

**CONSOLIDATED BALANCE SHEETS
(UNAUDITED)**

(Expressed in 000's of Canadian dollars)

As at	June 30, 2017	December 31, 2016
ASSETS		
Current		
Cash	—	280
Deposits and prepaid expenses	1,871	1,111
Accounts receivable (note 13)	10,817	11,527
Risk management asset (note 8)	1,882	22
Total current assets	14,570	12,940
Non-current		
Risk management asset (note 8)	560	—
Exploration and evaluation assets (notes 3 and 4)	68,656	64,824
Property, plant and equipment (notes 3 and 5)	382,008	362,203
Total assets	465,794	439,967
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 13)	1,855	—
Current portion of long term debt (note 6)	—	42,000
Accounts payable and accrued liabilities (note 13)	23,793	22,066
Risk management liability (note 8)	1,146	5,696
Total current liabilities	26,794	69,762
Non-current liabilities		
Long term debt (note 6)	124,109	73,767
Decommissioning obligation (note 7)	46,001	43,243
Risk management liability (note 8)	470	1,924
Total liabilities	197,374	188,696
Shareholders' equity		
Share capital (note 9)	429,955	419,671
Contributed surplus	7,745	7,410
Deficit	(169,280)	(175,810)
Total shareholders' equity	268,420	251,271
Total liabilities and shareholders' equity	465,794	439,967

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 INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)**

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
REVENUE				
Oil and natural gas revenue	26,753	14,926	49,027	29,624
Royalty expense	(4,306)	(1,734)	(7,615)	(4,209)
Net oil and natural gas revenue	22,447	13,192	41,412	25,415
Net gain (loss) on financial derivatives <i>(note 8)</i>	588	(11,124)	9,118	56
	23,035	2,068	50,530	25,471
EXPENSES				
Operating <i>(note 11)</i>	5,155	5,872	8,935	12,710
Transportation	1,235	1,000	2,392	2,299
General and administrative <i>(note 12)</i>	1,047	1,426	1,929	3,608
Share-based compensation <i>(note 9)</i>	116	103	201	228
Finance <i>(note 15)</i>	2,053	2,582	4,027	6,289
Exploration and evaluation <i>(note 4)</i>	896	101	1,585	899
Depletion and depreciation <i>(note 5)</i>	13,314	12,318	24,931	24,882
Impairment <i>(note 5)</i>	—	25,000	—	25,000
Total expenses	23,816	48,402	44,000	75,915
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(781)	(46,334)	6,530	(50,444)
Net income (loss) per common share				
Basic and diluted <i>(note 10)</i>	(0.02)	(1.02)	0.14	(1.16)

See accompanying notes to the interim consolidated financial statements

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

(Expressed in 000's of Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2015	346,106	6,620	(108,822)	243,904
Net loss	—	—	(50,444)	(50,444)
Issuance of common shares	75,488	—	—	75,488
Share issue costs	(1,755)	—	—	(1,755)
Share-based compensation	—	380	—	380
Balance, June 30, 2016	419,839	7,000	(159,266)	267,573
Balance, December 31, 2016	419,671	7,410	(175,810)	251,271
Net income	—	—	6,530	6,530
Issuance of common shares <i>(note 9)</i>	10,319	—	—	10,319
Share issue costs <i>(note 9)</i>	(35)	—	—	(35)
Share-based compensation <i>(note 9)</i>	—	335	—	335
Balance, June 30, 2017	429,955	7,745	(169,280)	268,420

See accompanying notes to the interim consolidated financial statements

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

(Expressed in 000's of Canadian dollars)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
OPERATING ACTIVITIES				
Net income (loss)	(781)	(46,334)	6,530	(50,444)
Adjust items not affecting cash:				
Share-based compensation (note 9)	116	103	201	228
Unrealized gain (loss) on financial derivatives (note 8)	(376)	16,397	(8,424)	11,512
Non-cash finance expenses (note 15)	246	140	484	207
Depletion and depreciation (note 5)	13,314	12,318	24,931	24,882
Impairment (notes 4 and 5)	—	25,000	—	25,000
Exploration and evaluation expense (note 4)	896	101	1,585	899
Decommissioning expenditures (note 7)	(957)	(74)	(1,117)	(220)
Funds flow	12,458	7,651	24,190	12,064
Change in operating non-cash working capital (note 16)	3,246	(1,150)	993	4,545
Cash flows from operating activities	15,704	6,501	25,183	16,609
FINANCING ACTIVITIES				
Issue of common shares (note 9)	—	—	10,319	75,488
Share issue costs (note 9)	—	(200)	(35)	(1,755)
Repayment of term loan	—	—	(7,000)	—
Issuance (repayment) of revolving credit facility	4,164	1,845	16,233	(78,155)
Increase in bank indebtedness	1,855	—	1,855	—
Transaction costs on debt	(500)	—	(891)	—
Change in financing non-cash working capital (note 16)	(100)	—	(216)	—
Cash flows from (used in) financing activities	5,419	1,645	20,265	(4,422)
INVESTING ACTIVITIES				
Property and equipment acquisitions (note 3)	—	—	(8,818)	—
Exploration and evaluation asset expenditures (note 4)	(451)	(136)	(583)	(265)
Petroleum and natural gas property expenditures (note 5)	(18,346)	(2,576)	(37,076)	(11,724)
Other capital expenditures	(106)	—	(152)	—
Change in investing non-cash working capital (note 16)	(5,171)	(7,326)	901	(1,432)
Cash flows (used in) investing activities	(24,074)	(10,038)	(45,728)	(13,421)
Increase in cash	(2,951)	(1,892)	(280)	(1,234)
Cash, beginning of period	2,951	1,892	280	1,234
Cash, end of period	—	—	—	—
Cash interest paid	1,807	1,943	4,027	5,426

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at June 30, 2017 and for the three and six months ended June 30, 2017 and 2016

1. NATURE OF THE ORGANIZATION

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

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

These interim consolidated financial statements, for the three and six months ended June 30, 2017 and prior year comparative periods, were approved by the Company's Audit Committee and Board of Directors on August 9, 2017.

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, 2016 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, 2016. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2016. These condensed interim consolidated financial statements are presented in Canadian dollars, except where otherwise noted.

3. ACQUISITIONS AND DISPOSITIONS

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 its Ferrier core area, approximately 40 boe/d of production and a non-producing well. The purchase price was allocated as:

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

Property disposition - Peace River

On July 8, 2016 Petrus closed the disposition of its oil and gas interests in the Peace River area of Alberta for total consideration of \$29.4 million after post-closing adjustments, comprised of \$28.4 million in cash and 1.0 million shares of the purchaser. The Company recorded a gain of \$0.2 million related to the disposition during the year ended December 31, 2016.

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

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

Asset Exchange Agreement

On September 30, 2016, Petrus closed a property swap transaction disposing of non-core assets in its Foothills area for assets in its Ferrier core area for the swap assets. No gain or loss was realized on the transaction.



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

Net assets disposed \$000s	
Exploration and evaluation assets	3,509
Petroleum and natural gas properties and equipment	10,847
Decommissioning obligations	(2,773)
Total net assets disposed	11,583

Fair value of net assets acquired \$000s	
Petroleum and natural gas properties and equipment	12,388
Decommissioning obligations	(805)
Total net assets acquired	11,583

Property dispositions

During the third quarter of 2016, Petrus closed other dispositions of non-core exploration and evaluation assets and petroleum and natural gas properties and equipment for total cash consideration of \$0.5 million. No gain or loss was realized on these transactions.

4. EXPLORATION AND EVALUATION ASSETS

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

\$000s	
Balance, December 31, 2015	88,178
Additions	3
Exploration and evaluation expense	(2,426)
Capitalized G&A	629
Capitalized share-based compensation	51
Impairment loss on assets held for sale	(4,000)
Property dispositions	(10,767)
Transfers to property, plant and equipment	(6,845)
Balance, December 31, 2016	64,824
Additions	310
Property acquisition (note 3)	8,000
Exploration and evaluation expense	(1,585)
Capitalized G&A	273
Capitalized share-based compensation (note 9)	33
Transfers to property, plant and equipment (note 5)	(3,199)
Balance, June 30, 2017	68,656

For the three and six months ended June 30, 2017, the Company incurred exploration and evaluation expense in the Consolidated Statement of Net Income (Loss) of \$0.9 million and \$1.6 million, respectively, which relates to expired and near expiry undeveloped, non-core land (three and six months ended June 30, 2016 – \$0.1 million and \$0.9 million respectively). The Company acquired \$8.0 million of undeveloped land in the Ferrier area during the six months ended June 30, 2017 (note 3).

During the three and six months ended June 30, 2017, the Company capitalized \$0.1 million and \$0.3 million, respectively, of general and administrative expenses ("G&A") (three and six months ended June 30, 2016 – \$0.1 million and \$0.2 million respectively) and \$0.02 million and \$0.03 million of non-cash share-based compensation directly attributable to exploration activities (three and six months ended June 30, 2016 – \$0.02 million and \$0.04 million respectively).

In accordance with IFRS, an impairment test is performed if the Company identifies an indicator of impairment. At June 30, 2017, the Company determined that no indicators of impairment existed on its exploration and evaluation assets; therefore, an impairment test was not performed. At December 31, 2016, the Company determined that indicators of impairment existed on certain exploration and evaluation assets representing undeveloped land in the Foothills CGU. The indicators of impairment included the results of recent crown land sale in the area. Petrus determined that the fair value of its Foothills undeveloped land exceeded the carrying value and therefore no impairment loss was realized. The Company determined fair value by analyzing the geological characteristics of the land, in addition to a review of market land sale information as it relates specifically to Petrus' Foothills undeveloped land.

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, 2015	718,314	(285,422)	432,892
Additions	26,861	—	26,861
Property acquisitions	12,387	—	12,387
Property (dispositions)	(50,172)	—	(50,172)
Capitalized G&A	1,844	—	1,844
Capitalized share-based compensation	211	—	211
Transfers from exploration and evaluation assets	6,845	—	6,845
Depletion & depreciation	—	(45,384)	(45,384)
Decrease in decommissioning provision	(2,281)	—	(2,281)
Impairment loss	—	(21,000)	(21,000)
Balance, December 31, 2016	714,009	(351,806)	362,203
Additions	36,409	—	36,409
Property acquisitions (note 3)	969	—	969
Capitalized G&A	818	—	818
Capitalized share-based compensation (note 9)	101	—	101
Transfers from exploration and evaluation assets (note 4)	3,199	—	3,199
Depletion & depreciation	—	(24,931)	(24,931)
Increase in decommissioning provision (note 7)	3,240	—	3,240
Balance, June 30, 2017	758,745	(376,737)	382,008

At June 30, 2017, estimated future development costs of \$269.1 million (December 31, 2016 – \$269.1 million) associated with the development of the Company's proved plus probable undeveloped reserves were included with the costs subject to depletion. During the three and six months ended June 30, 2017, the Company capitalized \$0.4 million and \$0.8 million, respectively, of general and administrative expenses ("G&A") (three and six months ended June 30, 2016 – \$0.2 million and \$0.7 million respectively) and non-cash share-based compensation of \$0.06 million and \$0.10 million, respectively, directly attributable to development activities (three and six months ended June 30, 2016 – \$0.05 million and \$0.1 million respectively).

During the six months ended June 30, 2017, the Company acquired developed oil and natural gas assets of \$1.0 million (note 3).

During the third quarter of 2016, the Company sold its oil and natural gas interests in the Peace River area of Alberta to a private company for total consideration of \$30.0 million, subject to customary closing adjustments (see note 3 - Property Disposition - Peace River). On July 8, 2016 Petrus closed the disposition of its oil and gas interests in the Peace River area of Alberta for total consideration of \$29.5 million after post-closing adjustments, comprised of \$28.5 million in cash and 1.0 million shares of the purchaser. The Company sold the shares during the fourth quarter of 2016 for \$1.07 million. \$1.0 million was recorded as cash proceeds for the disposition and the Company recognized a gain of \$0.1 million related to the disposition of shares during the year ended December 31, 2016. On June 30, 2016, these assets were recorded at the lesser of fair value less costs of disposal and their carrying amount, resulting in an impairment loss of \$25.0 million (\$21.0 million recorded to Property, Plant and Equipment and \$4.0 million recorded to Exploration & Evaluation Assets). The impairment was recorded as an impairment loss on the Consolidated Statements of Net Loss.

In accordance with IFRS, an impairment test is performed on a Cash Generating Unit ("CGU") if the Company identifies any indicators of impairment. At June 30, 2017, the Company determined that there were no indicators of impairment on any of its CGUs; therefore, an impairment test was not performed. For the year ended December 31, 2016, the Company determined there to be indicators of impairment regarding the Foothills and Central Alberta CGUs, based on the decline in oil and gas forward prices that had affected the economic values of PP&E as well as the fact the carrying amount of the Company's net assets exceed its market capitalization. The Company performed an impairment test for these CGUs, and no impairment charge was recorded as the recoverable amount of each CGU exceeded its carrying value. The recoverable amounts of the Company's CGUs were estimated at fair value less costs of disposal.

6. DEBT

At June 30, 2017 Petrus had two debt instruments outstanding. The first is a reserve-based, revolving credit facility with a syndicate of lenders. The total facility is comprised of an operating facility and a syndicated term-out facility (altogether the “Revolving Credit Facility” or “RCF”). The second is a subordinated term loan (the “Term Loan”).

(a) Revolving Credit Facility

At June 30, 2017 the Company’s RCF was comprised of a \$20 million (December 31, 2016 - \$20 million) operating facility and a \$100 million (December 31, 2016 - \$86 million) syndicated term-out facility. Lender consent is required for total borrowings against the RCF exceeding \$106 million. The term-out facility has a revolving period that ends May 31, 2018 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.

At June 30, 2017, the Company had a \$0.3 million letter of credit outstanding against the RCF (December 31, 2016 – \$0.3 million) and had drawn \$90.0 million against the RCF (December 31, 2016 – \$73.8 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 June 30, 2017 the Company had a \$35 million (December 31, 2016 – \$42 million) Term Loan outstanding (excluding \$0.9 million of deferred financing costs), which is due October 8, 2019. 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.

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, 2016.

The key financial covenants as at June 30, 2017 are summarized in the following table.

Covenant Description	Required Ratio	As at June 30, 2017
Working Capital Ratio	Over 1.00	1.66
Proved Asset Coverage Ratio ⁽¹⁾	Over 1.25	2.14
PDP Asset Coverage Ratio ⁽¹⁾	Over 1.00	1.44
Debt to EBITDA Ratio	Under 3.50	2.62

⁽¹⁾ Calculations are based upon the Company’s December 31, 2016 reserve report evaluated by Sproule Associates Ltd.

At June 30, 2017 the Company is in compliance with all debt 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 2.07 percent and an inflation rate of 2.00 percent (December 31, 2016 – 2.24 percent and 2.00 percent, respectively). Changes in estimates in 2016 and 2017 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 \$46.0 million as at June 30, 2017 (\$43.2 million at December 31, 2016). The undiscounted, uninflated total future liability at June 30, 2017 is \$48.5 million (\$46.0 million at December 31, 2016). 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, 2015	64,357
Property acquisitions	805
Property dispositions	(19,854)
Liabilities incurred	1,555
Liabilities settled	(756)
Change in estimates	(3,837)
Accretion expense	973
Balance, December 31, 2016	43,243
Property acquisitions (<i>note 3</i>)	151
Liabilities incurred	688
Liabilities settled	(1,117)
Change in estimates	2,552
Accretion expense	484
Balance, June 30, 2017	46,001

8. FINANCIAL RISK MANAGEMENT

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus had outstanding as at June 30, 2017:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN\$/GJ)
Natural Gas Swaps			
Jul. 1, 2017 to Oct. 31, 2017	Fixed price	20,650	\$2.62
Jul. 1, 2017 to Dec. 31, 2017	Fixed price	2,000	\$2.99
Nov. 1, 2017 to Mar. 31, 2018	Fixed price	20,500	\$2.98
Nov. 1, 2017 to Oct. 31, 2018	Fixed price	2,000	\$2.52
Apr. 1, 2018 to Oct. 31, 2018	Fixed price	14,000	\$2.40
Nov. 1, 2018 to Mar. 31, 2019	Fixed price	8,000	\$2.60
Natural Gas Collars			
Jul. 1, 2017 to Oct. 31, 2017	Costless collar	2,000	\$2.50 – 2.75
Nov. 1, 2017 to Mar. 31, 2018	Costless collar	2,000	\$2.80 – 3.35
Contract Period	Type	Total Daily Volume (Bbl)	Average Price (CDN\$/Bbl)
Crude Oil Swaps			
Jul. 1, 2017 to Sep. 30, 2017	Fixed price	750	\$60.47
Oct. 1, 2017 to Dec. 31, 2017	Fixed price	350	\$68.93
Jan. 1, 2018 to Mar. 31, 2018	Fixed price	100	\$71.85
Apr. 1, 2018 to Jun. 30, 2018	Fixed price	400	\$71.15
Apr. 1, 2018 to Dec. 31, 2018	Fixed price	50	\$70.75
Jul. 1, 2018 to Sep. 30, 2018	Fixed price	400	\$70.85
Jan. 1, 2018 to Dec. 31, 2018	Fixed price	700	\$64.73
Jan. 1, 2019 to Mar. 31, 2019	Fixed price	100	\$61.50
Crude Oil Collars			
Jul. 1, 2017 to Sep. 30, 2017	Costless collar	500	\$65.00-74.20
Jul. 1, 2017 to Jun. 30, 2018	Costless collar	100	\$65.00-75.55
Oct. 1, 2017 to Dec. 31, 2017	Costless collar	400	\$65.00-75.85
Oct. 1, 2017 to Dec. 31, 2017	Costless collar	100	\$60.00-73.20
Oct. 1, 2017 to Mar. 31, 2018	Costless collar	300	\$55.00-64.02
Jan. 1, 2018 to Mar. 31, 2018	Costless collar	300	\$60.00-73.60
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 June 30, 2017	Asset	Liability
Current commodity derivatives	1,882	1,146
Non-current commodity derivatives	560	470
	2,442	1,616
\$000s At December 31, 2016	Asset	Liability
Current commodity derivatives	22	5,696
Non-current commodity derivatives	—	1,924
	22	7,620

Earnings Impact of Realized and Unrealized Gains (Losses) on Financial Derivatives:

\$000s	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Six months ended Jun. 30, 2017	Six months ended Jun. 30, 2016
Realized gain on financial derivatives	212	5,273	694	11,568
Unrealized gain (loss) on financial derivatives	376	(16,397)	8,424	(11,512)
Net gain (loss) on financial derivatives	588	(11,124)	9,118	56

Subsequent to June 30, 2017, the Company entered into the following financial derivative contracts:

Crude Oil Contract Period	Contract Type	Daily Volume (Bbl)	Price (CAD\$/Bbl)
Oct. 1, 2017 to Dec. 31, 2017	Fixed price	200	\$60.00
Jul. 1, 2017 to Sep. 30, 2017	Fixed price	200	\$59.00
Oct. 1, 2017 to Dec. 31, 2017	Fixed price	100	\$60.50
Oct. 1, 2017 to Dec. 31, 2017	Fixed price	100	\$60.50
Oct. 1, 2017 to Dec. 31, 2017	Fixed price	200	\$60.75
Jan. 1, 2018 to Dec. 31, 2018	Fixed price	100	\$61.22
Oct. 1, 2018 to Jun. 30, 2019	Fixed price	300	\$61.60
Jan. 1, 2019 to Mar. 31, 2019	Fixed price	200	\$61.45

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, 2015	35,148,150	346,106
Common shares issued under equity financing	4,054,250	30,000
Common shares issued under the arrangement agreement	6,146,792	45,487
Share issue costs	—	(1,922)
Balance, December 31, 2016	45,349,192	419,671
Common shares issued under equity financing (a)	4,078,708	10,319
Share issue costs	—	(35)
Balance, June 30, 2017	49,427,900	429,955

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 June 30, 2017, 2,751,070 (December 31, 2016 – 1,976,580) total stock options were outstanding. The summary of stock option activity is presented below:

	Number of stock options	Weighted average exercise price
Balance, December 31, 2015	1,453,750	\$9.28
Granted	791,580	\$1.98
Forfeited or expired	(268,750)	\$7.00
Balance, December 31, 2016	1,976,580	\$6.56
Granted	1,449,900	\$2.24
Forfeited or expired	(675,410)	\$6.67
Balance, June 30, 2017	2,751,070	\$4.29
Exercisable, June 30, 2017	431,667	\$12.31

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)
\$1.98 - \$2.25	2,193,570	\$2.15	4.65	—	—	—
\$9.00 - \$16.00	557,500	\$12.70	2.07	431,667	\$12.31	2.02
	2,751,070	\$4.29	4.13	431,667	\$12.31	2.02

On February 28, 2017 and June 22, 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 2017 of \$0.64 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2017	2016
Risk free interest rate	0.80% - 0.95%	0.67% - 0.73%
Expected life (years)	1.08 - 3.08	1.08 - 3.08
Estimated volatility of underlying common shares (%)	65%	55%
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.

Performance Warrants

The Company has issued performance warrants to employees, consultants and directors of the Company ("Performance Warrants"). Performance Warrants were granted and vest based on three criteria, time (one third vest per year), market (one third vest as certain share price hurdles are achieved) and employment or service. The Performance Warrants expire five years from the date of issuance. Upon exercise of the Performance Warrants the Company may settle the obligation by issuing common shares of the Company. The shares to be offered consist of common shares of the Company's authorized but unissued common shares. The aggregate number of shares issuable upon the exercise of all Performance Warrants granted shall not exceed 20% of the 8.0 million issued and outstanding common shares as at April 30, 2012.

At June 30, 2017, 86,000 (December 31, 2016 – 429,667) Performance Warrants were issued and outstanding and are summarized in the table below.

	Number of warrants outstanding	Weighted Average Exercise Price (\$)
Balance, December 31, 2015	1,568,568	\$8.07
Forfeited or expired	(1,138,901)	\$8.02
Balance, December 31, 2016	429,667	\$8.14
Forfeited or expired	(343,667)	\$8.10
Balance, June 30, 2017	86,000	\$8.29
Exercisable, June 30, 2017	49,120	\$8.17



The following table summarizes information about the Performance Warrants outstanding at June 30, 2017:

Range of Exercise Price	Warrants Outstanding			Warrants Exercisable		
	Number granted	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price	Weighted average remaining life (years)
\$8.00 - \$9.00	86,000	\$8.29	1.07	49,120	\$8.17	0.50
Total	86,000	\$8.29	1.07	49,120	\$8.17	0.50

No Performance Warrants were issued in the six months ended June 30, 2017 or in the year ended December 31, 2016.

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

\$000s	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Six months ended Jun. 30, 2017	Six months ended Jun. 30, 2016
Expensed	116	103	201	228
Capitalized to exploration and evaluation assets	19	17	33	38
Capitalized to property, plant and equipment	59	51	101	114
Total share-based compensation	194	171	335	380

10. EARNINGS 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 Jun. 30, 2017	Three months ended Jun. 30, 2016	Six months ended Jun. 30, 2017	Six months ended Jun. 30, 2016
Net income (loss) for the period (\$000s)	(781)	(46,334)	6,530	(50,444)
Weighted average number of common shares – basic (000s)	49,428	45,349	48,098	43,556
Weighted average number of common shares – diluted (000s)	49,428	45,349	48,140	43,556
Net income (loss) per common share – basic	(0.02)	(1.02) \$	0.14 \$	(1.16)
Net income (loss) per common share – diluted	(0.02)	(1.02) \$	0.14 \$	(1.16)

In computing diluted earnings per share for the three and six months ended June 30, 2017, 86,000 (June 30, 2016 – 1,568,568) warrants and 2,751,070 (June 30, 2016 – 1,453,750) outstanding stock options were considered. There were 86,000 warrants and 1,995,400 stock options that were excluded from the calculation as their impact is anti-dilutive.

11. OPERATING EXPENSES

The Company's gross operating expenses for the three and six months ended June 30, 2017 were \$5.4 million and \$9.4 million, respectively, (three and six months ended June 30, 2016 – \$6.8 million and \$14.4 million). For the three and six months ended June 30, 2017, this includes \$1.6 million and \$2.6 million, respectively, of processing, gathering and compression charges (three and six months ended June 30, 2016 – \$2.2 million and \$3.4 million).

The Company generated processing income recoveries of \$0.3 million and \$0.5 million for the three and six months ended June 30, 2017 (three and six months ended June 30, 2016 – \$0.9 million and \$1.7 million), which reduced the Company's gross operating expenses to \$5.2 million and \$8.9 million for the three and six months ended June 30, 2017 (three and six months ended June 30, 2016 – \$5.9 million and \$12.7 million).



12. GENERAL AND ADMINISTRATIVE EXPENSES

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

\$000s	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Six months ended Jun. 30, 2017	Six months ended Jun. 30, 2016
Personnel, consultants and directors	1,562	1,171	2,974	2,304
Office costs	760	585	1,282	1,183
Public company expenses	16	31	58	248
Regulatory expenses	154	35	403	641
Transaction costs	3	—	3	29
Capitalized general and administrative and overhead recoveries	(568)	(396)	(1,091)	(797)
General and administrative expense	1,927	1,426	3,629	3,608

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 \$10.8 million of accounts receivable outstanding at June 30, 2017 (December 31, 2016 – \$11.5 million), \$9.3 million is owed from 9 parties (December 31, 2016 – \$10.5 million from 10 parties), and the balances were received subsequent to quarter end. The Company considers accounts receivable outstanding past 120 days to be 'past due'. At June 30, 2017, the Company had an allowance for doubtful accounts of \$0.04 million (nil at December 31, 2016). As at June 30, 2017, 98% of Petrus' accounts receivable were aged less than 120 days and 2% 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 June 30, 2017, the Company had a \$120 million RCF (lender consent is required for total borrowings against the RCF exceeding \$106 million see note 6), of which \$29.7 million was undrawn (December 31, 2016 – \$31.9 million was undrawn). 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 cash flows from operating activities and available credit capacity from its RCF. Further, Petrus completed its semi-annual review of its revolving credit facility on May 31, 2017, whereby the syndicate of lenders unanimously agreed to increase the facility to \$120 million. The next scheduled borrowing base redetermination date for the RCF is on or before October 31, 2017.

The following are the contractual maturities of financial liabilities as at June 30, 2017:

\$000s	Total	< 1 year	1-5 years
Accounts payable	23,793	23,793	—
Risk management liability	1,616	1,146	470
Bank debt	126,855	1,855	125,000
Total	152,264	26,794	125,470

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 six months ended June 30, 2017 would have decreased net income by approximately \$0.3 million and 0.6 million, respectively, which relates to interest expense on the average outstanding RCF and Term Loan during the period assuming that all other variables remain constant (three and six months ended June 30, 2016 – \$0.4 million and \$1.0 million). A 1% decrease in the Canadian prime interest rate during the period would result in an opposite impact on net income.

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.

For the three and six months ended June 30, 2017, it is estimated that a \$0.25/GJ change in the price of natural gas would have changed net income by \$2.9 million and \$6.1 million, respectively (three and six months ended June 30, 2016 – \$3.1 million and \$6.7 million). For the three and six months ended June 30, 2017, it is estimated that a \$5.00/CDN WTI/bbl change in the price of oil would have changed net income by \$2.5 million and \$4.2 million, respectively (three and six months ended June 30, 2016 – \$2.0 million and \$5.1 million). An opposite change in commodity prices would result in an opposite impact on net income.

14. CAPITAL MANAGEMENT

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

15. FINANCE EXPENSES

The components of finance expenses are as follows:

\$000s	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Six months ended Jun. 30, 2017	Six months ended Jun. 30, 2016
Cash:				
Interest	1,807	2,428	3,543	6,033
Foreign exchange	—	14	—	49
Total cash finance expenses	1,807	2,442	3,543	6,082
Non-cash:				
Accretion on decommissioning obligations (note 7)	246	140	484	207
Total non-cash finance expenses	246	140	484	207
Total finance expenses	2,053	2,582	4,027	6,289

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

\$000s	Three months ended Jun. 30, 2017	Three months ended Jun. 30, 2016	Six months ended Jun. 30, 2017	Six months ended Jun. 30, 2016
Source (use) in non-cash working capital:				
Deposits and prepaid expenses	(787)	(634)	(760)	(521)
Accounts receivable	(186)	700	710	8,256
Accounts payable and accrued liabilities	(1,052)	(8,542)	1,727	(4,622)
	(2,025)	(8,476)	1,677	3,113
Operating activities	3,246	(1,150)	993	4,545
Financing activities	(100)	—	(216)	—
Investing activities	(5,171)	(7,326)	901	(1,432)

17. COMMITMENTS

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

\$000s	Total	< 1 year	1-5 years	> 5 years
Corporate office lease	1,849	715	1,133	—
Firm service transportation	7,098	815	4,074	2,210
Total commitments	8,947	1,530	5,207	2,210

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.

CORPORATE INFORMATION

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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

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Irving, Texas

Jeff Zlotky
Irving, Texas

Stephen White
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Calgary, Alberta

AUDITOR

Ernst & Young LLP
Chartered Professional Accountants
Calgary, Alberta

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