CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Presented in 000's of Canadian dollars)

As at	September 30, 2020	December 31, 2019
ASSETS		
Current		
Cash	67	256
Deposits and prepaid expenses	1,312	1,328
Accounts receivable *(note 14)*	5,651	13,036
Risk management asset *(note 9)*	1,639	—
Total current assets	**8,669**	**14,620**
Non-current		
Risk management asset *(note 9)*	284	11
Exploration and evaluation assets *(note 4)*	12,932	36,116
Property, plant and equipment *(note 5)*	158,010	238,478
	171,226	**274,605**
Total assets	**179,895**	**289,225**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of long term debt *(note 6)*	115,769	127,002
Accounts payable and accrued liabilities *(note 14)*	7,978	11,362
Risk management liability *(note 9)*	1,872	1,679
Lease obligations *(note 7)*	188	136
Total current liabilities	**125,807**	**140,179**
Non-current liabilities		
Lease obligations *(note 7)*	870	1,013
Decommissioning obligation *(note 8)*	42,979	41,259
Risk management liability *(note 9)*	622	74
Total liabilities	**170,278**	**182,525**
Shareholders' equity		
Share capital *(note 10)*	430,119	430,119
Contributed surplus	9,432	9,112
Deficit	(429,934)	(332,531)
Total shareholders' equity	**9,617**	**106,700**
Total liabilities and shareholders' equity	**179,895**	**289,225**

Going concern (note 2)
Commitments (note 18)
See accompanying notes to the interim consolidated financial statements

Approved by the Board of Directors,

(signed) "Don T. Gray"

Don T. Gray
Chairman

(signed) "Donald Cormack"

Donald Cormack
Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

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

	Three months ended Sept. 30, 2020	Three months ended Sept. 30, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
REVENUE				
Oil and natural gas revenue *(note 19)*	**12,840**	**12,517**	**36,225**	**50,400**
Royalty expense	(1,245)	(1,182)	(4,011)	(4,896)
Net oil and natural gas revenue	**11,595**	**11,335**	**32,214**	**45,504**
Other income	23	21	170	99
Net gain (loss) on financial derivatives *(note 9)*	(2,875)	1,728	7,308	(7,532)
	8,743	**13,084**	**39,692**	**38,071**
EXPENSES				
Operating *(note 12)*	2,408	3,181	7,986	9,466
Transportation	967	893	2,469	2,823
General and administrative *(note 13)*	635	776	2,350	2,185
Share-based compensation *(note 10)*	144	68	238	242
Finance *(note 16)*	2,494	2,536	6,949	7,277
Exploration and evaluation *(note 4)*	14	1,180	18	1,957
Depletion and depreciation *(note 5)*	5,759	8,895	19,110	27,829
Loss (gain) on sale of assets	—	469	(25)	481
Impairment *(notes 4 and 5)*	—	24,655	98,000	24,655
Total expenses	**12,421**	**42,653**	**137,095**	**76,915**
NET LOSS AND COMPREHENSIVE LOSS	**(3,678)**	**(29,569)**	**(97,403)**	**(38,844)**
Net loss per common share Basic and diluted *(note 11)*	**(0.07)**	**(0.60)**	**(1.97)**	**(0.79)**

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, 2018	**430,119**	**8,384**	**(290,355)**	**148,148**
Net loss	—	—	(38,844)	(38,844)
Share-based compensation *(note 10)*	—	406	—	406
Balance, September 30, 2019	**430,119**	**8,790**	**(329,199)**	**109,710**
Balance, December 31, 2019	**430,119**	**9,112**	**(332,531)**	**106,700**
Net loss	—	—	(97,403)	(97,403)
Share-based compensation *(note 10)*	—	320	—	320
Balance, September 30, 2020	**430,119**	**9,432**	**(429,934)**	**9,617**

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, 2020	Three months ended Sept. 30, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
OPERATING ACTIVITIES				
Net income loss	**(3,678)**	**(29,569)**	**(97,403)**	**(38,844)**
Adjust items not affecting cash:				
Share-based compensation *(note 10)*	144	68	238	242
Unrealized (gain) loss on financial derivatives (*note 9)*	4,183	(1,368)	(1,170)	7,605
Non-cash finance expenses *(note 16)*	331	306	867	975
Non-cash term loan interest payment-in-kind *(note 6)*	877	—	877	—
Depletion and depreciation *(note 5)*	5,759	8,895	19,110	27,829
Impairment *(notes 4 and 5)*	—	24,655	98,000	24,655
Exploration and evaluation expense *(note 4)*	14	1,180	18	1,957
Gain (loss) on sale of assets *(note 3)*	—	469	(25)	481
Decommissioning expenditures *(note 8)*	(79)	(209)	(538)	(535)
Funds flow	**7,551**	**4,427**	**19,974**	**24,365**
Change in operating non-cash working capital *(note 17)*	958	(3,301)	4,364	824
Cash flows from operating activities	**8,509**	**1,126**	**24,338**	**25,189**
FINANCING ACTIVITIES				
Repayment of revolving credit facility	(5,850)	500	(11,950)	(7,531)
Repayment of bank indebtedness	(186)	—	—	—
Repayment of lease liabilities *(note 7)*	(45)	(69)	(91)	(232)
Change in financing non-cash working capital *(note 17)*	(405)	(127)	(248)	(119)
Cash flows used in financing activities	**(6,486)**	**304**	**(12,289)**	**(7,882)**
INVESTING ACTIVITIES				
Exploration and evaluation asset dispositions (acquisition) *(note 5)*	—	651	—	651
Exploration and evaluation asset expenditures *(note 4)*	(54)	(102)	(185)	(284)
Petroleum and natural gas property expenditures *(note 5)*	(2,489)	(2,628)	(11,314)	(13,457)
Other capital expenditures	—	(4)	—	(15)
Change in investing non-cash working capital *(note 17)*	587	751	(739)	(3,695)
Cash flows used in investing activities	**(1,956)**	**(1,332)**	**(12,238)**	**(16,800)**
Increase (decrease) in cash	67	98	(189)	507
Cash, beginning of period	—	472	256	63
Cash, end of period	**67**	**570**	**67**	**570**
Cash interest paid *(note 16)*	1,286	2,230	5,205	6,302

See accompanying notes to the interim consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at and for the three and nine months ended September 30, 2020

1. NATURE OF THE ORGANIZATION

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

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

These interim consolidated financial statements, for the three and nine months ended September 30, 2020 and prior year comparative period, were approved by the Company’s Audit Committee and Board of Directors on November 10, 2020.

2. BASIS OF PRESENTATION

Going Concern

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

As at September 30, 2020, the Company's revolving credit facility ("RCF") and Term Loan was due on May 31, 2021 and July 31, 2021, respectively. The borrowings under the RCF and the Term Loan are classified as current liabilities in the September 30, 2020 consolidated financial statements. The Company remains in compliance with each financial covenant. However, the classification of the debt instruments resulted in a working capital deficiency (excluding non-cash risk management assets and liabilities) of $116.9 million as at September 30, 2020. For three months ended September 30, 2020, the Company generated funds flow of $7.6 million and reduced the amounts owing on its RCF by $5.9 million. The RCF syndicates of lenders had completed the semi-annual borrowing base review and reconfirmed the Company's borrowing base at $85.8 million.

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

Statement of Compliance

These condensed interim consolidated financial statements have been prepared by management on a historical basis, except for certain financial instruments that have been measured at fair value. These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting.” Certain information and disclosures normally included in the notes to the annual financial statements have been condensed. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2019 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, 2019. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2019. These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency, except where otherwise noted.

Significant Accounting Policies and Critical Accounting Estimates

The Company’s significant accounting policies and critical accounting estimates can be read in note 3 to the Company’s audited consolidated financial statements as at and for the year ended December 31, 2019.

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

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

3. ACQUISITIONS AND DISPOSITIONS

Acquisition and disposal

During the nine months ended September 30, 2020, the Company disposed of certain exploration and evaluation assets for nominal consideration, in which the purchaser assumed $0.03 of decommissioning liabilities. The Company recorded a net loss of $0.03 million from this disposition.

4. EXPLORATION AND EVALUATION ASSETS

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

$000s	
Balance, December 31, 2018	**42,410**
Additions	18
Property acquisitions *(note 3)*	(1,177)
Exploration and evaluation expense	(2,004)
Capitalized G&A	376
Capitalized share-based compensation	32
Transfers to property, plant and equipment *(note 5)*	(453)
Impairment loss	(3,086)
Balance, December 31, 2019	**36,116**
Disposition *(note 3)*	(5)
Exploration and evaluation expense	(18)
Capitalized G&A	185
Capitalized share-based compensation *(note 10)*	21
Impairment	(23,000)
Transfers to property, plant and equipment *(note 5)*	(367)
Balance, September 30, 2020	**12,932**

During the three and nine months ended September 30, 2020, the Company capitalized $0.05 million and $0.19 million, respectively, of general and administrative expenses ("G&A") (three and nine months ended September 30, 2019 – $0.01 million and $0.3 million) and nil and $0.02 million, respectively, of non-cash share-based compensation directly attributable to exploration activities (three and nine months ended September 30, 2019 – Nil).

The Company did not identify any indicators of impairment in any of the Company's CGUs as at September 30, 2020.

For the three months ended March 31, 2020, as a result of the significant decrease in forward benchmark commodity prices during the quarter, the Company identified indicators of impairment and conducted an impairment test on all of the Company's Cash Generating Units ("CGUs"). For the Ferrier CGU, the Company recorded an impairment loss of $23.0 million on its E&E assets. No impairment was recorded for the Foothills and Central Alberta CGUs.

As at December 31, 2019, the book value of the Company's net assets was greater than its market capitalization. The Company considered this to be an indicator of impairment and performed an impairment test on all CGUs. The Company determined the fair value less costs of disposal for its two non-core CGUs based on interest expressed during the sales process for its Foothills and Central Alberta assets. The Company recorded an impairment loss of $3.1 million on its E&E assets in the Foothills and Central Alberta CGU during the year ended December 31, 2019. For the Ferrier CGU, no impairment charge was required.

5. PROPERTY, PLANT AND EQUIPMENT

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

$000s	Cost	Accumulated DD&A	Net book value
Balance, December 31, 2018	**801,090**	**(525,250)**	**275,840**
Additions	16,550	—	16,550
Initial transition adjustment to right of use asset[(1)]	742	—	742
Increase in right of use asset[(1)]	709	—	709
Capitalized G&A	1,129	—	1,129
Capitalized share based compensation	97	—	97
Transfer from exploration and evaluation assets (note 4)	453	—	453
Depletion & depreciation	—	(36,564)	(36,564)
Increase in decommissioning expenses	1,091	—	1,091
Impairment provision	—	(21,569)	(21,569)
Balance, December 31, 2019	**821,861**	**(583,383)**	**238,478**
Additions	10,760	—	10,760
Capitalized G&A	554	—	554
Capitalized share-based compensation *(note 10)*	61	—	61
Transfers from exploration and evaluation assets *(note 4)*	367	—	367
Depletion & depreciation	—	(19,110)	(19,110)
Increase in decommissioning provision *(note 8)*	1,900	—	1,900
Impairment	—	(75,000)	(75,000)
Balance, September 30, 2020	**835,503**	**(677,493)**	**158,010**

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

At September 30, 2020, estimated future development costs of $256.9 million (December 31, 2019 – $267.7 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, 2020, the Company capitalized $0.2 million and $0.6 million, respectively, of general and administrative expenses ("G&A") (three and nine months ended September 30, 2019 – $0.3 million and $0.8 million) and non-cash share-based compensation of $0.01 million and $0.06 million, respectively (three and nine months ended September 30, 2019 – $0.03 million and $0.1 million), directly attributable to development activities.

The Company did not identify any indicators of impairment in any of its CGUs as at September 30, 2020.

For the three months ended March 31, 2020, as a result of the significant decrease in forward benchmark commodity prices during the quarter, the Company identified indicators of impairment and conducted an impairment test on all of the Company's CGUs.

The Company recorded an impairment loss of $75.0 million on the Ferrier CGU PP&E assets during the three months ended March 31, 2020, as the carrying amounts exceeded its recoverable amount. The recoverable amount, a level 3 input on the fair value hierarchy, was estimated at fair value less costs of disposal based on proved plus probable reserves and applying an after-tax discount rate of 13.5% on the estimated future cash flow. The Company uses the following forward commodity price estimates:

Year	Canadian Light Sweet 40 API $/Bbl	AECO $/MMbtu
2020	24.29	1.43
2021	43.15	2.05
2022	58.67	2.33
2023	59.84	2.41
2024	61.04	2.48
2025	62.26	2.56
2026	63.50	2.64
2027	64.77	2.71
2028	66.07	2.80
2029	67.39	2.88
2030	68.74	2.96

Escalation rate of 2.0% thereafter.

No impairment was recorded for the Foothills and Central Alberta CGUs for the three months ended March 31, 2020.

As at December 31, 2019, the book value of the Company's net assets was greater than its market capitalization. The Company considered this to be an indicator of impairment and performed an impairment test of each of its CGUs. The Company determined the fair value less costs of disposal for its two non-core CGUs based on interest expressed during the sales process for its Foothills and Central Alberta assets. The Company recorded an impairment loss of $21.6 million on its PP&E assets in the Foothills and Central Alberta CGUs during the year ended December 31, 2019. For the Ferrier CGU, the recoverable amount exceeded the carrying value therefore no impairment was recorded. The recoverable amount, a level 3 input on the fair value hierarchy, was estimated at fair value less costs of disposal based on proved plus probable reserves and applying an after-tax discount rate ranging from 9% to 10% on the estimated future cash flow.

At September 30, 2020, the carrying balance of the right of use asset was $1.1 million.

6. DEBT

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

(a) Revolving Credit Facility

At September 30, 2020, the RCF was comprised of a $20 million operating facility and a $65.8 million syndicated term-out 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's maturity date is May 31, 2021.

At September 30, 2020, the Company had a $0.6 million letter of credit outstanding against the RCF (December 31, 2019 – $0.7 million) and had drawn $80.3 million against the RCF (December 31, 2019 – $92.3 million).

In July 2020, the Company completed its annual RCF review. The borrowing base of the RCF was updated to $88.5 million, with a maturity date of May 31, 2021. The borrowing base of the RCF is required to reduce by $2.75 million at the end of each fiscal quarter. The RCF extension includes the removal of the Total Debt to Adjusted EBITDA ratio as well as the Proved and PDP Asset Coverage Ratios from the financial covenants, and the Working Capital ratio covenant has been updated to a minimum test of 0.6:1.0 (or such lower amount as agreed to by the majority of the lenders under the RCF which shall not be less than 0.5:1.0). As part of the RCF extension the Bankers Acceptance Stamping fees will range between 350 bps and 600 bps which will result in an increase in the RCF interest rate of between 150 bps and 250 bps.

The amount of the RCF is subject to a borrowing base review performed on a semi-annual basis by the lenders, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. In addition, asset dispositions require unanimous lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF. In the event that the lenders reduce the borrowing base below the amount drawn at the time of redetermination, the Company has 30 days to eliminate any shortfall by repaying amounts in excess of the new re-determined borrowing base.

Subsequent to September 30, 2020, the lenders reconfirmed the Company's borrowing base at $85.8 million.

(b) Term Loan

At September 30, 2020 the Company had a $35.9 million (December 31, 2019 – $35 million) Term Loan outstanding (excluding $0.4 million of unamortized deferred financing costs), which is due July 31, 2021. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

In July 2020, the Company extended the maturity of the Term Loan to July 31, 2021. The Term Loan bears interest that accrues at a per annum rate of the (three-month) Canadian Dealer Offered Rate plus 975 basis points. All of the interest will be made by way of payment-in-kind ("PIK") and added to the outstanding balance of the Term Loan in lieu of monthly payment of cash interest. The Term Loan extension also includes the removal of the Total Debt to EBITDA ratio as well as the Proved and PDP Asset Coverage Ratios from the financial covenants. The Working Capital ratio covenant has been updated to a minimum test of 0.6:1.0 (or such lower amount as agreed to by the lenders under the Term Loan which shall not be less than 0.5:1.0).

Liquidity

At September 30, 2020, the Company had a working capital deficiency (excluding non-cash risk management assets and liabilities) of $116.7 million due to the classification of the Company's borrowings under its RCF and Term Loan as current liabilities. See note 2. However, the Company remains in compliance with all financial covenants pertaining to its debt.

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, 2019.

The key financial covenants as at September 30, 2020 are summarized in the following table. At September 30, 2020 the Company is in compliance with all financial covenants.

Financial Covenant Description	Required Ratio	As at September 30, 2020
Working Capital Ratio	Over 0.60	1.49

7. LEASES

The Company's lease obligations are as follows:

$000s	
Balance, December 31, 2019	**1,149**
Finance expense	63
Lease payments	(154)
Balance, September 30, 2020	**1,058**

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

$000s	As at September 30, 2020
Less than 1 year	262
1 to 3 years	824
4 to 5 years	162
After 5 years	—
Total lease payments	1,248
Amounts representing finance expense	(190)
Present value of lease obligation	1,058
Current portion of lease obligation	188
Non-current portion of lease obligation	870

8. DECOMMISSIONING OBLIGATION

The decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The estimated future cash flows have been discounted using an average risk free rate of 1.00 percent and an inflation rate of 1.15 percent (1.76 percent and 1.75 percent, respectively at December 31, 2019). Changes in estimates in 2019 and 2020 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 $43.0 million as at September 30, 2020 ($41.3 million at December 31, 2019). The undiscounted, uninflated total future liability at September 30, 2020 is $41.5 million ($41.6 million at December 31, 2019). 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, 2018	**40,224**
Property dispositions	(24)
Liabilities incurred	729
Liabilities settled	(849)
Change in estimates	402
Accretion expense	777
Balance, December 31, 2019	**41,259**
Property dispositions	(29)
Liabilities incurred	321
Liabilities settled	(538)
Change in estimates	1,579
Accretion expense	387
Balance, September 30, 2020	**42,979**

9. FINANCIAL RISK MANAGEMENT

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus had outstanding as at September 30, 2020:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN$/GJ)
Natural Gas Swaps			
Oct. 1, 2020 to Oct. 31, 2020	Fixed price	10,500	$1.65
Oct. 1, 2020 to Mar. 31, 2021	Fixed price	4,000	$1.48
Oct. 1, 2020 to May. 31, 2021	Fixed price	1,000	$2.43
Oct. 1, 2020 to Oct. 31, 2021	Fixed price	1,000	$1.53
Nov. 1, 2020 to May. 31, 2021	Fixed price	2,000	$2.79
Nov. 1, 2020 to Mar. 31, 2021	Fixed price	7,000	$2.18
Apr. 1, 2021 to Oct. 31, 2021	Fixed price	8,000	$1.88
Nov. 1, 2021 to Mar. 31, 2022	Fixed price	4,000	$2.48

Contract Period	Type	Total Daily Volume (Bbl)	Average Price (CDN$/Bbl)
Crude Oil Swaps			
Oct. 1, 2020 to Dec. 31, 2020	Fixed price	750	$75.12
Jan. 1, 2021 to Mar. 31, 2021	Fixed price	200	$71.06
Jan. 1, 2021 to Jun. 30, 2021	Fixed price	300	$74.02
Jul. 1, 2021 to Dec. 31, 2021	Fixed price	300	$72.80

Contract Period	Type	Average Rate (%)	Notional Amount (000s CDN$)
Interest Rate Swaps			
Oct. 1, 2020 to Dec. 31, 2022	Fixed rate	2.34	$20,000

Risk management asset and liability:

$000s At September 30, 2020	Asset	Liability
Current derivatives	1,639	1,872
Non-current derivatives	284	622
	1,923	**2,494**
$000s At December 31, 2019		
Current derivatives	—	1,679
Non-current derivatives	11	74
	11	**1,753**

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

$000s	Three months ended Sept. 30, 2020	Three months ended Sept. 30, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
Realized gain on financial derivatives	1,308	360	6,138	73
Unrealized gain (loss) on financial derivatives	(4,183)	1,368	1,170	(7,605)
Net gain (loss) on financial derivatives	**(2,875)**	**1,728**	**7,308**	**(7,532)**

10. SHARE CAPITAL

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

Issued and Outstanding

Common shares ($000s*)*	Number of Shares	Amount
Balance, December 31, 2018	**49,491,840**	**430,119**
Cancelled[(1)]	(22,482)	—
Balance, December 31, 2019 and September 30, 2020	**49,469,358**	**430,119**

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

SHARE-BASED COMPENSATION

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

At September 30, 2020, 1,907,826 (December 31, 2019 – 2,361,958) stock options were outstanding. The summary of stock option activity is presented below:

	Number of stock options	Weighted average exercise price
Balance, December 31, 2018	**3,082,880**	**$2.87**
Granted	1,386,357	$0.33
Cancelled/forfeited	(707,069)	$1.74
Expired	(1,400,210)	$4.20
Balance, December 31, 2019	**2,361,958**	**$1.19**
Granted	748,179	$0.23
Forfeited	(353,320)	$1.06
Expired	(848,991)	$2.16
Balance, September 30, 2020	**1,907,826**	**$0.43**
Exercisable, September 30, 2020	**—**	**$0.00**

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

Range of Exercise Price	Stock Options Outstanding		
	Number granted	Weighted average exercise price	Weighted average remaining life (years)
$0.26 - $0.86	1,757,826	$0.31	2.43
$1.49 - $2.33	150,000	$1.92	0.56
	1,907,826	**$0.33**	**2.16**

During the three and nine months ended September 30, 2020 and the year ended December 31, 2019, 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 during the nine months ended September 30, 2020 of $0.11 (2019 – $0.11) was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2020	2019
Risk free interest rate	0.20% - 0.29%	1.57% - 1.83%
Expected life (years)	1.08 - 3.08	1.08 - 3.08
Estimated volatility of underlying common shares (%)	124%	73% - 81%
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 trading price of the Company's shares on the grant date. At September 30, 2020, 1,673,164 DSUs were issued and outstanding (December 2019 – 1,177,510).

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

$000s	**Three months ended Sept. 30, 2020**	**Three months ended Sept. 30, 2019**	**Nine months ended Sept. 30, 2020**	**Nine months ended Sept. 30, 2019**
Expensed	144	68	238	242
Capitalized to exploration and evaluation assets	4	12	21	41
Capitalized to property, plant and equipment	15	34	61	123
Total share-based compensation	**163**	**114**	**320**	**406**

11. LOSS PER SHARE

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

	Three months ended Sept. 30, 2020	**Three months ended Sept. 30, 2019**	**Nine months ended Sept. 30, 2020**	**Nine months ended Sept. 30, 2019**
Net loss for the period ($000s)	**(3,678)**	**(29,569)**	**(97,403)**	**(38,844)**
Weighted average number of common shares – basic (000s)	49,469	49,469	49,469	49,472
Weighted average number of common shares – diluted (000s)	49,469	49,469	49,469	49,472
Net loss per common share – basic	**($0.07)**	**($0.60)**	**($1.97)**	**($0.79)**
Net loss per common share – diluted	**($0.07)**	**($0.60)**	**($1.97)**	**($0.79)**

In computing diluted loss per share for the three and nine months ended September 30, 2020, 1,907,826 outstanding stock options and 1,673,164 DSUs were considered (December 31, 2019 – 2,361,958 and 1,177,510 respectively), which were excluded from the calculation as their impact was anti-dilutive.

12. OPERATING EXPENSES

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

$000s	Three months ended Sept. 30, 2020	Three months ended Sept. 30, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
Fixed and variable operating expenses	2,010	2,456	6,669	7,860
Processing, gathering and compression charges	631	980	1,983	2,340
Total gross operating expenses	**2,641**	**3,436**	**8,652**	**10,200**
Overhead recoveries	(233)	(255)	(666)	(734)
Total net operating expenses	**2,408**	**3,181**	**7,986**	**9,466**

13. GENERAL AND ADMINISTRATIVE EXPENSES

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

$000s	Three months ended Sept. 30, 2020	Three months ended Sept. 30, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
Gross general and administrative expense	937	1,238	3,583	4,247
Capitalized general and administrative expense	(214)	(336)	(739)	(1,067)
Overhead recoveries	(88)	(126)	(494)	(995)
General and administrative expense	**635**	**776**	**2,350**	**2,185**

14. FINANCIAL INSTRUMENTS

Risks associated with financial instruments

Credit risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risk. Concentration of credit risk is mitigated by marketing the majority of the Company's production to reputable and financially sound purchasers under normal industry sale and payment terms. As is common in the petroleum and natural gas industry in western Canada, Petrus' receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Of the $5.7 million of accounts receivable outstanding at September 30, 2020 (December 31, 2019 – $13.0 million), $3.1 million is owed from 3 parties (December 31, 2019 – $5.7 million from 3 parties), and the balances were received subsequent to September 30, 2020. The Company considers accounts receivable outstanding past 120 days to be 'past due'. At September 30, 2020, the Company had an allowance for doubtful accounts of $0.4 million (December 31, 2019 – $0.4 million). At September 30, 2020, 90% of Petrus' accounts receivable were aged less than 120 days and 10% of Petrus' accounts receivable were aged greater than 120 days. The Company does not anticipate any material collection issues.

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

Liquidity risk

At September 30, 2020, the Company had a $86 million RCF, on which $80.3 million was drawn (December 31, 2019 – $97.0 million). While the Company is exposed to the risk of reductions to the borrowing base of the RCF, the Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through funds flow and available credit capacity from its RCF. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2021. See additional discussion in note 6.

The following are the contractual maturities of financial liabilities as at September 30, 2020:

$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	7,978	7,978	—
Risk management liability	2,494	1,872	622
Bank indebtedness and current portion of long term debt(1)	116,178	116,178	—
Lease obligations	1,248	262	986
Total	**127,898**	**126,290**	**1,608**

(1) Excludes deferred finance fees.

Interest Rate Risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash, bank indebtedness and accounts receivable are not exposed to significant interest rate risk. The RCF and Term Loan are exposed to interest rate cash flow risk as the instruments are priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed to interest rate risk. To manage exposure to interest rate volatility, the Company entered into interest rate swap contracts (note 9). A 1% increase in the Canadian prime interest rate during the three and nine months ended September 30, 2020 would have increased net loss by approximately $1.0 million per year, which relates to interest expense on the average outstanding RCF and Term Loan, net of any interest rate swaps to fix the interest rate on loans, during the period assuming that all other variables remain constant (September 30, 2019 – $1.0 million). A 1% decrease in the Canadian prime interest rate during the year would result in an opposite impact on net loss.

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

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

As at September 30, 2020, it was estimated that a $0.25/GJ decrease in the price of natural gas would have decreased net loss by $1.4 million (September 30, 2019 – $1.7 million). An opposite change in commodity prices would result in an opposite impact on net loss. As at September 30, 2020, it was estimated that a $5.00/CDN WTI/bbl decrease in the price of oil would have decreased net loss by $0.9 million (September 30, 2019 – $3.4 million). An opposite change in commodity prices would result in an opposite impact on net loss.

15. CAPITAL MANAGEMENT

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

16. FINANCE EXPENSES

The components of finance expenses are as follows:

$000s	**Three months ended Sept. 30, 2020**	**Three months ended Sept. 30, 2019**	**Nine months ended Sept. 30, 2020**	**Nine months ended Sept. 30, 2019**
Cash:				
Total cash finance expenses	1,286	2,230	5,205	6,302
Non-cash:				
Deferred financing costs	236	117	480	374
Non-cash term loan interest payment-in-kind	877	—	877	—
Accretion on decommissioning obligations *(note 8)*	95	189	387	601
Total non-cash finance expenses	1,208	306	1,744	975
Total finance expenses	**2,494**	**2,536**	**6,949**	**7,277**

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

$000s	Three months ended Sept. 30, 2020	Three months ended Sept. 30, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
Source (use) in non-cash working capital:				
Deposits and prepaid expenses	42	(79)	16	(215)
Transaction costs on debt	(559)	(129)	(638)	(119)
Accounts receivable	281	2,000	7,385	4,998
Accounts payable and accrued liabilities	1,378	(4,471)	(3,386)	(7,655)
	1,142	**(2,679)**	**3,377**	**(2,991)**
Operating activities	958	(3,301)	4,364	824
Financing activities	(405)	(127)	(248)	(119)
Investing activities	587	751	(739)	(3,695)

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, 2019	**—**	**92,250**	**34,752**	**127,002**
Cash flows	—	(11,950)	—	(11,950)
Payment-in-kind	—	—	877	877
Non-cash changes	—	(160)	—	(160)
Balance, September 30, 2020	**—**	**80,140**	**35,629**	**115,769**

18. COMMITMENTS AND CONTINGENCIES

Commitments

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

$000s	Total	< 1 year	1-5 years	> 5 years
Firm service transportation	14,211	2,152	10,364	1,695

Contingencies

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

19. REVENUE

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

$000s	Three months ended Sept. 30, 2020	Three months ended Sept. 30, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
Production Revenue				
Oil and condensate sales	4,714	7,529	12,018	26,820
Natural gas sales	6,035	3,192	18,628	14,082
Natural gas liquids sales	2,022	1,450	5,277	8,986
Total oil and natural gas production revenue	**12,771**	**12,171**	**35,923**	**49,888**
Royalty revenue	69	346	302	512
Total oil and natural gas revenue	**12,840**	**12,517**	**36,225**	**50,400**

CORPORATE INFORMATION

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