percent of production revenue	**3%**	2%	**4%**	6%
Gross overriding	**800**	1,803	**2,247**	4,302
Total	**1,355**	**2,137**	**3,714**	**6,811**

Total royalty expense (net of royalty allowances and incentives) decreased from $2.1 million in the second quarter of 2018 to $1.4 million in the second quarter of 2019 primarily due to 6% lower production and lower commodity prices and the annual gas cost allowance adjustment recorded in the second quarter of 2019. On a six month basis, total royalty expense (net of royalty allowances and incentives) decreased from $6.8 million in 2018 to $3.7 million in 2019. The decrease is due to lower commodity prices.

Gross overriding royalties decreased from $1.8 million in the second quarter of 2018 to $0.8 million in the second quarter of 2019, due to lower production and commodity prices. Gross overriding royalties decreased from $4.3 million for the six months ended June 30, 2018 to $2.2 million for the six months ended June 30, 2019, due to the decreased in production and commodity prices.

RISK MANAGEMENT

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

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

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

Net Gain (Loss) on Financial Derivatives ($000s)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Realized hedging loss	**(800)**	(625)	**(287)**	(327)
Unrealized hedging gain (loss)	**4,487**	(8,323)	**(8,973)**	(13,863)
Net gain (loss) on derivatives	**3,687**	**(8,948)**	**(9,260)**	**(14,190)**

The Company recognized a realized hedging loss of $0.8 million during the second quarter of 2019, compared to a $0.6 million loss realized in the second quarter of the prior year. The realized loss in the current period is due to higher oil prices (relative to the respective contracts outstanding). The realized gain in the second quarter of 2019 decreased the Company's total realized price by $1.02 per boe, compared to the realized loss in the second quarter of the prior year, which decreased the Company's total realized price by $0.74 per boe.

The Company recognized a realized hedging loss of $0.3 million during the six months ended June 30, 2019, which is consistent with the $0.3 million loss realized in the same period of the prior year. The realized loss is due to strengthened oil prices.

The unrealized hedging gain of $4.5 million for the three months ended June 30, 2019 represents the change in the unrealized net risk management position during the quarter. The unrealized hedging loss of $9.0 million for the six months ended June 30, 2019 represents the change in the unrealized risk management net asset position during the first six months of 2019. This change is a result of both the realization of hedging gains in the period, changes related to contracts entered into during the period as well as changes to commodity prices.

The change in the Company's net risk management position between the first and second quarter of 2019 was a result of the difference in quarter ending oil prices, which is used to calculate the risk management asset or liability mark-to-market value. The WTI price decreased by 3%, from $60.19/bbl (USD) as at March 31, 2019 to $58.20/bbl (USD) as at June 30, 2019. On March 31, 2019, the unrealized risk management net mark-to-market value was a $3.9 million liability compared to June 30, 2019 when the unrealized risk management net mark-to-market value was a $0.5 million, which resulted in the $4.5 million unrealized hedging gain recorded in the second quarter of 2019.

The Company's risk management contracts provide protection from significant changes in crude oil and natural gas commodity prices for 2019, 2020 and 2021. The Company endeavors to hedge approximately half of its forecast production for the following year, and at least 30% of its forecast production for the subsequent year. The Company's hedging strategy is intended to provide stability and sustainability to the Company's economic returns, funds flow and capital development plan. A summary of Petrus' risk management contracts is included in note 9 of the Company's interim consolidated financial statements as at and for the period ended June 30, 2019. The table below summarizes Petrus' average crude oil and natural gas hedged volumes. The average volume of oil hedged for the remainder of 2019 (1,525 bbl/d) represents 47% of second quarter 2019 average liquids (oil and NGL) production. The 15,834 GJ/day average natural gas hedged for the remainder of 2019 represents 46% of second quarter 2019 average natural gas production.

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

	2019					2020					2021				
	Q1	Q2	Q3	Q4	Avg.[1]	Q1	Q2	Q3	Q4	Avg.[1]	Q1	Q2	Q3	Q4	Avg.[1]
Oil hedged (bbl/d)	1,650	1,400	1,400	1,650	**1,525**	1,450	1,150	950	750	**1,075**	500	300	300	300	**350**
Avg. WTI cap price ($C/bbl)	68.46	67.13	69.26	70.45	**68.88**	73.23	76.33	76.71	75.12	**75.16**	72.83	74.02	72.80	72.80	**73.07**
Avg. WTI floor price ($C/bbl)	68.17	67.13	69.26	70.45	**68.80**	73.23	76.33	76.71	75.12	**75.16**	72.83	74.02	72.80	72.80	**73.07**
Natural gas hedged (GJ/d)	21,000	16,000	16,000	15,667	**17,167**	15,500	8,500	8,500	6,167	**9,667**	5,000	1,000	1,000	333	**1,833**
Avg. AECO 7A cap price ($C/GJ)	2.47	1.70	1.70	1.74	**1.94**	1.76	1.53	1.53	1.50	**1.61**	1.49	1.53	1.53	1.53	**1.50**
Avg. AECO 7A floor price ($C/GJ)	2.47	1.70	1.70	1.74	**1.94**	1.76	1.53	1.53	1.50	**1.61**	1.49	1.53	1.53	1.53	**1.50**

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

OPERATING EXPENSE

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

Operating Expense ($000s)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Fixed and variable operating expense	**2,804**	3,098	**5,404**	6,529
Processing, gathering and compression charges	**858**	1,029	**1,360**	2,014
Total gross operating expense	**3,662**	**4,127**	**6,764**	**8,543**
Processing income recoveries	**(257)**	(286)	**(479)**	(542)
Total net operating expense	**3,405**	**3,841**	**6,285**	**8,001**
Operating expense, net ($/boe)	**4.33**	**4.57**	**4.05**	**4.46**

Operating expense (net of processing income and overhead recoveries) totaled $3.4 million for the second quarter of 2019, an 11% decrease from the $3.8 million recorded in the second quarter of the prior year. On a per boe basis, operating expense for the second quarter was 5% lower at $4.33 per boe in 2019 compared to $4.57 per boe in 2018. The decreases are attributable to improved operating efficiencies (on a total and per boe basis) as well as a 6% decrease in production over the same time period.

For the six months ended June 30, 2019, operating expense (presented net of processing income and overhead recoveries) totaled $6.3 million, a 21% decrease from the $8.0 million incurred in the comparable period of the prior year. The decrease is attributable to Petrus' improved operating cost structure and decreased activity related to well workover projects.

TRANSPORTATION EXPENSE

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

Transportation Expense ($000s)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Transportation expense	**959**	988	**1,930**	2,185
Transportation expense ($/boe)	**1.22**	1.17	**1.24**	1.22

Petrus pays commodity and demand charges for transporting its gas on pipeline systems. The Company also incurs trucking costs on the portion of its oil and natural gas liquids production that is not pipeline connected. Transportation expense totaled $1.0 million or $1.22 per boe in the second quarter of 2019 ($1.0 million or $1.17 per boe for the prior year comparative period). On a six month basis, transportation expense totaled $1.9 million, or $1.24 per boe, which is 12% lower and 2% higher, respectively, than the costs incurred ($2.2 million or $1.22 per boe) in the prior year comparative period. Overall, the changes in transportation expense, on a total and per boe basis, are attributable to lower average production compared to the prior periods.

GENERAL AND ADMINISTRATIVE EXPENSE

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

General and Administrative Expense ($000s)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Personnel, consultants and directors	**878**	949	**1,938**	2,459
Administrative expenses	**195**	665	**456**	1,143
Regulatory and public company expenses	**57**	135	**615**	556
Gross general and administrative expense	**1,130**	**1,749**	**3,009**	**4,158**
Capitalized general and administrative expense	**(296)**	(298)	**(731)**	(886)
Overhead recoveries	**(304)**	(79)	**(869)**	(470)
General and administrative expense	**530**	**1,372**	**1,409**	**2,802**
General and administrative expense ($/boe)	**0.67**	**1.63**	**0.91**	**1.56**

G&A expense (net of capitalized G&A expense and overhead recoveries) for the second quarter of 2019 totaled $0.5 million or $0.67 per boe, compared to $1.4 million or $1.63 per boe in the second quarter of 2018. Gross G&A expense (before capitalized G&A expense and overhead recoveries) was 35% lower than the prior year ($1.1 million in the second quarter of 2019 compared to $1.7 million in the second quarter of 2018).

For the six months ended June 30, 2019, G&A expense totaled $1.4 million or $0.91 per boe compared to $2.8 million or $1.56 per boe for the prior year comparative period. The decrease in G&A, on a total and per boe basis, is due to lower office rent which is now accounted for as finance and depreciation expense under IFRS 16 (refer to note 7 in the Company's June 30, 2019 interim consolidated financial statements) as well as lower office expenses and staffing costs.

SHARE-BASED COMPENSATION EXPENSE

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

Share-Based Compensation Expense ($000s)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Gross share-based compensation expense	**138**	165	**291**	355
Capitalized share-based compensation expense	**(56)**	(66)	**(117)**	(142)
Share-based compensation expense	**82**	**99**	**174**	**213**

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

For the six months ended June 30, 2019, share-based compensation expense (net of capitalized portion) was $0.2 million, which is also consistent with the prior year comparative period ($0.2 million).

FINANCE EXPENSE

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

Finance Expense ($000s)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Interest expense	**2,126**	2,097	**4,071**	3,962
Total cash finance expense	**2,126**	**2,097**	**4,071**	3,962
Deferred financing costs	**120**	126	**257**	267
Accretion on decommissioning obligations	**198**	222	**412**	446
Total finance expense	**2,444**	**2,445**	**4,740**	**4,675**

The Company incurred total finance expense of $2.4 million in the second quarter of 2019, comprised of $0.2 million of non-cash accretion of its decommissioning obligations, $2.1 million of cash interest expense and $0.1 million of deferred financing fee amortization, both of which are related to the RCF and Term Loan (as each is defined herein). In the second quarter of 2018, the Company incurred total finance expense of $2.4 million, comprised of $0.2 million in non-cash accretion of its decommissioning obligation, $2.1 million cash interest expense and $0.1 million of deferred financing fee amortization.

The Company incurred total finance expense of $4.7 million for the six months ended June 30, 2019, which is consistent with the $4.7 million for the prior year comparative period. This is due to a lower first lien loan balance throughout the period, offset by higher interest rates.

The Company's decommissioning obligations at June 30, 2019 were $45.2 million, which increased $5 million from $40.2 million at December 31, 2018. The primary reason for the increase in the discounted obligation from December 31, 2018 is the decrease in the risk free rate. Refer to Note 8 of the Company's interim consolidated financial statements as at and for the period ended June 30, 2019 for further information.

DEPLETION AND DEPRECIATION

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

Depletion and Depreciation Expense ($000s)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Depletion and depreciation expense	**9,638**	10,494	**18,934**	22,113
Depletion and depreciation expense ($/boe)	**12.25**	12.47	**12.20**	12.32

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

Petrus recorded depletion and depreciation expense in the second quarter of 2019 of $9.6 million or $12.25 per boe, compared to the second quarter of 2018, when $10.5 million or $12.47 per boe was recorded. For the six months ended June 30, 2019, the Company recorded $18.9 million or $12.20 per boe, compared to $22.1 million or $12.32 per boe for the prior year. The decreases are due to lower production volume.

SHARE CAPITAL

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

Share Capital (000s)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Weighted average Common Shares outstanding				
Basic	**49,469**	49,492	**49,474**	49,492
Fully diluted	**49,469**	49,492	**49,474**	49,492
Common Shares outstanding				
Basic	**49,469**	49,492	**49,469**	49,492
Fully diluted	**49,469**	49,492	**49,469**	49,492
Stock options outstanding	**2,948**	2,934	**2,948**	2,934

At June 30, 2019, the Company had 49,469,358 Common Shares and 2,948,305 stock options outstanding.

The Company issued 690,000 stock options during the six months ended June 30, 2019:

(a) 390,000 stock options were issued on March 22, 2019 at an exercise price of $0.45.
(b) 300,000 stock options were issued on June 10, 2019 at an exercise price of $0.32.

The Company has a deferred share unit plan in place whereby it may issue deferred share units to directors of the Company. At June 30, 2019, 739,046 (December 31, 2018 – 382,796) deferred share units ("DSUs") were issued and outstanding. Each DSU entitles the participants to receive, at the Company's discretion, either shares of the Company or cash equivalent to the number of DSUs multiplied by the current trading price of the equivalent number of Common Shares of the Company. All DSUs vest and become payable upon retirement of the director.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2019, Petrus had two debt instruments outstanding. The first is a reserve-based, senior secured revolving credit facility with a syndicate of lenders, which is comprised of an operating facility and a syndicated term-out facility (together, the “Revolving Credit Facility” or “RCF”). The second is a subordinated secured term loan (the “Term Loan”).

(a) Revolving Credit Facility

At June 30, 2019, the RCF was comprised of a $20 million operating facility and a $80 million syndicated term-out facility. Borrowings under the RCF above $95 million are subject to an approved development plan and subsequent to August 31, 2019, also require consent from the syndicate of lenders. The RCF is due on May 31, 2020. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

At June 30, 2019, the Company had a $0.7 million letter of credit outstanding against the RCF (December 31, 2018 – $0.7 million) and had drawn $89.4 million against the RCF (December 31, 2018 – $97.0 million).

The amount of the RCF is subject to a borrowing base review performed on a semi-annual basis by the lenders, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. In addition, asset dispositions require unanimous lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF. The next scheduled borrowing base redetermination date for the RCF is on or before October 31, 2019. In the event that the lenders reduce the borrowing base below the amount drawn at the time of redetermination, the Company has 60 days to eliminate any shortfall by repaying amounts in excess of the new re-determined borrowing base. The Company can also negotiate with the lenders to phase in the borrowing base reduction gradually at a payment schedule that is acceptable to the lenders.

(b) Term Loan

At June 30, 2019, the Company had a $35 million (December 31, 2018 – $35 million) Term Loan outstanding (excluding $0.5 million of deferred finance fees), which is due October 8, 2020. The Term Loan bears interest which is due and payable monthly and accrues at a per annum rate of the (three-month) Canadian Dealer Offered Rate plus 700 basis points. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

Financial Covenants

The RCF and the Term Loan carry financial covenants that are described in note 8 of the Company's December 31, 2018 audited annual consolidated financial statements. The Company was in compliance with all financial covenants at June 30, 2019.

Liquidity Risk

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

As at June 30, 2019, the Company had a working capital deficiency (excluding non-cash risk management assets and liabilities) of $96.2 million which has increased by $88.0 million from $7.8 million on December 31, 2018. The significant increase is due to the reclassification of the Company's indebtedness under its Revolving Credit Facility ("RCF"). Following the 2019 annual review of the RCF, the RCF revolving period and maturity date were set at May 31, 2020 because the Term Loan, which currently matures on October 8, 2020, had not yet been refinanced or extended. As the Company’s maturity date under the RCF is within one year, the Company has classified the amount outstanding as a current liability as at June 30, 2019. The reclassification of the debt balance has no impact on the Company's financial covenants and the Company remains in compliance with all of its covenants.

The currently challenged economic environment could result in adverse changes in cash flows, net debt balances, reduction in the borrowing base of the Company's RCF or breach of the financial covenants noted within its credit agreements. However, the Company remains in compliance with all financial covenants pertaining to its debt, and based on current available information relating to future production volumes, forward commodity pricing, future costs including capital, operating and general and administrative, forward exchange rates, interest rates and taxes, all of which are subject to measurement uncertainty, management expects to comply with all financial covenants during the subsequent 12 month period.

Management is actively engaged with the RCF syndicate of lenders and the Term Loan lender and believes that the RCF and Term Loan will each be extended prior to the respective maturity dates. In the event that the RCF and Term Loan are extended, the Company's working capital deficiency would be significantly reduced as the Company's indebtedness under the RCF would be re-classified as non-current. In addition, the Company expects that it has adequate liquidity to fund its financial liabilities through funds flow and working capital. The next scheduled borrowing base redetermination date for the RCF is on or before October 31, 2019.

The following are the contractual maturities of financial liabilities as at June 30, 2019:

$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	18,263	18,263	—
Risk management liability	863	700	163
Bank indebtedness and long term debt[1]	124,350	89,350	35,000
Total	**143,476**	**108,313**	**35,163**

[1] *Excludes deferred finance fees.*

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

$000s	Total	< 1 year	1-5 years	> 5 years
Firm service transportation	**18,509**	**1,374**	**12,542**	**4,593**

Risk Management

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

For a more in-depth discussion of risk management, see notes 9 and 14 of the Company's June 30, 2019 interim consolidated financial statements.

CAPITAL EXPENDITURES

Capital expenditures (excluding acquisitions and dispositions) totaled $2.5 million in the second quarter of 2019, compared to $1.7 million in the second quarter of the prior year. The increase in capital spending relative to the prior year is attributed to the investment in condensate stabilization equipment at the Company's Ferrier gas plant.

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

Capital Expenditures ($000s)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Drill and complete	**841**	869	**7,332**	3,292
Oil and gas equipment	**1,326**	551	**2,880**	2,182
Land and lease	**16**	27	**19**	1,493
Capitalized general and administrative expense	**322**	298	**757**	830
Total capital expenditures	**2,505**	**1,745**	**10,988**	**7,797**
Gross (net) wells spud	**—**	**1 (0.2)**	**3 (1.6)**	**2 (0.7)**

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

Dispositions ($000s)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Acquisitions	—	18	—	—
Dispositions	—	(287)	—	(387)
Total dispositions	**—**	**(269)**	**—**	**(387)**

The Company did not incur any acquisition or divestiture activity during the three and six months ended June 30, 2019. During the second quarter of 2018, the Company acquired other exploration and evaluation and petroleum and natural gas properties and equipment of

$0.02 million. Petrus divested non-core assets for approximately $0.3 million and $0.4 million in the three and six months ended June 30, 2018, respectively.

SUMMARY OF QUARTERLY RESULTS

($000s unless otherwise noted)	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017
Average Production								
Natural gas (mcf/d)	32,350	32,145	30,480	33,461	39,126	45,543	46,625	45,550
Oil (bbl/d)	1,679	1,704	1,358	1,243	1,484	1,530	1,854	1,877
NGLs (bbl/d)	1,576	1,444	1,496	1,519	1,241	1,475	1,086	1,098
Total (boe/d)	**8,647**	**8,505**	**7,934**	**8,338**	**9,246**	**10,596**	**10,711**	**10,567**
Total (boe)	**786,819**	**765,488**	**730,819**	**767,095**	**841,316**	**953,598**	**985,388**	**972,140**
Financial Results								
Oil and natural gas revenue	17,652	20,231	16,064	20,030	19,321	25,301	23,243	18,299
Royalty expense	(1,355)	(2,359)	(2,436)	(2,391)	(2,137)	(4,674)	(3,000)	(2,656)
Net oil and natural gas revenue	**16,297**	**17,872**	**13,628**	**17,639**	**17,184**	**20,627**	**20,243**	**15,643**
Transportation expense	(959)	(971)	(855)	(749)	(988)	(1,197)	(1,233)	(1,255)
Operating expense	(3,405)	(2,880)	(3,851)	(3,800)	(3,841)	(4,160)	(4,744)	(5,271)
Operating netback	**11,933**	**14,021**	**8,922**	**13,090**	**12,355**	**15,270**	**14,266**	**9,117**
Realized gain (loss) on derivatives	(800)	513	(573)	(2,061)	(625)	298	1,210	1,829
Other income	78	—	268	69	103	—	—	—
General and administrative expense	(530)	(879)	(1,065)	(1,317)	(1,372)	(1,430)	(266)	(1,059)
Cash finance expense	(2,126)	(1,945)	(2,370)	(1,941)	(2,097)	(1,865)	(1,515)	(1,936)
Decommissioning expenditures	(189)	(137)	(152)	(155)	—	(168)	(611)	(224)
Corporate netback and funds flow	**8,366**	**11,573**	**5,030**	**7,685**	**8,364**	**12,105**	**13,084**	**7,727**
Oil and natural gas revenue	**17,652**	**20,231**	**16,064**	**20,030**	**19,321**	**25,301**	**23,243**	**18,299**
Per share - basic	0.36	0.41	0.32	0.40	0.39	0.51	0.47	0.37
Per share - fully diluted	0.36	0.41	0.32	0.40	0.39	0.51	0.47	0.37
Net income (loss)	**2,863**	**(12,138)**	**21,063**	**(8,048)**	**(10,615)**	**(5,684)**	**(67,095)**	**(50,696)**
Per share - basic	0.06	(0.25)	0.43	(0.16)	(0.21)	(0.11)	(1.36)	(1.03)
Per share - fully diluted	0.06	(0.25)	0.43	(0.16)	(0.21)	(0.11)	(1.36)	(1.03)
Common shares outstanding (000s)								
Basic	49,469	49,469	49,492	49,492	49,492	49,492	49,492	49,428
Fully diluted	49,469	49,469	49,492	49,492	49,492	49,492	49,492	49,428
Weighted average shares outstanding (000s)								
Basic	49,469	49,483	49,492	49,492	49,492	49,492	49,456	49,428
Fully diluted	49,469	49,483	49,492	49,492	49,492	49,492	49,456	49,428
Total assets	328,912	336,974	341,820	322,335	330,359	343,161	353,445	409,078
Net debt	(130,619)	(136,382)	(139,214)	(131,603)	(135,111)	(142,238)	(148,066)	(137,531)

The oil and natural gas exploration and production industry is cyclical in nature. Petrus' financial position, results of operations and corporate netback are affected by commodity prices, exchange rates, Canadian price differentials and production levels. Petrus' average quarterly production decreased from 10,567 boe/d in the third quarter of 2017 to 8,647 boe/d in the second quarter of 2019. The 18% production decrease is attributable to Petrus' shift in focus to liquids production growth in order to maximize value in light of the current natural gas commodity price environment. In addition the decrease is due to certain production volume in the Foothills area being shut-in due to uneconomic natural gas pricing.

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

CRITICAL ACCOUNTING ESTIMATES

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

OTHER FINANCIAL INFORMATION

Significant accounting policies
The Company's significant accounting policies can be read in note 3 of the Company's audited consolidated financial statements as at and for the year ended December 31, 2018.

New standards and interpretations
The Company's discussion on new standards and interpretations can be read in note 2 of the Company's interim financial statements as at and for the period ended June 30, 2019.

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on April 1, 2019 and ending on June 30, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

NON-GAAP FINANCIAL MEASURES

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

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

Funds Flow and Corporate Netback
Corporate netback is a common non-GAAP financial measure used in the oil and natural gas industry which evaluates the Company's profitability at the corporate level. Corporate netback is equal to funds flow which is a directly comparable GAAP measure. Petrus analyzes these measures

on an absolute value and per unit basis. Management believes that funds flow and corporate netback provide information to assist a reader in understanding the Company's profitability relative to current commodity prices. It is calculated, in the following table, as the operating netback less general and administrative expense, finance expense, decommissioning expenditures, plus other income and the net realized gain (loss) on financial derivatives.

	Three months ended Jun. 30, 2019		**Three months ended Jun. 30, 2018**		**Six months ended Jun. 30, 2019**		**Six months ended Jun. 30, 2018**	
	$000s	**$/boe**	**$000s**	**$/boe**	**$000s**		**$000s**	**$/boe**
Oil and natural gas revenue	17,652	22.44	19,321	22.97	37,883	24.41	44,622	24.86
Royalty expense	(1,355)	(1.72)	(2,137)	(2.54)	(3,714)	(2.39)	(6,811)	(3.79)
Net oil and natural gas revenue	**16,297**	**20.72**	**17,184**	**20.43**	**34,169**	**22.02**	**37,811**	**21.07**
Transportation expense	(959)	(1.22)	(988)	(1.17)	(1,930)	(1.24)	(2,185)	(1.22)
Operating expense	(3,405)	(4.33)	(3,841)	(4.57)	(6,285)	(4.05)	(8,001)	(4.46)
Operating netback	**11,933**	**15.17**	**12,355**	**14.69**	**25,954**	**16.73**	**27,625**	**15.39**
Realized loss on financial derivatives	(800)	(1.02)	(625)	(0.74)	(287)	(0.18)	(327)	(0.18)
Other income	78	0.10	103	0.12	78	0.05	103	0.06
General & administrative expense	(530)	(0.67)	(1,372)	(1.63)	(1,409)	(0.91)	(2,802)	(1.56)
Cash finance expense	(2,126)	(2.70)	(2,097)	(2.49)	(4,071)	(2.62)	(3,962)	(2.21)
Decommissioning expenditures	(189)	(0.24)	—	—	(326)	(0.21)	(168)	(0.19)
Funds flow and corporate netback	**8,366**	**10.64**	**8,364**	**9.95**	**19,939**	**12.86**	**20,469**	**11.31**

Net Debt

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

($000s)	**As at June 30, 2019**	**As at June 30, 2018**
Adjusted current assets[(1)]	**11,582**	9,316
Less: adjusted current liabilities[(1)]	**(107,613)**	(14,960)
Less: long term debt	**(34,588)**	(129,467)
Net debt	**(130,619)**	**(135,111)**

[(1)]Adjusted for unrealized risk management assets, liabilities, right-of-use lease obligations, and unrealized deferred share units liabilities.

OIL AND GAS DISCLOSURES

Our oil and gas reserves statement for the year ended December 31, 2018, which includes disclosure of our oil and natural gas reserves and other oil and natural gas information in accordance with NI 51-101, is contained in the AIF. The recovery and reserve estimates contained herein are estimates only and there is no guarantee that the estimated reserves will be recovered.

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

ADVISORIES

Basis of Presentation

Financial data presented above has largely been derived from the Company’s financial statements, prepared in accordance with GAAP which require publicly accountable enterprises to prepare their financial statements using IFRS. Accounting policies adopted by the Company are set out in the notes to the audited financial statements as at and for the twelve months ended December 31, 2018. The reporting and the measurement currency is the Canadian dollar. All financial information is expressed in Canadian dollars, unless otherwise stated.

Forward-Looking Statements

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

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to: Petrus' expected debt repayment in the second half of 2019 and in 2020; Petrus' drilling plan; Petrus' business plan and capital expenditure program for the second half of 2019 and in 2020; expected market prices and costs and Petrus' expected differential; expectations regarding the adequacy of Petrus' liquidity and the funding of its financial liabilities; the impact of the current economic environment on Petrus and its ability to remain in compliance with all financial covenants under its credit facilities; management's expectation that the RCF and Term Loan will be extended; the performance characteristics of the Company's crude oil, NGL and natural gas properties; future prospects; the focus of and timing of capital expenditures; access to debt and equity markets; Petrus' future operating and financial results; capital investment programs; supply and demand for crude oil, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; and treatment under governmental regulatory regimes and tax laws. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

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

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Petrus' prospective results of operations including, without limitation, its ability to repay debt, which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. Petrus' actual results, performance or achievement could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits Petrus will derive therefrom. Petrus has included the FOFI in order to provide readers with a more complete perspective on Petrus' future operations and such information may not be appropriate for other purposes.

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

BOE Presentation

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

Abbreviations

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

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Presented in 000's of Canadian dollars)

As at	June 30, 2019	December 31, 2018
ASSETS		
Current		
Cash	472	63
Deposits and prepaid expenses	1,433	1,297
Accounts receivable *(note 14)*	9,677	12,675
Risk management asset *(note 9)*	354	6,786
Total current assets	**11,936**	**20,821**
Non-current		
Risk management asset *(note 9)*	1,070	2,749
Exploration and evaluation assets *(notes 3 and 4)*	41,525	42,410
Property, plant and equipment *(notes 3 and 5)*	274,381	275,840
Total assets	**328,912**	**341,820**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	—	380
Current portion of long term debt *(note 6)*	89,350	—
Accounts payable and accrued liabilities *(note 14)*	18,263	21,447
Risk management liability *(note 9)*	700	—
Lease obligations *(note 7)*	185	—
Total current liabilities	**108,498**	**21,827**
Non-current liabilities		
Long term debt *(note 6)*	34,588	131,422
Other accrued liabilities *(note 10)*	236	199
Lease obligations *(note 7)*	1,103	—
Decommissioning obligation *(note 8)*	45,159	40,224
Risk management liability *(note 9)*	163	—
Total liabilities	**189,747**	**193,672**
Shareholders' equity		
Share capital *(note 10)*	430,119	430,119
Contributed surplus	8,676	8,384
Deficit	(299,630)	(290,355)
Total shareholders' equity	**139,165**	**148,148**
Total liabilities and shareholders' equity	**328,912**	**341,820**

Commitments (note 18)
Certain comparative figures have been reclassified to conform to the current year presentation (note 10)
See accompanying notes to the interim consolidated financial statements

Approved by the Board of Directors,

(signed) "Don T. Gray"

Don T. Gray
Chairman

(signed) "Donald Cormack"

Donald Cormack
Director

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

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

	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2018	Six months ended Jun. 30, 2019	Six months ended Jun. 30, 2018
REVENUE				
Oil and natural gas revenue *(note 19)*	**17,652**	**19,321**	**37,883**	**44,622**
Royalty expense	(1,355)	(2,137)	(3,714)	(6,811)
Net oil and natural gas revenue	**16,297**	**17,184**	**34,169**	**37,811**
Other income	78	103	78	103
Net gain (loss) on financial derivatives *(note 9)*	3,687	(8,948)	(9,260)	(14,190)
	20,062	**8,339**	**24,987**	**23,724**
EXPENSES				
Operating *(note 12)*	3,405	3,841	6,285	8,001
Transportation	959	988	1,930	2,185
General and administrative *(note 13)*	530	1,372	1,409	2,802
Share-based compensation *(note 10)*	82	99	174	213
Finance *(note 16)*	2,444	2,445	4,740	4,675
Exploration and evaluation *(note 4)*	105	142	777	426
Depletion and depreciation *(note 5)*	9,638	10,494	18,935	22,113
Loss (gain) on sale of assets	36	(427)	12	(392)
Total expenses	**17,199**	**18,954**	**34,262**	**40,023**
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**2,863**	**(10,615)**	**(9,275)**	**(16,299)**
Net income (loss) per common share				
Basic and diluted *(note 11)*	**0.06**	**(0.21)**	**(0.19)**	**(0.33)**

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Presented in 000's of Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2017	**430,119**	**7,680**	**(287,071)**	**150,728**
Net loss	—	—	(16,299)	(16,299)
Share-based compensation (*note* 10)	—	355	—	355
Balance, June 30, 2018	**430,119**	**8,035**	**(303,370)**	**134,784**
Balance, December 31, 2018	**430,119**	**8,384**	**(290,355)**	**148,148**
Net loss	—	—	(9,275)	(9,275)
Share-based compensation (*note* 10)	—	292	—	292
Balance, June 30, 2019	**430,119**	**8,676**	**(299,630)**	**139,165**

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Presented in 000's of Canadian dollars)

	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2018	Six months ended Jun. 30, 2019	Six months ended Jun. 30, 2018
OPERATING ACTIVITIES				
Net income (loss)	**2,863**	**(10,615)**	**(9,275)**	**(16,299)**
Adjust items not affecting cash:				
Share-based compensation *(note 10)*	82	99	174	213
Unrealized loss (gain) on financial derivatives (*note 9)*	(4,487)	8,323	8,973	13,863
Non-cash finance expenses *(note 16)*	318	348	669	713
Depletion and depreciation *(note 5)*	9,638	10,494	18,935	22,113
Exploration and evaluation expense *(note 4)*	105	142	777	426
Loss (gain) on sale of assets	36	(427)	12	(392)
Decommissioning expenditures *(note 8)*	(189)	—	(326)	(168)
Funds flow	**8,366**	**8,364**	**19,939**	**20,469**
Change in operating non-cash working capital *(note 17)*	4,202	(582)	4,125	(5,215)
Cash flows from operating activities	**12,568**	**7,782**	**24,064**	**15,254**
FINANCING ACTIVITIES				
Repayment of revolving credit facility	(7,650)	(3,200)	(8,031)	(2,300)
Repayment of bank indebtedness	—	(2,512)	—	(541)
Transaction costs on debt	—	(350)	—	(350)
Repayment of lease liabilities *(note 7)*	(68)	—	(163)	—
Change in financing non-cash working capital *(note 17)*	60	175	8	302
Cash flows from (used in) financing activities	**(7,658)**	**(5,887)**	**(8,186)**	**(2,889)**
INVESTING ACTIVITIES				
Property and equipment dispositions (acquisitions) *(note 3)*	—	28	—	(92)
Exploration and evaluation asset dispositions *(note 3)*	—	241	—	—
Exploration and evaluation asset expenditures *(note 4)*	(74)	(75)	(183)	(1,181)
Petroleum and natural gas property expenditures *(note 5)*	(2,453)	(1,671)	(10,829)	(6,136)
Other capital expenditures	(11)	—	(10)	—
Change in investing non-cash working capital *(note 17)*	(4,537)	(419)	(4,447)	(4,980)
Cash used in investing activities	**(7,075)**	**(1,896)**	**(15,469)**	**(12,389)**
(Decrease) Increase in cash	(2,165)	(1)	409	(24)
Cash, beginning of period	2,637	1	63	24
Cash, end of period	**472**	**—**	**472**	**—**
Cash interest paid *(note 16)*	2,126	2,097	4,071	3,962

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at June 30, 2019 and for the three and six months ended June 30, 2019 and 2018

1. NATURE OF THE ORGANIZATION

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

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

These interim consolidated financial statements, for the three and six months ended June 30, 2019 and prior year comparative period, were approved by the Company's Audit Committee and Board of Directors on August 6, 2019.

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared by management on a historical basis, except for certain financial instruments that have been measured at fair value. These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting." Certain information and disclosures normally included in the notes to the annual financial statements have been condensed. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2018 which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of these condensed interim consolidated financial statements requires the use of certain critical accounting estimates and also requires management to exercise judgment in applying the Company's accounting policies. In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended December 31, 2018. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2018, other than the new accounting policies adopted below. These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency, except where otherwise noted.

Liquidity

The Company's revolving credit facility balance was reclassified as a current liability as at June 30, 2019, as its maturity date is within twelve months. The reclassification of the debt balance has no impact on the Company's financial covenants and the Company remains in compliance with all of its covenants. Management is actively engaged in discussions with its lenders as discussed further in Note 6.

Significant accounting policies

The Company's significant accounting policies can be read in note 3 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2018.

New standards and interpretations adopted on January 1, 2019

IFRS 16 - Leases

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

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

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Petrus had adopted IFRS 16 using the modified retrospective approach.

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

1. Apply a single discount rate to a portfolio of leases with similar characteristics;

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

The Company has identified ROU assets which are included in property plant and equipment and lease liabilities primarily related to office space. The recognition of the present value of minimum lease payments resulted in an additional $0.7 million of right-of-use assets and associated lease liabilities as initial transition adjustment on January 1, 2019. The Company has recognized lease liabilities in relation to lease arrangements previously disclosed as operating lease commitments under IAS 17 that meet the criteria of a lease under IFRS 16. Upon recognition, the Company's weighted average incremental borrowing rate used in measuring lease liabilities was 7.5 percent. Refer to note 7 for additional information.

3. ACQUISITIONS AND DISPOSITIONS

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

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

Net assets disposed $000s	
Exploration and evaluation assets ("E&E assets")	1,086
Petroleum and natural gas properties and equipment ("PP&E")	3,231
Decommissioning obligations	(471)
Total net assets disposed	**3,846**

Fair value of net assets acquired $000s	
Exploration and evaluation assets	1,013
Petroleum and natural gas properties and equipment	2,852
Decommissioning obligations	(224)
Total net assets acquired	**3,641**

4. EXPLORATION AND EVALUATION ASSETS

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

$000s	
Balance, December 31, 2017	**43,197**
Additions	1,057
Property acquisitions *(note 3)*	402
Exploration and evaluation expense	(1,938)
Capitalized G&A	429
Capitalized share-based compensation	70
Property disposition *(note 3)*	(58)
Transfers to property, plant and equipment *(note 5)*	(749)
Balance, December 31, 2018	**42,410**
Disposition	(56)
Exploration and evaluation expense	(777)
Capitalized G&A	183
Capitalized share-based compensation *(note 10)*	29
Transfers to property, plant and equipment *(note 5)*	(264)
Balance, June 30, 2019	**41,525**

For the three and six months ended June 30, 2019, the Company incurred exploration and evaluation expense of $0.1 million and $0.8 million, respectively, which relates to expired and near expiry undeveloped, non-core land (three and six months ended June 30, 2018 – $0.1 million and $0.4 million, respectively).

During the three and six months ended June 30, 2019, the Company capitalized $0.1 million and $0.2 million, respectively, of general and administrative expenses ("G&A") (three and six months ended June 30, 2018 – $0.1 million and $0.2 million, respectively) and $0.01 million and $0.03 million, respectively, of non-cash share-based compensation directly attributable to exploration activities (three and six months ended June 30, 2018 – $0.02 million and $0.04 million, respectively).

For the three and six months ended June 30, 2019, the Company did not identify any indicators of impairment in its exploration and evaluation assets.

5. PROPERTY, PLANT AND EQUIPMENT

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

$000s	Cost	Accumulated DD&A	Net book value
Balance, December 31, 2017	**779,298**	**(484,827)**	**294,471**
Additions	20,549	—	20,549
Property acquisitions *(note 3)*	2,935	—	2,935
Property (dispositions) *(note 3)*	(3,503)	—	(3,503)
Capitalized G&A	1,288	—	1,288
Capitalized share-based compensation	212	—	212
Transfers from exploration and evaluation assets *(note 4)*	749	—	749
Depletion & depreciation	—	(40,423)	(40,423)
Decrease in decommissioning provision *(note 8)*	(438)	—	(438)
Balance, December 31, 2018	**801,090**	**(525,250)**	**275,840**
Additions	10,291	—	10,291
Transition adjustment of right of use asset(1)	742	—	742
Addition of right of use asset(1)	709		709
Capitalized G&A	548	—	548
Capitalized share-based compensation *(note 10)*	89	—	89
Transfers from exploration and evaluation assets *(note 4)*	264	—	264
Depletion & depreciation	—	(18,935)	(18,935)
Increase in decommissioning provision *(note 8)*	4,833	—	4,833
Balance, June 30, 2019	**818,566**	**(544,185)**	**274,381**

(1) *Right of use asset pertains to corporate office lease.*

At June 30, 2019, estimated future development costs of $291.2 million (December 31, 2018 – $291.2 million) associated with the development of the Company's proved plus probable undeveloped reserves were included with the costs subject to depletion. During the three and six months ended June 30, 2019, the Company capitalized $0.2 million and $0.5 million, respectively, of general and administrative expenses ("G&A") (three and six months ended June 30, 2018 – $0.2 million and $0.7 million, respectively) and non-cash share-based compensation of $0.04 million and $0.09 million, respectively (three and six months ended June 30, 2018 – $0.05 million and $0.1 million, respectively), directly attributable to development activities.

The Company did not identify any indicators of impairment on any of its CGUs for the three and six months ended June 30, 2019.

At June 30, 2019, the carrying balance of the right of use asset was $1.3 million.

6. DEBT

At June 30, 2019, Petrus had two debt instruments outstanding. The first is a reserve-based, senior secured revolving credit facility with a syndicate of lenders, which is comprised of an operating facility and a syndicated term-out facility (together, the "Revolving Credit Facility" or "RCF"). The second is a subordinated secured term loan (the "Term Loan").

(a) Revolving Credit Facility

At June 30, 2019, the RCF was comprised of a $20 million operating facility and a $80 million syndicated term-out facility. Borrowings under the RCF above $95 million are subject to an approved development plan and subsequent to August 31, 2019, also require consent from the syndicate of lenders. The RCF is due on May 31, 2020. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

At June 30, 2019, the Company had a $0.7 million letter of credit outstanding against the RCF (December 31, 2018 – $0.7 million) and had drawn $89.4 million against the RCF (December 31, 2018 – $97.0 million).

The amount of the RCF is subject to a borrowing base review performed on a semi-annual basis by the lenders, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. In addition, asset dispositions require unanimous lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF. The next scheduled borrowing base redetermination date for the RCF is on or before October 31, 2019. In the event that the lenders reduce the borrowing base below the amount drawn at the time of redetermination, the Company has 60 days to eliminate any shortfall by repaying amounts in excess of the new re-determined borrowing base. The Company can also negotiate with the lenders to phase in the borrowing base reduction gradually at a payment schedule that is acceptable to the lenders.

(b) Term Loan

At June 30, 2019 the Company had a $35 million (December 31, 2018 – $35 million) Term Loan outstanding (excluding $0.5 million of unamortized deferred financing costs), which is due October 8, 2020. The Term Loan bears interest that is due and payable monthly and accrues at a per annum rate of the (three-month) Canadian Dealer Offered Rate plus 700 basis points. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

Liquidity

The Company completed the 2019 annual review of the RCF on May 31, 2019 at which time the facility was reduced from $110 million to $100 million. Due to the inter-creditor relationship between the RCF and the Term Loan, the RCF revolving period and maturity date were set at May 31, 2020 because the Term Loan, which currently matures on October 8, 2020, had not yet been refinanced or extended. As the Company's maturity date under the RCF is within one year, the Company has classified the amount outstanding under the RCF as a current liability as at June 30, 2019. Management is actively engaged with the RCF syndicate of lenders and the Term Loan lender and believes that the RCF and Term Loan will each be extended prior to the respective maturity dates. There remains risk related to the timing and occurrence of these events.

The currently challenged economic environment could result in adverse changes in cash flows, net debt balances, reduction in the borrowing base of the Company's credit facility or breach of the financial covenants noted within its credit agreements. However, the Company remains in compliance with all financial covenants pertaining to its debt, and based on current available information relating to future production volumes, forward commodity pricing, future costs including capital, operating and general and administrative, forward exchange rates, interest rates and taxes, all of which are subject to measurement uncertainty, management expects to comply with all financial covenants during the subsequent 12 month period.

Financial Covenants

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

The key financial covenants as at June 30, 2019 are summarized in the following table. At June 30, 2019 the Company is in compliance with all financial covenants.

Financial Covenant Description	**Required Ratio**	**As at June 30, 2019**
Working Capital Ratio	Over 1.00	1.18
Proved Asset Coverage Ratio (1)	Over 1.25	2.53
PDP Asset Coverage Ratio (1)	Over 1.00	1.45
Debt to EBITDA Ratio	Under 3.50	3.00

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

7. LEASES

The Company's lease obligations are as follows:

$000s	
Balance, January 1, 2019	**742**
Additions	709
Finance expense	51
Lease payments	(214)
Balance, June 30, 2019	**1,288**

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

$000s	**As at June 30, 2019**
Less than 1 year	274
1 to 3 years	802
4 to 5 years	507
After 5 years	—
Total lease payments	1,583
Amounts representing finance expense	(295)
Present value of lease obligation	1,288
Current portion of lease obligation	185
Non-current portion of lease obligation	1,103

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 1.66 percent and an inflation rate of 2.00 percent (December 31, 2018 – 2.13 percent and 2.00 percent, respectively). Changes in estimates in 2018 and 2019 are due to the changes in the risk free rate and changes in the estimated future cash flow to reclaim the wells and facilities. The Company has estimated the net present value of the decommissioning obligations to be $45.2 million as at June 30, 2019 ($40.2 million at December 31, 2018). The undiscounted, uninflated total future liability at June 30, 2019 is $41.4 million ($41.6 million at December 31, 2018). The payments are expected to be incurred over the operating lives of the assets.
The following table reconciles the decommissioning liability:

$000s	
Balance, December 31, 2017	**40,654**
Property acquisitions	224
Property dispositions	(629)
Liabilities incurred	393
Liabilities settled	(475)
Change in estimates	(830)
Accretion expense	887
Balance, December 31, 2018	**40,224**
Property dispositions	16
Liabilities incurred	433
Liabilities settled	(326)
Change in estimates	4,400
Accretion expense	412
Balance, June 30, 2019	**45,159**

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, 2019:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN$/GJ)
Natural Gas Swaps			
Jul. 1, 2019 to Oct. 31, 2019	Fixed price	14,000	$1.73
Jul. 1, 2019 to Mar. 31, 2021	Fixed price	2,000	$1.50
Nov. 1, 2019 to Mar. 31, 2020	Fixed price	9,000	$1.91
Nov. 1, 2019 to Oct. 31, 2020	Fixed price	3,500	$1.58
Nov. 1, 2019 to Oct. 31, 2021	Fixed price	1,000	$1.53
Apr. 1, 2020 to Mar. 31, 2021	Fixed price	1,000	$1.44

Crude Oil Swaps			
Jul. 1, 2019 to Sep. 30, 2019	Fixed price	700	$70.94
Jul. 1, 2019 to Dec. 31, 2019	Fixed price	700	$67.59
Oct. 1, 2019 to Dec. 31, 2019	Fixed price	600	$70.13
Oct. 1, 2019 to Dec. 31, 2020	Fixed price	350	$76.70
Jan. 1, 2020 to Mar. 31, 2020	Fixed price	800	$70.20
Jan. 1, 2020 to Jun. 30, 2020	Fixed price	300	$77.25
Apr. 1, 2020 to Jun. 30, 2020	Fixed price	500	$75.52
Jul. 1, 2020 to Sep. 30, 2020	Fixed price	300	$77.86
Jul. 1, 2020 to Dec. 31, 2020	Fixed price	300	$75.57
Oct. 1, 2020 to Dec. 31, 2020	Fixed price	100	$68.25
Jan. 1, 2021 to Mar. 31, 2021	Fixed price	200	$71.05
Jan. 1, 2021 to Jun. 30, 2021	Fixed price	300	$74.02
Jul. 1, 2021 to Dec. 31, 2021	Fixed price	300	$72.80

Contract Period	Type	Average Rate (%)	Notional Amount (000s CDN$)
Interest Rate Swaps			
July. 1, 2019 to Dec. 31, 2022	Fixed rate	2.34	$20,000

Risk management asset and liability:

$000s At June 30, 2019	**Asset**	**Liability**
Current commodity derivatives	354	700
Non-current commodity derivatives	1,070	163
	1,424	**863**
$000s At December 31, 2018		
Current commodity derivatives	6,786	—
Non-current commodity derivatives	2,749	—
	9,535	—

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

$000s	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2018	Six months ended Jun. 30, 2019	Six months ended Jun. 30, 2018
Realized loss on financial derivatives	(800)	(625)	(287)	(327)
Unrealized gain (loss) on financial derivatives	4,487	(8,323)	(8,973)	(13,863)
Net gain (loss) on financial derivatives	**3,687**	**(8,948)**	**(9,260)**	**(14,190)**

10. SHARE CAPITAL

Authorized

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

Issued and Outstanding

Common shares ($000s)	Number of Shares	Amount
Balance, December 31, 2017 and December 31, 2018	**49,491,840**	**430,119**
Cancelled [1]	(22,482)	—
Balance, June 30, 2019	**49,469,358**	**430,119**

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

SHARE-BASED COMPENSATION

Stock Options

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

At June 30, 2019, 2,948,305 (December 31, 2018 – 3,082,880) stock options were outstanding. The summary of stock option activity is presented below:

	Number of stock options	Weighted average exercise price
Balance, December 31, 2017	**2,914,930**	**$4.21**
Granted	1,208,880	$1.14
Forfeited	(492,410)	$5.94
Expired	(548,520)	$3.43
Balance, December 31, 2018	**3,082,880**	**$2.87**
Granted	690,000	$0.39
Cancelled/Forfeited	(99,165)	$1.41
Expired	(725,410)	$3.39
Balance, June 30, 2019	**2,948,305**	**$2.42**
Exercisable, June 30, 2019	**393,400**	**$8.91**

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

Range of Exercise Price	Stock Options Outstanding			Stock Options Exercisable		
	Number granted	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price	Weighted average remaining life (years)
$0.32 - $0.86	1,310,515	$0.61	1.61	—	—	—
$1.49 - $2.33	1,410,290	$1.96	0.46	165,900	$1.49	0.03
$9.00 - $16.00	227,500	$14.32	0.41	227,500	$14.32	0.41
	2,948,305	**$2.23**	**0.94**	**393,400**	**$8.91**	**0.25**

During the three and six months ended June 30, 2019 and the year ended December 31, 2018, the Company granted options which vest equally over three (3) years, and upon vesting, expire 30 business days thereafter. The weighted average fair value of each option granted in 2019 of $0.12 (2018 – $0.30) was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2019	2018
Risk free interest rate	1.42% - 1.68%	1.70% - 1.90%
Expected life (years)	1.08 - 3.08	1.08 - 3.08
Estimated volatility of underlying common shares (%)	73%	63% - 65%
Estimated forfeiture rate	20%	20%
Expected dividend yield (%)	0%	0%

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

Deferred Share Unit ("DSU") Plan

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

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

The compensation expense was calculated using the fair value method based on the weighted average trading price of the Company's shares for the five trading days ending on the reporting period date. At June 30, 2019, 739,046 (December 31, 2018 – 382,796) Deferred Share Units were issued and outstanding.

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

$000s	
Balance, December 31, 2017	**244**
Change in accrued compensation liability	(45)
Balance, December 31, 2018[(1)]	**199**
Change in accrued compensation liability	37
Balance, June 30, 2019	**236**

[(1)]*Reclassified from current liability to long term liability to conform with current year presentation.*

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

$000s	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2018	Six months ended Jun. 30, 2019	Six months ended Jun. 30, 2018
Expensed	82	99	174	213
Capitalized to exploration and evaluation assets	14	17	29	36
Capitalized to property, plant and equipment	42	50	89	106
Total share-based compensation	**138**	**166**	**292**	**355**

11. EARNINGS (LOSS) PER SHARE

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

	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2018	Six months ended Jun. 30, 2019	Six months ended Jun. 30, 2018
Net income (loss) for the period ($000s)	**2,863**	**(10,615)**	**(9,275)**	**(16,299)**
Weighted average number of common shares – basic (000s)	49,469	49,492	49,474	49,492
Weighted average number of common shares – diluted (000s)	49,469	49,492	49,474	49,492
Net income (loss) per common share – basic	**$0.06**	**($0.21)**	**($0.19)**	**($0.33)**
Net income (loss) per common share – diluted	**$0.06**	**($0.21)**	**($0.19)**	**($0.33)**

In computing diluted income (loss) per share for the three and six months ended June 30, 2019, 2,948,305 outstanding stock options and 739,046 DSUs were considered (three and six months ended June 30, 2018 – 2,933,991 and nil, respectively). For the three and six months ended June 30, 2019, there were

2,948,305 stock options and 739,046 DSUs that were excluded from the calculation as their impact was anti-dilutive (three and six months ended June 30, 2018 – 2,933,991 and nil, respectively).

12. OPERATING EXPENSES

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

$000s	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2018	Six months ended Jun. 30, 2019	Six months ended Jun. 30, 2018
Fixed and variable operating expenses	2,804	3,098	5,404	6,529
Processing, gathering and compression charges	858	1,029	1,360	2,014
Total gross operating expenses	**3,662**	**4,127**	**6,764**	**8,543**
Processing income recoveries	(257)	(286)	(479)	(542)
Total net operating expenses	**3,405**	**3,841**	**6,285**	**8,001**

13. GENERAL AND ADMINISTRATIVE EXPENSES

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

$000s	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2018	Six months ended Jun. 30, 2019	Six months ended Jun. 30, 2018
Gross general and administrative expense	1,130	1,749	3,009	4,158
Capitalized general and administrative expense	(296)	(298)	(731)	(886)
Overhead recoveries	(304)	(79)	(869)	(470)
General and administrative expense	**530**	**1,372**	**1,409**	**2,802**

14. FINANCIAL INSTRUMENTS

Risks associated with financial instruments

Credit risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risk. Concentration of credit risk is mitigated by marketing the majority of the Company's production to reputable and financially sound purchasers under normal industry sale and payment terms. As is common in the petroleum and natural gas industry in western Canada, Petrus' receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Of the $9.7 million of accounts receivable outstanding at June 30, 2019 (December 31, 2018 – $12.7 million), $3.9 million is owed from 2 parties (December 31, 2018 – $7.1 million from 4 parties), and the balances were received subsequent to quarter end. The Company considers accounts receivable outstanding past 120 days to be 'past due'. At June 30, 2019, the Company had an allowance for doubtful accounts of $0.3 million (December 31, 2018 – $0.2 million). At June 30, 2019, 97% of Petrus' accounts receivable were aged less than 120 days and 3% of Petrus' accounts receivable were aged greater than 120 days. The Company does not anticipate any material collection issues.

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

Liquidity risk

At June 30, 2019, the Company had a $100 million RCF (lender consent is required for total borrowings against the RCF exceeding $95 million, see note 6), on which $89.4 million was drawn (December 31, 2018 – $97.0 million). While the Company is exposed to the risk of reductions to the borrowing base of the RCF, the Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through funds flow and available credit capacity from its RCF. The next scheduled borrowing base redetermination date for the RCF is on or before October 31, 2019. See additional discussion in Note 6.

The following are the contractual maturities of financial liabilities as at June 30, 2019:

$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	18,263	18,263	—
Risk management liability	863	700	163
Bank indebtedness and long term debt[(1)]	124,350	89,350	35,000
Total	**143,476**	**108,313**	**35,163**

[(1)] *Excludes deferred finance fees.*

Interest Rate Risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash, bank indebtedness and accounts receivable are not exposed to significant interest rate risk. The RCF and Term Loan are exposed to interest rate cash flow risk as the instruments are priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed to interest rate risk. To manage exposure to interest rate volatility, the Company entered into interest rate swap contracts (note 9). A 1% increase in the Canadian prime interest rate during the three and six months ended June 30, 2019 would have decreased net income and increased net loss by approximately $1.1 million, respectively, which relates to interest expense on the average outstanding RCF and Term Loan, net of any interest rate swaps to fix the interest rate on loans, during the period assuming that all other variables remain constant (three and six months ended June 30, 2018 – increased net loss by $1.3 million). A 1% decrease in the Canadian prime interest rate during the period would result in an opposite impact on net loss.

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

The Company manages the risks associated with changes in commodity prices by entering into a variety of financial derivative contracts (see note 9). The Company assesses the effects of movement in commodity prices on net loss. When assessing the potential impact of these commodity price changes, the Company believes a $5/CDN WTI/bbl change in the price of oil and a $0.25/GJ change in the price of natural gas are reasonable measures.

As at June 30, 2019, it was estimated that a $0.25/GJ decrease in the price of natural gas would have increased net income by $1.7 million (June 30, 2018 – $2.5 million). An opposite change in commodity prices would result in an opposite impact on net income. As at June 30, 2019, it was estimated that a $5.00/CDN WTI/bbl decrease in the price of oil would have increased net income by $4.0 million (June 30, 2018 – $5.1 million). An opposite change in commodity prices would result in an opposite impact on net income.

15. CAPITAL MANAGEMENT

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

16. FINANCE EXPENSES

The components of finance expenses are as follows:

$000s	**Three months ended Jun. 30, 2019**	**Three months ended Jun. 30, 2018**	**Six months ended Jun. 30, 2019**	**Six months ended Jun. 30, 2018**
Cash:				
Interest	2,126	2,097	4,071	3,962
Total cash finance expenses	2,126	2,097	4,071	3,962
Non-cash:				
Deferred financing costs	120	126	257	267
Accretion on decommissioning obligations *(note 8)*	198	222	412	446
Total non-cash finance expenses	318	348	669	713
Total finance expenses	**2,444**	**2,445**	**4,740**	**4,675**

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 Jun. 30, 2019	Three months ended Jun. 30, 2018	Six months ended Jun. 30, 2019	Six months ended Jun. 30, 2018
Source (use) in non-cash working capital:				
Deposits and prepaid expenses	(463)	(534)	(136)	(333)
Transaction costs on debt	60	350	8	350
Accounts receivable	2,216	2,123	2,998	4,035
Accounts payable and accrued liabilities	(2,088)	(2,766)	(3,184)	(13,944)
	(275)	**(827)**	**(314)**	**(9,892)**
Operating activities	4,202	(582)	4,125	(5,215)
Financing activities	60	175	8	302
Investing activities	(4,537)	(419)	(4,447)	(4,980)

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

$000s	Bank Indebtedness	Revolving Credit Facility	Term Loan	Total Liabilities from Financing Activities
Balance, December 31, 2018	**380**	**97,000**	**34,421**	**131,801**
Cash flows	(380)	(7,650)	—	(8,030)
Non-cash changes	—	—	167	167
Balance, June 30, 2019	**—**	**89,350**	**34,588**	**123,938**

18. COMMITMENTS AND CONTINGENCIES

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

$000s	Total	< 1 year	1-5 years	> 5 years
Firm service transportation	18,509	1,374	12,542	4,593

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

19. REVENUE

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

$000s	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2018	Six months ended Jun. 30, 2019	Six months ended Jun. 30, 2018
Production Revenue				
Oil and condensate sales	10,841	10,159	19,291	20,334
Natural gas sales	2,855	4,432	10,890	13,350
Natural gas liquids sales	3,839	4,692	7,536	10,867
Total oil and natural gas production revenue	**17,535**	**19,283**	**37,717**	**44,551**
Royalty revenue	117	38	166	71
Total oil and natural gas revenue	**17,652**	**19,321**	**37,883**	**44,622**

Petrus Resources

CORPORATE INFORMATION

OFFICERS

Neil Korchinski, P. Eng.
President and
Chief Executive Officer

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

Marcus Schlegel, P. Eng.
Vice President, Engineering

Brett Booth, BA
Vice President, Land

Ross Keilly, BSc, MSc
Vice President, Exploration

DIRECTORS

Don T. Gray
Chairman
Scottsdale, Arizona

Neil Korchinski
Calgary, Alberta

Patrick Arnell
Calgary, Alberta

Donald Cormack
Calgary, Alberta

Stephen White
Calgary, Alberta

SOLICITOR

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITOR
Ernst & Young LLP
Chartered Professional Accountants
Calgary, Alberta

INDEPENDENT RESERVE EVALUATORS
Sproule and Associates
Calgary, Alberta

BANKERS
TD Securities (Syndicate Lead Agent)
Calgary, Alberta

Macquarie Bank Limited
Houston, Texas

TRANSFER AGENT
Computershare Trust Company
Calgary, Alberta

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

WEBSITE
www.petrusresources.com