THIRD QUARTER REPORT

For the three and nine months ended September 30, 2016

Petrus Resources Ltd. ("Petrus" or the "Company") (TSX: PRQ) is pleased to report operating and financial results for the third quarter of 2016. Petrus continues to be committed to operating cost, capital cost and debt reduction and is focused on organic growth in its core area (Ferrier, Alberta). The Company is targeting liquids rich natural gas in the Cardium formation as well as investing in infrastructure in Ferrier to control operations and maximize the Company's return on investment.

- During the quarter, Petrus closed the previously announced disposition of oil and natural gas interests in the Peace River area of Alberta for $29.2 million after post closing adjustments. The disposition benefited the Company by reducing debt, operating costs and future decommissioning obligations.

- Third quarter production was 7,100 boe/d compared to 8,668 boe/d reported for the third quarter of 2015. The disposition of approximately 1,000 boe/d in the Peace River area, combined with certain dry natural gas production temporarily shut-in in the Foothills area, led to the 18% production decrease.

- The Company's current production is 8,500 boe/d; new volumes from the Company's capital development program replaced the production attributed to the divested assets. Year end production is expected to exceed 9,000 boe/d once the remaining 2016 drills are on stream.

- Operating expenses decreased 24% from $7.87 per boe in the third quarter of 2015 to $6.04 per boe in the third quarter of 2016. The decrease was attributable to the divestiture of the Peace River assets and investments in operated infrastructure in the Ferrier area, which enable Petrus to generate third party processing income.

- Third quarter operating expenses in the Ferrier area, on a per boe basis, have decreased approximately 50% from the third quarter of 2015 and Petrus expects a further decrease due to the expiration (October 31st) of a gas processing commitment at a third party facility, increased production volume from new drills and the entering into of a pipeline transportation agreement for Ferrier liquids volume.

- At the end of the third quarter the Company's total net debt ($124.3 million) was 45% lower than year end 2015 ($226.7 million). Interest cost savings attributable to the net debt reduction are in excess of 45%. Subsequent to quarter end, Petrus' lender syndicate reviewed its revolving first lien credit facility and unanimously agreed to maintain the facility at $106 million. At September 30, 2016 the facility was 81% drawn at $85.3 million.

- The Company recently drilled three 100% working interest wells in its Ferrier core area targeting liquids rich natural gas in the Cardium formation. Average drill and case costs were 18% lower than budget and 50% lower than comparable wells drilled in 2014 due to new techniques employed, reduced service costs and improved cycle time. Petrus plans to drill 5 wells (2.6 net) in the fourth quarter. The total second half capital budget, inclusive of facility and gathering infrastructure investments, is $17.5 million.

- Petrus generated funds from operations in the third quarter of $6.0 million compared to $10.8 million in the third quarter of 2015. The 23% decrease is due to a decline in realized commodity prices and 18% lower production which is due to the Peace River asset divestiture and a portion of Foothills production which is temporarily shut-in.

- The Company's realized hedging gain in the third quarter increased the Company's corporate netback by $4.06 per boe compared to $4.72 per boe realized in third quarter of the prior year. In the third quarter of 2016 natural gas hedges were in place for 87% of gas production at an average natural gas floor price of $2.64 per GJ.

SELECTED FINANCIAL INFORMATION

	Three months ended September 30, 2016	Three months ended September 30, 2015	Three months ended June 30, 2016	Three months ended March 31, 2016	Three months ended December 31, 2015
OPERATIONS ($000s except per boe)					
Average Production					
Natural gas (mcf/d)	30,009	32,505	33,071	35,456	31,217
Oil (bbl/d)	1,419	2,616	2,200	2,218	2,380
NGLs (bbl/d)	680	634	723	694	590
Total (boe/d)	**7,100**	**8,668**	**8,435**	**8,821**	**8,172**
Total (boe)	**653,215**	**797,439**	**767,585**	**802,744**	**751,845**
Natural gas sales weighting	**70%**	**62%**	**65%**	**67%**	**64%**
Realized Sales Prices					
Natural gas ($/mcf)	2.53	2.92	1.64	2.01	2.79
Oil ($/bbl)	44.50	50.91	46.68	34.52	48.27
NGLs ($/bbl)	15.56	16.14	8.47	18.18	30.52
Total ($/boe)	21.06	27.48	19.32	18.18	26.90
Hedging gain ($/boe)	4.06	4.72	6.87	7.84	6.68
Operating Netback ($/boe)					
Effective price	25.12	32.20	26.19	26.02	33.58
Royalty income	0.07	0.10	0.12	0.13	0.32
Royalty expense	(2.99)	(2.89)	(2.26)	(3.08)	(3.74)
Operating expense [(1)]	(6.04)	(7.87)	(7.65)	(8.52)	(11.00)
Transportation expense	(1.49)	(1.43)	(1.30)	(1.62)	(1.31)
Operating netback [(2)] ($/boe)	**14.67**	**20.11**	**15.10**	**12.93**	**17.85**
G & A expense [(3)]	(1.69)	(2.10)	(1.86)	(2.72)	(3.08)
Net interest expense [(4)]	(3.85)	(4.41)	(3.18)	(4.53)	(5.83)
Corporate netback [(2)] ($/boe)	**9.13**	**13.60**	**10.06**	**5.68**	**8.94**
FINANCIAL ($000s except per share)					
Oil and natural gas revenue	13,805	21,991	14,926	14,698	20,459
Funds from operations [(2)]	5,966	10,838	7,725	4,558	6,717
Funds from operations per share [(2)]	0.13	0.31	0.17	0.11	0.19
Net loss	(4,702)	(19,055)	(46,334)	(4,110)	(36,425)
Net loss per share	(0.10)	(0.54)	(1.02)	(0.10)	(1.04)
Capital expenditures	7,231	9,041	2,712	9,277	6,757
Net dispositions	29,718	—	—	—	—
Common shares outstanding	45,349	35,148	45,349	45,349	35,148
Weighted average shares	45,349	35,148	45,349	41,762	35,148
As at quarter end ($000s)					
Net debt [(2)(5)]	124,310	226,809	152,935	157,675	226,742
Bank debt outstanding	127,567	236,375	156,845	155,000	235,000
Bank debt available [(6)]	20,433	34,600	12,555	12,300	12,600
Shareholders' equity	263,214	280,118	267,573	313,936	243,904
Total assets	448,404	595,890	493,535	544,548	555,145

[(1)] *Operating expense is presented net of processing income and overhead recoveries.*
[(2)] *Non-GAAP measures are defined in the Non-GAAP section of the September 30, 2016 MD&A.*
[(3)] *G&A expense is presented net of capitalized general & administrative costs.*
[(4)] *Interest expense is presented net of other income and non-cash deferred finance expense.*
[(5)] *Net debt includes working capital (deficiency).*
[(6)] *$106 million credit facility less: $85.3 million drawn, $0.3 million letter of credit.*

OPERATIONS UPDATE

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

For the three months ended September 30, 2016	Ferrier	Foothills	Peace River	Central Alberta	Total
Average Production					
Natural gas (mcf/d)	15,411	5,897	139	8,562	14,598
Oil (bbl/d)	356	406	52	605	1,063
NGLs (bbl/d)	413	34	6	227	267
Total (boe/d)	**3,338**	**1,423**	**81**	**2,258**	**7,100**
Natural gas sales weighting	***77%***	***69%***	***29%***	***63%***	***70%***

Average production was 7,100 boe/d (30% oil and liquids) in the third quarter of 2016 compared to 8,668 boe/d (38% oil and liquids) reported for the third quarter of 2015. The disposition of approximately 1,000 boe/d in the Peace River area, combined with certain dry gas production temporarily shut-in in the Foothills area contributed to the 18% decrease in production. The Company's production is currently 8,500 boe/d as new volumes attributed to to the Company's development program have replaced the production from the divested assets. Year end production is expected to exceed 9,000 boe/d once the remaining new drills are on stream.

DEVELOPMENT ACTIVITY

During the third quarter of 2016 Petrus invested $7.2 million of its $17.5 million second half capital budget, which was funded by funds from operations. The Company’s capital development plan is focused on the Ferrier area, where Petrus drilled 2 wells (2.0 net) during the third quarter, and plans to drill an additional 5 wells (2.6 net) during the fourth quarter. The second half capital budget includes further investments in facility and gathering infrastructure.

The first well drilled during the third quarter commenced production mid October at an average restricted rate of approximately 425 boe/d. The well was Petrus’ first monobore drill with a cemented liner which was a significant departure from the previous methodology of an open hole system with intermediate casing and took 10 days from spud to rig release.

Petrus has finished drilling the next two wells of its program which were drilled from the same pad. Both wells have been frac’d and are currently on flow test. Technological advances and reduced service costs have led to a decrease of approximately 20% in Petrus' capital costs since early 2015. Petrus is focused on continuing to find efficiencies through the utilization of pad drilling, centralized frac water ponds and other efficiencies to continue to reduce capital costs.

Petrus also invested capital during the third quarter to expand its pipeline infrastructure to accommodate the drilling program and add a new main gathering line into the Ferrier gas processing facility. In addition, a new compressor has been added to the Ferrier gas plant, which is expected to improve throughput capability and operational flexibility. The current plant throughput is approximately 21 mmcf/d of a nominal 25 mmcf/d capacity. Petrus designed the plant to accommodate modular expansions and will consider an expansion in 2017 to accommodate additional growth. Petrus has drastically reduced operating costs in the Ferrier area from approximately $7.00 per boe in 2015 to approximately $3.50 per boe in the third quarter of 2016 and further cost reductions are anticipated. On October 31st, the Company’s processing commitment agreement through Strachan will expire resulting in approximately $170,000 per month of savings in un-utilized processing fees. Petrus also entered into an agreement to transport its Ferrier NGL volumes via pipeline in order to reduce future trucking costs.

In the nine months ended September 30, 2016, Petrus divested its assets in the Peace River area, and also closed the disposition of several other non-core, non-producing assets for total consideration of $29.7 million after post closing adjustments. The divestitures enabled Petrus to reduce debt and also to reduce future abandonment obligations, resulting in an improved LMR over 3.3. On September 30th Petrus closed the previously announced cashless property swap transaction whereby Petrus disposed of non-core assets in its Foothills area with production of approximately 250 boe/d, associated land and a working interest in non-operated production facilities. In exchange Petrus acquired production of approximately 400 boe/d and approximately 40% working interest in eight sections of predominantly undeveloped land in its Ferrier core area.

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

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is management's discussion and analysis ("MD&A") of the financial and operating results of the Company as at and for the three and nine month periods ended September 30, 2016. The report is dated November 9, 2016. This MD&A should be read in conjunction with the September 30, 2016 interim consolidated financial statements as well as the December 31, 2015 annual financial statements. Readers are directed to the advisories at the end of this report regarding forward-looking statements and BOE presentation and to the section "Non-GAAP measures" herein.

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Three months ended September 30, 2016	Three months ended September 30, 2015	Three months ended June 30, 2016	Three months ended March 31, 2016	Three months ended December 31, 2015
Quarterly average production					
Natural gas (mcf/d)	30,009	32,505	33,071	35,456	31,217
Oil (bbl/d)	1,419	2,616	2,200	2,218	2,379
NGLs (bbl/d)	680	634	723	694	590
Total (boe/d)	**7,100**	**8,668**	**8,435**	**8,821**	**8,172**
Total (boe)	653,215	797,439	767,585	802,744	751,845
Revenue (000s)					
Natural Gas	6,975	8,718	4,929	6,476	7,999
Oil	5,809	12,254	9,345	6,967	10,566
NGLs	973	942	558	1,148	1,655
Commodity revenue	13,758	21,914	14,832	14,591	20,220
Royalty revenue	47	77	94	107	239
Oil and natural gas revenue	13,805	21,991	14,926	14,698	20,459
Average realized prices					
Natural gas ($/mcf)	2.53	2.92	1.64	2.01	2.79
Oil ($/bbl)	44.50	50.91	46.68	34.52	48.27
NGLs ($/bbl)	15.56	16.14	8.47	18.18	30.52
Total ($/boe)	21.06	27.48	19.32	18.18	26.90
Hedging gain ($/boe)	4.06	4.72	6.87	7.84	6.68
Total realized ($/boe)	25.12	32.20	26.19	26.02	33.58

Average benchmark prices	Three months ended September 30, 2016	Three months ended September 30, 2015	Three months ended June 30, 2016	Three months ended March 31, 2016	Three months ended December 31, 2015
Natural gas					
AECO (C$/mcf)	2.21	2.91	1.45	1.84	2.47
Crude Oil					
Edm Lt. (C$/ bbl)	54.26	54.95	55.04	41.22	52.52
Foreign Exchange					
US$/C$	0.76	0.76	0.78	0.73	0.75

OIL AND NATURAL GAS REVENUE

Average production for the third quarter of 2016 was 7,100 boe/d (30% oil and liquids), compared to 8,668 boe/d (38% oil and liquids) for the third quarter of 2015 due to the sale of the Company's Peace River assets. Total commodity revenue decreased from $21.9 million in the third quarter of 2015 to $13.8 million in the third quarter of 2016 due to lower commodity prices as well as the sale of the Company's Peace River assets.

Average production for the first nine months of 2016 was 8,115 boe/d (67% natural gas), compared to 8,964 boe/d (60% natural gas) for the prior year comparative period. Due to decreased commodity prices as well as the sale of the Company's Peace River assets, total commodity revenue decreased from $74.1 million in the first nine months of 2015 to $43.4 million in the nine months ended September 30, 2016.

Natural gas

During the three and nine months ended September 30, 2016, the benchmark natural gas price in Canada (set at the AECO hub) decreased by 24% and 32%, respectively, from the same periods in the prior year (average price of $2.21 per mcf in the third quarter of 2016 compared to $2.91 per mcf in the third quarter of the prior year and $1.79 per mcf for the first nine months of 2016, compared to $2.63 per mcf for the comparative period in 2015).

The Company’s average realized natural gas price during the third quarter of 2016 was $2.53 per mcf, compared to $2.92 per mcf in the third quarter of 2015, which represents a 13% decrease. Natural gas revenue for the third quarter of 2016 was $7.0 million and production of 2,760,858 mcf accounted for approximately 70% of third quarter production volume and 51% of commodity revenue (compared to revenue of $8.7 million and production of 2,990,452 mcf for 62% of production volume and 40% of commodity revenue in the prior year comparative period). Natural gas revenue decreased from the prior year due to decreased commodity prices and the sale of the Company's Peace River assets.

Natural gas revenue for the first nine months of 2016 was $18.4 million and production of 8,996,864 mcf accounted for approximately 67% of production volume in the period and 43% of commodity revenue, compared to revenue of $26.3 million and production of 8,840,075 mcf for 60% of production volume and 35% of commodity revenue in the prior year comparative period. The decrease in natural gas revenue was due to the decline in commodity prices.

Crude oil and condensate

Edmonton Light Sweet ("Edmonton") crude oil prices decreased 1% from the third quarter of 2015 to the third quarter of 2016 (an average price of $54.26 per bbl for the third quarter of 2016 compared to an average price of $54.95 per bbl for the prior year comparative period). Prices decreased 15% from the first nine months of 2015 to the first nine months of 2016 ($50.19 for the first nine months of 2016 compared to an average price of $59.19 for the prior year comparative period).

The average realized price of Petrus’ crude oil and condensate was $44.50 per bbl for the third quarter of 2016 compared to $50.91 per bbl for the same period in the prior year. For the first nine months of 2016, the average realized price of Petrus’ crude oil and condensate was $41.54 compared to $54.35 for the same period in 2015.

Oil and condensate revenue for the third quarter of 2016 was $5.8 million and production of 130,529 bbl accounted for approximately 20% of total production volume and 42% of commodity revenue, compared to revenue of $12.3 million and production of 240,685 bbl for 30% of total production volume and 56% of commodity revenue in the third quarter of the prior year.

Oil and condensate revenue for the first nine months of 2016 was $22.1 million and production of 532,524 bbl accounted for approximately 24% of total production volume and 51% of commodity revenue, compared to revenue of $44.0 million and production of 816,796 bbl for 33% of total production volume and 60% of commodity revenue in the first nine months of the prior year.

Oil and condensate revenue decreased from the prior year as a result of the decline in commodity prices and production volumes (due in part to asset dispositions).

Natural gas liquids (NGLs)

The Company’s NGL production mix consists of ethane, propane, butane, pentane and sulphur. The pricing received for NGL production is based on the product mix, the fractionation process required and the demand for fractionation facilities. In the third quarter of 2016, the overall realized NGL price averaged $15.56 per bbl, compared to $16.14 per bbl in the prior year. In the first nine months of 2016, the overall realized NGL price averaged $13.99 per bbl, compared to $23.63 per bbl in the prior year.

NGL revenue for the third quarter of 2016 was $1.0 million and production of 62,544 bbl accounted for approximately 10% of production volume and 7% of commodity revenue in the third quarter, compared to revenue of $0.9 million and production of 58,336 bbl for 7% of production volume and 4% of commodity revenue for the third quarter of the prior year. NGL revenue for the first nine months of 2016 was $2.7 million and production of 191,543 bbl accounted for approximately 9% of production volume and 6% of commodity revenue in the period, compared to revenue of $3.8 million and production of 156,006 bbl for 7% of production volume and 5% of commodity revenue in the first nine months of the prior year.

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

NON-GAAP MEASURES

Petrus uses key performance indicators and industry benchmarks such as "funds from operations", "funds from operations per share", and "net debt" to analyze financial and operating performance. These indicators are not defined by IFRS and therefore may not be comparable to performance measures presented by other companies. Management believes that in addition to net income (loss), the aforementioned non-GAAP measurements are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage and liquidity. Investors should be cautioned, however, that these measures should not be construed as an alternative to both net income (loss) and net cash from operating activities, which are determined in accordance with IFRS, as indicators of the Company's performance.

Funds from Operations

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

($000s)	**Nine months ended September 30, 2016**	Nine months ended September 30, 2015	**Three months ended September 30, 2016**	Three months ended September 30, 2015
Funds from operating activities	**23,047**	6,768	**6,438**	11,141
Changes in non-cash working capital	**(5,045)**	30,779	**(500)**	(303)
Decommissioning expenditures	**248**	571	**28**	—
Funds from operations	**18,250**	**38,118**	**5,966**	**10,838**

Operating Netback

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

Corporate Netback

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

Net Debt

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

($000s)	**As at September 30, 2016**	As at September 30, 2015
Current assets [(1)]	**17,334**	17,879
Less: current liabilities [(2)]	**(14,377)**	(8,313)
Less: bank debt	**(127,267)**	(236,375)
Working capital (net debt)	**(124,310)**	**(226,809)**

(1) Excluding risk management asset.
(2) Excluding debt and risk management liability.

FUNDS FROM OPERATIONS AND EARNINGS

Petrus generated funds from operations of $6.0 million during the quarter ended September 30, 2016 ($10.8 million during the third quarter of 2015). On a nine month basis, funds from operations were $18.3 million, compared to $38.1 million for the prior year comparative period. The quarterly average natural gas (AECO C$/mcf) price decreased 24% from the third quarter of 2015 to the third quarter of 2016 and 32% for the nine month period. The average Edmonton crude (Edm. Lt. C$/bbl) price decreased 1% and 15% for the three and nine month periods, respectively.

Petrus reported a net loss of $4.7 million in the third quarter of 2016, compared to a net loss of $19.1 million in the third quarter of the prior year. On a nine month basis, the Company incurred a net loss of $55.1 million in the first nine months of 2016, compared to a net loss of $32.6 million in the comparable period of 2015. The increased loss reported for the nine month period ended September 30, 2016 compared to the previous year was due to the impairment loss incurred during the second quarter of 2016. The following table provides detail on the Company's funds from operations on a boe basis.

	Nine months ended September 30, 2016		Nine months ended September 30, 2015		Three months ended September 30, 2016		Three months ended September 30, 2015	
	$000s	$/boe	$000s	$/boe	$000s	$/boe	$000s	$/boe
Oil and natural gas revenue	43,181	19.42	73,913	28.37	13,758	21.06	21,914	27.48
Transportation	(3,270)	(1.47)	(4,263)	(1.64)	(971)	(1.49)	(1,142)	(1.43)
Net revenue	39,911	17.95	69,650	26.73	12,787	19.57	20,772	26.05
Royalty expense	(6,160)	(2.77)	(9,153)	(3.51)	(1,951)	(2.99)	(2,308)	(2.89)
Royalty revenue	248	0.11	214	0.08	47	0.07	77	0.10
Net oil and natural gas revenue	**33,999**	**15.29**	**60,711**	**23.30**	**10,883**	**16.65**	**18,541**	**23.26**
Operating expense [1]	(16,655)	(7.49)	(20,209)	(7.76)	(3,945)	(6.04)	(6,277)	(7.87)
Hedging gain	14,220	6.40	11,543	4.43	2,652	4.06	3,767	4.72
General & administrative [2]	(4,715)	(2.12)	(5,181)	(1.99)	(1,107)	(1.69)	(1,674)	(2.10)
Interest expense [3]	(8,598)	(3.87)	(8,746)	(3.36)	(2,517)	(3.85)	(3,519)	(4.41)
Funds from operations	**18,251**	**8.21**	**38,118**	**14.62**	**5,966**	**8.71**	**10,838**	**13.60**

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

(000s except per share)	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Three months ended September 30, 2016	Three months ended September 30, 2015
Funds from operations	**18,251**	38,118	**5,966**	10,838
Funds from operations/share	**0.41**	1.08	**0.13**	0.31
Net loss	**(55,146)**	(32,579)	**(4,702)**	(19,055)
Net loss per share	**(1.25)**	(0.93)	**(0.10)**	(0.54)
Common shares	**45,349**	35,148	**45,349**	35,148
Weighted average shares	**44,158**	35,148	**45,349**	35,148

RESULTS OF OPERATIONS

Royalty Expenses

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

Royalty Expenses ($000s)	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Three months ended September 30, 2016	Three months ended September 30, 2015
Crown	**3,201**	5,140	**555**	1,256
% of production revenue	**7%**	7%	**4%**	6%
Gross overriding	**2,959**	4,013	**1,396**	1,052
Total	**6,160**	**9,153**	**1,951**	**2,308**

Total royalty expenses (net of royalty allowances and incentives) decreased from $2.3 million in the third quarter of 2015 to $2.0 million in the third quarter of 2016. The decrease was attributable to lower commodity prices and production. On a nine month basis, total royalties paid decreased from $9.2 million in 2015 to $6.2 million in 2016. The decreases were the result of lower royalties paid due to lower commodity prices and lower production.

Gross overriding royalties increased from $1.1 million in the third quarter of 2015 to $1.4 million in the third quarter of 2016 due to additional wells being drilled on land with gross overriding royalty burdens. The gross overriding royalties decreased from $4.0 million in the first nine months of 2015 to $3.0 million in the comparable period of 2016. The decrease was due primarily to lower commodity prices.

Risk Management

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility, increase the certainty of funds from operations and to protect acquisition and development economics. Petrus' risk management program is governed by guidelines approved by its Board of Directors. Petrus aims to hedge 60 to 70% of its 12 month production forecast and 30 to 40% of the following year production forecast. In the third quarter of 2016, the realized hedging gain increased the Company's effective realized commodity price by $4.06 per boe which was 14% lower than the $4.72 per boe realized in the third quarter of the prior year.

The impact of the contracts which were outstanding during the reporting periods are actual cash settlements and are recorded as realized hedging gains (losses). These affect the Company's realized commodity price. The unrealized gain (loss) is recorded to demonstrate the change in fair value of the outstanding contracts during the financial reporting period 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:

Other Income ($000s)	**Nine months ended September 30, 2016**	Nine months ended September 30, 2015	**Three months ended September 30, 2016**	Three months ended September 30, 2015
Realized hedging gain	**14,220**	11,543	**2,652**	3,767
Unrealized hedging gain (loss)	**(12,307)**	(3,842)	**(796)**	5,205
Total gain on derivatives	**1,913**	**7,701**	**1,856**	**8,972**

Weakened commodity prices resulted in a realized hedging gain of $2.7 million during the third quarter of 2016, compared to a $3.8 million gain realized in the same quarter of the prior year. The third quarter realized gain increased the Company's total realized price by $4.06 per boe, compared to an increase of $4.72 per boe in the third quarter of the prior year.

The unrealized hedging loss of $0.8 million for the three months ended September 30, 2016 represents the change in the unrealized risk management net asset position during the quarter. This change is the result of both the realization of hedging gains in the quarter, changes related to contracts entered into during the quarter as well as changes to commodity prices. At quarter end, the unrealized risk management net asset mark-to-market value was $1.6 million.

The Company's risk management contracts provide protection from crude oil and natural gas prices for 2016 to 2018. For a complete listing of Petrus' risk management contracts see the Company's September 30, 2016 interim consolidated financial statements (Note 9). The table below summarizes Petrus' average crude oil and natural gas hedged volumes. The 1,350 bbl/d of oil hedged in the third quarter of 2016 represents 64% of third quarter average liquids (oil and NGL) production. The 27,200 GJ per day of natural gas hedged in the third quarter of 2016 represents 91% of third quarter average natural gas production.

	2016					**2017**					**2018**
	Q1	**Q2**	**Q3**	**Q4**	**Avg.**	**Q1**	**Q2**	**Q3**	**Q4**	**Avg.**	**Q1**
Oil hedged (bbl/d)	1,700	1,600	1,350	1,350	**1,500**	1,100	1,200	1,100	800	**1,050**	600
Average WTI cap price (C$/bbl)	82.15	76.97	76.94	77.13	**78.42**	77.55	71.71	66.35	71.08	**71.67**	68.81
Average WTI floor price (C$/bbl)	68.93	68.39	66.67	66.67	**67.77**	69.55	65.65	62.16	60.63	**64.80**	57.50
Natural gas hedged (GJ/d)	28,785	27,634	27,200	22,200	**26,455**	21,000	18,650	18,650	13,500	**17,950**	13,500
Average AECO cap price (C$/GJ)	3.07	2.76	2.76	3.02	**2.91**	3.20	2.68	2.68	2.85	**2.85**	2.94
Average AECO floor price (C$/GJ)	3.07	2.64	2.64	2.83	**2.80**	2.96	2.65	2.65	2.79	**2.76**	2.86

Operating Expenses

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

Operating Expenses ($000s)	**Nine months ended September 30, 2016**	Nine months ended September 30, 2015	**Three months ended September 30, 2016**	Three months ended September 30, 2015
Operating expense, net (1)	**16,655**	20,209	**3,945**	6,277
Operating expense, net ($ per boe)	**7.49**	9.49	**6.04**	7.87

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

Operating expenses (presented net of processing income) totaled $3.9 million for the third quarter of 2016, a 37% decrease from $6.3 million recorded in the third quarter of the prior year. The decrease was attributable to investments in facilities designed to reduce third party processing fees. The divestiture of Petrus' Peace River assets contributed to the decrease in operating costs. In addition, processing income generated from third parties contributed to the lower net operating expenses. On a per boe basis, operating expenses were $6.04 in the third quarter, which was 23% lower than the $7.87 per boe incurred in the third quarter of the prior year.

On a nine month basis operating expenses totaled $16.7 million in 2016 ($7.49 per boe) and $20.2 million ($9.49 per boe) in 2015. The 21% decrease on a per boe basis was attributable to investment in facilities designed to reduce operating costs as well as the divestiture of higher cost structure assets.

Transportation Expenses

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

Transportation Expenses ($000s)	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Three months ended September 30, 2016	Three months ended September 30, 2015
Transportation expense	**3,270**	4,263	**971**	1,142
Transportation expense ($ per boe)	**1.47**	1.64	**1.49**	1.43

Petrus pays commodity and demand charges for transporting its gas on various pipeline systems. The Company also incurs trucking costs on the portion of its oil and natural gas liquids production that is not pipeline connected. Transportation expenses totaled $1.0 million or $1.49 per boe in the third quarter of 2016 ($1.1 million or $1.43 per boe for the comparative period of 2015). On a nine month basis transportation expenses totaled $3.3 million in 2016 ($1.47 per boe) and $4.3 million ($1.64 per boe) in 2015. The reduction in transportation expenses for the three and nine month periods was attributable to asset divestitures and lower production volume.

General and Administrative Expenses

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

General and Administrative Expenses ($000s)	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Three months ended September 30, 2016	Three months ended September 30, 2015
Gross general and administrative expense	**5,882**	6,697	**1,477**	2,244
Capitalized general and administrative	**(1,167)**	(1,516)	**(370)**	(570)
Net general and administrative expense	**4,715**	**5,181**	**1,107**	**1,674**
Share based compensation expense	**523**	936	**142**	112
Capitalized share based compensation	**(209)**	(355)	**(57)**	(25)
Total net general and administrative	**5,029**	**5,762**	**1,192**	**1,761**
Total ($ per boe)	**2.26**	**2.21**	**1.83**	**2.21**

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

General and Administrative Expenses ($000s)	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Three months ended September 30, 2016	Three months ended September 30, 2015
Personnel, consultants and directors	**3,308**	4,475	**1,003**	1,646
Regulatory expenses	**641**	475	**—**	85
Office costs	**1,523**	1,399	**437**	475
Subscriptions & licenses	**133**	202	**37**	39
Public company expenses	**248**	—	**—**	—
Transaction costs	**29**	46	**—**	—
Capitalized general and administrative	**(1,167)**	(1,416)	**(370)**	(571)
Total general and administrative expense	**4,715**	**5,181**	**1,107**	**1,674**

Third quarter 2016 net general and administrative expenses (excluding non-cash share based compensation), totaled $1.1 million or $1.69 per boe (compared to $1.7 million or $2.10 per boe in the third quarter of 2015). The decrease was due to reduced personnel costs incurred compared to the prior year. As a result of the significant decline in commodity prices, Petrus reorganized corporate and field personnel responsibilities subsequent to the second quarter of the prior year which led to a reduction in the number of employees and contractors. All other compensation was also reduced in the fall of 2015.

Net general and administrative expenses for the nine months ended September 30, 2016 totaled $4.7 million ($2.12 per boe) $5.2 million ($1.99 per boe) for the nine months ended September 30, 2015. Salaries and consulting fees were lower in the three and nine month periods ended September 30, 2016 as compared to the prior year due to staff and cost reductions implemented. Offsetting the decrease in personnel costs, Petrus incurred higher transaction, regulatory and public company expenses in 2016 compared to 2015 as a result of the financing transactions and public listing undertaken in the first quarter of 2016.

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

Finance

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

Finance Expenses ($000s)	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Three months ended September 30, 2016	Three months ended September 30, 2015
Interest expense	**8,545**	9,418	**2,512**	3,553
Foreign exchange loss (gain)	**49**	(567)	**—**	—
Total cash finance expenses	**8,594**	**8,851**	**2,512**	**3,553**
Deferred financing costs	**—**	654	**—**	315
Accretion on decommissioning obligations	**251**	908	**44**	310
Total finance expense	**8,845**	**10,413**	**2,556**	**4,178**

The Company incurred total finance expenses of $2.6 million in the third quarter of 2016, comprised of $0.04 million of non-cash accretion of its decommissioning liability and $2.5 million of cash interest expense related to its credit facilities and term loan. In the third quarter of 2015, Petrus incurred total finance expenses of $4.2 million, comprised of $0.3 million of non-cash accretion expense, $3.6 million cash interest expense and $0.3 million in non-cash deferred financing costs. The significant decrease was due to financing activities and asset dispositions undertaken in order to reduce debt. On a nine month basis, cash finance expenses decreased 3% from 2015 to 2016 as the significant reduction in cash interest expense was offset by a one time foreign exchange gain realized in 2015.

Depletion and Depreciation

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

Depletion and Depreciation ($000s)	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Three months ended September 30, 2016	Three months ended September 30, 2015
Depletion	**34,413**	42,252	**9,587**	12,163
Depreciation	**83**	108	**28**	44
Total	**34,496**	**42,360**	**9,615**	**12,207**
Depletion ($ per boe)	**15.47**	16.21	**14.68**	15.22
Depreciation ($ per boe)	**0.04**	0.04	**0.04**	0.06
Total ($ per boe)	**15.51**	**16.25**	**14.72**	**15.28**

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 costs. Such costs are segregated and depleted on an area by area basis relative to the respective underlying proved plus probable reserve base.

Petrus recorded depletion expense in the third quarter of 2016 of $9.6 million or $14.68 per boe, compared to the third quarter of 2015, when 12.2 million or $15.22 per boe was recorded. On a nine month basis depletion expense was $34.4 million ($15.47 per boe) in 2016 and $42.3 million ($16.21 per boe) in 2015. On a three and nine month basis, depletion expense has decreased from the comparable periods of the prior year due to the divestiture of the Peace River assets. Depreciation expense is not significant as most depreciable assets were fully depreciated in the prior year.

Impairment

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

Impairment ($000s)	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Three months ended September 30, 2016	Three months ended September 30, 2015
Impairment	**25,000**	28,541	**—**	28,541
Total	**25,000**	**28,541**	**—**	**28,541**

Petrus did not recognize an impairment loss in the three months ended September 30, 2016, compared to the three and nine months ended September 30, 2015 where an impairment loss of $28.5 million was recorded. Petrus recorded an impairment loss of $25.0 million in the nine month period ended September 30, 2016 in conjunction with classification of certain assets located in the Peace River area of Alberta as assets held for sale. The disposition closed during the third quarter.

SHARE CAPITAL

The authorized share capital consists of an unlimited number of common shares. The following table details the number of issued and outstanding instruments for the periods shown:

Share Capital (000s)	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Three months ended September 30, 2016	Three months ended September 30, 2015
Weighted average outstanding common shares				
Basic	**44,158**	35,148	**45,349**	35,148
Diluted	**44,158**	35,148	**45,349**	35,148
Outstanding instruments				
Common shares	**45,349**	35,148	**45,349**	35,148
Stock options	**1,454**	1,552	**1,454**	1,552
Performance warrants	**1,569**	1,569	**1,569**	1,569

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

LIQUIDITY AND CAPITAL RESOURCES

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

(a) Revolving Credit Facility

At September 30, 2016 the Company's RCF was comprised of a $6 million operating facility and a $100 million syndicated term-out facility. The term-out facility has a revolving period that ends July 29, 2017 at which time it will either be renewed or converted to a one-year term facility. The Company has provided collateral by way of a $600 million debenture over all of the present and after acquired property of the Company.

At September 30, 2016, the Company had a $0.3 million letter of credit outstanding against the RCF (December 31, 2015 – $2.4 million), had drawn $85.3 million against the RCF (December 31, 2015 – $145 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.

(b) Term Loan

At September 30, 2016 the Company had a $42 million (December 31, 2015 – $90 million) Term Loan outstanding which is repayable on October 8, 2017. Interest is due and payable monthly and accrues at a per annum rate of the (three-month) Canadian Dealer offered Rate (CDOR) plus 700 basis points.

The Company is subject to certain financial covenants under its revolving credit facility and term loan. These types of financial covenants are typical for similar lending arrangements and include working capital, debt to EBITDA and asset coverage covenants, have not changed since December 31, 2015. At September 30, 2016 the Company was not in breach of any financial covenants. Petrus completed its semi-annual review of its revolving credit facility on October 31, 2016, whereby the syndicate of lenders unanimously agreed to maintain the facility at $106 million. Lender consent is required for total borrowings against the RCF exceeding $100.5 million.

Liquidity Risk

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

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

Petrus anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available credit capacity on its RCF. The Company is exposed to the risk of reductions to its borrowing base for purposes of the RCF or Term Loan. Petrus completed its semi-annual review of its revolving credit facility on October 31, 2016, whereby the syndicate of lenders unanimously agreed to maintain the facility at $106 million. Lender consent is required for total borrowings against the RCF exceeding $100.5 million. The next scheduled borrowing base redetermination date for the RCF is May 31, 2017. The Company is currently reviewing debt refinancing and equity financing options and believes that it will have adequate financing in order to satisfy its financial liabilities with respect to its bank debt.

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

($000s)	Total	< 1 year	1-5 years	> 5 years
Accounts payable	14,377	14,377	—	—
Risk management liability	1,692	1,099	593	—
Bank debt	127,267	—	127,267	—
Total	**143,335**	**15,476**	**127,860**	**—**

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

($000s)	Total	< 1 year	1-5 years	> 5 years
Corporate office lease	2,469	798	1,670	—
Firm service transportation	7,709	815	4,074	2,821
Total commitments	**10,178**	**1,613**	**5,744**	**2,821**

Risk Management
Petrus is engaged in the development, acquisition, exploration and production 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 our business strategy. Financial risks associated with the petroleum 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, and regulatory, environment and safety concerns.

For a further and more in-depth discussion of risk management, see the Company's annual financial statements and the Company's Annual Information Form for the year ended December 31, 2015.

CAPITAL EXPENDITURES

Capital expenditures, totaled $7.2 million in the third quarter of 2016, compared to $9.0 million in the third quarter of the prior year (excluding acquisitions and dispositions). In the nine month period ended September 30, 2016 Petrus invested $19.2 million in capital expenditures, compared to $47.7 million in the prior year. During this nine month period, Petrus invested in facilities and infrastructure, as well as the drilling, completion and tie-in of six (4.7 net) wells in the Ferrier area. The following table shows capital expenditures for the reporting periods indicated. All capital is presented before decommissioning obligations.

Capital Expenditures ($000s)	**Nine months ended September 30, 2016**	Nine months ended September 30, 2015	**Three months ended September 30, 2016**	Three months ended September 30, 2015
Drill and complete	**11,389**	27,258	**4,003**	4,045
Oil and gas equipment	**6,505**	18,529	**2,838**	4,127
Geological	**—**	302	**—**	1
Land and lease	**159**	106	**20**	56
Office	**—**	101	**—**	241
Capitalized general and administrative	**1,167**	1,416	**370**	571
Total	**19,220**	**47,712**	**7,231**	**9,041**
Acquisitions/(dispositions)	**(29,718)**	938	**(29,718)**	—
Total capital	**(10,498)**	**48,650**	**(22,487)**	**9,041**
Gross (net) wells spud	**6 (4.7)**	**6 (5.9)**	**2 (2.0)**	**—**

SUMMARY OF QUARTERLY RESULTS

	Three months ended							
($000s) except per share & boe amounts	**Sep. 30, 2016**	**Jun. 30, 2016**	**Mar. 31, 2016**	**Dec. 31, 2015**	**Sep. 30, 2015**	**Jun. 30, 2015**	**Mar. 31, 2015**	**Dec. 31, 2014**
Average Production								
Natural gas (mcf/d)	30,009	33,071	35,456	31,217	32,505	31,103	31,525	34,626
Oil (bbl/d)	1,419	2,200	2,218	2,380	2,616	2,811	3,559	2,998
NGLs (bbl/d)	680	723	694	590	634	560	519	1,053
Total (boe/d)	**7,100**	**8,435**	**8,821**	**8,172**	**8,668**	**8,890**	**9,333**	**9,822**
Total (boe)	**653,215**	**767,585**	**802,744**	**751,845**	**797,439**	**808,947**	**839,927**	**903,620**
Financial Results								
Commodity revenue	**13,758**	**14,832**	**14,591**	**20,221**	**21,914**	**26,576**	**25,423**	**35,575**
Transportation	(971)	(1,000)	(1,298)	(986)	(1,142)	(1,561)	(1,560)	(1,126)
Net revenue	**12,787**	**13,832**	**13,293**	**19,235**	**20,772**	**25,015**	**23,863**	**34,449**
Royalty expense [(1)]	(1,951)	(1,734)	(2,475)	(2,809)	(2,308)	(3,020)	(3,825)	(3,958)
Royalty income [(1)]	47	94	107	238	77	65	72	423
Net oil and natural gas revenue	10,883	12,192	10,925	16,664	18,541	22,060	20,110	30,914
Operating expense [(2)]	(3,945)	(5,872)	(6,837)	(8,269)	(6,277)	(7,396)	(6,536)	(5,815)
Hedging gain (loss)	2,652	5,273	6,294	5,020	3,767	2,894	4,881	3,371
General and administrative expense [(3)]	(1,107)	(1,426)	(2,183)	(2,318)	(1,674)	(1,843)	(1,664)	(2,117)
Interest expense [(4)]	(2,512)	(2,442)	(3,641)	(4,380)	(3,519)	(3,166)	(2,256)	(1,744)
Funds from operations	**5,966**	**7,725**	**4,558**	**6,717**	**10,838**	**12,549**	**14,535**	**24,609**
Total oil and natural gas revenue	**13,805**	**14,926**	**14,698**	**20,459**	**21,991**	**26,641**	**25,495**	**35,998**
Per share - basic	0.30	0.33	0.35	0.58	0.63	0.76	0.73	1.02
Per share - diluted	0.30	0.33	0.35	0.58	0.63	0.76	0.73	1.02
Net income (loss)	**(4,702)**	**(46,334)**	**(4,110)**	**(36,425)**	**(19,055)**	**(7,239)**	**(6,312)**	**(63,308)**
Per share - basic	(0.10)	(1.02)	(0.10)	(1.04)	(0.54)	(0.21)	(0.18)	(1.80)
Per share - diluted	(0.10)	(1.02)	(0.10)	(1.04)	(0.54)	(0.21)	(0.18)	(1.80)
Common shares (000s)	**45,349**	**45,349**	**45,349**	**35,148**	**35,148**	**35,148**	**35,148**	**35,148**
Weighted average shares (000s)	45,349	45,349	41,762	35,148	35,148	35,148	35,148	35,148
Total assets	448,404	493,535	544,548	555,145	595,890	627,808	641,547	647,304
Net working capital (net debt)	**(124,310)**	**(152,935)**	**(157,675)**	**(226,742)**	**(226,809)**	**(228,562)**	**(227,607)**	**(215,049)**

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

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

Petrus' average quarterly production has decreased from 9,822 boe/d in the fourth quarter of 2014 to 7,100 boe/d in the third quarter of 2016. The production decline is attributable to natural production declines in addition to the disposition of the Company's assets in the Peace River area.

The Company's total commodity revenue was $35.6 million in the fourth quarter of 2014 and $13.8 million in the third quarter of 2016. Total commodity revenue has decreased due to lower production volume and a significant reduction in commodity prices over the two year period. Commodity price improvements enable higher reinvestment in exploration, development and acquisition activities in future periods as they increase the funds received from operations. Commodity price reductions reduce revenues received and can challenge the economics of the Corporation's development program as the quantity of reserves may not be economically recoverable. Petrus' reinvestment in future reserves will be dependent on its ability to obtain debt and equity financing as well as the funds it receives from operations.

CRITICAL ACCOUNTING ESTIMATES

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

Depletion and reserve estimates

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

Impairment indicators and cash-generating units

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

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

Technical feasibility and commercial viability of exploration and evaluation assets

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

Decommissioning obligation

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

Income taxes

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

Measurement of share-based compensation

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

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

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

OTHER FINANCIAL INFORMATION

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

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

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

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

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

ADVISORIES

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

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

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

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

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

BOE Presentation

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

Abbreviations

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

CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

(Expressed in 000's of Canadian dollars)

As at	September 30, 2016	December 31, 2015
ASSETS		
Current		
Cash	5,062	1,234
Investments	1,000	—
Deposits and prepaid expenses	1,577	1,109
Accounts receivable *(note 14)*	9,696	17,754
Risk management asset *(note 9)*	3,172	13,978
	20,507	**34,075**
Non-current		
Risk management asset *(note 9)*	148	—
Exploration and evaluation assets *(notes 4 and 5)*	71,074	88,178
Property, plant and equipment *(notes 4 and 6)*	356,675	432,892
	427,897	**521,070**
	448,404	**555,145**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current portion of long term debt *(note 7)*	—	130,000
Accounts payable and accrued liabilities *(note 14)*	14,377	11,839
Risk management liability *(note 9)*	1,099	45
	15,476	**141,884**
Non-Current Liabilities		
Long term debt *(note 7)*	127,267	105,000
Decommissioning obligation *(note 8)*	41,854	64,357
Risk management liability *(note 9)*	593	—
	185,190	**311,241**
Shareholders' Equity		
Share capital *(note 10)*	420,039	346,106
Contributed surplus	7,143	6,620
(Deficit)	(163,968)	(108,822)
	263,214	**243,904**
	448,404	**555,145**

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

Approved by the Board of Directors,

(signed) "Don T. Gray"

Don T. Gray
Chairman

(signed) "Donald Cormack"

Donald Cormack
Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

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

	Three months ended Sept 30, 2016	Three months ended Sept 30, 2015	Nine months ended Sept 30, 2016	Nine months ended Sept 30, 2015
REVENUE				
Oil and natural gas revenue	**13,805**	**21,991**	**43,429**	**74,128**
Royalty expense	(1,951)	(2,308)	(6,160)	(9,153)
Oil and natural gas revenue, net of royalties	**11,854**	**19,683**	**37,269**	**64,975**
Other income (expense)	(5)	33	(5)	105
Net gain on financial derivatives *(note 9)*	1,856	8,972	1,913	7,701
	13,705	**28,688**	**39,177**	**72,781**
EXPENSES				
Operating *(note 12)*	3,945	6,277	16,655	20,209
Transportation	971	1,142	3,270	4,263
General and administrative *(note 13)*	1,107	1,674	4,715	5,181
Share-based compensation *(note 10)*	85	87	314	581
Finance *(note 16)*	2,556	4,178	8,845	10,413
Exploration and evaluation *(note 5)*	644	816	1,543	4,020
Depletion and depreciation *(note 6)*	9,615	12,207	34,497	42,360
Loss (gain) on sale of assets *(note 4)*	(516)	—	(516)	52
Impairment *(notes 5 and 6)*	—	28,541	25,000	28,541
	18,407	**54,922**	**94,323**	**115,620**
NET LOSS BEFORE INCOME TAXES	**(4,702)**	**(26,234)**	**(55,146)**	**(42,839)**
Deferred income tax recovery	—	7,179	—	10,262
	—	**7,179**	**—**	**10,262**
NET LOSS AND COMPREHENSIVE LOSS	**(4,702)**	**(19,055)**	**(55,146)**	**(32,577)**
Net loss per common share				
Basic and diluted *(note 11)*	**(0.10)**	**(0.54)**	**(1.25)**	**(0.93)**

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Expressed in 000's of Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2014	**346,106**	**5,445**	**(39,791)**	**311,760**
Net loss	—	—	(32,579)	(32,579)
Share-based compensation *(note 10)*	—	936	—	936
Balance, September 30, 2015	**346,106**	**6,381**	**(72,370)**	**280,117**
Balance, December 31, 2015	**346,106**	**6,620**	**(108,822)**	**243,904**
Net loss	—	—	(55,146)	(55,146)
Issuance of common shares *(note 10)*	75,488	—	—	75,488
Share issue costs *(note 10)*	(1,555)	—	—	(1,555)
Share-based compensation *(note 10)*	—	523	—	523
Balance, September 30, 2016	**420,039**	**7,143**	**(163,968)**	**263,214**

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Expressed in 000's of Canadian dollars)

Funds generated by (used in):	**Three months ended Sept 30, 2016**	**Three months ended Sept 30, 2015**	**Nine months ended Sept 30, 2016**	**Nine months ended Sept 30, 2015**
OPERATING ACTIVITIES				
Net loss	**(4,702)**	**(19,055)**	**(55,146)**	**(32,579)**
Adjust items not affecting cash:				
Share-based compensation *(note 10)*	85	87	314	581
Unrealized loss (gain) on financial derivatives (*note 9)*	796	(5,204)	12,307	3,842
Non-cash finance expenses *(note 16)*	44	625	251	1,562
Depletion and depreciation *(note 6)*	9,615	12,207	34,497	42,360
Impairment *(notes 5 and 6)*	—	28,541	25,000	28,541
Exploration and evaluation expense *(note 5)*	644	816	1,543	4,020
Loss (gain) on sale of assets *(note 4)*	(516)	—	(516)	53
Deferred income tax expense (recovery)	—	(7,179)	—	(10,262)
Decommissioning expenditures *(note 8)*	(28)	—	(248)	(571)
	5,938	**10,838**	**18,002**	**37,547**
Change in operating non-cash working capital *(note 17)*	500	303	5,045	(30,779)
Cash flows from operating activities	**6,438**	**11,141**	**23,047**	**6,768**
FINANCING ACTIVITIES				
Issue of common shares *(note 10)*	—	—	75,488	—
Share issue costs *(note 10)*	200	—	(1,555)	—
Issuance (repayment) of bank indebtedness	(21,578)	—	(59,733)	—
Increase (decrease) in long term debt	(8,000)	5,502	(48,000)	47,507
Cash flows from (used in) financing activities	**(29,378)**	**5,502**	**(33,800)**	**47,507**
INVESTING ACTIVITIES				
Property and equipment (acquisitions) *(note 4)*	—	—	—	(938)
Property and equipment dispositions *(note 4)*	29,718	—	29,718	—
Exploration and evaluation asset expenditures *(note 5)*	(93)	(560)	(358)	(1,384)
Petroleum and natural gas property expenditures *(note 6)*	(7,138)	(7,965)	(18,862)	(46,101)
Other capital (expenditures) recoveries	—	(241)	—	(227)
Change in investing non-cash working capital *(note 17)*	5,514	(7,877)	4,082	(25,149)
Cash flows from (used in) investing activities	**28,001**	**(16,643)**	**14,580**	**(73,799)**
Increase (decrease) in cash	5,062	—	3,828	(19,524)
Cash, beginning of period	—	—	1,234	19,524
Cash, end of period	**5,062**	**—**	**5,062**	**—**
Cash interest paid	2,239	3,699	7,665	8,998
Cash taxes paid	—	—	—	—

See accompanying notes to the interim consolidated financial statements

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF THE ORGANIZATION

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

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

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

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

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

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

These financial statements report the three and nine months ended September 30, 2016 and prior year comparative periods and were approved by the Company's Audit Committee on November 8, 2016.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

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

(b) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash, accounts receivable, investments, deposits, accounts payable and long term debt. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured based on their classification. The Company has made the following classifications:

- Cash is classified as held for trading
- Accounts receivable and deposits are classified as loans and receivables and are measured at amortized cost using the effective interest method
- Investments are classified as available-for-sale and are measured at fair value with subsequent changes in fair value recognized in other comprehensive income
- Accounts payable and long term debt are classified as other liabilities and are measured at amortized cost using the effective interest method

3. INVESTMENTS

Petrus acquired 1.0 million shares of a private exploration and production company in July 2016 as part of the proceeds on the sale of Petrus' oil and gas interests in the Peace River area of Alberta. The fair value of these shares at inception was estimated to be $1.00 per share based on a private placement that was completed by the private company on the same date. Management has determined that subsequent changes in the fair value of these shares is not reliably measurable due to the lack of an active market and the resulting significant range of reasonable fair value measurements (including probabilities of those reasonable fair value estimates). This investment is therefore measured at cost and assessed for indicators of impairment at each reporting date.

At September 30, 2016, Petrus held 1.0 million shares (December 31, 2015 - nil) carried at $1.0 million (December 31, 2015 - $nil).

4. ACQUISITIONS AND DISPOSITIONS

Property disposition - Peace River

On July 8, 2016 Petrus closed the disposition of its oil and gas interests in the Peace River area of Alberta for total consideration of $29.2 million after post-closing adjustments, comprised of $28.2 million cash and 1.0 million shares of the purchaser.

The following table summarizes the net assets disposed pursuant to the disposition:

Net assets disposed $000s	
Exploration and evaluation assets	7,000
Petroleum and natural gas properties and equipment	37,496
Decommissioning obligations	(15,277)
Total net assets disposed	**29,219**

Asset Exchange Agreement

On September 30, 2016, Petrus closed a cashless property swap transaction disposing of non-core assets. In exchange, Petrus acquired assets in its Ferrier core area. The Company recorded a gain of $0.4 million on the asset exchange during the nine months ended September 30, 2016.

The following table summarizes the net assets disposed of and acquired pursuant to the swap:

Net assets disposed $000s	
Exploration and evaluation assets	3,509
Petroleum and natural gas properties and equipment	11,592
Decommissioning obligations	(2,811)
Total net assets disposed	**12,289**

Fair value of net assets acquired $000s	
Petroleum and natural gas properties and equipment	14,431
Decommissioning obligations	(1,694)
Total net assets acquired	**12,737**

Property dispositions

During the third quarter if 2016, Petrus closed other dispositions of non-core exploration and evaluation assets and petroleum and natural gas properties and equipment for total cash consideration of $0.5 million. Petrus recorded a gain related to the dispositions of $0.1 million during the nine months ended September 30, 2016.

Business combination

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

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

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

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

Property disposition

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

Business combination

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

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

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

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

From the date of their respective acquisitions to September 30, 2015, the above business combinations contributed approximately $0.5 million of revenue and $0.4 million of operating income. If the acquisition had taken place at January 1, 2015, the proforma incremental revenue and operating income (defined as revenue, net of royalties, less operating and transportations costs) of the Company for the nine months ended September 30, 2015 would have been approximately $0.6 million and $0.4 million, respectively. The proforma information is not necessarily indicative of the results of operations that would have resulted had the acquisitions been effective on the dates indicated, or future results.

Property disposition

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

5. EXPLORATION AND EVALUATION ASSETS

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

$000s	
Balance, December 31, 2014	**94,073**
Additions	941
Property acquisitions	2,199
Corporate acquisitions	(217)
Exploration and evaluation expense	(6,275)
Capitalized G&A	417
Capitalized share-based compensation	130
Transfers to property, plant and equipment	(3,090)
Balance, December 31, 2015	**88,178**
Additions	65
Exploration and evaluation expense	(1,543)
Capitalized G&A	292
Capitalized share-based compensation *(note 10)*	52
Impairment loss on assets held for sale *(note 6)*	(4,000)
Property dispositions *(note 4)*	(10,767)
Transfers to property, plant and equipment *(note 6)*	(1,203)
Balance, September 30, 2016	**71,074**

Exploration and evaluation assets consist of Petrus' undeveloped land and exploration and development projects which are pending the determination of technical feasibility. Additions represent the Company's share of costs incurred on these assets during the period. Exploration and evaluation assets are not subject to depletion. For the three and nine month periods ended September 30, 2016, the Company incurred exploration and evaluation expense in the Statement of Net Loss and Comprehensive Loss of $0.6 million and $1.5 million, respectively which relates to expiring undeveloped land in minor properties (three and nine months ended September 30, 2015 – $0.8 million and $4.0 million, respectively).

During the three and nine month periods ended September 30, 2016, the Company capitalized $0.1 million and $0.3 million, respectively, of general & administrative expenses ("G&A") directly attributable to exploration activities (three and nine months ended September 30, 2015 – $0.3 million and $0.9 million, respectively). Included in this amount is non-cash share-based compensation for the three and nine months ended September 30, 2016, of $0.01 million and $0.05 million, respectively (three and nine months ended September 30, 2015 – $0.01 million and $0.2 million, respectively).

6. PROPERTY, PLANT AND EQUIPMENT

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

$000s	Cost	Accumulated DD&A	Net book value
Balance, December 31, 2014	**661,194**	**(166,474)**	**494,720**
Additions	51,860	—	51,860
Property acquisitions	6,512	—	6,512
Property (dispositions)	(10,781)	3,173	(7,608)
Capitalized G&A	1,251	—	1,251
Capitalized share-based compensation	390	—	390
Transfers from exploration and evaluation assets *(note 5)*	3,090	—	3,090
Depletion & depreciation	—	(54,627)	(54,627)
Increase in decommissioning provision *(note 8)*	4,798	—	4,798
Impairment loss	—	(67,494)	(67,494)
Balance, December 31, 2015	**718,314**	**(285,422)**	**432,892**
Additions	17,986	—	17,986
Property acquisitions *(note 4)*	14,431	—	14,431
Property (dispositions) *(note 4)*	(51,064)	—	(51,064)
Capitalized G&A	876	—	876
Capitalized share-based compensation *(note 10)*	157	—	157
Transfers from exploration and evaluation assets *(note 5)*	1,203	—	1,203
Depletion & depreciation	—	(34,497)	(34,497)
Decrease in decommissioning provision *(note 8)*	(4,308)	—	(4,308)
Impairment loss	—	(21,000)	(21,000)
Balance, September 30, 2016	**697,594**	**(340,919)**	**356,675**

At September 30, 2016 estimated future development costs of $299.6 million (December 31, 2015 – $325.3 million) associated with the development of the Company’s proved plus probable undeveloped reserves were included with the costs subject to depletion. During the three and nine month periods ended September 30, 2016, the Company capitalized $0.3 million and $1.0 million respectively, of general & administrative expenses (“G&A”) directly attributable to development activities (three and nine months ended September 30, 2015 – $0.3 million and $0.9 million, respectively). Included in this amount is non-cash share-based compensation for the three and nine months ended September 30, 2016 of $0.04 million and $0.2 million, respectively (three and nine months ended September 30, 2015 – $0.01 million and $0.2 million, respectively).

During the third quarter, the Company sold its oil and natural gas interests in the Peace River area of Alberta to a private company for total consideration of $30.0 million, subject to customary closing adjustments (the "Disposition"). The consideration was comprised of $29.0 million in cash and 1.0 million shares of the purchaser. The Disposition closed on July 8, 2016. On June 30, 2016, these assets were recorded at the lesser of fair value less costs of disposal and their carrying amount, resulting in an impairment loss of $25.0 million ($21.0 million recorded to Property, Plant and Equipment and $4.0 million recorded to Exploration & Evaluation Assets). The impairment has been recorded as an impairment loss on the Statements of Net Loss and Comprehensive Loss.

7. DEBT

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

(a) Revolving Credit Facility

At September 30, 2016 the Company's RCF was comprised of a $6 million operating facility and a $100 million syndicated term-out facility. The term-out facility has a revolving period that ends July 29, 2017 at which time it will either be renewed or converted to a one-year term facility. The Company has provided collateral by way of a $600 million debenture over all of the present and after acquired property of the Company.

At September 30, 2016, the Company had a $0.3 million letter of credit outstanding against the RCF (December 31, 2015 – $2.4 million) and had drawn $85.3 million against the RCF (December 31, 2015 – $145 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 majority lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF.

(b) Term Loan

At September 30, 2016 the Company had a $42 million (December 31, 2015 – $90 million) Term Loan outstanding which is repayable on October 8, 2017. Interest is due and payable monthly and accrues at a per annum rate of the (three-month) Canadian Dealer offered Rate (CDOR) plus 700 basis points.

The Company is subject to certain financial covenants under its Revolving Credit Facility and Term Loan. These types of financial covenants are typical for similar lending arrangements and include working capital, debt to EBITDA and asset coverage covenants; these covenants have not changed since December 31, 2015. At September 30, 2016 the Company was not in breach of any financial covenants. Petrus completed its semi-annual review of its revolving credit facility on October 31, 2016, whereby the syndicate of lenders unanimously agreed to maintain the facility at $106 million. Lender consent is required for total borrowings against the RCF exceeding $100.5 million.

8. DECOMMISSIONING OBLIGATION

The decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The estimated future cash flows have been discounted using an average risk free rate of 1.52 percent and an inflation rate of 1.10 percent (December 31, 2015 – 2.04 percent and 2.00 percent, respectively). Changes in estimates in 2016 are due to the changes in the risk free rate and inflation rate (change in estimates in 2015 due to the decrease in discount rates and changes in estimated well life). The Company has estimated the net present value of the decommissioning obligations to be $41.9 million as at September 30, 2016 ($64.4 million at December 31, 2015). The undiscounted, uninflated total future liability at September 30, 2016 is $49.3 million ($64.8 million at December 31, 2015). The payments are expected to be incurred over the operating lives of the assets. The following table reconciles the decommissioning liability:

$000s	
Balance, December 31, 2014	**58,634**
Property acquisitions	723
Property dispositions	(517)
Liabilities incurred	543
Liabilities settled	(335)
Change in estimates	4,048
Accretion expense	1,261
Balance, December 31, 2015	**64,357**
Property acquisitions *(note 4)*	1,694
Property dispositions *(note 4)*	(19,893)
Liabilities incurred	174
Liabilities settled	(248)
Change in estimates	(4,482)
Accretion expense	251
Balance, September 30, 2016	**41,854**

9. FINANCIAL RISK MANAGEMENT

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus had outstanding as at September 30, 2016:

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

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

Risk Management Asset and Liability

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

$000s At September 30, 2016	Asset	Liability
Current commodity derivatives	3,172	1,099
Non-current commodity derivatives	148	593
	3,320	**1,692**

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

$000s	Three months ended Sept 30, 2016	Three months ended Sept 30, 2015	Nine months ended Sept 30, 2016	Nine months ended Sept 30, 2015
Realized gain (loss)	2,652	3,767	14,220	11,543
Unrealized gain (loss)	(796)	5,205	(12,307)	(3,842)
	1,856	**8,972**	**1,913**	**7,701**

10. SHARE CAPITAL

Authorized

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

Issued and Outstanding

Common shares ($000s *except number of shares*)	Number of Shares	Amount
Balance, December 31, 2014 and 2015	**35,148,150**	**346,106**
Common shares issued under equity financing (a)	4,054,250	30,000
Common shares issued under the arrangement agreement (b)	6,146,792	45,488
Share issue costs	—	(1,555)
Balance, September 30, 2016	**45,349,192**	**420,039**

Share Issuances

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

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

SHARE-BASED COMPENSATION

Performance Warrants

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

	Number of warrants outstanding	Weighted Average Exercise Price ($)
Balance, December 31, 2014	**1,601,901**	**$8.07**
Forfeited or expired	(33,333)	$8.00
Balance, December 31, 2015 and September 30, 2016	**1,568,568**	**$8.05**
Exercisable, September 30, 2016	**916,558**	**$8.33**

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

Range of Exercise Price	Warrants Outstanding			Warrants Exercisable		
	Number granted	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price	Weighted average remaining life (years)
$8.00 - $9.00	1,568,568	$8.05	0.42	916,558	$8.33	0.42
Total	**1,568,568**	**$8.05**	**0.42**	**916,558**	**$8.33**	**0.42**

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

Stock Options

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

	Number of stock options	Weighted average exercise price
Balance, December 31, 2014	**1,528,750**	**$8.79**
Granted	126,250	$14.00
Forfeited or expired	(201,250)	$8.50
Balance, December 31, 2015 and September 30, 2016	**1,453,750**	**$9.19**
Exercisable, September 30, 2016	**1,170,000**	**$8.24**

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

Range of Exercise Price	Stock Options Outstanding			Stock Options Exercisable		
	Number granted	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price	Weighted average remaining life (years)
$7.00 - $8.00	918,750	$7.00	0.71	918,750	$7.00	0.71
$8.01 - $11.00	147,500	$9.61	2.33	67,083	$9.77	2.34
$11.01 - $16.00	387,500	$14.01	3.01	184,167	$13.84	2.96
	1,453,750	**$9.19**	**1.50**	**1,170,000**	**$8.24**	**1.16**

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

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

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

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

$000s	Three months ended Sept 30, 2016	Three months ended Sept 30, 2015	Nine months ended Sept 30, 2016	Nine months ended Sept 30, 2015
Expensed in net loss	85	87	314	581
Capitalized to exploration and evaluation assets	14	12	52	178
Capitalized to property, plant and equipment	43	13	157	177
Total share-based compensation	**142**	**112**	**523**	**936**

11. EARNINGS PER SHARE

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

	Three months ended Sept 30, 2016	Three months ended Sept 30, 2015	Nine months ended Sept 30, 2016	Nine months ended Sept 30, 2015
Net loss for the period ($000s)	**(4,702)**	**(19,055)**	**(55,146)**	**(32,577)**
Weighted average number of common shares – basic (000s)	45,349	35,148	44,158	35,148
Weighted average number of common shares – diluted (000s)	45,349	35,148	44,158	35,148
Net loss per common share – basic	**(0.10)**	**(0.54)**	**(1.25)**	**(0.93)**
Net loss per common share – diluted	**(0.10)**	**(0.54)**	**(1.25)**	**(0.93)**

In computing diluted earnings per share for the three and nine months ended September 30, 2016, 1,568,568 (September 30, 2015 – 1,568,568) warrants and 1,453,750 (September 30, 2015 – 1,552,084) outstanding stock options were considered, however no instruments were added to the calculation as their impact is anti-dilutive.

12. OPERATING EXPENSES

The Company's gross operating expenses for the three and nine months ending September 30, 2016 were $4.6 million and $19.2 million, respectively (three and nine months ended September 30, 2015 – $7.0 million and $21.9 million, respectively). For the three and nine months ended September 30, 2016, this includes $1.1 million and $4.3 million of processing, gathering and compression charges, respectively (three and nine months ended September 30, 2015 – $1.8 million and $5.6 million, respectively).

The Company generated processing income recoveries of $0.7 million and $2.5 million for the three and nine months ended September 30, 2016, respectively (three and nine months ended September 30, 2015 – $0.7 million and $1.7 million respectively) which reduced the Company's gross operating expenses to $3.9 million and $16.7 million for the three and nine months ended September 30, 2016, respectively (three and nine months ended September 30, 2015 – $6.3 million and $20.2 million respectively).

13. GENERAL AND ADMINISTRATIVE EXPENSES

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

$000s	Three months ended Sept 30, 2016	Three months ended Sept 30, 2015	Nine months ended Sept 30, 2016	Nine months ended Sept 30, 2015
Personnel, consultants and directors	1,003	1,646	3,308	4,475
Regulatory expenses	—	85	641	475
Office costs	437	475	1,523	1,399
Subscriptions & licenses	37	39	133	202
Public company expenses	—	—	248	—
Transaction costs	—	—	29	46
Capitalized general and administrative	(370)	(571)	(1,167)	(1,416)
	1,107	**1,674**	**4,715**	**5,181**

14. FINANCIAL INSTRUMENTS

Risks associated with Financial Instruments

Credit risk

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

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

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risk. Concentration of credit risk is mitigated by marketing the majority of the Company's production to reputable and financially sound purchasers under normal industry sale and payment terms. As is common in the petroleum and natural gas industry in western Canada, Petrus' receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Of the $9.7 million of accounts receivable outstanding at September 30, 2016 (December 31, 2015 – $17.8 million), $8.5 million is owed from 14 parties (December 31, 2015 – $15.7 million from 21 parties), and the majority of the balance was received subsequent to quarter end. At September 30, 2016, Petrus recorded a $0.2 million (December 31, 2015 – $0.2 million) allowance for doubtful accounts. As at September 30, 2016 and December 31, 2015, 90% of Petrus' accounts receivable were aged less than 90 days and the Company does not anticipate any significant collection issues.

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

Liquidity risk

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

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

At September 30, 2016, the Company had a $106 million RCF (refer to note 7), of which $20.4 million was undrawn (December 31, 2015, the Company had a $160 million credit facility of which $12.6 million was undrawn). During the third quarter, the Company sold assets in the Peace River area, the borrowing capacity under the RCF was reduced from $120 million to $106 million and lender consent is required for total borrowings against the RCF exceeding $100.5 million.

Petrus anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available credit capacity on its RCF. The Company is exposed to the risk of reductions to its borrowing base for purposes of the RCF or Term Loan. Petrus completed its semi-annual review of its revolving credit facility on October 31, 2016, whereby the syndicate of lenders unanimously agreed to maintain the facility at $106 million. Lender consent is required for total borrowings against the RCF exceeding $100.5 million. The next scheduled borrowing base redetermination date for the RCF is May 31, 2017. The Company is currently reviewing debt refinancing and equity financing options and believes that it will have adequate financing in order to satisfy its financial liabilities with respect to its bank debt.

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

$000s	**Total**	**< 1 year**	**1-5 years**
Accounts payable	14,377	14,377	—
Risk management liability	1,692	1,099	593
Bank debt	127,267	—	127,267
Total	**143,335**	**15,476**	**127,860**

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash and accounts receivable are not exposed to significant interest rate risk. The Revolving Credit Facility and Term Loan are exposed to interest rate cash flow risk as the instruments are priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed to interest rate risk. A 1% change in the Canadian prime interest rate in the three and nine months ended September 30, 2016 would have changed net loss by approximately $0.4 million and $1.4 million, respectively, which relates to interest expense on the average outstanding RCF and Term Loan during the period, assuming that all other variables remain constant (three and nine months ended September 30, 2015 – $0.6 million and $1.6 million, respectively).

Commodity Price Risk

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

For the three and nine months ended September 30, 2016, it is estimated that a $0.25/mcf change in the price of natural gas would have changed net loss by $0.7 million and $2.2 million, respectively (three and nine months ended September 30, 2015 – $0.7 million and $2.2 million, respectively). For the three and nine months ended September 30, 2016, it is estimated that a $5.00/CDN WTI/bbl change in the price of oil would have changed net loss by $1.1 million and $3.7 million, respectively (three and nine months ended September 30, 2015 – $1.2 million and $4.4 million, respectively).

15. CAPITAL MANAGEMENT

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

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

16. FINANCE EXPENSES

The components of finance expenses are as follows:

$000s	Three months ended Sept 30, 2016	Three months ended Sept 30, 2015	Nine months ended Sept 30, 2016	Nine months ended Sept 30, 2015
Cash:				
Interest	2,512	3,553	8,545	9,418
Foreign exchange	—	—	49	(567)
	2,512	**3,553**	**8,594**	**8,851**
Non-cash:				
Deferred financing costs	—	315	—	654
Accretion on decommissioning obligations *(note 8)*	44	310	251	908
Total finance expenses	**2,556**	**4,178**	**8,845**	**10,413**

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

$000s	Three months ended Sept 30, 2016	Three months ended Sept 30, 2015	Nine months ended Sept 30, 2016	Nine months ended Sept 30, 2015
Source (use) in non-cash working capital:				
Deposits and prepaid expenses	54	278	(467)	172
Investments	(1,000)	—	(1,000)	—
Accounts receivable	(199)	2,634	8,057	6,327
Accounts payable and accrued liabilities	7,159	(10,486)	2,537	(62,427)
	6,014	**(7,574)**	**9,128**	**(55,928)**
Operating activities	500	303	5,045	(30,779)
Investing activities	5,514	(7,877)	4,082	(25,149)

18. COMMITMENTS

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

$000s	Total	< 1 year	1-5 years	> 5 years
Corporate office lease	2,469	798	1,670	—
Firm service transportation	7,709	815	4,074	2,821
Total commitments	**10,178**	**1,613**	**5,744**	**2,821**

CORPORATE INFORMATION

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

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