SECOND QUARTER REPORT

For the three and six months ended June 30, 2021

Petrus Resources Ltd. ("Petrus" or the "Company") (TSX: PRQ) is pleased to report financial and operating results as at and for the three and six months ended June 30, 2021. Petrus is focused on generating free cash flow for debt repayment and further development of its Ferrier Cardium asset.

Throughout the second quarter of 2021, global economies continued to show promise of a post-pandemic recovery. Increased demand for oil and natural gas persisted, which further strengthened commodity prices. Petrus generated funds flow of $8.1 million in the second quarter of 2021, which was 15% higher than in the first quarter of 2021. The Company's production was 6,309 boe/d in the second quarter of 2021, an increase of 7% from 5,912 boe/d in the first quarter of 2021. The incremental production is attributable to 5 (3.2 net) recently drilled wells that were brought on production in late March and early April.

As uncertainty surrounding the COVID-19 pandemic endured and Petrus remained committed to debt repayment, the Company continued to execute a disciplined capital strategy throughout Q2 2021. Petrus will closely monitor the Canadian commodity price environment and evaluate subsequent quarter capital spending on an ongoing basis. Capital investments will remain focused in Ferrier where ownership of critical infrastructure supports low operating costs and high rates of return.

With balance sheet strength remaining a top priority for the Company, Petrus reduced net debt by $6.3 million in the second quarter of 2021, 5% reduction.

HIGHLIGHTS

- Commodity price improvements - Realized price per boe increased by 11% in the second quarter of 2021 compared to the first quarter. This is attributable to strengthening oil and NGL prices, which increased by 14% and 8%, respectively, quarter over quarter.

- Production - Increased production of 6,309 boe/d was associated with two new operated and three non-operated (1.2 net) wells being brought on production early in the quarter. These wells were drilled in the fourth quarter of 2020 and the first quarter of 2021 and the associated capital costs were largely incurred in those quarters.

- Operating netback - Operating netback increased to $11.8 million ($20.55 per boe) in the second quarter of 2021 from $10.2 million ($19.22 per boe) in the first quarter 2021, a 15% increase, and was up 144% from the Covid depressed second quarter of 2020..

- Funds flow - Petrus generated funds flow(1) of $8.1 million ($0.16 per share) in Q2 2021, which is 15% higher than the previous quarter and up 38% year over year.

CREDIT FACILITY EXTENSION

Subsequent to June 30, 2021, the lenders have extended the maturity date of the RCF from July 14 to August 13, 2021. The Company is actively engaged with the RCF lenders to further extend the maturity date of RCF. The Company is currently $73.5 million drawn against the RCF.

SECOND LIEN TERM LOAN EXTENSION

Effective June 15, 2021 Macquarie Bank Limited assigned the Company's second lien term loan ("Term Loan") to Blue Oak Partners (Canada) Inc. Subsequent to June 30, 2021, the Company extended the maturity of the Term Loan to October 14, 2021. The Company is actively engaged with the Term Loan lender to further extend the maturity date of Term Loan. The Company has approximately $39 million outstanding on the Term Loan.

2021 OUTLOOK

Consistent with the Company's strategy of financial flexibility and balance sheet strength, Petrus will determine and provide guidance around quarterly capital spending as the year progresses. Throughout the balance of 2021 Petrus will continue to take a controlled approach to capital investments while also making quarterly payments of $2.75 million per quarter to the revolving credit facility. The Company has the financial and operational flexibility to respond quickly to changing market conditions and adjust capital investment plans accordingly. For the third quarter of 2021, the Board of Directors has approved a capital budget of $7.5 million for the drilling of 4 gross (1.5 net) Ferrier wells and investment in facility expansion in North Ferrier.

(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.

MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2021

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the financial and operating results of Petrus Resources Ltd. ("Petrus" or the "Company") as at and for the three months and six months ended June 30, 2021. This MD&A is dated August 10, 2021 and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019 as well as the Company's interim consolidated financial statements as at June 30, 2021. 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.

SELECTED FINANCIAL INFORMATION

OPERATIONS	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Three months ended Mar. 31, 2021	Three months ended Dec. 31, 2020	Three months ended Sept. 30, 2020
Average Production					
Natural gas (mcf/d)	24,291	27,630	22,985	26,177	26,181
Oil (bbl/d)	1,214	867	923	980	1,103
NGLs (bbl/d)	1,046	819	1,158	1,014	997
Total (boe/d)	**6,309**	**6,291**	**5,912**	**6,357**	**6,463**
Total (boe)	**574,084**	**572,440**	**532,099**	**584,860**	**594,599**
Light oil weighting	19 %	14 %	15 %	15 %	17 %
Realized Prices					
Natural gas ($/mcf)	3.28	2.35	3.33	3.07	2.51
Oil ($/bbl)	75.99	27.18	66.61	49.64	46.46
NGLs ($/bbl)	39.76	12.87	36.79	23.52	22.05
Total realized price ($/boe)	**33.87**	**15.73**	**30.55**	**24.05**	**21.48**
Royalty income	0.19	0.06	0.15	0.13	0.12
Royalty expense	(4.87)	(1.51)	(3.74)	(2.02)	(2.09)
Net oil and natural gas revenue ($/boe)	**29.19**	**14.28**	**26.96**	**22.16**	**19.51**
Operating expense	(6.80)	(4.44)	(6.12)	(5.53)	(4.05)
Transportation expense	(1.84)	(1.40)	(1.62)	(1.68)	(1.63)
Operating netback[1] ($/boe)	**20.55**	**8.44**	**19.22**	**14.95**	**13.83**
Realized gain (loss) on derivatives ($/boe)	(3.21)	6.39	(2.28)	0.65	2.20
Other income	1.77	0.17	0.04	0.31	0.04
General & administrative expense	(2.41)	(1.43)	(1.65)	(1.81)	(1.07)
Cash finance expense	(2.52)	(3.20)	(1.93)	(2.49)	(2.16)
Decommissioning expenditures	(0.14)	(0.15)	(0.27)	(0.63)	(0.13)
Funds flow & corporate netback[1][2] ($/boe)	**14.04**	**10.22**	**13.13**	**10.98**	**12.71**

FINANCIAL (000s except $ per share)	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Three months ended Mar. 31, 2021	Three months ended Dec. 31, 2020	Three months ended Sept. 30, 2020
Oil and natural gas revenue	19,553	9,041	16,339	14,143	12,840
Net loss	(4,265)	(6,281)	(3,155)	(151)	(3,678)
Net loss per share					
Basic	(0.09)	(0.13)	(0.06)	—	(0.07)
Fully diluted	(0.09)	(0.13)	(0.06)	—	(0.07)
Funds flow	8,070	5,855	6,993	6,423	7,551
Funds flow per share					
Basic	0.16	0.12	0.14	0.13	0.15
Fully diluted	0.16	0.12	0.14	0.13	0.15
Capital expenditures	663	305	7,917	2,797	2,543
Weighted average shares outstanding					
Basic	49,513	49,469	49,469	49,469	49,469
Fully diluted	49,513	49,469	49,469	49,469	49,469
As at period end					
Common shares outstanding					
Basic	49,559	49,469	49,469	49,469	49,469
Fully diluted	49,559	49,469	49,469	49,469	49,469
Total assets	176,629	184,532	177,587	177,914	179,895
Non-current liabilities	40,838	43,017	42,028	45,321	44,471
Net debt[1]	110,346	120,570	116,634	114,361	116,717

[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.

OPERATIONS UPDATE

Second quarter average production by area was as follows:

For the three months ended June 30, 2021	Ferrier	Foothills	Central Alberta	Other	Total
Natural gas (mcf/d)	17,628	1,468	4,808	387	24,291
Oil (bbl/d)	667	111	272	164	1,214
NGLs (bbl/d)	902	—	125	19	1,046
Total (boe/d)	**4,507**	**356**	**1,199**	**247**	**6,309**

Second quarter production averaged 6,309 boe/d in 2021 compared to 6,291 boe/d in 2020. During the second quarter of 2021, production increased marginally compared to the same period in 2021 due to 5 gross (3.2 net) new wells being brought on production at the start of Q2 2021 offsetting production declines.

CAPITAL EXPENDITURES

Capital expenditures (net of dispositions) totaled $0.7 million in the second quarter of 2021, compared to $0.3 million in the prior year comparative period. Second quarter 2021 capital spending consisted almost entirely of non-discretionary maintenance capital.

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, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Drill and complete	**(74)**	70	**6,653**	7,645
Oil and gas equipment	**545**	24	**1,382**	758
Land and lease	**94**	12	**239**	30
Dispositions	**(100)**	—	**(100)**	—
Capitalized general and administrative expense	**198**	199	**406**	525
Total capital expenditures	**663**	**305**	**8,580**	**8,958**
Gross (net) wells spud	**2 (1.2)**	**—**	**5 (2.2)**	**3 (2.0)**

RESULTS OF OPERATIONS

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Three months ended Mar. 31, 2021	Three months ended Dec. 31, 2020	Three months ended Sept. 30, 2020
Average production					
Natural gas (mcf/d)	24,291	27,630	22,985	26,177	26,181
Oil (bbl/d)	1,214	867	923	980	1,103
NGLs (bbl/d)	1,046	819	1,158	1,014	997
Total (boe/d)	**6,309**	**6,291**	**5,912**	**6,357**	**6,463**
Total (boe)	**574,084**	**572,440**	**532,099**	**584,860**	**594,599**
Revenue ($000s)					
Natural gas	7,261	5,903	6,889	7,395	6,035
Oil	8,397	2,143	5,532	4,475	4,714
NGLs	3,784	959	3,836	2,195	2,022
Royalty revenue	111	36	82	78	69
Oil and natural gas revenue	**19,553**	**9,041**	**16,339**	**14,143**	**12,840**
Average realized prices					
Natural gas ($/mcf)	3.28	2.35	3.33	3.07	2.51
Oil ($/bbl)	75.99	27.18	66.61	49.64	46.46
NGLs ($/bbl)	39.76	12.87	36.79	23.52	22.05
Total realized price ($/boe)	33.87	15.73	30.55	24.05	21.48
Hedging gain (loss) ($/boe)	(3.21)	6.39	(2.28)	0.65	2.20
Total price including hedging ($/boe)	**30.66**	**22.12**	**28.27**	**24.70**	**23.68**

Average benchmark prices	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Three months ended Mar. 31, 2021	Three months ended Dec. 31, 2020	Three months ended Sept. 30, 2020
Natural gas					
AECO 5A (C$/GJ)	2.93	1.89	2.98	2.50	2.02
AECO 7A (C$/GJ)	2.70	1.81	2.77	2.62	2.04
Crude oil					
Mixed Sweet Blend Edm (C$/bbl)	76.16	32.17	68.62	49.34	48.96
Natural gas liquids					
Propane Conway (US$/bbl)	34.86	14.54	35.74	25.50	19.78
Butane Edmonton (C$/bbl)	34.02	14.56	26.04	19.32	19.04
Foreign exchange					
US$/C$	0.81	0.74	0.79	0.77	0.74

FUNDS FLOW AND NET LOSS

Petrus generated funds flow of $8.1 million in the second quarter of 2021 compared to $5.9 million in the second quarter of 2020. The 37% increase is due to higher oil and natural gas prices partially offset by higher hedge loss and higher operating and general and administrative costs. In the second quarter of 2021 Petrus' total realized price was $33.87/boe compared to $15.73/boe in the second quarter of 2020.

Petrus reported a net loss of $4.3 million in the second quarter of 2021, compared to a net loss of $6.3 million in the second quarter of 2020. The decrease in the net loss in the second quarter of 2021 compared to the second quarter of 2020 is primarily due to higher oil and natural gas prices as commodity prices continue to recover after the lows experienced during the second quarter of 2020 due to the ongoing COVID-19 pandemic.

On a six month basis, the Company generated a net loss of $7.4 million for the six months ended June 30, 2021 compared to a net loss of $93.7 million for the six months ended June 30, 2020. The decrease in net loss is due to the $98.0 million impairment loss booked during the first quarter of 2020.

($000s except per share)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Funds flow	**8,070**	**5,855**	**15,062**	**12,422**
Funds flow per share - basic	0.16	0.12	0.30	0.25
Funds flow per share - fully diluted	0.16	0.12	0.30	0.25
Net loss	**(4,265)**	**(6,281)**	**(7,420)**	**(93,725)**
Net loss per share - basic	(0.09)	(0.13)	(0.15)	(1.89)
Net loss per share - fully diluted	(0.09)	(0.13)	(0.15)	(1.89)
Common shares outstanding (000s)				
Basic	49,559	49,469	49,559	49,469
Fully diluted	49,559	49,469	49,559	49,469
Weighted average shares outstanding (000s)				
Basic	49,513	49,469	49,491	49,469
Fully diluted	49,513	49,469	49,491	49,469

OIL AND NATURAL GAS REVENUE

Second quarter average production in 2021 was 6,309 boe/d (64% natural gas), consistent with the second quarter of 2020 (6,291 boe/d; 73% natural gas). Second quarter oil and natural gas revenue in 2021 was $19.6 million compared to $9.0 million in 2020. The 116% increase is due to significantly higher oil and natural gas prices.

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

Production Volume by Product (%)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Natural gas	**64 %**	73 %	**64 %**	71 %
Crude oil and condensate	**19 %**	14 %	**18 %**	15 %
Natural gas liquids	**17 %**	13 %	**18 %**	14 %
Total commodity sales from production	**100 %**	**100 %**	**100 %**	**100 %**

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

Oil and Natural Gas Revenue ($000s)	Three months ended June 30, 2021	Three months ended June 30, 2020	% Change	Six months ended June 30, 2021	Six months ended June 30, 2020	% Change
Natural gas	**7,261**	5,903	23 %	**14,150**	12,593	12 %
Crude oil and condensate	**8,397**	2,143	292 %	**13,929**	7,304	91 %
Natural gas liquids	**3,784**	959	295 %	**7,620**	3,255	134 %
Royalty income	**111**	36	208 %	**193**	233	(17)%
Total oil and natural gas revenue	**19,553**	**9,041**	**116 %**	**35,892**	**23,385**	**53 %**

The following table provides the average benchmark and the Company's average realized commodity prices:

	Three months ended June 30, 2021	Three months ended June 30, 2020	% Change	Six months ended June 30, 2021	Six months ended June 30, 2020	% Change
Average benchmark prices						
Natural gas						
AECO 5A (C$/GJ)	**2.93**	1.89	55 %	**2.96**	1.93	53 %
AECO 7A (C$/GJ)	**2.70**	1.81	49 %	**2.74**	2.03	35 %
Crude oil						
Mixed Sweet Blend Edm (C$/bbl)	**76.16**	32.17	137 %	**72.39**	52.28	38 %
Natural gas liquids						
Propane Conway (US$/bbl)	**34.86**	14.54	140 %	**35.28**	14.54	143 %
Butane Edmonton (C$/bbl)	**34.02**	14.56	134 %	**30.03**	14.56	106 %
Average realized prices						
Natural gas ($/mcf)	**3.28**	2.35	40 %	**3.31**	2.38	39 %
Oil ($/bbl)	**75.99**	27.18	180 %	**71.97**	40.12	79 %
NGLs ($/bbl)	**39.76**	12.87	209 %	**38.21**	18.76	104 %
Total average realized price	**33.87**	**15.73**	**115 %**	**32.27**	**18.69**	**73 %**

Natural gas

Natural gas revenue for the six months ended June 30, 2021 was $14.2 million which accounted for 40% of oil and natural gas revenue, compared to revenue of $12.6 million, which accounted for 54% of oil and natural gas revenue in the prior year comparative period. Second quarter 2021 average realized natural gas price was $3.28/mcf, compared to $2.35/mcf in the second quarter of 2020 (40% increase). The increase in revenue for the second quarter and the six months ended June 30, 2021, compared to the same periods in 2020, was due to an increase in natural gas pricing (AECO 5A) of 55% and 53% respectively

Crude oil and condensate

Oil and condensate revenue for the six months ended June 30, 2021 was $13.9 million, which accounted for approximately 39% of oil and natural gas revenue, compared to revenue of $7.3 million, which accounted for 32% in the prior year comparative period.

The average realized price of Petrus' light oil and condensate was $75.99/bbl for the second quarter of 2021 compared to $27.18 /bbl in the second quarter of 2020. The 180% increase is attributed to the increase in oil prices in the current quarter and six month period as prices continue to recover from the low pricing seen during the second quarter of 2020 due to the effects of the COVID-19 global pandemic.

Natural gas liquids (NGLs)

The Company's NGL production mix consists of ethane, propane, butane and pentane. The pricing received for NGL production is based on annual contracts effective the first of April each year. The contract prices are based on the product mix, the fractionation process required and the demand for fractionation facilities. In the second quarter of 2021, the Company's realized NGL price averaged $39.76/bbl, compared to $12.87/bbl in the prior year. The 209% increase is attributed to higher contract prices for the NGL byproducts. Second quarter market pricing for propane at Conway increased 140% from the prior year. Petrus' butane production is priced as a function of WTI (oil) which also increased in the second quarter compared to the prior year.

Petrus' ownership and control of critical processing facilities enables the Company to respond and continually optimize its production revenue streams. To improve operating netback, during 2019, Petrus ceased sending certain natural gas for additional third party deepcut processing to extract additional NGLs. This resulted in lower NGL production volume, however, the heating value of natural gas sales increased and processing fees decreased. Petrus continues to monitor NGL market pricing and is able to modify its operations accordingly.

NGL revenue for the six months ended June 30, 2021 was $7.6 million and accounted for 21% of oil and natural gas revenue, compared to revenue of $3.3 million accounting for 14% in the prior year comparative period. The increase was due to higher NGL prices.

ROYALTY EXPENSE

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

Royalty Expense ($000s)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Crown	**1,811**	316	**2,843**	841
Percent of production revenue	**9 %**	4 %	**8 %**	4 %
Gross overriding	**983**	551	**1,940**	1,925
Total	**2,794**	**867**	**4,783**	**2,766**

Second quarter royalty expense increased from $0.9 million in 2020 to $2.8 million in 2021. On a six month basis, total royalty expense (net of royalty allowances and incentives) increased from $2.8 million in 2020 to $4.8 million in 2021. The increase in royalties for the second quarter and the six months ended June 30, 2021 is due to higher revenues and higher commodity prices.

Gross overriding royalties increased from $0.6 million in the second quarter of 2020 to $1.0 million in the second quarter of 2021, due to higher revenues and commodity prices. Gross overriding royalties remained consistent at $1.9 million for the six months ended June 30, 2020 and $1.9 million for the six months ended June 30, 2021.

OTHER INCOME

During the second quarter of 2021, the Company recorded $1.0 million as other income. This amount relates to the settlement of an outstanding dispute associated with the transportation and marketing of its Ferrier area condensate volume.

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, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Realized hedging gain (loss)	**(1,843)**	3,656	**(3,058)**	4,830
Unrealized hedging gain (loss)	**(5,493)**	(6,332)	**(8,857)**	5,353
Net gain (loss) on derivatives	**(7,336)**	**(2,676)**	**(11,915)**	**10,183**

In the second quarter of 2021, the Company recognized a realized hedging loss of $1.8 million, compared to a gain of $3.7 million in the second quarter of 2020. The realized loss in the second quarter of 2021 decreased the Company's total realized price by $3.21/boe, compared to an increase of $6.39/boe in 2020. The Company recognized a realized hedging loss of $3.1 million during the six months ended June 30, 2021, in comparison to the $4.8 million gain realized in the same period of the prior year. The realized loss for the three and six months ended June 30, 2021 was due to higher commodity prices (relative to the respective contracts outstanding).

During the second quarter of 2021, the Company recognized an unrealized loss of $5.5 million compared to an unrealized loss of $6.3 million in the second quarter of 2020. The Company recognized an unrealized hedging loss of $8.9 million for the six months ended June 30, 2021 compared to an unrealized gain of $5.4 million for the six months ended June 30, 2020. The loss represents the change in the unrealized risk management net liability position during the first six months of 2021. 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 Company's risk management contracts provide protection from significant changes in crude oil and natural gas commodity prices for 2021 and 2022. The Company endeavors to hedge approximately half of its forecast production for the following year, and approximately 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 8 of the Company's interim consolidated financial statements as at and for the period ended June 30, 2021. The table below summarizes Petrus' average crude oil and natural gas hedged volumes. The average volume of oil hedged for the remainder of 2021 (900 bbl/d) represents 40% of second quarter 2021 average oil and natural gas liquids production. The 13,335 GJ/day average natural gas hedged for the remainder of 2021 represents 55% of second quarter 2021 average natural gas production.

The following table summarizes the average and minimum and maximum cap and floor prices for the 2021 to 2022 oil and natural gas contracts outstanding as at June 30, 2021:

	2021					2022				
	Q1	Q2	Q3	Q4	Avg.[1]	Q1	Q2	Q3	Q4	Avg.[1]
Oil hedged (bbl/d)	700	800	900	900	**825**	600	—	—	—	**150**
Avg. WTI cap price ($C/bbl)	68.42	66.94	66.46	65.85	**66.83**	62.73	—	—	—	**—**
Avg. WTI floor price ($C/bbl)	68.42	66.94	66.46	65.85	**66.83**	62.73	—	—	—	**—**
Natural gas hedged (GJ/d)	17,000	16,000	14,000	12,667	**14,917**	10,000	—	—	—	**2,500**
Avg. AECO 7A cap price ($C/GJ)	2.18	2.15	2.08	2.44	**2.20**	2.61	—	—	—	**2.61**
Avg. AECO 7A floor price ($C/GJ)	2.18	2.15	2.08	2.44	**2.20**	2.61	—	—	—	**2.61**

[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 ($000s)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Fixed and variable operating expense	**3,422**	2,074	**6,425**	4,659
Processing, gathering and compression charges	**720**	671	**1,207**	1,352
Total gross operating expense	**4,142**	**2,745**	**7,632**	**6,011**
Overhead recoveries	**(239)**	(202)	**(475)**	(433)
Total net operating expense	**3,903**	**2,543**	**7,157**	**5,578**
Operating expense, net ($/boe)	**6.80**	**4.44**	**6.47**	**4.50**

For the three months ended June 30, 2021, net operating expense totaled $3.9 million, a 53% increase from $2.5 million during the prior year comparative period. On a per boe basis, net operating expense was 53% higher at $6.80/boe in the second quarter of 2021 compared to $4.44/boe in 2020.

For the six months ended June 30, 2021, net operating expense totaled $7.2 million, a 28% increase from the $5.6 million incurred in the prior year comparative period.

The increase in operating expense for the quarter and six months ended June 30, 2021 is due to the following:

- higher property tax and regulatory fees that were deferred or reduced in 2020 as a result of COVID-19 reliefs;
- previous year billing adjustments for the non-operated gas processing fee;
- lower cost recovery from third parties;
- higher electricity prices;
- increased workover activity; and
- carbon tax and related compliance expenses.

TRANSPORTATION EXPENSE

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

Transportation Expense ($000s)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Transportation expense	**1,057**	799	**1,920**	1,502
Transportation expense ($/boe)	**1.84**	1.40	**1.74**	1.21

Petrus pays commodity and demand charges for transporting its gas on pipeline systems. The Company also incurs trucking costs on the portion of its oil and natural gas liquids production that is not pipeline connected. For the three months ended June 30, 2021 transportation expense was $1.1 million or $1.84/boe compared to $0.8 million or $1.40/boe in the prior year comparative period. On a six month basis, transportation expense totaled $1.9 million, or $1.74 per boe for 2021, which is 27% and 43% higher, respectively, than the $1.5 million costs incurred (or $1.21 per boe) in the prior year comparative period. The increase in transportation expense is attributed to the pipeline firm transportation contract that began towards the end of the second quarter of 2020.

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 ($000s)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Personnel, consultants and directors	**1,216**	583	**1,776**	1,421
Administrative expenses	**322**	340	**794**	466
Regulatory and professional expenses	**83**	162	**380**	759
Gross general and administrative expense	**1,621**	**1,085**	**2,950**	**2,646**
Capitalized general and administrative expense	(198)	(199)	(406)	(525)
Overhead recoveries	(42)	(69)	(287)	(406)
General and administrative expense	**1,381**	**817**	**2,257**	**1,715**
General and administrative expense ($/boe)	**2.41**	**1.43**	**2.04**	**1.38**

G&A expense (net of capitalized G&A expense and overhead recoveries) for the second quarter of 2021 totaled $1.4 million or $2.41 per boe, compared to $0.8 million or $1.43 per boe in the second quarter of 2020. Gross G&A expense (before capitalized G&A expense and overhead recoveries) was 49% higher than the prior year ($1.62 million in the second quarter of 2021 compared to $1.09 million in the second quarter of 2020) due to one-time expenses related to management changes and lower wage subsidy from the government in the second quarter of 2021.

For the six months ended June 30, 2021, gross G&A expense was $3.0 million compared to $2.6 million in the prior year comparative period, which represents a 11% increase. Second quarter G&A expense in 2021 was $2.3 million or $2.04/boe which is higher than the $1.7 million or $1.38/boe in the second quarter of 2020 (47% increase on a per boe basis).

The net increases in G&A are attributed to lower overhead recoveries while the gross increases in G&A are due to one-time expenses related to management changes and lower wage subsidy from the government during the second quarter of 2021.

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, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Gross share-based compensation expense	**37**	68	**144**	157
Capitalized share-based compensation expense	**(15)**	(28)	**(32)**	(63)
Share-based compensation expense	**22**	**40**	**112**	**94**

Share-based compensation expense (net of capitalized portion) was $0.02 million for the second quarter of 2021, which is 45% lower than the $0.04 million recognized in the second quarter of the prior year. For the six months ended June 30, 2021, net share-based compensation expense was $0.11 million, which is 19% lower than the $0.09 million in the prior year comparative period. The decrease in stock based compensation expense for the three and six months period in the current year compared to the prior year period is due to options fully vesting during 2020 and fewer new grants during 2021.

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, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Interest expense	**1,444**	1,831	**2,474**	3,919
Deferred financing costs	**116**	123	**260**	244
Non-cash term loan interest payment-in-kind	**965**	—	**1,901**	—
Accretion on decommissioning obligations	**196**	110	**318**	292
Total finance expense	**2,721**	**2,064**	**4,953**	**4,455**

Second quarter total finance expense was $2.7 million in 2021, comprised of $0.2 million of non-cash accretion of its decommissioning obligations, $1.4 million of cash interest expense and $1.0 million of non-cash term loan interest payment-in-kind related to the Term Loan. In the second quarter of 2020, the Company incurred total finance expense of $2.1 million, comprised of $0.1 million in non-cash accretion of its decommissioning obligation, $1.8 million cash interest expense and $0.1 million of deferred financing fee amortization.

The Company incurred total finance expense of $5.0 million for the six months ended June 30, 2021, which is higher than the $4.5 million for the prior year comparative period.

The increases in total finance expense are due to legal and professional fees incurred related to the loan extension and higher interest rates, partially offset by lower first lien balances.

DEPLETION AND DEPRECIATION

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

Depletion and Depreciation Expense ($000s)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Depletion and depreciation expense	**5,972**	5,611	**11,605**	13,351
Depletion and depreciation expense ($/boe)	**10.40**	9.80	**10.49**	10.78

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 2021 of $6.0 million or $10.40 per boe, compared to the second quarter of 2020, when $5.6 million or $9.80 per boe was recorded. The increase in the depletion expense for the second quarter of 2021 compared to the second quarter of 2020 was primarily due to new well brought on production during the quarter.

For the six months ended June 30, 2021, the Company recorded $11.6 million or $10.49 per boe, compared to $13.4 million or $10.78 per boe for the prior year. The decrease in depletion and depreciation expense is attributed to the impairment recorded in 2020 that lowered the DD&A per boe.

IMPAIRMENT

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

Impairment ($000s)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Impairment	—	—	—	98,000
Total	**—**	**—**	**—**	**98,000**

Petrus recognized an impairment loss of $98.0 million in the Ferrier CGU during the six months ended June 30, 2020, due to the significant decrease in forward benchmark commodity prices at March 31, 2020 compared to December 31, 2019. For more information, refer to notes 3 and 4 of the June 30, 2021 interim consolidated financial statements.

SHARE CAPITAL

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

Share Capital (000s)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Weighted average common shares outstanding				
Basic	**49,513**	49,469	**49,491**	49,469
Fully diluted	**49,513**	49,469	**49,491**	49,469
Common shares outstanding				
Basic	**49,559**	49,469	**49,559**	49,469
Fully diluted	**49,559**	49,469	**49,559**	49,469
Stock options outstanding	**2,098**	1,437	**2,098**	1,437

At June 30, 2021, the Company had 49,558,622 common shares and 2,098,325 stock options outstanding.

The Company has a deferred share unit plan in place whereby it may issue deferred share units ("DSUs") to directors of the Company. At June 30, 2021, 1,618,702 DSUs were issued and outstanding (December 31, 2020 – 2,158,270). Each DSU entitles the participants to receive, at the Company's discretion, either common shares or a cash equivalent to the number of DSUs multiplied by the current trading price of the equivalent number of common shares. All DSUs vest and become payable upon retirement of the director.

LIQUIDITY AND CAPITAL RESOURCES

Petrus has 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, 2021 the RCF was comprised of a $20.0 million operating facility and a $57.5 million syndicated term-out facility with a maturity date of July 14, 2021. 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, 2021, the Company had a $0.6 million letter of credit outstanding against the RCF (June 30, 2020 – $0.6 million) and had drawn $74.4 million against the RCF (June 30, 2020 – $86.2 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 November 30, 2021. 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.

Subsequent to June 30, 2021, the lenders have extended the maturity date of the RCF from July 14 to August 13, 2021. The Company is actively engaged with the RCF lenders to further extend the maturities dates of RCF.

(b) Term Loan

At June 30, 2021 the Company had a $38.7 million Term Loan outstanding (December 31, 2020 – $36.5 million), which was due September 14, 2021. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company. The Term Loan bears interest that accrues at a per annum rate of the (three-month) Canadian Dealer Offered Rate plus 975 basis points. All of the interest will be made by way of payment-in-kind ("PIK") and added to the outstanding balance of the Term Loan in lieu of monthly payment of cash interest.

Subsequent to June 30, 2021, the Company extended the maturity of the Term Loan to October 14, 2021.

Liquidity

At June 30, 2020, the Company had a working capital deficiency (excluding non-cash risk management assets and liabilities) of $110.3 million due to the Company's borrowings under its RCF and Term Loan classified as current liabilities. See note 2 and 5 of the Company's June 30, 2021 interim consolidated financial statements. The Company remains in compliance with all financial covenants pertaining to its debt. Subsequent to June 30, 2021, the Company had extended both the RCF and Term Loan to August 13, 2021 and October 14, 2021, respectively. It will continue to seek a longer term financing arrangement, which will eliminate or reduce in working capital deficiency.

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, 2020.

The key financial covenants are summarized in note 5 of the June 30, 2021 interim consolidated financial statements.

The following are the contractual maturities of financial liabilities as at June 30, 2021:

$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	11,370	11,370	—
Risk management liability	8,936	8,936	—
Bank indebtedness and current portion of long term debt[1]	113,114	113,114	—
Lease obligations	918	202	716
Total	**134,338**	**133,622**	**716**

[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	**12,482**	**2,045**	**9,309**	**1,128**

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 8 and 13 of the Company's June 30, 2021 interim consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

($000s unless otherwise noted)	Jun. 30, 2021	Mar. 31, 2021	Dec. 31, 2020	Sept. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sept. 30, 2019
Average Production								
Natural gas (mcf/d)	24,291	22,985	26,177	26,181	27,630	30,604	32,641	30,998
Oil (bbl/d)	1,214	923	980	1,103	867	1,134	1,834	1,247
NGLs (bbl/d)	1,046	1,158	1,014	997	819	1,088	1,018	1,372
Total (boe/d)	**6,309**	**5,912**	**6,357**	**6,463**	**6,291**	**7,323**	**8,292**	**7,785**
Total (boe)	**574,084**	**532,099**	**584,860**	**594,599**	**572,440**	**666,361**	**762,874**	**716,220**
Financial Results								
Oil and natural gas revenue	19,553	16,339	14,143	12,840	9,041	14,344	20,998	12,517
Royalty expense	(2,794)	(1,989)	(1,183)	(1,245)	(867)	(1,899)	(2,218)	(1,182)
Net oil and natural gas revenue	**16,759**	**14,350**	**12,960**	**11,595**	**8,174**	**12,445**	**18,780**	**11,335**
Transportation expense	(1,057)	(863)	(983)	(967)	(799)	(703)	(991)	(893)
Operating expense	(3,903)	(3,254)	(3,237)	(2,408)	(2,543)	(3,035)	(3,407)	(3,181)
Operating netback	**11,799**	**10,233**	**8,740**	**8,220**	**4,832**	**8,707**	**14,382**	**7,261**
Realized gain (loss) on derivatives	(1,843)	(1,215)	381	1,308	3,656	1,174	(1,417)	360
Other income	1,018	23	184	23	99	48	7	21
General and administrative expense	(1,381)	(876)	(1,059)	(635)	(817)	(898)	(1,459)	(776)
Cash finance expense	(1,444)	(1,029)	(1,456)	(1,286)	(1,831)	(2,089)	(1,939)	(2,230)
Decommissioning expenditures	(79)	(143)	(366)	(79)	(84)	(376)	(314)	(209)
Corporate netback and funds flow	**8,070**	**6,993**	**6,424**	**7,551**	**5,855**	**6,566**	**9,260**	**4,427**
Oil and natural gas revenue	**19,553**	**16,339**	**14,143**	**12,840**	**9,041**	**14,344**	**20,998**	**12,517**
Per share - basic	0.39	0.33	0.29	0.26	0.18	0.29	0.42	0.25
Per share - fully diluted	0.39	0.33	0.29	0.26	0.18	0.29	0.42	0.25
Net income (loss)	**(4,265)**	**3,365**	**(151)**	**(3,678)**	**(6,281)**	**(87,444)**	**(3,176)**	**(29,569)**
Per share - basic	(0.09)	0.07	—	(0.07)	(0.13)	(1.77)	(0.06)	(0.60)
Per share - fully diluted	(0.09)	0.07	—	(0.07)	(0.13)	(1.77)	(0.06)	(0.60)
Common shares outstanding (000s)								
Basic	49,559	49,469	49,469	49,469	49,469	49,469	49,469	49,469
Fully diluted	49,559	49,469	49,469	49,469	49,469	49,469	49,469	49,469
Weighted average shares outstanding (000s)								
Basic	49,513	49,469	49,469	49,469	49,469	49,469	49,469	49,469
Fully diluted	49,513	49,469	49,469	49,469	49,469	49,469	49,469	49,469
Total assets	176,629	177,587	177,914	179,895	184,532	193,679	289,225	296,367
Net debt	(110,346)	(116,634)	(114,361)	(116,717)	(120,570)	(125,974)	(123,744)	(128,553)

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 8,292 boe/d in the fourth quarter of 2019 to 6,309 boe/d in the second quarter of 2021. The 23% production decrease is attributable to Petrus' disciplined capital program, prioritizing debt repayment as well as certain production volumes 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 audited consolidated financial statements as at and for the year ended December 31, 2020.

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The rapid outbreak and subsequent measures intended to limit the spread of COVID-19 have contributed to a significant increase in economic uncertainty, with more volatile commodity prices, currency exchange rates and interest rates. The duration and severity of the business disruptions and reduction in consumer activity nationally and internationally and the resulting financial effect is difficult to reliably estimate. The results of the potential economic downturn and any potential resulting direct or indirect effect on the Company has been considered in management's estimates at period end; however, there could be a further prospective material effect in future periods.

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, 2020.

New standards and interpretations
The Company has not adopted any new standards and interpretations for the period ended June 30, 2021.

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, 2021 and ending on June 30, 2021 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", "funds flow and 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, 2021		Three months ended Jun. 30, 2020		Six months ended June 30, 2021		Six months ended June 30, 2020	
	$000s	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**
Oil and natural gas revenue	19,553	34.06	9,041	15.79	35,892	32.44	23,385	18.88
Royalty expense	(2,794)	(4.87)	(867)	(1.51)	(4,783)	(4.32)	(2,766)	(2.23)
Net oil and natural gas revenue	**16,759**	**29.19**	**8,174**	**14.28**	**31,109**	**28.12**	**20,619**	**16.65**
Transportation expense	(1,057)	(1.84)	(799)	(1.40)	(1,920)	(1.74)	(1,502)	(1.21)
Operating expense	(3,903)	(6.80)	(2,543)	(4.44)	(7,157)	(6.47)	(5,578)	(4.50)
Operating netback	**11,799**	**20.55**	**4,832**	**8.44**	**22,032**	**19.91**	**13,539**	**10.94**
Realized gain (loss) on financial derivatives	(1,843)	(3.21)	3,656	6.39	(3,058)	(2.77)	4,830	3.90
Other income	1,018	1.77	99	0.17	1,041	0.94	147	0.12
General & administrative expense	(1,381)	(2.41)	(817)	(1.43)	(2,257)	(2.04)	(1,715)	(1.38)
Cash finance expense(1)	(1,444)	(2.52)	(1,831)	(3.20)	(2,474)	(2.24)	(3,920)	(3.16)
Decommissioning expenditures	(79)	(0.14)	(84)	(0.15)	(222)	(0.20)	(459)	(0.37)
Funds flow and corporate netback	**8,070**	**14.04**	**5,855**	**10.22**	**15,062**	**13.60**	**12,422**	**10.05**

(1)*Excludes non-cash Term Loan interest payment-in-kind*

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, 2021**	**As at December 31, 2020**
Adjusted current assets(1)	**14,138**	7,428
Less: adjusted current liabilities(1)	**(124,484)**	(121,789)
Net debt	**(110,346)**	**(114,361)**

(1)*Adjusted for unrealized risk management assets, liabilities, lease obligations and unrealized deferred share unit liabilities.*

OIL AND GAS DISCLOSURES

Our oil and gas reserves statement for the year ended December 31, 2020, 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 or other purposes.

While the references in this document to initial production rates are useful in confirming the presence of hydrocarbons, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. In all cases in this document, initial production results are not necessarily indicative of long-term performance of the relevant wells or of ultimate recovery of hydrocarbons.

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 consolidated financial statements as at and for the twelve months ended December 31, 2019. 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: prospective changes to the terms of the RCF and Term Loan; Petrus' capital program, flexibility and utilization of free cash flow; Petrus' utilization of Federal and Provincial programs; Petrus' expectations regarding second half 2021 production volumes; Petrus' ability to modify its operations, including its ability to adjust liquid volumes and the results thereof; expectations regarding the adequacy of Petrus' liquidity and the funding of its financial liabilities; the impact of the current economic environment on Petrus; 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; impact of the economic crisis on the Company's lenders; willingness of the Company's lenders to negotiate; 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; willingness of its lenders to negotiate; the impact of the current financial crisis; 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, 2021	December 31, 2020
ASSETS		
Current		
Cash	312	—
Deposits and prepaid expenses	1,489	1,150
Accounts receivable *(note 13)*	12,337	6,278
Risk management asset *(note 8)*	—	934
Total current assets	**14,138**	**8,362**
Non-current		
Risk management asset *(note 8)*	—	15
Exploration and evaluation assets *(note 4)*	13,080	17,568
Property, plant and equipment *(note 4)*	149,411	151,969
	162,491	**169,552**
Total assets	**176,629**	**177,914**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	—	32
Current portion of long term debt *(note 5)*	113,114	114,049
Accounts payable and accrued liabilities *(note 13)*	11,370	7,708
Risk management liability *(note 8)*	8,936	986
Lease obligations *(note 6)*	202	188
Total current liabilities	**133,622**	**122,963**
Non-current liabilities		
Lease obligations *(note 6)*	716	824
Decommissioning obligation *(note 7)*	40,122	44,456
Risk management liability *(note 8)*	—	41
Total liabilities	**174,460**	**168,284**
Shareholders' equity		
Share capital *(note 9)*	430,157	430,119
Contributed surplus	9,517	9,596
Deficit	(437,505)	(430,085)
Total shareholders' equity	**2,169**	**9,630**
Total liabilities and shareholders' equity	**176,629**	**177,914**

Going concern (note 2)
Commitments (note 17)
Subsequent events (note 19)
See accompanying notes to the interim consolidated financial statements

Approved by the Board of Directors,

(signed) "Don T. Gray"

Don T. Gray
Chairman

(signed) "Donald Cormack"

Donald Cormack
Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

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

	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Six months ended Jun. 30, 2021	Six months ended Jun. 30, 2020
REVENUE				
Oil and natural gas revenue *(note 18)*	**19,553**	**9,041**	**35,892**	**23,385**
Royalty expense	(2,794)	(867)	(4,783)	(2,766)
Net oil and natural gas revenue	**16,759**	**8,174**	**31,109**	**20,619**
Other income (note 18)	1,018	99	1,041	147
Net gain (loss) on financial derivatives *(note 8)*	(7,336)	(2,676)	(11,916)	10,183
	10,441	**5,597**	**20,234**	**30,949**
EXPENSES				
Operating *(note 11)*	3,903	2,543	7,157	5,578
Transportation	1,057	799	1,920	1,502
General and administrative *(note 12)*	1,381	817	2,257	1,715
Share-based compensation *(note 9)*	22	40	112	94
Finance *(note 15)*	2,721	2,064	4,953	4,455
Exploration and evaluation *(note 3)*	62	4	62	4
Depletion and depreciation *(note 4)*	5,972	5,611	11,605	13,351
Gain on sale of assets	(412)	—	(412)	(25)
Impairment *(notes 3 and 4)*	—	—	—	98,000
Total expenses	**14,706**	**11,878**	**27,654**	**124,674**
NET LOSS AND COMPREHENSIVE LOSS	**(4,265)**	**(6,281)**	**(7,420)**	**(93,725)**
Net loss per common share Basic and diluted *(note 10)*	**(0.09)**	**(0.13)**	**(0.15)**	**(1.89)**

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, 2019	**430,119**	**9,112**	**(332,531)**	**106,700**
Net loss	—	—	(93,725)	(93,725)
Share-based compensation *(note 9)*	—	157	—	157
Balance, June 30, 2020	**430,119**	**9,269**	**(426,256)**	**13,132**
Balance, December 31, 2020	**430,119**	**9,596**	**(430,085)**	**9,630**
Net loss	—	—	(7,420)	(7,420)
Deferred Share Unit settlement	—	(223)	—	(223)
Issuance of common shares	38		—	38
Share-based compensation *(note 9)*	—	144	—	144
Balance, June 30, 2021	**430,157**	**9,517**	**(437,505)**	**2,169**

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, 2021	Three months ended Jun. 30, 2020	Six months ended Jun. 30, 2021	Six months ended Jun. 30, 2020
OPERATING ACTIVITIES				
Net loss	**(4,265)**	**(6,281)**	**(7,420)**	**(93,725)**
Adjust items not affecting cash:				
Share-based compensation *(note 9)*	22	41	112	94
Unrealized (gain) loss on financial derivatives (*note 8)*	5,493	6,332	8,858	(5,353)
Non-cash finance expenses *(note 15)*	312	232	578	536
Non-cash term loan interest payment-in-kind (note 5)	965	—	1,901	—
Depletion and depreciation *(note 4)*	5,972	5,611	11,605	13,351
Impairment *(notes 3 and 4)*	—	—	—	98,000
Exploration and evaluation expense *(note 3)*	62	4	62	4
Gain on sale of assets *(note 4)*	(412)	—	(412)	(25)
Decommissioning expenditures *(note 7)*	(79)	(84)	(222)	(459)
Funds flow	**8,070**	**5,855**	**15,062**	**12,423**
Change in operating non-cash working capital *(note 16)*	(5,040)	(3,158)	(4,822)	3,406
Cash flows from operating activities	**3,030**	**2,697**	**10,240**	**15,829**
FINANCING ACTIVITIES				
Deferred Share Unit payment *(note 9)*	—	—	(59)	—
Repayment of revolving credit facility	(600)	(2,100)	(3,100)	(6,100)
Drawing of bank indebtedness	(1,276)	57	(32)	186
Repayment of lease liabilities *(note 6)*	(48)	(24)	(94)	(46)
Change in financing non-cash working capital *(note 16)*	—	217	—	157
Cash flows used in financing activities	**(1,924)**	**(1,850)**	**(3,285)**	**(5,803)**
INVESTING ACTIVITIES				
Property and equipment dispositions *(note 4)*	128	—	128	—
Exploration and evaluation asset expenditures *(note 3)*	(112)	(50)	(409)	(131)
Petroleum and natural gas property expenditures *(note 4)*	(679)	(255)	(8,299)	(8,827)
Change in investing non-cash working capital *(note 16)*	(131)	(542)	1,937	(1,324)
Cash flows used in investing activities	**(794)**	**(847)**	**(6,643)**	**(10,282)**
Increase (decrease) in cash	312	—	312	(256)
Cash, beginning of period	—	—	—	256
Cash, end of period	**312**	**—**	**312**	**—**
Cash interest paid *(note 15)*	1,444	1,831	2,474	3,919

See accompanying notes to the interim consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at June 30, 2021 and for the three and six months ended June 30, 2021 and 2020

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, 2021 and prior year comparative period, were approved by the Company’s Audit Committee and Board of Directors on August 10, 2021.

2. BASIS OF PRESENTATION

Going Concern

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

As at June 30, 2021, the Company's revolving credit facility ("RCF") and Term Loan are due on July 14, 2021 and September 14, 2021, respectively. Subsequent to June 30, 2021, the lenders have extended the maturity date of the RCF from July 14 to August 13, 2021. In addition, the Company extended the maturity of the Term Loan from September 14 to October 14, 2021. The borrowings under the RCF and the Term Loan are classified as current liabilities in the June 30, 2021 interim consolidated financial statements. The Company remains in compliance with each financial covenant. However, the classification of the debt instruments resulted in a working capital deficiency (excluding non-cash risk management assets and liabilities, and lease obligations) of $110.3 million as at June 30, 2021.

The Company is actively engaging with the RCF syndicate of lenders and the Term Loan lender to extend the RCF and Term Loan. However, there can be no certainty as to the ability of the Company to successfully extend its RCF and Term Loan. There is a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. These financial statements do not include adjustments to the recoverability and classification of recorded asset and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

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, 2020 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, 2020. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2020. These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency, except where otherwise noted.

Significant Accounting Policies and Critical Accounting Estimates

The Company’s significant accounting policies and critical accounting estimates can be read in note 3 to the Company’s audited consolidated financial statements as at and for the year ended December 31, 2020.

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

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The rapid outbreak and subsequent measures intended to limit the spread of COVID-19 have contributed to a significant increase in economic uncertainty, with more volatile commodity prices, currency exchange rates and interest rates. The duration and severity of the business disruptions and reduction in consumer activity internationally and the resulting financial effect is difficult to reliably estimate. The results of the potential economic downturn and any potential resulting direct or indirect effect on the Company has been considered in management's estimates at period end; however, there could be a further prospective material effect in future periods.

3. EXPLORATION AND EVALUATION ASSETS

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

$000s	
Balance, December 31, 2019	**36,116**
Additions	4,590
Property acquisitions	(58)
Exploration and evaluation expense	(18)
Capitalized G&A	279
Capitalized share-based compensation	26
Transfers to property, plant and equipment *(note 4)*	(367)
Impairment loss	(23,000)
Balance, December 31, 2020	**17,568**
Additions	326
Disposition	(19)
Exploration and evaluation expense	(62)
Capitalized G&A	102
Capitalized share-based compensation *(note 9)*	8
Transfers to property, plant and equipment *(note 4)*	(4,843)
Balance, June 30, 2021	**13,080**

During the three months and six months ended June 30, 2021, the Company incurred exploration and evaluation expenses of $0.1 million which relates to expired and nearly expired undeveloped, non-core land (three and six months ended June 30, 2020 – nil).

During the three months and six months ended June 30, 2021, the Company capitalized $0.05 million and $0.10 million, respectively, of general and administrative expenses ("G&A") (three and six months ended June 30, 2020 – $0.05 million and $0.13 million) and $0.004 million and $0.008 million of non-cash share-based compensation directly attributable to exploration activities (three and six months ended June 30, 2020 – $0.01 million and $0.02 million).

During the three months ended June 30, 2021, the Company had transferred $4.8 million from E&E assets to PP&E assets, related to the Kakwa CGU that was brought on production during the quarter. Upon transfer of the E&E assets to PP&E, an impairment test was performed on the assets transferred. No impairment was identified upon transfer of the assets from E&E to PP&E.

The Company did not identify any indicators of impairment or impairment reversal for the three months and six months ended June 30, 2021.

During the year ended December 31, 2020, due to the significant decrease in forward benchmark commodity prices in the first quarter, the Company identified indicators of impairment and conducted an impairment test on all of the Company's Cash Generating Units ("CGUs"). No impairment was recorded for the Foothills, Central Alberta and Kakwa CGUs during the year ended December 31, 2020. For the Ferrier CGU, the Company recorded an impairment loss of $23.0 million on its E&E assets for the quarter ended March 31, 2020. The Company had also tested the Ferrier CGU for impairment on December 31, 2020 and did not record any further impairment.

4. PROPERTY, PLANT AND EQUIPMENT

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

$000s	Cost	Accumulated DD&A	Net book value
Balance, December 31, 2019	**821,861**	**(583,383)**	**238,478**
Additions	8,600	—	8,600
Capitalized G&A	838	—	838
Capitalized share based compensation	77	—	77
Transfer from exploration and evaluation assets (note 3)	367	—	367
Depletion & depreciation	—	(25,231)	(25,231)
Increase in decommissioning expenses	3,840	—	3,840
Impairment provision	—	(75,000)	(75,000)
Balance, December 31, 2020	**835,583**	**(683,614)**	**151,969**
Additions	7,995	—	7,995
Property dispositions	(14,489)	12,439	(2,050)
Capitalized G&A	304	—	304
Capitalized share-based compensation *(note 9)*	24	—	24
Transfers from exploration and evaluation assets *(note 3)*	4,843	—	4,843
Depletion & depreciation	—	(11,605)	(11,605)
Increase in decommissioning provision *(note 7)*	(2,069)	—	(2,069)
Balance, June 30, 2021	**832,191**	**(682,780)**	**149,411**

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

At June 30, 2021, estimated future development costs of $252.3 million (December 31, 2020 – $252.3 million) associated with the development of the Company's proved plus probable undeveloped reserves were included with the costs subject to depletion. During the three months and six months ended June 30, 2021, the Company capitalized $0.04 million and $0.3 million, respectively, of general and administrative expenses ("G&A") (three and six months ended June 30, 2020 – $0.1 million and $0.4 million) and non-cash share-based compensation of $0.01 million and $0.02 million, respectively (three and six months ended June 30, 2020 – $0.02 million and $0.05 million), directly attributable to development activities.

During the three months June 30, 2021, the Company recorded a gain of $0.4 million on the disposition of certain E&E and PP&E assets in the Foothills CGU for cash consideration of $0.1 million and the assumption of $2.4 million of decommissioning liabilities.

During the three months June 30, 2021, the Company had transferred $4.8 million from E&E assets to PP&E assets, related to the Kakwa CGU that was brought on production during the quarter. The Company did not identify any indicators of impairment in any of the Company's CGUs as at June 30, 2021.

During the year ended December 31, 2020, due to the significant decrease in forward benchmark commodity prices in the first quarter, the Company identified indicators of impairment and conducted an impairment test on all of the Company's CGUs. No impairment was recorded for the Foothills and Central Alberta CGUs during the year ended December 31, 2020. For the Ferrier CGU, the Company recorded an impairment loss of $75 million on its PP&E asset on March 31, 2020, as the carrying amount exceeded the recoverable amount. The Company had also tested the Ferrier CGU for impairment on December 31, 2020 and did not record any further impairment.

No impairment was recorded for the Foothills and Central Alberta CGUs for the three months and six months ended June 30, 2021.

At June 30, 2021, the carrying balance of the right of use asset was $0.9 million.

5. DEBT

Petrus has 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, 2021 the RCF was comprised of a $20.0 million operating facility and a $57.5 million syndicated term-out facility with a maturity date of July 14, 2021. 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, 2021, the Company had a $0.6 million letter of credit outstanding against the RCF (December 31, 2020 – $0.6 million) and had drawn $74.4 million against the RCF (December 31, 2020 – $77.5 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 November 30, 2021. 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.

Subsequent to June 30, 2021, the lenders have extended the maturity date of the RCF from July 14 to August 13, 2021. The Company is actively engaged with the RCF lenders to further extend the maturity date of RCF.

(b) Term Loan

At June 30, 2021 the Company had a $38.7 million Term Loan outstanding (December 31, 2020 – $36.5 million), which is due September 14, 2021. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company. The Term Loan bears interest that accrues at a per annum rate of the (three-month) Canadian Dealer Offered Rate plus 975 basis points. All of the interest will be made by way of payment-in-kind ("PIK") and added to the outstanding balance of the Term Loan in lieu of monthly payment of cash interest.

Subsequent to June 30, 2021, the Company extended the maturity of the Term Loan to October 14, 2021. The Company is actively engaged with the Term Loan lenders to further extend the maturity date of Term Loan.

Liquidity

At June 30, 2021, the Company had a working capital deficiency (excluding non-cash risk management assets and liabilities) of $110.3 million due to the classification of the Company's borrowings under its RCF and Term Loan as current liabilities. See note 2. 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, 2020.

The key financial covenants as at June 30, 2021 are summarized in the following table. At June 30, 2021 the Company is in compliance with all financial covenants.

Financial Covenant Description	Required Ratio	As at June 30, 2021
Working Capital Ratio	Over 0.60	1.47

6. LEASES

The Company's lease obligations are as follows:

$000s	
Balance, December 31, 2020	**1,012**
Finance expense	37
Lease payments	(131)
Balance, June 30, 2021	**918**

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

$000s	As at June 30, 2021
Less than 1 year	264
1 to 3 years	784
Total lease payments	1,048
Amounts representing finance expense	(130)
Present value of lease obligation	918
Current portion of lease obligation	202
Non-current portion of lease obligation	716

7. DECOMMISSIONING OBLIGATION

The decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The estimated future cash flows have been discounted using an average risk free rate of 1.77 percent and an inflation rate of 1.90 percent (1.1 percent and 1.4 percent, respectively at December 31, 2020). Changes in estimates in 2020 and 2021 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 $40.1 million as at June 30, 2021 ($44.5 million at December 31, 2020). The undiscounted, uninflated total future liability at June 30, 2021 is $38.9 million ($41.4 million at December 31, 2020). 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, 2019	**41,259**
Property dispositions	(98)
Other adjustments	(135)
Liabilities incurred	320
Liabilities settled	(904)
Change in estimates	3,520
Accretion expense	494
Balance, December 31, 2020	**44,456**
Property dispositions	(2,361)
Liabilities incurred	161
Liabilities settled	(222)
Change in estimates	(2,230)
Accretion expense	318
Balance, June 30, 2021	**40,122**

8. FINANCIAL RISK MANAGEMENT

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus had outstanding as at June 30, 2021:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN$/GJ)
Natural Gas Swaps			
Jul. 1, 2021 to Oct. 31, 2021	Fixed price	14,000	$2.08
Nov. 1, 2021 to Dec. 31, 2021	Fixed price	4,000	$2.75
Nov. 1, 2021 to Mar. 31, 2022	Fixed price	8,000	$2.61
Jan. 1, 2022 to Mar. 31, 2022	Fixed price	2,000	$2.61

Contract Period	Type	Total Daily Volume (Bbl)	Average Price (CDN$/Bbl)
Crude Oil Swaps			
Jul. 1, 2021 to Dec. 31, 2021	Fixed price	900	$66.15
Jan. 1, 2022 to Mar. 31, 2022	Fixed price	600	$62.73

Contract Period	Type	Average Rate (%)	Notional Amount (000s CDN$)
Interest Rate Swaps			
Jul. 1, 2021 to Dec. 31, 2022	Fixed rate	2.34	$20,000

Risk management asset and liability:

$000s At June 30, 2021	Asset	Liability
Current commodity derivatives	—	8,936
	—	**8,936**
$000s At December 31, 2020		
Current commodity derivatives	934	986
Non-current commodity derivatives	15	41
	949	**1,027**

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

$000s	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Six months ended Jun. 30, 2021	Six months ended Jun. 30, 2020
Realized gain on financial derivatives	(1,843)	3,656	(3,058)	4,830
Unrealized gain (loss) on financial derivatives	(5,493)	(6,332)	(8,858)	5,353
Net gain (loss) on financial derivatives	**(7,336)**	**(2,676)**	**(11,916)**	**10,183**

9. SHARE CAPITAL

Authorized

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

Issued and Outstanding

Common shares ($000s)	Number of Shares	Amount
Balance, December 31, 2020	**49,469,358**	**430,119**
Common shares issued on exercise of stock options	**89,264**	**38**
Balance, June 30, 2021	**49,558,622**	**430,157**

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, 2021, 2,098,325 (December 31, 2020 – 2,276,923) stock options were outstanding. The summary of stock option activity is presented below:

	Number of stock options	Weighted average exercise price
Balance, December 31, 2019	**2,361,958**	**$2.87**
Granted	1,122,276	$0.23
Cancelled/forfeited	(353,320)	$1.06
Expired	(853,991)	$2.16
Balance, December 31, 2020	**2,276,923**	**$0.40**
Granted	750,000	$0.53
Forfeited	(550,735)	$0.37
Expired	(88,480)	$2.33
Exercised for cash	(200,119)	$0.26
Exercised for shares	(89,264)	$0.31
Balance, June 30, 2021	**2,098,325**	**$0.40**
Exercisable, June 30, 2021	**116,655**	**$0.83**

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

Range of Exercise Price	Stock Options Outstanding		
	Number granted	Weighted average exercise price	Weighted average remaining life (years)
$0.26 - $0.86	1,157,919	$0.41	2.17
$1.49 - $2.33	279,080	$1.83	1.37
	1,436,999	**$0.33**	**2.63**

During the six months ended June 30, 2021, the Company granted options which vest equally over three years, and upon vesting, expire 30 business days thereafter. The weighted average fair value of each option granted during the six months ended June 30, 2021 of $0.11 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2021	2020
Risk free interest rate	0.15% - 0.49%	0.20% - 0.29%
Expected life (years)	1.08 - 3.08	1.08 - 3.08
Estimated volatility of underlying common shares (%)	100%	80% to 100%
Estimated forfeiture rate	30%	20%
Expected dividend yield (%)	—%	—%

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

Deferred Share Unit ("DSU") Plan

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

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

The compensation expense was calculated using the fair value method based on the trading price of the Company's shares on the grant date. At June 30, 2021, 1,618,702 DSUs were issued and outstanding (December 2020 – 2,158,270). During the first quarter of 2021, the Company settled 539,568 DSUs for $0.2 million in cash.

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

$000s	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Six months ended Jun. 30, 2021	Six months ended Jun. 30, 2020
Expensed	22	40	112	94
Capitalized to exploration and evaluation assets	4	8	8	17
Capitalized to property, plant and equipment	11	20	24	46
Total share-based compensation	**37**	**68**	**144**	**157**

10. LOSS PER SHARE

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

	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Six months ended Jun. 30, 2021	Six months ended Jun. 30, 2020
Net loss for the period ($000s)	**(4,265)**	**(6,281)**	**(7,420)**	**(93,725)**
Weighted average number of common shares – basic (000s)	49,513	49,469	49,491	49,472
Weighted average number of common shares – diluted (000s)	49,513	49,469	49,491	49,472
Net loss per common share – basic	**($0.09)**	**($0.13)**	**($0.15)**	**($1.89)**
Net loss per common share – diluted	**($0.09)**	**($0.13)**	**($0.15)**	**($1.89)**

In computing diluted loss per share for the three months and six months ended June 30, 2021, 2,098,325 outstanding stock options and 1,618,702 DSUs were considered (December 31, 2020 – 2,276,923 and 2,158,270 respectively), which were excluded from the calculation as their impact was anti-dilutive.

11. OPERATING EXPENSES

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

$000s	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Six months ended Jun. 30, 2021	Six months ended Jun. 30, 2020
Fixed and variable operating expenses	3,422	2,074	6,425	4,659
Processing, gathering and compression charges	720	671	1,207	1,352
Total gross operating expenses	**4,142**	**2,745**	**7,632**	**6,011**
Overhead recoveries	(239)	(202)	(475)	(433)
Total net operating expenses	**3,903**	**2,543**	**7,157**	**5,578**

12. GENERAL AND ADMINISTRATIVE EXPENSES

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

$000s	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Six months ended Jun. 30, 2021	Six months ended Jun. 30, 2020
Gross general and administrative expense	1,621	1,085	2,950	2,646
Capitalized general and administrative expense	(198)	(199)	(406)	(525)
Overhead recoveries	(42)	(69)	(287)	(406)
General and administrative expense	**1,381**	**817**	**2,257**	**1,715**

13. FINANCIAL INSTRUMENTS

Risks associated with financial instruments

Credit risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risk. Concentration of credit risk is mitigated by marketing the majority of the Company's production to reputable and financially sound purchasers under normal industry sale and payment terms. As is common in the petroleum and natural gas industry in western Canada, Petrus' receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Of the $12.3 million of accounts receivable outstanding at June 30, 2021 (December 31, 2020 – $6.3 million), $8.8 million is owed from 4 parties (December 31, 2020 – $4.7 million from 3 parties), and the balances were received subsequent to June 30, 2021. The Company considers accounts receivable outstanding past 120 days to be 'past due'. At June 30, 2021, the Company had an allowance for doubtful accounts of $0.5 million (December 31, 2020 – $0.5 million). At June 30, 2021, 96% of Petrus' accounts receivable were aged less than 120 days and 4% 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, 2021, the Company had a $77.5 million RCF, on which $74.4 million was drawn (December 31, 2020 – $77.5 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. See additional discussion in note 5.

The following are the contractual maturities of financial liabilities as at June 30, 2021:

$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	11,370	11,370	—
Risk management liability	8,936	8,936	—
Bank indebtedness and current portion of long term debt(1)	113,114	113,114	—
Lease obligations	918	202	716
Total	**134,338**	**133,622**	**716**

(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 8). A 1% increase in the Canadian prime interest rate during the three months and six months ended June 30, 2021 would have increased net loss by approximately $0.9 million per year, 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 (June 30, 2020 – $1.0 million). A 1% decrease in the Canadian prime interest rate during the year would result in an opposite impact on net loss.

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

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

As at June 30, 2021, it was estimated that a $0.25/GJ decrease in the price of natural gas would have decreased net loss by $1.3 million (June 30, 2020 – $1.6 million). An opposite change in commodity prices would result in an opposite impact on net loss. As at June 30, 2021, it was estimated that a $5.00/ CDN WTI/bbl decrease in the price of oil would have decreased net loss by $1.5 million (June 30, 2020 – $1.1 million). An opposite change in commodity prices would result in an opposite impact on net loss.

14. CAPITAL MANAGEMENT

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

15. FINANCE EXPENSES

The components of finance expenses are as follows:

$000s	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Six months ended Jun. 30, 2021	Six months ended Jun. 30, 2020
Cash:				
Total cash finance expenses	1,444	1,831	2,474	3,919
Non-cash:				
Deferred financing costs	116	123	260	244
Non-cash term loan interest payment-in-kind	965	—	1,901	—
Accretion on decommissioning obligations *(note 7)*	196	110	318	292
Total non-cash finance expenses	1,277	233	2,479	536
Total finance expenses	**2,721**	**2,064**	**4,953**	**4,455**

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

$000s	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Six months ended Jun. 30, 2021	Six months ended Jun. 30, 2020
Source (use) in non-cash working capital:				
Deposits and prepaid expenses	(181)	73	(340)	(25)
Transaction costs on debt	14	(41)	(148)	(78)
Accounts receivable	(4,719)	2,017	(6,059)	7,104
Accounts payable and accrued liabilities	(285)	(5,533)	3,662	(4,762)
	(5,171)	**(3,484)**	**(2,885)**	**2,239**
Operating activities	(5,040)	(3,158)	(4,822)	3,406
Financing activities	—	217	—	157
Investing activities	(131)	(542)	1,937	(1,324)

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, 2020	**32**	**77,484**	**36,565**	**114,081**
Cash flows	(32)	(3,100)	—	(3,132)
Payment-in-kind	—	—	1,901	1,901
Non-cash changes	—	264	—	264
Balance, June 30, 2021	**—**	**74,648**	**38,466**	**113,114**

17. 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	12,482	2,045	9,309	1,128

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.

18. REVENUE

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

$000s	Three months ended Jun. 30, 2021	Three months ended Jun. 30, 2020	Six months ended Jun. 30, 2021	Six months ended Jun. 30, 2020
Production Revenue				
Oil and condensate sales	8,397	2,143	13,929	7,304
Natural gas sales	7,261	5,903	14,150	12,593
Natural gas liquids sales	3,784	959	7,620	3,255
Total oil and natural gas production revenue	**19,442**	**9,005**	**35,699**	**23,152**
Royalty revenue	111	36	193	233
Total oil and natural gas revenue	**19,553**	**9,041**	**35,892**	**23,385**

During the second quarter of 2021, the Company recorded $1 million as other income. This amount relates to the settlement of an outstanding dispute associated with the transportation and marketing of its Ferrier area condensate volume.

19. SUBSEQUENT EVENTS

Revolving Credit Facility
Subsequent to June 30, 2021, the lenders have extended the maturity date of the RCF from July 14 to August 13, 2021.

Term Loan
Subsequent to June 30, 2021, the Company extended the maturity of the Term Loan from September 14 to October 14, 2021.

CORPORATE INFORMATION

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President and
Chief Executive Officer

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