

THIRD QUARTER REPORT

For the three and nine months ended September 30, 2018

Petrus Resources Ltd. ("Petrus" or the "Company") (TSX: PRQ) is pleased to report financial and operating results for the third quarter of 2018. In response to the commodity price outlook for natural gas, the Company set out in 2018 to improve its financial position and to increase its light oil weighting in order to increase funds flow per share. In the first half of 2018, the Company directed excess funds flow to debt repayment, targeting debt reduction of \$10 to \$15 million. In the first nine months of 2018, Petrus has reduced its net debt⁽¹⁾ by \$16.5 million or 11%. The second element of the Company's 2018 plan targeted to drill Cardium light oil wells in Ferrier with budgeted capital of \$25 to \$30 million. The Company's development program recommenced during the third quarter as planned and Petrus drilled 5 (2.9 net) wells during the second half of 2018. The Company expects that the remaining capital program will be funded by funds flow and working capital and is targeting to end 2018 with net debt⁽¹⁾ no greater than \$135 million⁽²⁾.

HIGHLIGHTS

- Petrus generated funds flow of \$7.7 million in the third quarter of 2018 which is consistent with the \$7.7 million generated in the third quarter of 2017. The quarterly average light oil price (Edm CAD\$) increased 40% from the prior year which offset the impact of 34% reduced natural gas prices (AECO 7A monthly index) from the prior year. Approximately 70% of the Company's third quarter light oil production was Canadian Condensate. The Canadian Condensate price differential to WTI (C\$) was \$4.76/bbl whereas the Edmonton Light differential to WTI (C\$) was \$15.15/bbl for the third quarter of 2018. During the quarter the Company optimized its natural gas production which resulted in an 18% increase from the prior year in its total liquids weighting which helped to further offset the impact of reduced natural gas pricing.
- The Company has strategically focused on debt repayment in 2018 and has reduced net debt⁽¹⁾ by \$16.5 million or 11% since December 31, 2017. As a result of the current commodity price environment, Petrus continues to focus on Cardium light oil development in Ferrier. Capital investment resumed in August and the Company drilled 5 (2.9 net) wells during the second half of 2018. The completion operations for these wells commenced in early November and the wells are expected to be on stream by year end⁽²⁾.
- Third quarter average production was 8,338 boe/d in 2018 compared to 10,567 boe/d for the same period in 2017. The 21% decrease is due to certain dry gas production in the Foothills area which was shut-in due to uneconomic gas prices. The production decrease is also attributable to natural production declines. Petrus strategically deferred its capital development until the second half of 2018 in order to permit debt repayment early in the year.
- Total operating expenses for the third quarter were 9% lower at \$4.95 per boe in 2018 compared to \$5.42 per boe in 2017⁽³⁾. The Company continues to focus on optimizing its cost structure, particularly in the Ferrier area, through facility ownership and control.
- The 2018 semi-annual review of the Company's Revolving Credit Facility ("RCF") has been completed and the RCF syndicate of lenders maintained the Company's borrowing base at \$110 million. The Company's \$35 million second lien term loan ("Term Loan") also remains unchanged following the semi-annual RCF review. The Term Loan is due October 8, 2020 and bears interest at the Canadian Dealer Offered Rate (CDOR) plus 700 basis points.
- Petrus utilizes financial derivative contracts to mitigate commodity price risk and provide stability and sustainability to the Company's economic returns, funds flow and capital development plan. During the third quarter, the Company recognized a \$2.4 million (\$3.18 per boe) realized gain related to natural gas, offset by a \$4.5 million (\$5.87 per boe) realized loss related to light oil. As a percentage of third quarter 2018 production, Petrus has derivative contracts in place for 71% at an average price of \$2.49/mcf and 62% at an average price of \$66.80/bbl of its natural gas and oil and natural gas liquids production, respectively, for the remainder of 2018.

⁽¹⁾ Refer to "Non-GAAP Financial Measures" in the Management's Discussion & Analysis attached hereto.

⁽²⁾ Refer to "Advisories - Forward-Looking Statements" in the Management's Discussion & Analysis attached hereto.

⁽³⁾ Refer to "Advisories - BOE Presentation" in the Management's Discussion & Analysis attached hereto.

SELECTED FINANCIAL INFORMATION

| OPERATIONS | Three months ended Sept. 30, 2018 | Three months ended Sept. 30, 2017 | Three months ended Jun. 30, 2018 | Three months ended Mar. 31, 2018 | Three months ended Dec. 31, 2017 |
|---|--|--|---|---|---|
| Average Production | | | | | |
| Natural gas (mcf/d) | 33,461 | 45,550 | 39,126 | 45,543 | 46,625 |
| Oil (bbl/d) | 1,243 | 1,877 | 1,484 | 1,530 | 1,854 |
| NGLs (bbl/d) | 1,519 | 1,098 | 1,241 | 1,475 | 1,086 |
| Total (boe/d) | 8,338 | 10,567 | 9,246 | 10,596 | 10,711 |
| Total (boe) | 767,095 | 972,140 | 841,316 | 953,598 | 985,388 |
| Natural gas sales weighting | 67% | 72% | 71% | 72% | 73% |
| Realized Prices | | | | | |
| Natural gas (\$/mcf) | 1.50 | 1.66 | 1.24 | 2.18 | 1.90 |
| Oil (\$/bbl) | 77.24 | 51.23 | 75.29 | 73.91 | 66.10 |
| NGLs (\$/bbl) | 45.27 | 24.79 | 41.53 | 46.50 | 38.00 |
| Total realized price (\$/boe) | 25.79 | 18.82 | 22.92 | 26.50 | 23.56 |
| Royalty income | 0.32 | 0.01 | 0.05 | 0.03 | 0.03 |
| Royalty expense | (3.12) | (2.73) | (2.54) | (4.90) | (3.04) |
| Net oil and natural gas revenue (\$/boe) | 22.99 | 16.10 | 20.43 | 21.63 | 20.55 |
| Operating expense | (4.95) | (5.42) | (4.57) | (4.36) | (4.81) |
| Transportation expense | (0.98) | (1.29) | (1.17) | (1.26) | (1.25) |
| Operating netback⁽¹⁾ (\$/boe) | 17.06 | 9.39 | 14.69 | 16.01 | 14.49 |
| Realized gain (loss) on derivatives | (2.69) | 1.88 | (0.74) | 0.31 | 1.23 |
| Other income | 0.08 | — | 0.12 | — | — |
| General & administrative expense | (1.72) | (1.09) | (1.63) | (1.50) | (0.27) |
| Cash finance expense | (2.53) | (1.99) | (2.49) | (1.96) | (1.54) |
| Decommissioning expenditures | (0.20) | (0.23) | — | (0.23) | (0.62) |
| Corporate netback⁽¹⁾ (\$/boe) | 10.00 | 7.96 | 9.95 | 12.63 | 13.29 |
| FINANCIAL (\$000s except per share) | Three months ended Sept. 30, 2018 | Three months ended Sept. 30, 2017 | Three months ended Jun. 30, 2018 | Three months ended Mar. 31, 2018 | Three months ended Dec. 31, 2017 |
| Oil and natural gas revenue | 20,030 | 18,299 | 19,321 | 25,301 | 23,243 |
| Net loss | (8,048) | (50,696) | (10,615) | (5,684) | (67,095) |
| Net loss per share | | | | | |
| Basic | (0.16) | (1.03) | (0.21) | (0.11) | (1.36) |
| Fully diluted | (0.16) | (1.03) | (0.21) | (0.11) | (1.36) |
| Funds flow | 7,685 | 7,727 | 8,364 | 12,105 | 13,084 |
| Funds flow per share | | | | | |
| Basic | 0.16 | 0.16 | 0.17 | 0.24 | 0.26 |
| Fully diluted | 0.16 | 0.16 | 0.17 | 0.24 | 0.26 |
| Capital expenditures | 3,637 | 13,055 | 1,745 | 6,056 | 21,885 |
| Net acquisitions (dispositions) | (50) | (4,866) | (269) | (123) | 789 |
| Weighted average shares outstanding | | | | | |
| Basic | 49,492 | 49,428 | 49,492 | 49,492 | 49,456 |
| Fully diluted | 49,492 | 49,428 | 49,492 | 49,492 | 49,456 |
| As at period end | | | | | |
| Common shares outstanding (000s) | | | | | |
| Basic | 49,492 | 49,428 | 49,492 | 49,492 | 49,492 |
| Fully diluted | 49,492 | 49,428 | 49,492 | 49,492 | 49,492 |
| Total assets | 322,335 | 409,078 | 330,359 | 343,161 | 353,445 |
| Non-current liabilities | 170,908 | 191,145 | 172,757 | 174,634 | 173,272 |
| Net debt⁽¹⁾ | 131,603 | 137,531 | 135,111 | 142,238 | 148,066 |

⁽¹⁾ Refer to "Non-GAAP Financial Measures" in the Management's Discussion & Analysis attached hereto.



MANAGEMENT'S DISCUSSION & ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the financial and operating results of Petrus Resources Ltd. ("Petrus" or the "Company") as at and for the three and nine months ended September 30, 2018. The MD&A is dated November 8, 2018 and should be read in conjunction with the Company's September 30, 2018 interim consolidated financial statements and the December 31, 2017 audited annual consolidated financial statements. The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS"). Readers are directed to the advisories at the end of this report regarding forward-looking statements and boe presentation and to the section "Non-GAAP Financial Measures" herein.

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

OPERATIONS UPDATE

Production

Third quarter average production by area was as follows:

| For the three months ended September 30, 2018 | Ferrier | Foothills | Central Alberta | Total |
|---|--------------|------------|-----------------|--------------|
| Natural gas (mcf/d) | 24,458 | 2,462 | 6,542 | 33,462 |
| Oil (bbl/d) | 674 | 164 | 405 | 1,243 |
| NGLs (bbl/d) | 1,322 | 8 | 189 | 1,518 |
| Total (boe/d) | 6,072 | 582 | 1,684 | 8,338 |
| Natural gas sales weighting | 67% | 71% | 65% | 67% |

Third quarter average production was 8,338 boe/d (67% natural gas) in 2018 compared to 10,567 boe/d (72% natural gas) in the third quarter of 2017. The 21% decrease is due to certain dry gas production in the Foothills area which was shut-in due to uneconomic gas prices. The production decrease is also attributable to natural production declines. Petrus strategically deferred its capital development until the second half of 2018 in order to permit debt repayment early in the year.

Capital Development⁽¹⁾

In response to the commodity price outlook for natural gas, the Company set out in 2018 to improve its financial position and direct excess funds flow to debt repayment, targeting debt reduction of \$10 to \$15 million. In the first nine months of 2018, Petrus reduced its net debt by \$16.5 million or 11%. The second element of the Company's 2018 plan targeted to drill Cardium light oil wells in Ferrier with budgeted capital of \$25 to \$30 million. The Company's development program recommenced during the third quarter as planned and total capital invested in the first nine months of 2018 has been \$11.5 million. Petrus drilled 5 (2.9 net) wells during the second half of 2018 for a total of 7 (3.6 net) drilled or participated in to date in 2018. The completion operations for the 5 recent wells commenced in early November and the wells are expected to be on stream by year end⁽²⁾. The Company expects that the remaining capital program will be funded by funds flow and working capital.

Production Optimization

During the third quarter, Petrus initiated additional deep cut processing of certain natural gas production in order to increase its natural gas liquids yield. In the current commodity price environment, the increased NGL yield optimizes the netback. Petrus' total liquids production increased from 29% in the second quarter of 2018 to 33% in the third quarter of 2018 despite no new oil production brought on stream.

CREDIT FACILITY UPDATE

The 2018 semi-annual review of the Company's Revolving Credit Facility ("RCF") has been completed and the RCF syndicate of lenders maintained the Company's borrowing base at \$110 million. The Company's \$35 million second lien term loan ("Term Loan") also remains unchanged following the semi-annual RCF review. The Term Loan is due October 8, 2020 and bears interest at the Canadian Dealer Offered Rate (CDOR) plus 700 basis points. The average Term Loan interest rate for the third quarter of 2018 was 8.8%.

BOARD OF DIRECTORS

Mr. Brian Minnehan and Mr. Jeffrey Zlotky, both nominees of Wingren B.V., have resigned as directors of Petrus. The Board of Directors, management and staff of Petrus would like to thank Messrs. Minnehan and Zlotky for their leadership, hard work, commitment, and service to Petrus and its Board of Directors.

⁽¹⁾ Refer to "Advisories - Forward-Looking Statements" in the Management's Discussion & Analysis attached hereto.



RESULTS OF OPERATIONS

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

| | Three months ended Sept. 30, 2018 | Three months ended Sept. 30, 2017 | Three months ended Jun. 30, 2018 | Three months ended Mar. 31, 2018 | Three months ended Dec. 31, 2017 |
|---|--------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Average production | | | | | |
| Natural gas (mcf/d) | 33,461 | 45,550 | 39,126 | 45,543 | 46,625 |
| Oil (bbl/d) | 1,243 | 1,877 | 1,484 | 1,530 | 1,854 |
| NGLs (bbl/d) | 1,519 | 1,098 | 1,241 | 1,475 | 1,086 |
| Total (boe/d) | 8,338 | 10,567 | 9,246 | 10,596 | 10,711 |
| Total (boe) | 767,095 | 972,140 | 841,316 | 953,598 | 985,388 |
| Revenue (\$000s) | | | | | |
| Natural Gas | 4,630 | 6,939 | 4,432 | 8,918 | 8,149 |
| Oil | 8,828 | 8,848 | 10,159 | 10,175 | 11,273 |
| NGLs | 6,326 | 2,504 | 4,692 | 6,175 | 3,796 |
| Royalty revenue | 246 | 8 | 38 | 33 | 25 |
| Oil and natural gas revenue | 20,030 | 18,299 | 19,321 | 25,301 | 23,243 |
| Average realized prices | | | | | |
| Natural gas (\$/mcf) | 1.50 | 1.66 | 1.24 | 2.18 | 1.90 |
| Oil (\$/bbl) | 77.24 | 51.23 | 75.29 | 73.91 | 66.10 |
| NGLs (\$/bbl) | 45.27 | 24.79 | 41.53 | 46.50 | 38.00 |
| Total realized price (\$/boe) | 25.79 | 18.82 | 22.92 | 26.50 | 23.56 |
| Hedging gain (loss) (\$/boe) | (2.69) | 1.88 | (0.74) | 0.31 | 1.23 |
| Total price including hedging (\$/boe) | 23.10 | 20.70 | 22.18 | 26.81 | 24.79 |
| Average benchmark prices | | | | | |
| Natural gas | | | | | |
| AECO 5A (\$/GJ) | 1.13 | 1.38 | 1.12 | 1.97 | 1.60 |
| AECO 7A (\$/GJ) | 1.28 | 1.93 | 0.97 | 1.76 | 1.86 |
| Crude Oil | | | | | |
| Edm Lt. (\$/bbl) | 79.65 | 57.08 | 78.91 | 72.28 | 66.93 |
| Foreign Exchange | | | | | |
| US\$/C\$ | 0.77 | 0.80 | 0.78 | 0.80 | 0.78 |

FUNDS FLOW AND NET LOSS

Petrus generated funds flow of \$7.7 million in the third quarter of 2018, which is consistent to the \$7.7 million generated in the third quarter of 2017. On a nine month basis, funds flow was \$28.2 million compared to \$31.9 million in the prior year. The 12% decrease is due to 45% lower natural gas pricing (AECO 7A monthly index), offset by 11% lower operating expenses and 27% higher light oil pricing (Edm CAD\$).

Petrus reported a net loss of \$8.0 million in the third quarter of 2018, compared to a net loss of \$50.7 million in the third quarter of the prior year. The lower net loss is primarily due to the recognition of an impairment loss in the third quarter of the prior year. On a nine month basis, the Company generated a net loss of \$44.2 million for the nine months ended September 30, 2017 compared to a net loss of \$24.3 million for the nine months ended September 30, 2018. The accounting for the unrealized hedging on financial derivatives had a material impact on the earnings; during the nine months ended September 30, 2017, the Company recognized an unrealized gain of \$12.1 million whereas during the nine months ended September 30, 2018, a \$17.9 million unrealized loss was recorded. The differences are due to changes in commodity prices at September 30 of the respective years.

| (\$000s except per share) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|--|--|---|---|
| Funds flow | 7,685 | 7,727 | 28,154 | 31,918 |
| Funds flow per share - basic | 0.16 | 0.16 | 0.57 | 0.66 |
| Funds flow per share - fully diluted | 0.16 | 0.16 | 0.57 | 0.65 |
| Net loss | (8,048) | (50,696) | (24,347) | (44,167) |
| Net loss per share - basic | (0.16) | (1.03) | (0.49) | (0.92) |
| Net loss per share - fully diluted | (0.16) | (1.03) | (0.49) | (0.92) |
| Common shares outstanding (000s) | | | | |
| Basic | 49,492 | 49,428 | 49,492 | 49,428 |
| Fully diluted | 49,492 | 49,428 | 49,492 | 49,428 |
| Weighted average shares outstanding (000s) | | | | |
| Basic | 49,492 | 49,428 | 49,492 | 48,098 |
| Fully diluted | 49,492 | 49,428 | 49,492 | 49,098 |

OIL AND NATURAL GAS REVENUE

Average production for the third quarter of 2018 was 8,338 boe/d (67% natural gas), 21% lower than the 10,567 boe/d (72% natural gas) average production for the third quarter of the prior year. The 21% decrease is due to certain dry gas production in the Foothills area which was shut-in due to uneconomic gas prices. The production decrease is also attributable to natural production declines. Despite lower production, total oil and natural gas revenue increased from \$18.3 million in 2017 to \$20.0 million in 2018. The 9% increase is due to higher realized oil and natural gas liquids prices.

Average production for the first nine months of 2018 was 9,384 boe per day (70% natural gas), compared to 10,050 boe per day (71% natural gas) for the prior year comparative period. Total oil and natural gas revenue decreased from \$67.3 million in the first nine months of 2017 to \$64.7 million in the nine months ended September 30, 2018 mainly due to 7% lower production and 45% lower natural gas pricing.

Natural gas

During the three and nine months ended September 30, 2018, the average benchmark natural gas price in Canada (AECO 7A monthly index) decreased by 34% and 45%, respectively, from the prior year comparative periods (average price of \$1.35 per mcf in the third quarter of 2018 compared to \$2.04 per mcf in the third quarter of the prior year, and \$1.41 per mcf for the first nine months of 2018, compared to \$2.58 per mcf for the prior year comparative period).

The Company's average realized natural gas price during the third quarter of 2018 was \$1.50 per mcf, compared to \$1.66 per mcf in the third quarter of 2017, which represents a 10% decrease. Natural gas revenue for the third quarter of 2018 was \$4.6 million and production of 3,078,426 mcf accounting for approximately 67% of third quarter production volume and 23% of oil and natural gas revenue, compared to revenue of \$6.9 million and production of 4,190,541 mcf accounting for approximately 72% of third quarter production volume and 38% of oil and natural gas revenue in the prior year comparative period. Natural gas revenue decreased from the prior year due to lower natural gas prices during the third quarter of 2018.

Natural gas revenue for the first nine months of 2018 was \$18.0 million and production of 10,737,795 mcf accounted for approximately 70% of production volume in the period and 28% of oil and natural gas revenue, compared to revenue of \$30.0 million and production of 11,678,072 mcf for 72% of production volume and 45% of oil and natural gas revenue in the prior year comparative period. The decrease is due to lower natural gas prices.



Crude oil and condensate

Edmonton Light Sweet crude oil prices increased 40% from the third quarter of 2017 to the third quarter of 2018 (an average price of \$79.65 per bbl for the third quarter of 2018 compared to an average price of \$57.08 per bbl for the prior year comparative period). Prices increased 27% from the first nine months of 2017 to the first nine months of 2018 (\$76.95 per bbl in 2018 compared to an average of \$60.73 per bbl in the prior year comparative period).

Similarly, the average realized price of Petrus' crude oil and condensate was \$77.24 per bbl for the third quarter of 2018 compared to \$51.23 per bbl for the same period in the prior year.

Oil and condensate revenue for the third quarter of 2018 was \$8.8 million and production of 114,291 bbl accounted for approximately 15% of total production volume and 45% of oil and natural gas revenue, compared to revenue of \$8.8 million and production of 172,705 bbl accounted for approximately 18% of total production volume and 48% of oil and natural gas revenue in the third quarter of the prior year.

Oil and condensate revenue for the first nine months of 2018 was \$29.2 million and production of 386,889 bbl accounted for approximately 15% of total production volume and 45% of oil and natural gas revenue, compared to revenue of \$28.4 million and production of 494,826 bbl for 18% of total production volume and 42% of oil and natural gas revenue in the first nine months of the prior year.

Natural gas liquids (NGLs)

The Company's NGL production mix consists of ethane, propane, butane, pentane and sulphur. The pricing received for NGL production is based on the product mix, the fractionation process required and the demand for fractionation facilities. In the third quarter of 2018, the overall realized NGL price averaged \$45.27 per bbl, compared to \$24.79 per bbl in the prior year. The increase is attributed to improved commodity prices as well as a change in the composition of the Company's NGLs.

During the third quarter, Petrus initiated additional deep cut processing of certain natural gas production in order to increase its natural gas liquids yield. In the current commodity price environment, the increased NGL yield optimizes the netback. Petrus' total liquids production increased from 29% in the second quarter of 2018 to 33% in the third quarter of 2018 despite no new oil production brought on stream.

NGL revenue for the third quarter of 2018 was \$6.3 million and production of 139,733 bbl accounted for approximately 18% of production volume and 32% of oil and natural gas revenue, compared to revenue of \$2.5 million and production of 101,010 bbl accounted for approximately 10% of production volume and 14% of oil and natural gas revenue for the third quarter of the prior year.

NGL revenue for the first nine months of 2018 was \$17.2 million and production of 386,889 bbl accounted for approximately 15% of production volume and 27% of oil and natural gas revenue in the period, compared to revenue of \$8.9 million and production of 302,535 bbl for 11% of production volume and 13% of oil and natural gas revenue in the first nine months of the prior year.

ROYALTY EXPENSES

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

| Royalty Expenses (\$000s) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|-------------------------------|--|--|---|---|
| Crown | 684 | 819 | 3,193 | 4,315 |
| Percent of production revenue | 3% | 5% | 5% | 6% |
| Gross overriding | 1,707 | 1,836 | 6,009 | 5,955 |
| Total | 2,391 | 2,655 | 9,202 | 10,270 |

Total royalty expense (net of royalty allowances and incentives) decreased from \$2.7 million in the third quarter of 2017 to \$2.4 million in the third quarter of 2018 primarily due to 21% lower production and prior period Gas Cost Allowance ("GCA") adjustments which reduced the reported expense in the third quarter.

On a nine month basis, total royalty expense (net of royalty allowances and incentives) decreased from \$10.3 million in 2017 to \$9.2 million in 2018. The decrease is due to the lower natural gas revenue compared to the prior year.

Gross overriding royalties decreased from \$1.8 million in the third quarter of 2017 to \$1.7 million in the third quarter of 2018, due to lower natural gas prices. Gross overriding royalties were \$6.0 million for the nine months ended September 30, 2018, which is consistent with the prior year.



RISK MANAGEMENT

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

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

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

| Net Gain (Loss) on Financial Derivatives (\$000s) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|--|--|---|---|
| Realized hedging gain (loss) | (2,061) | 1,829 | (2,388) | 2,523 |
| Unrealized hedging gain (loss) | (3,997) | 3,715 | (17,860) | 12,139 |
| Net gain (loss) on derivatives | (6,058) | 5,544 | (20,248) | 14,662 |

The Company recognized a realized hedging loss of \$2.1 million during the third quarter of 2018, compared to a \$1.8 million gain realized in the same quarter of the prior year. The realized loss in the current period is due to higher crude oil prices partially offset by lower natural gas prices. The realized loss in the third quarter of 2018 decreased the Company's total realized price by \$2.69 per boe, compared to the realized gain in the third quarter of the prior year, which increased the Company's total realized price by \$1.88 per boe.

The Company recognized a realized hedging loss of \$2.4 million during the nine months ended September 30, 2018, compared to a \$2.5 million gain realized in the same period of the prior year. The realized loss in the current year is due to strengthened oil prices whereas in the prior year the gain was due to weak natural gas prices.

The unrealized hedging loss of \$4.0 million for the three months ended September 30, 2018 represents the change in the unrealized risk management net asset position during the quarter. The unrealized hedging loss of \$17.9 million for the nine months ended September 30, 2018 represents the change in the unrealized risk management net asset position during the first nine months of 2018. This change is the result of both the realization of hedging gains in the period, changes related to contracts entered into during the period as well as changes to commodity prices. On September 30, 2018, the unrealized risk management net liability mark-to-market value was \$15.8 million.

The Company's risk management contracts provide protection from significant changes in crude oil and natural gas commodity prices for 2018, 2019 and 2020. The Company endeavors to hedge approximately 50 to 70% of its forecast production for the following year, and approximately 30 to 50% of its forecast production for the subsequent year. The Company's hedging strategy is intended to provide stability and sustainability to the Company's economic returns, funds flow and capital development plan. A summary of Petrus' risk management contracts is included in note 8 of the Company's interim consolidated financial statements as at and for the period ended September 30, 2018. The table below summarizes Petrus' average crude oil and natural gas hedged volumes. The average volume of oil hedged for the remainder of 2018 (1,800 bbl/d) represents 62% of third quarter total average liquids (oil and NGL) production. The 25,667 GJ/d of natural gas hedged for the remainder of 2018 represents 71% of third quarter average natural gas production.

The following table summarizes the average and minimum and maximum cap and floor prices for the 2018 to 2020 oil and natural gas contracts in place as at the date of this MD&A:

| | 2018 | | | | | 2019 | | | | | 2020 | | | | |
|----------------------------------|--------|--------|--------|--------|---------------------|--------|--------|--------|--------|---------------------|-------|-------|-------|-------|---------------------|
| | Q1 | Q2 | Q3 | Q4 | Avg. ⁽¹⁾ | Q1 | Q2 | Q3 | Q4 | Avg. ⁽¹⁾ | Q1 | Q2 | Q3 | Q4 | Avg. ⁽¹⁾ |
| Oil hedged (bbl/d) | 2,300 | 1,950 | 2,050 | 1,800 | 2,025 | 1,650 | 1,400 | 1,400 | 1,650 | 1,525 | 1,150 | 750 | 550 | 350 | 700 |
| Avg. WTI cap price (\$/bbl) | 65.80 | 66.24 | 66.95 | 66.94 | 66.45 | 68.46 | 67.13 | 69.26 | 70.45 | 68.88 | 72.18 | 76.92 | 78.81 | 76.70 | 75.32 |
| Avg. WTI floor price (\$/bbl) | 62.16 | 65.06 | 66.63 | 66.66 | 64.99 | 68.17 | 67.13 | 69.26 | 70.45 | 68.80 | 72.18 | 76.92 | 78.81 | 76.70 | 75.32 |
| Natural gas hedged (GJ/d) | 35,500 | 27,000 | 27,000 | 25,667 | 28,792 | 21,000 | 14,333 | 14,000 | 11,000 | 15,083 | 9,500 | 3,500 | 3,500 | 1,167 | 4,417 |
| Avg. AECO 7A cap price (\$/GJ) | 2.77 | 2.26 | 2.26 | 2.36 | 2.44 | 2.47 | 1.74 | 1.73 | 1.74 | 1.99 | 1.74 | 1.58 | 1.58 | 1.58 | 1.67 |
| Avg. AECO 7A floor price (\$/GJ) | 2.74 | 2.26 | 2.26 | 2.36 | 2.43 | 2.47 | 1.74 | 1.73 | 1.74 | 1.99 | 1.74 | 1.58 | 1.58 | 1.58 | 1.67 |

⁽¹⁾ The volumes and prices reported are the weighted average volumes and prices for the period.



OPERATING EXPENSE

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

| Operating Expense (\$000s) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---------------------------------------|--|--|---|---|
| Operating expense, net ⁽¹⁾ | 3,800 | 5,271 | 11,801 | 14,206 |
| Operating expense, net (\$/boe) | 4.95 | 5.42 | 4.61 | 5.18 |

⁽¹⁾ Operating expense is presented net of processing income and overhead recoveries.

Operating expense (presented net of processing income and overhead recoveries) totaled \$3.8 million for the third quarter of 2018, a 28% decrease from the \$5.3 million recorded in the third quarter of the prior year. This change is attributable to the 21% decrease in production over the same time period as well as improved operating efficiencies. On a per boe basis, operating expense for the third quarter was 9% lower at \$4.95 per boe in 2018 compared to \$5.42 per boe in 2017. The decrease is due to Petrus' optimization of operating costs through facility ownership and control.

For the nine months ended September 30, 2018, operating expense (presented net of processing income and overhead recoveries) totaled \$11.8 million, a 17% decrease from the \$14.2 million incurred in the comparable period of the prior year. The decrease is attributable to Petrus' improved operating cost structure and decreased activity related to well workover projects. During the first nine months of 2017, Petrus incurred significantly higher non-routine workover expense, the majority of which was incurred in the Foothills non-core operating area.

TRANSPORTATION EXPENSE

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

| Transportation Expense (\$000s) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---------------------------------|--|--|---|---|
| Transportation expense | 749 | 1,255 | 2,934 | 3,647 |
| Transportation expense (\$/boe) | 0.98 | 1.29 | 1.15 | 1.33 |

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 expense totaled \$0.7 million or \$0.98 per boe in the third quarter of 2018 (\$1.3 million or \$1.29 per boe for the prior year comparative period). The lower transportation expense is related to the 21% decrease in production from the third quarter of 2017 to the third quarter of 2018.

On a nine month basis, transportation expense totaled \$2.9 million, or \$1.15 per boe, compared to \$3.6 million or \$1.33 per boe in the prior year comparative period. The decrease is related to the 7% decrease in production from the nine months ended September 30, 2018 compared to the prior year comparative period.

GENERAL AND ADMINISTRATIVE EXPENSE

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

| General and Administrative Expense (\$000s) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|--|--|--|---|---|
| Gross general and administrative expense | 1,823 | 2,388 | 5,981 | 7,108 |
| Capitalized general and administrative and overhead recoveries | (506) | (1,329) | (1,862) | (4,120) |
| General and administrative expense | 1,317 | 1,059 | 4,119 | 2,988 |
| General and administrative expense (\$/boe) | 1.72 | 1.09 | 1.61 | 1.09 |



The Company's G&A expense consisted of the following expenditures:

| General and Administrative Expense (\$000s) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|--|--|--|---|---|
| Personnel, consultants and directors | 903 | 1,514 | 3,362 | 4,488 |
| Office costs | 792 | 804 | 1,935 | 2,092 |
| Regulatory and public company expenses | 128 | 70 | 684 | 528 |
| Capitalized general and administrative expense and overhead recoveries | (506) | (1,329) | (1,862) | (4,120) |
| General and administrative expense | 1,317 | 1,059 | 4,119 | 2,988 |

Third quarter 2018 G&A expense totaled \$1.3 million or \$1.72 per boe, compared to \$1.1 million or \$1.09 per boe in the third quarter of 2017. The increase from the prior year is primarily due to higher capital overhead recoveries recognized in the prior year as a result of higher capital activity in 2017 compared to 2018. The increase on a per boe basis is also due to lower production in 2018 compared to the prior year.

On a nine month basis, G&A expense for the period ending September 30, 2018 totaled \$4.1 million or \$1.61 per boe compared to \$3.0 million or \$1.09 per boe for the prior year comparative period. The increase in 2018 G&A is primarily due to higher capital overhead recoveries recognized in the prior year as a result of higher capital activity in 2017 compared to 2018, partially offset by lower personnel costs in 2018.

SHARE-BASED COMPENSATION EXPENSE

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

| Share-Based Compensation Expense (\$000s) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|--|--|---|---|
| Gross share-based compensation expense | 174 | 209 | 529 | 545 |
| Capitalized share-based compensation | (70) | (84) | (212) | (218) |
| Share-based compensation expense | 104 | 125 | 317 | 327 |

Share-based compensation expense (net of capitalized portion) was \$0.1 million for the third quarter of 2018, which is consistent with the \$0.1 million recognized in the third quarter of the prior year.

On a nine month basis, share-based compensation expense (net of capitalized portion) for the period ending September 30, 2018 was \$0.3 million, which is also consistent with the prior year comparative period (\$0.3 million).

FINANCE EXPENSE

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

| Finance Expense (\$000s) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|--|--|--|---|---|
| Interest expense | 1,940 | 1,936 | 5,902 | 5,478 |
| Foreign exchange loss (gain) | 1 | — | 1 | 1 |
| Total cash finance expense | 1,941 | 1,936 | 5,903 | 5,479 |
| Deferred financing costs | 196 | — | 463 | — |
| Accretion on decommissioning obligations | 217 | 240 | 663 | 724 |
| Total finance expense | 2,354 | 2,176 | 7,029 | 6,203 |

The Company incurred total finance expense of \$2.4 million in the third quarter of 2018, comprised of \$0.2 million of non-cash accretion of its decommissioning obligations, \$1.9 million of cash interest expense and \$0.2 million of amortization of deferred financing fees, both of which are related to the RCF and Term Loan. In the third quarter of 2017, the Company incurred total finance expense of \$2.2 million, comprised of \$0.2 million in non-cash accretion of its decommissioning obligation and \$1.9 million cash interest expense.

The Company incurred total finance expense of \$7.0 million for the nine month period ending September 30, 2018, compared to \$6.2 million for the prior year comparative period. The increases in interest expense from 2017 to 2018 on both the three and nine month basis is due to increases in the underlying prime interest rate. These increases were offset by reductions in the Company's outstanding RCF.



DEPLETION AND DEPRECIATION

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

| Depletion and Depreciation Expense (\$000s) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|--|--|---|---|
| Depletion and depreciation expense | 9,631 | 15,029 | 31,744 | 39,960 |
| Depletion and depreciation expense (\$/boe) | 12.56 | 15.46 | 12.39 | 14.56 |

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

Petrus recorded depletion and depreciation expense in the third quarter of 2018 of \$9.6 million or \$12.56 per boe, compared to the third quarter of 2017, when \$15.0 million or \$15.46 per boe was recorded. For the nine month period ending September 30, 2018, the Company recorded \$31.7 million or \$12.39 per boe, compared to \$40.0 million or \$14.56 per boe for the prior year.

SHARE CAPITAL

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

| Share Capital (000s) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|--|--|---|---|
| Weighted average Common Shares outstanding | | | | |
| Basic | 49,492 | 49,428 | 49,492 | 48,098 |
| Fully diluted | 49,492 | 49,428 | 49,492 | 48,098 |
| Common Shares outstanding | | | | |
| Basic | 49,492 | 49,428 | 49,492 | 49,428 |
| Fully diluted | 49,492 | 49,428 | 49,492 | 49,429 |
| Stock options outstanding | 3,071 | 2,772 | 3,071 | 2,772 |
| Performance warrants outstanding | — | 86 | — | 86 |

At September 30, 2018, the Company had 49,491,840 Common Shares and 3,071,201 stock options outstanding.

The Company issued 1,058,400 stock options during the nine months ended September 30, 2018 as follows:

- (a) 549,900 stock options were issued on May 28, 2018 at an exercise price of \$1.49.
- (b) 508,500 stock options were issued on August 17, 2018 at an exercise price of \$0.86.

The Company has a deferred share unit plan in place whereby it may issue deferred share units to directors of the Company. At September 30, 2018, 130,038 (December 31, 2017 – 130,038) deferred share units were issued and outstanding. Each DSU entitles the participants to receive, at the Company's discretion, either shares of the Company or cash equal to the trading price of the equivalent number of shares of the Company. All DSUs granted vest and become payable upon retirement of the director.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2018, Petrus had two debt instruments outstanding. The first is a reserve-based, senior secured revolving credit facility with a syndicate of lenders, which is comprised of an operating facility and a syndicated term-out facility (together, the "Revolving Credit Facility" or "RCF"). The second is a subordinated secured term loan (the "Term Loan").

(a) Revolving Credit Facility

At September 30, 2018, the RCF was comprised of a \$20 million operating facility and a \$90 million syndicated term-out facility. Consent from the syndicate lenders and the Term Loan lender is required for total borrowings against the RCF exceeding \$105 million. The syndicated term-out facility has a revolving period that ends May 31, 2019 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 debenture over all of the present and after acquired property of the Company. The RCF syndicate of lenders completed their 2018 semi-annual review of the RCF and have maintained the Company's borrowing base at \$110 million.

At September 30, 2018, the Company had a \$0.7 million letter of credit outstanding against the RCF (December 31, 2017 – \$0.3 million) and had drawn \$96.3 million against the RCF (December 31, 2017 – \$0.3 million letter of credit and \$97.6 million outstanding against the RCF).

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, 2018, the Company had a \$35 million (December 31, 2017 – \$35 million) Term Loan outstanding (excluding \$0.8 million of deferred finance fees), which is due October 8, 2020. The Term Loan bears interest which is due and payable monthly and accrues at a per annum rate of the (three-month) Canadian Dealer offered Rate (CDOR) plus 700 basis points. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

Financial Covenants

The RCF and the Term Loan carry financial covenants that are described in note 6 of the Company's September 30, 2018 interim consolidated financial statements. The Company was in compliance with all financial covenants at September 30, 2018.

Liquidity Risk

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

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.

As at September 30, 2018, the Company had a working capital deficiency (excluding the risk management asset or liability) of \$1.0 million. The Company plans to address this working capital deficiency by using its funds flow and available credit facilities. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2019. Petrus anticipates it will continue to have adequate liquidity to fund its financial liabilities through funds flow and available credit capacity from its RCF.

The following are the contractual maturities of financial liabilities as at September 30, 2018:

| \$000s | Total | < 1 year | 1-5 years |
|-------------------------------|----------------|---------------|----------------|
| Accounts payable | 12,145 | 12,145 | — |
| Risk management liability | 15,837 | 12,372 | 3,465 |
| Long term debt ⁽¹⁾ | 131,300 | — | 131,300 |
| Total | 159,282 | 24,517 | 134,765 |

⁽¹⁾Excludes deferred finance fees.

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

| \$000s | Total | < 1 year | 1-5 years | > 5 years |
|-----------------------------|---------------|--------------|---------------|--------------|
| Corporate office lease | 954 | 716 | 239 | — |
| Firm service transportation | 19,752 | 1,073 | 12,578 | 6,100 |
| Total commitments | 20,706 | 1,789 | 12,817 | 6,100 |



Risk Management

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

For a more in-depth discussion of risk management, see notes 8 and 13 of the Company's September 30, 2018 interim consolidated financial statements.

CAPITAL EXPENDITURES

Capital expenditures (excluding acquisitions and dispositions) totaled \$3.6 million in the third quarter of 2018, compared to \$13.1 million in the third quarter of the prior year. For the nine months ended September 30, 2018, Petrus invested \$11.5 million compared to \$49.8 million in the same period in 2017. The decrease in capital spending is related to decreased capital activity as a result of lower natural gas commodity pricing. The following table shows capital expenditures for the reporting periods indicated. All capital is presented before decommissioning obligations.

| Capital Expenditures (\$000s) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|--|--|--|---|---|
| Drill and complete | 2,741 | 7,672 | 6,082 | 33,946 |
| Oil and gas equipment | 368 | 4,872 | 2,550 | 13,905 |
| Geological | — | 225 | — | 225 |
| Land and lease | 106 | 22 | 1,612 | — |
| Office | — | — | — | 317 |
| Capitalized general and administrative | 422 | 264 | 1,252 | 1,448 |
| Total capital expenditures | 3,637 | 13,055 | 11,496 | 49,841 |
| Gross (net) wells spud | 2 (1.0) | 5 (3.7) | 4 (1.6) | 16 (11.8) |

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

| Acquisitions and Dispositions (\$000s) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|--|--|--|---|---|
| Acquisitions | — | — | — | 8,818 |
| Dispositions | (50) | (4,866) | (448) | (4,866) |
| Total acquisitions and dispositions | (50) | (4,866) | (448) | 3,952 |

Dispositions totaled \$0.05 million in the three months ended September 30, 2018 (compared to the prior year when dispositions totaled \$4.9 million). During the nine months ended September 30, 2018, Petrus divested non-core assets for approximately \$0.4 million (net A&D activity in the prior year of \$4.0 million).



SUMMARY OF QUARTERLY RESULTS

| (\$000s unless otherwise noted) | Sept. 30, 2018 | Jun. 30, 2018 | Mar. 31, 2018 | Dec. 31, 2017 | Sept. 30, 2017 | Jun. 30, 2017 | Mar. 31, 2017 | Dec. 31, 2016 |
|--|-------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|
| Average Production | | | | | | | | |
| Natural gas (mcf/d) | 33,461 | 39,126 | 45,543 | 46,625 | 45,550 | 42,392 | 40,332 | 37,327 |
| Oil (bbl/d) | 1,243 | 1,484 | 1,530 | 1,854 | 1,877 | 2,015 | 1,542 | 1,452 |
| NGLs (bbl/d) | 1,519 | 1,241 | 1,475 | 1,086 | 1,098 | 1,160 | 1,067 | 922 |
| Total (boe/d) | 8,338 | 9,246 | 10,596 | 10,711 | 10,567 | 10,240 | 9,331 | 8,595 |
| Total (boe) | 767,095 | 841,316 | 953,598 | 985,388 | 972,140 | 931,821 | 839,746 | 790,806 |
| Financial Results | | | | | | | | |
| Oil and natural gas revenue | 20,030 | 19,321 | 25,301 | 23,243 | 18,299 | 26,753 | 22,274 | 21,409 |
| Royalty expense | (2,391) | (2,137) | (4,674) | (3,000) | (2,656) | (4,306) | (3,309) | (2,787) |
| Net oil and natural gas revenue | 17,639 | 17,184 | 20,627 | 20,243 | 15,643 | 22,447 | 18,965 | 18,622 |
| Transportation expense | (749) | (988) | (1,197) | (1,233) | (1,255) | (1,235) | (1,157) | (1,187) |
| Operating expense | (3,800) | (3,841) | (4,160) | (4,744) | (5,271) | (5,155) | (3,780) | (2,867) |
| Operating netback | 13,090 | 12,355 | 15,270 | 14,266 | 9,117 | 16,057 | 14,028 | 14,568 |
| Realized gain (loss) on derivatives | (2,061) | (625) | 298 | 1,210 | 1,829 | 212 | 482 | 783 |
| Other income | 69 | 103 | — | — | — | — | — | — |
| General & administrative expense | (1,317) | (1,372) | (1,430) | (266) | (1,059) | (1,047) | (882) | (2,991) |
| Cash finance expense | (1,941) | (2,097) | (1,865) | (1,515) | (1,936) | (1,807) | (1,736) | (2,043) |
| Decommissioning expenditures | (155) | — | (168) | (611) | (224) | (957) | (160) | (508) |
| Corporate netback | 7,685 | 8,364 | 12,105 | 13,084 | 7,727 | 12,458 | 11,732 | 9,809 |
| Oil and natural gas revenue | 20,030 | 19,321 | 25,301 | 23,243 | 18,299 | 26,753 | 22,274 | 21,409 |
| Per share - basic | 0.40 | 0.39 | 0.51 | 0.47 | 0.37 | 0.54 | 0.48 | 0.47 |
| Per share - fully diluted | 0.40 | 0.39 | 0.51 | 0.47 | 0.37 | 0.54 | 0.47 | 0.47 |
| Net income (loss) | (8,048) | (10,615) | (5,684) | (67,095) | (50,696) | (781) | 7,311 | (11,842) |
| Per share - basic | (0.16) | (0.21) | (0.11) | (1.36) | (1.03) | (0.02) | 0.16 | (0.26) |
| Per share - fully diluted | (0.16) | (0.21) | (0.11) | (1.36) | (1.03) | (0.02) | 0.16 | (0.26) |
| Common shares outstanding (000s) | | | | | | | | |
| Basic | 49,492 | 49,492 | 49,492 | 49,492 | 49,428 | 49,428 | 49,428 | 45,349 |
| Fully diluted | 49,492 | 49,492 | 49,492 | 49,492 | 49,428 | 49,428 | 52,664 | 45,349 |
| Weighted avg. shares outstanding (000s) | | | | | | | | |
| Basic | 49,492 | 49,492 | 49,492 | 49,456 | 49,428 | 49,428 | 46,754 | 45,349 |
| Fully diluted | 49,492 | 49,492 | 49,492 | 49,456 | 49,428 | 49,428 | 46,989 | 45,349 |
| Total assets | 322,335 | 330,359 | 343,161 | 353,445 | 409,078 | 465,794 | 460,095 | 439,967 |
| Net debt | (131,603) | (135,111) | (142,238) | (148,066) | (137,531) | (137,069) | (130,624) | (124,915) |

The oil and natural gas exploration and production industry is cyclical in nature. Petrus' financial position, results of operations and funds flow are affected by commodity prices, exchange rates, Canadian price differentials and production levels. Petrus' average quarterly production decreased from 8,595 boe/d in the fourth quarter of 2016 to 8,338 boe/d in the third quarter of 2018. The 3% production decrease is attributable to certain production volume in the Foothills area being shut-in due to uneconomic natural gas pricing, partially offset by incremental volume attributed to the Company's development program at Ferrier.

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



CRITICAL ACCOUNTING ESTIMATES

The timely preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of the financial statements are outlined below. The Company's critical accounting estimates can be read in note 2 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2017.

OTHER FINANCIAL INFORMATION

Significant accounting policies

The Company's significant accounting policies can be read in note 3 of the Company's audited consolidated financial statements as at and for the year ended December 31, 2017.

New standards and interpretations

The Company's discussion on new standards and interpretations can be read in note 2 of the Company's interim financial statements as at and for the period ended September 30, 2018.

Internal Control over Financial Reporting

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on July 1, 2018 and ending on September 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

NON-GAAP FINANCIAL MEASURES

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

Operating Netback

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

Corporate Netback

Corporate netback is also a common non-GAAP financial measure used in the oil and gas industry which evaluates the Company's profitability at the corporate level. Management believes corporate netback provides information to assist a reader in understanding the Company's profitability relative to current commodity prices. It is calculated as the operating netback less general and administrative expense, finance expense, decommissioning expenditures, plus the net realized gain (loss) on financial derivatives. It is presented on an absolute value and per unit basis. The most directly comparable GAAP measure to corporate netback is funds flow.

| | Three months ended Sept. 30, 2018 | | Three months ended Sept. 30, 2017 | | Nine months ended Sept. 30, 2018 | | Nine months ended Sept. 30, 2017 | |
|---|--------------------------------------|--------------|--------------------------------------|--------------|-------------------------------------|--------------|-------------------------------------|--------------|
| | \$000s | \$/boe | \$000s | \$/boe | \$000s | \$/boe | \$000s | \$/boe |
| Oil and natural gas revenue | 20,030 | 26.11 | 18,299 | 18.83 | 64,652 | 25.23 | 67,326 | 24.54 |
| Royalty expense | (2,391) | (3.12) | (2,656) | (2.73) | (9,202) | (3.59) | (10,270) | (3.74) |
| Net oil and natural gas revenue | 17,639 | 22.99 | 15,643 | 16.10 | 55,450 | 21.64 | 57,056 | 20.80 |
| Transportation expense | (749) | (0.98) | (1,255) | (1.29) | (2,934) | (1.15) | (3,647) | (1.33) |
| Operating expense | (3,800) | (4.95) | (5,271) | (5.42) | (11,801) | (4.61) | (14,206) | (5.18) |
| Operating netback | 13,090 | 17.06 | 9,117 | 9.39 | 40,715 | 15.88 | 39,203 | 14.29 |
| Realized gain (loss) on financial derivatives | (2,061) | (2.69) | 1,829 | 1.88 | (2,388) | (0.93) | 2,523 | 0.92 |
| Other income | 69 | 0.08 | — | — | 172 | 0.10 | — | — |
| General & administrative expense | (1,317) | (1.72) | (1,059) | (1.09) | (4,119) | (1.61) | (2,988) | (1.09) |
| Cash finance expense | (1,941) | (2.53) | (1,936) | (1.99) | (5,903) | (2.30) | (5,479) | (2.00) |
| Decommissioning expenditures | (155) | (0.20) | (224) | (0.23) | (323) | (0.13) | (1,341) | (0.48) |
| Corporate netback | 7,685 | 10.00 | 7,727 | 7.96 | 28,154 | 11.01 | 31,918 | 11.64 |

Net Debt

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

| (\$000s) | As at September 30, 2018 | As at December 31, 2017 |
|---|--------------------------|-------------------------|
| Current assets adjusted for unrealized financial instruments | 11,146 | 13,042 |
| Less: current liabilities adjusted for unrealized financial instruments | (12,145) | (29,201) |
| Less: long term debt | (130,604) | (131,907) |
| Net debt | (131,603) | (148,066) |

Net Debt to Funds Flow

Net debt to funds flow is calculated as the period ending net debt divided by the trailing quarter funds flow (annualized).

OIL AND GAS DISCLOSURES

Our oil and gas reserves statement for the year ended December 31, 2017, which includes disclosure of our oil and natural gas reserves and other oil and natural gas information in accordance with NI 51-101, is contained in the AIF. The recovery and reserve estimates contained herein are estimates only and there is no guarantee that the estimated reserves will be recovered.



ADVISORIES

Basis of Presentation

Financial data presented above has largely been derived from the Company's financial statements, prepared in accordance with GAAP which require publicly accountable enterprises to prepare their financial statements using IFRS. Accounting policies adopted by the Company are set out in the notes to the audited financial statements as at and for the twelve months ended December 31, 2017. The reporting and the measurement currency is the Canadian dollar. All financial information is expressed in Canadian dollars, unless otherwise stated.

Forward-Looking Statements

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

In particular, forward-looking statements included in this MD&A include, but are not limited to, expectations regarding the focus of and timing of capital expenditures; Petrus' drilling program and the timing for bringing wells on stream; expected year end 2018 net debt; the performance characteristics of the Company's crude oil, NGL and natural gas properties including estimated production; crude oil, NGL and natural gas production levels and product mix; the availability of funds flow; sources of funding for capital expenditures; the use of funds flow and available credit facilities to address working capital deficiency; the growth of Petrus and the availability of the full amount of the revolving credit facility; the treatment of the revolving credit facility following the end of the revolving period; Petrus' ability to fund its financial liabilities; the size of, and future net revenues from, crude oil, NGL (natural gas liquids) and natural gas reserves; future prospects; 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; Petrus' future operating and financial results; supply and demand for crude oil, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; and treatment under governmental regulatory regimes and tax laws. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

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

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

BOE Presentation

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



Abbreviations

| | |
|---------------|---|
| <i>000's</i> | <i>thousand dollars</i> |
| <i>\$/bbl</i> | <i>dollars per barrel</i> |
| <i>\$/boe</i> | <i>dollars per barrel of oil equivalent</i> |
| <i>\$/GJ</i> | <i>dollars per gigajoule</i> |
| <i>\$/mcf</i> | <i>dollars per thousand cubic feet</i> |
| <i>bbl</i> | <i>barrel</i> |
| <i>bbl/d</i> | <i>barrels per day</i> |
| <i>boe</i> | <i>barrel of oil equivalent</i> |
| <i>boe/d</i> | <i>barrel of oil equivalent per day</i> |
| <i>GJ</i> | <i>gigajoule</i> |
| <i>GJ/d</i> | <i>gigajoules per day</i> |
| <i>mcf</i> | <i>thousand cubic feet</i> |
| <i>mcf/d</i> | <i>thousand cubic feet per day</i> |
| <i>mmcf/d</i> | <i>million cubic feet per day</i> |
| <i>NGLs</i> | <i>natural gas liquids</i> |
| <i>WTI</i> | <i>West Texas Intermediate</i> |



**CONSOLIDATED BALANCE SHEETS
(UNAUDITED)**

(Presented in 000's of Canadian dollars)

| As at | September 30, 2018 | December 31, 2017 |
|--|--------------------|-------------------|
| ASSETS | | |
| Current | | |
| Cash | 1,119 | 24 |
| Deposits and prepaid expenses | 1,438 | 1,430 |
| Accounts receivable (note 13) | 8,589 | 11,588 |
| Risk management asset (note 8) | — | 2,163 |
| Total current assets | 11,146 | 15,205 |
| Non-current | | |
| Risk management asset (note 8) | — | 572 |
| Exploration and evaluation assets (notes 3 and 4) | 42,771 | 43,197 |
| Property, plant and equipment (notes 3 and 5) | 268,418 | 294,471 |
| Total assets | 322,335 | 353,445 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Bank indebtedness (note 13) | — | 3,844 |
| Accounts payable and accrued liabilities (note 13) | 12,145 | 25,601 |
| Risk management liability (note 8) | 12,372 | — |
| Total current liabilities | 24,517 | 29,445 |
| Non-current liabilities | | |
| Long term debt (note 6) | 130,604 | 131,907 |
| Decommissioning obligation (note 7) | 36,839 | 40,654 |
| Risk management liability (note 8) | 3,465 | 711 |
| Total liabilities | 195,425 | 202,717 |
| Shareholders' equity | | |
| Share capital (note 9) | 430,119 | 430,119 |
| Contributed surplus | 8,209 | 7,680 |
| Deficit | (311,418) | (287,071) |
| Total shareholders' equity | 126,910 | 150,728 |
| Total liabilities and shareholders' equity | 322,335 | 353,445 |

Commitments (note 17)

See accompanying notes to the interim consolidated financial statements

Approved by the Board of Directors,

(signed) "Don T. Gray"

Don T. Gray
Chairman

(signed) "Donald Cormack"

Donald Cormack
Director


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

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

| | Three months ended Sept. 30, 2018 | Three months ended Sept. 30, 2017 | Nine months ended Sept. 30, 2018 | Nine months ended Sept. 30, 2017 |
|---|---|---|--|--|
| REVENUE | | | | |
| Oil and natural gas revenue (note 19) | 20,030 | 18,299 | 64,652 | 67,326 |
| Royalty expense | (2,391) | (2,656) | (9,202) | (10,270) |
| Net oil and natural gas revenue | 17,639 | 15,643 | 55,450 | 57,056 |
| Other income | 69 | — | 172 | — |
| Net gain (loss) on financial derivatives (note 8) | (6,058) | 5,544 | (20,248) | 14,662 |
| | 11,650 | 21,187 | 35,374 | 71,718 |
| EXPENSES | | | | |
| Operating (note 11) | 3,800 | 5,271 | 11,801 | 14,206 |
| Transportation | 749 | 1,255 | 2,934 | 3,647 |
| General and administrative (note 12) | 1,317 | 1,059 | 4,119 | 2,988 |
| Share-based compensation (note 9) | 104 | 125 | 317 | 327 |
| Finance (note 15) | 2,354 | 2,176 | 7,029 | 6,203 |
| Exploration and evaluation (note 4) | 1,378 | 1,049 | 1,804 | 2,635 |
| Depletion and depreciation (note 5) | 9,631 | 15,029 | 31,744 | 39,960 |
| Loss (gain) on sale of assets (note 3) | 365 | 919 | (27) | 919 |
| Impairment | — | 45,000 | — | 45,000 |
| Total expenses | 19,698 | 71,883 | 59,721 | 115,885 |
| NET LOSS AND COMPREHENSIVE LOSS | (8,048) | (50,696) | (24,347) | (44,167) |
| Net loss per common share | | | | |
| Basic and diluted (note 10) | (0.16) | (1.03) | (0.49) | (0.92) |

See accompanying notes to the interim consolidated financial statements

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)**

(Presented in 000's of Canadian dollars)

| | Share Capital | Contributed Surplus | Deficit | Total |
|------------------------------------|------------------|------------------------|------------------|----------------|
| Balance, December 31, 2016 | 419,671 | 7,410 | (175,810) | 251,271 |
| Net loss | — | — | (44,167) | (44,167) |
| Issuance of common shares | 10,319 | — | — | 10,319 |
| Share issue costs | (35) | — | — | (35) |
| Share-based compensation | — | 545 | — | 545 |
| Balance, September 30, 2017 | 429,955 | 7,955 | (219,977) | 217,933 |
| Balance, December 31, 2017 | 430,119 | 7,680 | (287,071) | 150,728 |
| Net loss | — | — | (24,347) | (24,347) |
| Share-based compensation | — | 529 | — | 529 |
| Balance, September 30, 2018 | 430,119 | 8,209 | (311,418) | 126,910 |

See accompanying notes to the interim consolidated financial statements

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

(Presented in 000's of Canadian dollars)

| | Three months ended Sept. 30, 2018 | Three months ended Sept. 30, 2017 | Nine months ended Sept. 30, 2018 | Nine months ended Sept. 30, 2017 |
|--|---|---|--|--|
| OPERATING ACTIVITIES | | | | |
| Net loss | (8,048) | (50,696) | (24,347) | (44,167) |
| Adjust items not affecting cash: | | | | |
| Share-based compensation (note 9) | 104 | 125 | 317 | 327 |
| Unrealized loss (gain) on financial derivatives (note 8) | 3,997 | (3,715) | 17,860 | (12,139) |
| Non-cash finance expenses (note 15) | 413 | 240 | 1,126 | 724 |
| Depletion and depreciation (note 5) | 9,631 | 15,029 | 31,744 | 39,960 |
| Impairment | — | 45,000 | — | 45,000 |
| Exploration and evaluation expense (note 4) | 1,378 | 1,049 | 1,804 | 2,635 |
| Loss (gain) on sale of assets (note 3) | 365 | 919 | (27) | 919 |
| Decommissioning expenditures (note 7) | (155) | (224) | (323) | (1,341) |
| Funds flow | 7,685 | 7,727 | 28,154 | 31,918 |
| Change in operating non-cash working capital (note 16) | (751) | (5,126) | (5,966) | (4,133) |
| Cash flows from operating activities | 6,934 | 2,601 | 22,188 | 27,785 |
| FINANCING ACTIVITIES | | | | |
| Issue of common shares (note 9) | — | — | — | 10,319 |
| Share issue costs (note 9) | — | — | — | (35) |
| Repayment of term loan | — | — | — | (7,000) |
| Issuance (repayment) of revolving credit facility | 1,000 | 2,900 | (1,300) | 19,133 |
| Increase (repayment) in bank indebtedness | (3,303) | 2,181 | (3,844) | 4,036 |
| Transaction costs on debt | — | 98 | (350) | (792) |
| Change in financing non-cash working capital (note 16) | (182) | (775) | 120 | (992) |
| Cash flows from (used in) financing activities | (2,485) | 4,404 | (5,374) | 24,669 |
| INVESTING ACTIVITIES | | | | |
| Property and equipment acquisitions (note 3) | — | — | — | (8,818) |
| Property and equipment dispositions (note 3) | 50 | 4,866 | 50 | 4,866 |
| Exploration and evaluation asset acquisitions (note 3) | — | — | (93) | — |
| Exploration and evaluation asset expenditures (note 4) | (183) | (144) | (1,363) | (727) |
| Petroleum and natural gas property expenditures (note 5) | (3,710) | (12,866) | (9,846) | (49,942) |
| Other capital expenditures (note 5) | (2) | (44) | (2) | (197) |
| Change in investing non-cash working capital (note 16) | 515 | 1,371 | (4,465) | 2,272 |
| Cash flows (used in) investing activities | (3,330) | (6,817) | (15,719) | (52,546) |
| Increase (decrease) in cash | 1,119 | 188 | 1,095 | (92) |
| Cash, beginning of period | — | — | 24 | 280 |
| Cash, end of period | 1,119 | 188 | 1,119 | 188 |
| Cash interest paid | 1,941 | 1,936 | 5,903 | 5,478 |

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

1. NATURE OF THE ORGANIZATION

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

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

These interim consolidated financial statements, for the three and nine months ended September 30, 2018 and prior year comparative periods, were approved by the Company's Audit Committee and Board of Directors on November 8, 2018.

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared by management on a historical basis, except for certain financial instruments that have been measured at fair value. These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting." Certain information and disclosures normally included in the notes to the annual financial statements have been condensed. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2017 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, 2017. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2017, other than the new accounting policies adopted below. These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency, except where otherwise noted.

Significant accounting policies

The Company's significant accounting policies can be read in note 3 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2017.

New standards and interpretations adopted on January 1, 2018

IFRS 9 Financial Instruments

On January 1, 2018, Petrus adopted IFRS 9 Financial Instruments, which includes a principle-based approach for classification and measurement of financial assets and a forward-looking 'expected credit loss' model. The classification and measurement of financial instruments under IFRS 9 did not have a material impact on Petrus' consolidated financial statements. In addition, the application of the expected credit loss model to financial assets classified as amortized cost did not result in a material adjustment on transition.

IFRS 9 was applied retrospectively in accordance with transition requirements with no impact to opening retained earnings or comparative periods. Petrus has revised its accounting policy for financial instruments to reflect the new classification approach as follows:

Financial instruments

Financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial instruments are measured based on their classification as described below:

- Fair value through profit or loss: Financial instruments under this classification include risk management assets and liabilities.
- Amortized cost: Financial instruments under this classification include cash, accounts receivable, deposits, bank indebtedness, accounts payable and long term debt.

IFRS 15 Revenue from Contracts with Customers

Petrus adopted IFRS 15 "Revenue from Contracts with Customers" effective January 1, 2018, which establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. Petrus' revenue relates to the sale of petroleum and natural gas to customers at specified delivery points at benchmark prices. Petrus adopted IFRS 15 using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15. The adoption of IFRS 15 did not materially impact the timing or measurement of revenue. However, IFRS 15 contains new disclosure requirements.



In addition, as a result of this adoption, Petrus has revised the description of its accounting policy for revenue recognition as follows:

Revenue recognition

Revenue from contracts with customers is recognized when or as Petrus satisfies a performance obligation by transferring a promised good or service to a customer. The transfer of control of oil, natural gas, natural gas liquids usually occurs at a point in time and coincides with title passing to the customer and the customer taking physical possession. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location and other factors. The amount of revenue recognized is based on the agreed transaction price with any variability in transaction price recognized in the same period.

IFRS 16 Leases

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

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

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs. Petrus is finalizing its review of identified leases and arrangements qualifying as leases under IFRS 16 and is in the process of determining the financial impact of identified leases on its consolidated financial statements. Petrus expects to adopt IFRS 16 using the modified retrospective approach.

3. ACQUISITIONS AND DISPOSITIONS

Asset exchange agreement

On March 13, 2018, Petrus closed a property swap transaction to exchange assets with an arm's length party. The Company recorded a loss of \$0.1 million on the asset exchange, net of closing adjustments, during the nine months ended September 30, 2018.

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

| Net assets disposed \$000s | |
|--|--------------|
| Exploration and evaluation assets | 1,086 |
| Petroleum and natural gas properties and equipment | 3,231 |
| Decommissioning obligations | (471) |
| Total net assets disposed | 3,846 |

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

During the nine months ended September 30, 2018, Petrus incurred approximately \$1.2 million in net cash expenditures on other minor acquisition and disposition transactions for petroleum and natural gas properties and equipment. During the nine months ended September 30, 2018, the Company recorded a net gain of \$0.4 million, net of approximately \$0.1 in decommissioning obligation, from the disposition of exploration and evaluation assets and petroleum and natural gas properties for approximately \$0.4 million.

Property disposition - non-core

On August 15, 2017 Petrus closed the disposition of its working interest in certain non-core oil and natural gas properties in the Company’s Foothills area for cash consideration of \$4.8 million. The assets disposed of included approximately 150 boe/d of production along with related land and infrastructure. The proceeds were utilized to repay indebtedness under the Company’s credit facilities. The Company recorded a loss of \$1.0 million related to the disposition.

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

| Net assets disposed \$000s | |
|--|--------------|
| Exploration and evaluation assets | 1,438 |
| Petroleum and natural gas properties and equipment | 5,579 |
| Decommissioning obligations | (1,232) |
| Total net assets disposed | 5,785 |

Property acquisition

On February 28, 2017 Petrus closed the acquisition of oil and natural gas assets for total cash consideration of \$8.8 million net of closing adjustments. The acquisition included approximately 3,200 undeveloped Cardium leases in is Ferrier core area, approximately 40 boe/d of production and a non-producing well. The purchase price was allocated as follows:

| Fair value of net assets acquired \$000s | |
|--|--------------|
| Exploration and evaluation assets | 8,000 |
| Petroleum and natural gas properties and equipment | 969 |
| Decommissioning obligations | (151) |
| Total net assets acquired | 8,818 |

Other acquisition and disposition activity

During 2017, Petrus recorded other minor acquisition and disposition transactions for petroleum and natural gas properties and equipment for total net cash consideration of \$0.8 million.

4. EXPLORATION AND EVALUATION ASSETS

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

| \$000s | |
|---|---------------|
| Balance, December 31, 2016 | 64,824 |
| Additions | 309 |
| Property acquisitions (note 3) | 8,000 |
| Exploration and evaluation expense | (2,783) |
| Capitalized G&A | 520 |
| Capitalized share-based compensation | 75 |
| Property disposition (note 3) | (1,438) |
| Transfers to property, plant and equipment (note 5) | (7,036) |
| Impairment loss | (19,274) |
| Balance, December 31, 2017 | 43,197 |
| Additions | 1,055 |
| Property acquisition (note 3) | 402 |
| Exploration and evaluation expense | (1,804) |
| Capitalized G&A | 308 |
| Capitalized share-based compensation (note 9) | 53 |
| Property disposition (note 3) | (58) |
| Transfers to property, plant and equipment (note 5) | (382) |
| Balance, September 30, 2018 | 42,771 |

For the three and nine months ended September 30, 2018, the Company incurred exploration and evaluation expense of \$1.4 million and \$1.8 million, respectively, which relates to expired and near expiry undeveloped, non-core land (three and nine months ended September 30, 2017 – \$1.0 million and \$2.6 million, respectively).

During the three and nine months ended September 30, 2018, the Company capitalized \$0.1 million and \$0.3 million, respectively, of general and administrative expenses ("G&A") (three and nine months ended September 30, 2017 – \$0.1 million and \$0.4 million, respectively) and \$0.02 million and \$0.05 million, respectively, of non-cash share-based compensation directly attributable to exploration activities (three and nine months ended September 30, 2017 – \$0.02 million and \$0.06 million, respectively).



During the year ended December 31, 2017, management determined that certain CGUs were no longer considered to be core to the Company. As such, a process was initiated to potentially divest of the Company's Foothills and Central Alberta CGUs. Based on interest expressed in the Foothills and Central Alberta assets and information obtained through the divestiture process to date, the Company determined there were indicators of impairment and estimated the recoverable amounts of the Foothills exploration and evaluation assets to be \$2.9 million and the Central Alberta exploration and evaluation assets to be \$2.7 million as at December 31, 2017. The Company recorded an impairment loss of \$19.3 million during the year ended December 31, 2017.

No indicators of impairment were identified for the three and nine months ended September 30, 2018.

5. PROPERTY, PLANT AND EQUIPMENT

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

| \$000s | Cost | Accumulated DD&A | Net book value |
|---|----------------|---------------------|----------------|
| Balance, December 31, 2016 | 714,009 | (351,806) | 362,203 |
| Additions | 70,361 | — | 70,361 |
| Property acquisitions (note 3) | 1,729 | — | 1,729 |
| Property (dispositions) (note 3) | (15,078) | 9,320 | (5,758) |
| Capitalized G&A | 1,560 | — | 1,560 |
| Capitalized share-based compensation | 226 | — | 226 |
| Transfers from exploration and evaluation assets (note 4) | 7,036 | — | 7,036 |
| Depletion & depreciation | — | (52,614) | (52,614) |
| Decrease in decommissioning provision (note 7) | (545) | — | (545) |
| Impairment loss | — | (89,727) | (89,727) |
| Balance, December 31, 2017 | 779,298 | (484,827) | 294,471 |
| Additions | 8,639 | — | 8,639 |
| Property acquisitions (note 3) | 2,935 | — | 2,935 |
| Property dispositions (note 3) | (3,503) | — | (3,503) |
| Capitalized G&A | 924 | — | 924 |
| Capitalized share-based compensation (note 9) | 159 | — | 159 |
| Transfers from exploration and evaluation assets (note 4) | 382 | — | 382 |
| Depletion & depreciation | — | (31,744) | (31,744) |
| Decrease in decommissioning provision (note 7) | (3,845) | — | (3,845) |
| Balance, September 30, 2018 | 784,989 | (516,571) | 268,418 |

At September 30, 2018, estimated future development costs of \$283.0 million (December 31, 2017 – \$283.0 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 months ended September 30, 2018, the Company capitalized \$0.3 million and \$0.9 million of general and administrative expenses ("G&A") (three and nine months ended September 30, 2017 – \$0.4 million and \$1.3 million, respectively) and non-cash share-based compensation of \$0.05 million and \$0.2 million, respectively (three and nine months ended September 30, 2017 – \$0.06 million and \$0.2 million, respectively), directly attributable to development activities.

For the year ended December 31, 2017, the Company recorded property, plant and equipment impairments of \$89.7 million. At the end of the third quarter 2017, management determined that certain CGUs were no longer considered to be core to the Company. As such, a process was initiated to potentially divest of the Company's Foothills and Central Alberta CGUs. Based on interest expressed in the Foothills and Central Alberta assets and information obtained through the divestiture process to date, the Company determined there were indicators of impairment and estimated the recoverable amounts, net of decommissioning liabilities, of the Foothills property plant and equipment assets to be \$11.3 million and the Central Alberta property plant and equipment assets to be \$44.3 million.

No indicators of impairment were identified for the three and nine months ended September 30, 2018.

6. DEBT

At September 30, 2018, Petrus had two debt instruments outstanding. The first is a reserve-based, senior secured revolving credit facility with a syndicate of lenders, which is comprised of an operating facility and a syndicated term-out facility (together, the "Revolving Credit Facility" or "RCF"). The second is a subordinated secured term loan (the "Term Loan").

(a) Revolving Credit Facility

At September 30, 2018, the RCF was comprised of a \$20 million operating facility and a \$90 million syndicated term-out facility. Consent from the syndicate lenders and the Term Loan lender is required for total borrowings against the RCF exceeding \$105 million. The syndicated term-



out facility has a revolving period that ends May 31, 2019 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 debenture over all of the present and after acquired property of the Company. The RCF syndicate of lenders completed their 2018 semi-annual review of the RCF and have maintained the Company's borrowing base at \$110 million.

At September 30, 2018, the Company had a \$0.7 million letter of credit outstanding against the RCF (December 31, 2017 – \$0.3 million) and had drawn \$96.3 million against the RCF (December 31, 2017 – \$97.6 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, 2018 the Company had a \$35 million (December 31, 2017 – \$35 million) Term Loan outstanding (excluding \$0.8 million of unamortized deferred financing costs), which is due October 8, 2020. The Term Loan bears interest that is due and payable monthly and accrues at a per annum rate of the (three-month) Canadian Dealer Offered Rate (CDOR) plus 700 basis points. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

Financial Covenants

The Company's RCF and Term Loan are subject to certain financial covenants. For the financial covenants' definitions and calculation methodology refer to the Company's Audited Consolidated Financial Statements as at and for the year ended December 31, 2017.

The key financial covenants as at September 30, 2018 are summarized in the following table.

| Financial Covenant Description | Required Ratio | As at September 30, 2018 |
|--|-----------------------|---------------------------------|
| Working Capital Ratio | Over 1.00 | 1.99 |
| Proved Asset Coverage Ratio ⁽¹⁾ | Over 1.25 | 2.38 |
| PDP Asset Coverage Ratio ⁽¹⁾ | Over 1.00 | 1.63 |
| Debt to EBITDA Ratio | Under 3.50 | 2.66 |

⁽¹⁾ Calculations are based upon the Company's December 31, 2017 reserve report evaluated by Sproule Associates Ltd.

At September 30, 2018 the Company is in compliance with all financial covenants.

7. DECOMMISSIONING OBLIGATION

The decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The estimated future cash flows have been discounted using an average risk free rate of 2.43 percent and an inflation rate of 2.00 percent (December 31, 2017 – 2.22 percent and 2.00 percent, respectively). Changes in estimates in 2017 and 2018 are due to the changes in the risk free rate and changes in the estimated future cash flow to reclaim the wells and facilities. The Company has estimated the net present value of the decommissioning obligations to be \$36.8 million as at September 30, 2018 (\$40.7 million at December 31, 2017). The undiscounted, uninflated total future liability at September 30, 2018 is \$41.5 million (\$43.1 million at December 31, 2017). 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, 2016 | 43,243 |
| Property acquisitions | 151 |
| Property dispositions | (1,232) |
| Liabilities incurred | 2,530 |
| Liabilities settled | (1,952) |
| Change in estimates | (3,075) |
| Accretion expense | 989 |
| Balance, December 31, 2017 | 40,654 |
| Property acquisitions <i>(note 3)</i> | 224 |
| Property disposition <i>(note 3)</i> | (629) |
| Liabilities incurred | 95 |
| Liabilities settled | (323) |
| Change in estimates | (3,845) |
| Accretion expense | 663 |
| Balance, September 30, 2018 | 36,839 |

8. FINANCIAL RISK MANAGEMENT

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus had outstanding as at September 30, 2018:

| Contract Period | Type | Total Daily Volume (GJ) | Average Price (CDN\$/GJ) |
|-------------------------------|-----------------|--------------------------|---------------------------|
| Natural Gas Swaps | | | |
| Oct. 1, 2018 to Oct. 31, 2018 | Fixed price | 23,000 | \$2.31 |
| Oct. 1, 2018 to Dec. 31, 2018 | Fixed price | 4,000 | \$2.03 |
| Nov. 1, 2018 to Mar. 31, 2019 | Fixed price | 20,000 | \$2.52 |
| Apr. 1, 2019 to Oct. 31, 2019 | Fixed price | 14,000 | \$1.73 |
| Nov. 1, 2019 to Mar. 31, 2020 | Fixed price | 6,000 | \$1.83 |
| Nov. 1, 2019 to Oct. 31, 2020 | Fixed price | 3,500 | \$1.58 |
| Contract Period | Type | Total Daily Volume (Bbl) | Average Price (CDN\$/Bbl) |
| Crude Oil Swaps | | | |
| Oct. 1, 2018 to Dec. 31, 2018 | Fixed price | 1,650 | \$67.05 |
| Oct. 1, 2018 to Jun. 30, 2019 | Fixed price | 300 | \$61.60 |
| Jan. 1, 2019 to Mar. 31, 2019 | Fixed price | 1,500 | \$68.84 |
| Apr. 1, 2019 to Jun. 30, 2019 | Fixed price | 1,100 | \$68.64 |
| Jul. 1, 2019 to Sep. 30, 2019 | Fixed price | 700 | \$70.94 |
| Jul. 1, 2019 to Dec. 31, 2019 | Fixed price | 700 | \$67.59 |
| Oct. 1, 2019 to Dec. 31, 2019 | Fixed price | 600 | \$70.13 |
| Jan. 1, 2020 to Mar. 31, 2020 | Fixed price | 800 | \$70.20 |
| Apr. 1, 2020 to Jun. 30, 2020 | Fixed price | 400 | \$77.11 |
| Jul. 1, 2020 to Sep. 30, 2020 | Fixed price | 200 | \$82.50 |
| Crude Oil Collars | | | |
| Oct. 1, 2018 to Dec. 31, 2018 | Costless collar | 50 | \$60.00-70.00 |
| Jan. 1, 2019 to Mar. 31, 2019 | Costless collar | 50 | \$60.00-69.50 |

Risk management asset and liability:

| \$000s At September 30, 2018 | Asset | Liability |
|-------------------------------------|--------------|------------------|
| Current commodity derivatives | — | 12,372 |
| Non-current commodity derivatives | — | 3,465 |
| | — | 15,837 |
| \$000s At December 31, 2017 | Asset | Liability |
| Current commodity derivatives | 2,163 | — |
| Non-current commodity derivatives | 572 | 711 |
| | 2,735 | 711 |

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

| \$000s | Three months ended Sept. 30, 2018 | Three months ended Sept. 30, 2017 | Nine months ended Sept. 30, 2018 | Nine months ended Sept. 30, 2017 |
|---|--|--|---|---|
| Realized gain (loss) on financial derivatives | (2,061) | 1,829 | (2,388) | 2,523 |
| Unrealized gain (loss) on financial derivatives | (3,997) | 3,715 | (17,860) | 12,139 |
| Net gain (loss) on financial derivatives | (6,058) | 5,544 | (20,248) | 14,662 |

9. SHARE CAPITAL

Authorized

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

Issued and Outstanding

| Common shares (\$000s except number of shares) | Number of Shares | Amount |
|--|-------------------|----------------|
| Balance, December 31, 2016 | 45,349,192 | 419,672 |
| Common shares issued under equity financing (a) | 4,078,708 | 10,319 |
| Common shares issued under the arrangement agreement | 63,940 | 179 |
| Share issue costs | — | (51) |
| Balance, December 31, 2017 and September 30, 2018 | 49,491,840 | 430,119 |

Share Issuances

(a) On February 28, 2017 the Company issued 4,078,708 common shares at a price of \$2.53 per share through a non-brokered private placement.

SHARE-BASED COMPENSATION

Stock Options

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

At September 30, 2018, 3,071,201 (December 31, 2017 – 2,914,930) stock options were outstanding. The summary of stock option activity is presented below:

| | Number of stock options | Weighted average exercise price |
|--|-------------------------|---------------------------------|
| Balance, December 31, 2016 | 1,976,580 | \$6.56 |
| Granted | 1,855,200 | \$2.26 |
| Exercised | (232,071) | \$1.98 |
| Forfeited or expired | (684,779) | \$6.61 |
| Balance, December 31, 2017 | 2,914,930 | \$4.21 |
| Granted | 1,058,400 | \$1.49 |
| Forfeited | (426,609) | \$3.13 |
| Expired | (475,520) | \$2.04 |
| Balance, September 30, 2018 | 3,071,201 | \$3.21 |
| Exercisable, September 30, 2018 | 414,501 | \$12.21 |

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

| Range of Exercise Price | Stock Options Outstanding | | | Stock Options Exercisable | | |
|-------------------------|---------------------------|---------------------------------|---|---------------------------|---------------------------------|---|
| | Number granted | Weighted average exercise price | Weighted average remaining life (years) | Number exercisable | Weighted average exercise price | Weighted average remaining life (years) |
| \$0.86 - \$2.33 | 2,663,700 | \$1.80 | 1.38 | 7,000 | 2.19 | 0.04 |
| \$9.00 - \$16.00 | 407,501 | \$12.39 | 0.72 | 407,501 | \$12.39 | 0.76 |
| | 3,071,201 | \$3.21 | 1.29 | 414,501 | \$12.21 | 0.75 |

During the nine months ended September 30, 2018 and the year ended December 31, 2017, the Company granted options which vest equally over three (3) years, and upon vesting, expire 30 business days thereafter. The weighted average fair value of each option granted in 2018 of \$0.33 (2017 – \$0.64) was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:



| | 2018 | 2017 |
|--|---------------|---------------|
| Risk free interest rate | 1.70% - 1.90% | 0.80% - 0.95% |
| Expected life (years) | 1.08 - 3.08 | 1.08 - 3.08 |
| Estimated volatility of underlying common shares (%) | 63% - 65% | 65% |
| Estimated forfeiture rate | 20% | 20% |
| Expected dividend yield (%) | 0% | 0% |

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

Deferred Share Unit ("DSU") Plan

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

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

The compensation expense was calculated using the fair value method based on the weighted average trading price of the Company's shares for the five trading days ending on the reporting period date. At September 30, 2018, 130,038 (December 31, 2017 – 130,038) Deferred Share Units were issued and outstanding.

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

| \$000s | |
|--|------------|
| Balance, December 31, 2016 | — |
| Change in accrued compensation liability | 244 |
| Balance, December 31, 2017 | 244 |
| Change in accrued compensation liability | (113) |
| Balance, September 30, 2018 | 131 |

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

| \$000s | Three months ended Sept. 30, 2018 | Three months ended Sept. 30, 2017 | Nine months ended Sept. 30, 2018 | Nine months ended Sept. 30, 2017 |
|--|--|--|---|---|
| Expensed | 104 | 125 | 317 | 327 |
| Capitalized to exploration and evaluation assets | 17 | 22 | 53 | 55 |
| Capitalized to property, plant and equipment | 53 | 63 | 159 | 164 |
| Total share-based compensation | 174 | 210 | 529 | 546 |

10. LOSS PER SHARE

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

| | Three months ended Sept. 30, 2018 | Three months ended Sept. 30, 2017 | Nine months ended Sept. 30, 2018 | Nine months ended Sept. 30, 2017 |
|---|--|--|---|---|
| Net loss for the period (\$000s) | (8,048) | (50,696) | (24,347) | (44,167) |
| Weighted average number of common shares – basic (000s) | 49,492 | 49,428 | 49,492 | 48,098 |
| Weighted average number of common shares – diluted (000s) | 49,492 | 49,428 | 49,492 | 48,098 |
| Net loss per common share – basic | (\$0.16) | (\$1.03) | (\$0.49) | (\$0.92) |
| Net loss per common share – diluted | (\$0.16) | (\$1.03) | (\$0.49) | (\$0.92) |

In computing diluted earnings (loss) per share for the three and nine months ended September 30, 2018, nil (September 30, 2017 – 86,000) warrants and 3,071,201 (three and nine months ended September 30, 2017 – 2,772,070) outstanding stock options were considered. For the three and nine months ended



September 30, 2018 there were nil warrants and 3,071,201 stock options that were excluded from the calculation as their impact is anti-dilutive (three and nine months ended September 30, 2017 – 86,000 and 2,772,070 respectively).

11. OPERATING EXPENSES

The Company's gross operating expenses for the three and nine months ended September 30, 2018 were \$4.1 million and \$12.6 million, respectively (September 30, 2017 – \$5.6 million and \$15.0 million). For the three and nine months ended September 30, 2018, this includes \$0.5 million and \$2.5 million of processing, gathering and compression charges (September 30, 2017 – \$2.0 million and \$4.4 million).

The Company generated processing income recoveries of \$0.3 million and \$0.8 million for the three and nine months ended September 30, 2018 (September 30, 2017 – \$0.3 million and \$0.8 million), which reduced the Company's gross operating expenses to \$3.8 million and \$11.8 million for the three and nine months ended September 30, 2018 (September 30, 2017 – \$5.3 million and \$14.2 million).

12. GENERAL AND ADMINISTRATIVE EXPENSES

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

| \$000s | Three months ended Sept. 30, 2018 | Three months ended Sept. 30, 2017 | Nine months ended Sept. 30, 2018 | Nine months ended Sept. 30, 2017 |
|---|---|---|-------------------------------------|-------------------------------------|
| Personnel, consultants and directors | 903 | 1,514 | 3,362 | 4,488 |
| Office costs | 792 | 804 | 1,935 | 2,092 |
| Regulatory and public company expenses | 128 | 70 | 684 | 528 |
| Capitalized general and administrative expense and overhead | (506) | (1,329) | (1,862) | (4,120) |
| General and administrative expense | 1,317 | 1,059 | 4,119 | 2,988 |

13. FINANCIAL INSTRUMENTS

Risks associated with financial instruments

Credit risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risk. Concentration of credit risk is mitigated by marketing the majority of the Company's production to reputable and financially sound purchasers under normal industry sale and payment terms. As is common in the petroleum and natural gas industry in western Canada, Petrus' receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Of the \$8.6 million of accounts receivable outstanding at September 30, 2018 (December 31, 2017 – \$11.6 million), \$6.5 million is owed from 4 parties (December 31, 2017 – \$8.7 million from 4 parties), and the balances were received subsequent to quarter end. The Company considers accounts receivable outstanding past 120 days to be 'past due'. At September 30, 2018, the Company had an allowance for doubtful accounts of \$0.08 million (December 31, 2017 – \$0.04 million). As at September 30, 2018, 99% of Petrus' accounts receivable were aged less than 120 days and 1% of Petrus' accounts receivable were aged greater than 120 days. 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

At September 30, 2018, the Company had a \$110 million RCF (lender consent is required for total borrowings against the RCF exceeding \$105 million, see note 6), on which \$96.3 million was drawn (December 31, 2017 – \$97.6 million). While the Company is exposed to the risk of reductions to the borrowing base of the RCF, the Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through funds flow and available credit capacity from its RCF. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2019.

The following are the contractual maturities of financial liabilities as at September 30, 2018:

| \$000s | Total | < 1 year | 1-5 years |
|-------------------------------|----------------|---------------|----------------|
| Accounts payable | 12,145 | 12,145 | — |
| Risk management liability | 15,837 | 12,372 | 3,465 |
| Long term debt ⁽¹⁾ | 131,300 | — | 131,300 |
| Total | 159,282 | 24,517 | 134,765 |

⁽¹⁾Excludes deferred finance fees.



Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash, bank indebtedness and accounts receivable are not exposed to significant interest rate risk. The RCF and Term Loan are exposed to interest rate cash flow risk as the instruments are priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed to interest rate risk. A 1% increase in the Canadian prime interest rate during the three and nine months ended September 30, 2018 would have increased net loss by approximately \$1.3 million and \$1.3 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, 2017 – increased net loss by \$0.3 million and \$0.9 million, respectively). A 1% decrease in the Canadian prime interest rate during the period would result in an opposite impact on net loss.

Commodity Price Risk

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

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

It is estimated that a \$0.25/GJ decrease in the price of natural gas would have increased net loss for the three months ended September 30, 2018 by \$2.3 million (three months ended September 30, 2017 – \$3.1 million). An opposite change in commodity prices would result in an opposite impact on net income (loss). It is estimated that a \$5.00/CDN WTI/bbl decrease in the price of oil would have increased net loss for the three months ended September 30, 2018 by \$4.2 million (three months ended September 30, 2017 – \$4.9 million). An opposite change in commodity prices would result in an opposite impact on net loss.

14. CAPITAL MANAGEMENT

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

15. FINANCE EXPENSES

The components of finance expenses are as follows:

| \$000s | Three months ended Sept. 30, 2018 | Three months ended Sept. 30, 2017 | Nine months ended Sept. 30, 2018 | Nine months ended Sept. 30, 2017 |
|---|--------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|
| Cash: | | | | |
| Interest | 1,940 | 1,936 | 5,902 | 5,478 |
| Foreign exchange | 1 | — | 1 | 1 |
| Total cash finance expenses | 1,941 | 1,936 | 5,903 | 5,479 |
| Non-cash: | | | | |
| Deferred financing costs | 196 | — | 463 | — |
| Accretion on decommissioning obligations (note 7) | 217 | 240 | 663 | 724 |
| Total non-cash finance expenses | 413 | 240 | 1,126 | 724 |
| Total finance expenses | 2,354 | 2,176 | 7,029 | 6,203 |

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

| \$000s | Three months ended Sept. 30, 2018 | Three months ended Sept. 30, 2017 | Nine months ended Sept. 30, 2018 | Nine months ended Sept. 30, 2017 |
|--|--------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|
| Source (use) in non-cash working capital: | | | | |
| Deposits and prepaid expenses | 325 | 237 | (8) | (523) |
| Transaction costs on debt | (195) | — | 155 | — |
| Accounts receivable | (1,036) | 2,701 | 2,999 | 3,411 |
| Accounts payable and accrued liabilities | 488 | (7,468) | (13,457) | (5,741) |
| | (418) | (4,530) | (10,311) | (2,853) |
| Operating activities | (751) | (5,126) | (5,966) | (4,133) |
| Financing activities | (182) | (775) | 120 | (992) |
| Investing activities | 515 | 1,371 | (4,465) | 2,272 |

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

| \$000s | Bank Indebtedness | Revolving Credit Facility | Term Loan | Total Liabilities from Financing Activities |
|------------------------------------|-------------------|------------------------------|---------------|--|
| Balance, December 31, 2017 | 3,844 | 97,600 | 34,307 | 135,751 |
| Cash flows | (3,844) | (1,300) | — | (5,144) |
| Non-cash changes | — | — | 347 | 347 |
| Balance, September 30, 2018 | — | 96,300 | 34,654 | 130,954 |

17. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

| \$000s | Total | < 1 year | 1-5 years | > 5 years |
|-----------------------------|---------------|--------------|---------------|--------------|
| Corporate office lease | 954 | 716 | 239 | — |
| Firm service transportation | 19,752 | 1,073 | 12,578 | 6,100 |
| Total commitments | 20,706 | 1,789 | 12,817 | 6,100 |

CONTINGENCIES

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

18. RELATED PARTY TRANSACTIONS

On February 28, 2017, the Chairman of the Company acquired 1,585,000 common shares ("Common Shares") of Petrus Resources Ltd. at a price of \$2.53 per Common Share, pursuant to a non-brokered private placement of Common Shares (see note 9). The total consideration paid by the Chairman for the acquisition of the 1,585,000 Common Shares was \$4,010,050.



19. REVENUE

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

| \$000s | Three months ended Sept. 30, 2018 | Three months ended Sept. 30, 2017 | Nine months ended Sept. 30, 2018 | Nine months ended Sept. 30, 2017 |
|---|--------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|
| Production Revenue | | | | |
| Oil and condensate sales | 8,828 | 8,848 | 29,162 | 28,360 |
| Natural gas sales | 4,630 | 6,939 | 17,980 | 30,006 |
| Natural gas liquids sales | 6,326 | 2,504 | 17,193 | 8,889 |
| Total oil and natural gas production revenue | 19,784 | 18,291 | 64,335 | 67,255 |
| Royalty revenue | 246 | 8 | 317 | 71 |
| Total oil and natural gas revenue | 20,030 | 18,299 | 64,652 | 67,326 |

CORPORATE INFORMATION

OFFICERS

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

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

Marcus Schlegel, P. Eng.
Vice President, Engineering

Brett Booth, BA
Vice President, Land

Ross Keilly, BSc, MSc
Vice President, Exploration

DIRECTORS

Don T. Gray
Chairman
Scottsdale, Arizona

Neil Korchinski
Calgary, Alberta

Patrick Arnell
Calgary, Alberta

Donald Cormack
Calgary, Alberta

Stephen White
Calgary, Alberta

SOLICITOR

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITOR

Ernst & Young LLP
Chartered Professional Accountants
Calgary, Alberta

INDEPENDENT RESERVE EVALUATORS

Sproule and Associates
Calgary, Alberta

BANKERS

TD Securities
Calgary, Alberta

Macquarie Bank Limited
Houston, Texas

TRANSFER AGENT

Computershare Trust Company
Calgary, Alberta

HEAD OFFICE

2400, 240 – 4th Avenue S.W.
Calgary, Alberta T2P 5H4
Phone: 403-984-9014
Fax: 403-984-2717

WEBSITE

www.petrusresources.com

