



CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

As at and for the years ended December 31, 2020 and 2019

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Petrus Resources Ltd.

Opinion

We have audited the consolidated financial statements of Petrus Resources Ltd. (the Company), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated statements of net loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(a) in the consolidated financial statements, which indicates that the Company's continued successful operations are dependent on its ability to restructure its debt or obtain additional financing. As stated in Note 2(a) these events or conditions indicate that a material uncertainty exists that casts significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of Property, Plant and Equipment ("PP&E") and Exploration and Evaluation ("E&E") Assets

As at December 31, 2020, the carrying value of PP&E and E&E was \$152 million and \$18 million, respectively. For the year ended December 31, 2020, an impairment charge of \$75 million and \$23 million was recorded with respect to PP&E and E&E, respectively. PP&E and E&E are tested for impairment only when circumstances indicate that the carrying value of a cash generating unit ('CGU') may exceed the recoverable amount. Impairment is determined by estimating a CGU's respective recoverable amount. The recoverable amount of the Ferrier CGU was determined by using the value-in-use method, whereby the net cash flows are estimated using current business models and budgets approved by management for the CGU. The Company discloses significant judgments, estimates and assumptions in respect of impairment in Note 3 to the financial statements, and the results of their analysis in Note 5 and 6.

Auditing the estimated recoverable amount of the Company's Ferrier CGU was complex due to the subjective nature of the various management inputs and assumptions and commodity price volatility. The primary inputs noted in the value-in-use model were production, pricing, royalties, operating costs, capital costs, general and administrative (G&A) expenses and discount rate.

To test the Company's estimated recoverable amount for the Ferrier CGU, we performed the following procedures, among others:

- Involved our valuation specialists to assess the methodology applied, and the various inputs utilized in determining the discount rate by referencing current industry, economic, and comparable company information, company and cash-flow specific risk premiums.
- Compared forecasted production against historically realized production.
- Compared forecasted prices used in the impairment test to third-party reserve engineer data.
- Assessed forecasted royalties, operating costs, G&A and capital cost data by comparing it to historical performance.
- Assessed the competence and objectivity of the Company's external reserve engineer.
- Tested the completeness and accuracy of the reserve engineer report by agreeing all current year production, revenue, royalty, operating cost, and capital cost data to management's accounting records.

- Evaluated the adequacy of the impairment note disclosure included in Notes 5 and 6 of the accompanying financial statements in relation to this matter.

Other Information

Management is responsible for the other information. The other information comprises:

- a. Management's Discussion and Analysis
- b. Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- a. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- e. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ryan MacDonald.

Ernst + Young LLP

Chartered Professional Accountants
Calgary, Alberta
February 24, 2021

CONSOLIDATED BALANCE SHEETS

(Presented in 000's of Canadian dollars)

As at	December 31, 2020	December 31, 2019
ASSETS		
Current		
Cash	—	256
Deposits and prepaid expenses	1,150	1,328
Accounts receivable (note 15)	6,278	13,036
Risk management asset (note 10)	934	—
Total current assets	8,362	14,620
Non-current		
Risk management asset (note 10)	15	11
Exploration and evaluation assets (notes 5)	17,568	36,116
Property, plant and equipment (note 6)	151,969	238,478
Total assets	177,914	289,225
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	32	—
Current portion of long term debt (note 7)	114,049	127,002
Accounts payable and accrued liabilities (note 15)	7,708	11,362
Risk management liability (note 10)	986	1,679
Lease obligations (note 8)	188	136
Total current liabilities	122,963	140,179
Non-current liabilities		
Lease obligations (note 8)	824	1,013
Decommissioning obligation (note 9)	44,456	41,259
Risk management liability (note 10)	41	74
Total liabilities	168,284	182,525
Shareholders' equity		
Share capital (note 11)	430,119	430,119
Contributed surplus	9,596	9,112
Deficit	(430,085)	(332,531)
Total shareholders' equity	9,630	106,700
Total liabilities and shareholders' equity	177,914	289,225

Going concern (note 2)

Commitments (note 19)

See accompanying notes to the 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

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

	Year ended December 31, 2020	Year ended December 31, 2019
REVENUE		
Oil and natural gas revenue (note 20)	50,368	71,398
Royalty expense	(5,194)	(7,114)
Net oil and natural gas revenue	45,174	64,284
Other income	354	106
Net gain (loss) on financial derivatives (note 10)	8,179	(12,617)
	53,707	51,773
EXPENSES		
Operating (note 13)	11,223	12,873
Transportation	3,452	3,814
General and administrative (note 14)	3,409	3,644
Share-based compensation (note 11)	381	401
Finance (note 17)	9,593	9,513
Exploration and evaluation (note 5)	18	2,004
Depletion and depreciation (note 6)	25,231	36,564
Loss (gain) on sale of assets	(46)	481
Impairment (notes 5 and 6)	98,000	24,655
Total expenses	151,261	93,949
NET LOSS AND COMPREHENSIVE LOSS	(97,554)	(42,176)
Net loss per common share		
Basic and diluted (note 12)	(1.97)	(0.85)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(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	—	—	(42,176)	(42,176)
Share-based compensation	—	728	—	728
Balance, December 31, 2019	430,119	9,112	(332,531)	106,700
Net loss	—	—	(97,554)	(97,554)
Share-based compensation (<i>note 11</i>)	—	484	—	484
Balance, December 31, 2020	430,119	9,596	(430,085)	9,630

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Presented in 000's of Canadian dollars)

	Year ended December 31, 2020	Year ended December 31, 2019
OPERATING ACTIVITIES		
Net loss	(97,554)	(42,176)
Adjust items not affecting cash:		
Share-based compensation (note 11)	381	401
Unrealized loss (gain) on financial derivatives (note 10)	(1,661)	11,273
Non-cash finance expenses (note 17)	1,119	1,272
Non-cash term loan interest payment-in-kind	1,813	—
Depletion and depreciation (note 6)	25,231	36,564
Impairment (notes 5 and 6)	98,000	24,655
Exploration and evaluation expense (note 5)	18	2,004
Loss (gain) on sale of assets	(46)	481
Decommissioning expenditures (note 9)	(904)	(849)
Funds flow	26,397	33,625
Change in operating non-cash working capital (note 18)	2,527	(5,803)
Cash flows from operating activities	28,924	27,822
FINANCING ACTIVITIES		
Repayment of revolving credit facility (note 18)	(14,750)	(4,749)
Increase (repayment) of bank indebtedness (note 18)	32	(381)
Repayment of lease liabilities (note 8)	(137)	(400)
Change in financing non-cash working capital (note 18)	162	196
Cash flows used in financing activities	(14,693)	(5,334)
INVESTING ACTIVITIES		
Exploration and evaluation asset dispositions (note 5)	—	651
Exploration and evaluation asset expenditures (note 5)	(4,869)	(394)
Petroleum and natural gas property expenditures (note 6)	(9,439)	(17,655)
Other capital expenditures	—	(24)
Change in investing non-cash working capital (note 18)	(179)	(4,873)
Cash used in investing activities	(14,487)	(22,295)
Increase in cash	(256)	193
Cash, beginning of period	256	63
Cash, end of period	—	256
Cash interest paid (note 17)	6,661	8,241

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

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 consolidated financial statements, for the years ended December 31, 2020 and 2019, were approved by the Company's Audit Committee and Board of Directors on February 24, 2021.

2. BASIS OF PRESENTATION

(a) 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 December 31, 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 December 31, 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 \$114.5 million as at December 31, 2020. For the year ended December 31, 2020, the Company generated funds flow of \$26.4 million and reduced the amounts owing on its RCF by \$14.8 million. The RCF syndicate 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.

(b) Statement of Compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(c) Measurement Basis

These consolidated financial statements were prepared on the basis of historical cost except for financial derivatives which are measured at fair value. This method is consistent with the method used in prior years. These consolidated financial statements are presented in Canadian dollars.

(d) Consolidation

These audited consolidated financial statements include the accounts of Petrus and its 100% owned subsidiaries, Petrus Resources Corp. and Petrus Resources Inc. Subsidiaries are consolidated from the date control is obtained until the date control ends. Control exists where the Company has power over the investee, exposure or rights to variable returns from the investee and the ability to use its power over the investee to affect returns. All intra-group balances and transactions are eliminated on consolidation.

(e) Critical Accounting Estimates

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

Depletion and reserve estimates

Petroleum and natural gas assets are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). The calculation incorporates the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reservoir engineering reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known



reservoirs and which are considered commercially producible. Reserves estimates, although not reported as part of the Company's financial statements, can have a significant effect on net income (loss), assets and liabilities as a result of their impact on depletion and depreciation, decommissioning liabilities, deferred taxes, asset impairments and business combinations. Independent reservoir engineers perform evaluations of the Company's petroleum and natural gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgment. Estimates of economically recoverable petroleum and natural gas reserves are based upon a number of variables and assumptions such as geoscientific interpretation, production forecasts, commodity prices, costs and related future cash flows, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available or as economic conditions change.

Impairment indicators and cash-generating units

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

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

Technical feasibility and commercial viability of exploration and evaluation assets

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

Financial instruments

Financial instruments are subject to valuations at the end of each reporting period. Generally the valuation is based on active and efficient markets. However, certain financial instruments may not be traded on an efficient market or the market may disappear or be subject to conditions that impede the efficiency of the market.

Decommissioning obligation

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

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods. Income taxes are subject to measurement uncertainty. Significant judgment can be involved in the recognition of deferred tax assets.

Measurement of share-based compensation

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

Contingencies

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) 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.



(b) Exploration & evaluation assets

Capitalization

All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs, other direct costs of exploration (drilling, testing and evaluating the technical feasibility and commercial viability of extraction) and appraisal and including any directly attributable general and administration costs and share-based payments, are accumulated and capitalized as exploration and evaluation assets.

Certain costs incurred prior to acquiring the legal rights to explore are charged directly to net income (loss).

Depletion & depreciation

Exploration and evaluation costs are not amortized prior to the conclusion of appraisal activities. At the completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then the carrying value of the relevant exploration and evaluation asset will be reclassified as a property, plant and equipment asset into the CGU to which it relates, but only after the carrying value of the relevant exploration and evaluation asset has been assessed for impairment and, where appropriate, its carrying value adjusted. Technical feasibility and commercial viability are considered to be demonstrable when proved or probable reserves are determined to exist. If it is determined that technical feasibility and commercial viability have not been achieved in relation to the exploration and evaluation assets appraised, all other associated costs are written down to the recoverable amount in net income (loss).

Expired land leases included as undeveloped land in exploration and evaluation assets are recognized in exploration and evaluation cost in net income (loss) upon expiry and are considered prior to expiry. Management considers upcoming land lease expiries and may recognize the costs in advance of expiry.

Impairment

Indicators of impairment of exploration and evaluation assets are assessed at each reporting date which can include upcoming land lease expiries, third party land valuations and other information. When there are such indications, an impairment test is carried out and any resulting impairment loss is written off to net income (loss). The recoverable amount is the greater of fair value, less costs of disposal, or value-in-use.

(c) Property, plant and equipment

The Company's property, plant and equipment is comprised of petroleum and natural gas assets and corporate assets.

Capitalization

Petroleum and natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, if any. Petroleum and natural gas assets consists of the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Petroleum and natural gas assets include developing and producing interests such as land acquisitions, geological and geophysical costs, facility and production equipment, including any directly attributable general and administration costs and share-based payments and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as developing and producing petroleum and natural gas interests when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves, and are accumulated on a field or geotechnical area basis. The cost of day-to-day servicing of an item of petroleum and natural gas assets is expensed in income or loss as incurred. Petroleum and natural gas assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal of an asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in net income or loss.

Depletion and depreciation

The costs for petroleum and natural gas properties, including related pipelines and facilities, are depleted using a unit-of-production method based on the commercial proved and probable reserves.

Petroleum and natural gas assets are not depleted until production commences. This depletion calculation includes actual production in the period and total estimated proved and probable reserves attributable to the assets being depleted, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production (before royalties) are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Proved and probable reserves are estimated using independent reservoir engineering reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Corporate assets are recorded at cost less accumulated depreciation. Depreciation is calculated on a declining balance method so as to write off the cost of these assets, less estimated residual values, over their estimated useful lives consistent with the treatment used for tax purposes.



Impairment

The assessment for impairment entails comparing the carrying value of the CGU with its recoverable amount: that is, the higher of fair value, less costs of disposal, and value in use. Petrus' property, plant and equipment are grouped into CGUs based on separately identifiable and largely independent cash inflows considering geological characteristics, shared infrastructure and exposure to market risks. Estimates of future cash flows used in the calculation of the recoverable amount are based on reserve evaluation reports prepared by independent reservoir engineers.

The CGU's are reviewed quarterly for indicators of impairment. Indicators are events or changes in circumstances that indicate that the carrying amount may not be recoverable. If indicators of impairment exist, the recoverable amount of the CGU is estimated. If the carrying amount of the CGU exceeds the recoverable amount, the CGU is written down with an impairment recognized in net income (loss).

The recoverable amount is the higher of fair value, less costs of disposal, and the value-in-use. Fair value, less costs of disposal, is derived by estimating the discounted after-tax future net cash flows. Discounted future net cash flows are based on forecast commodity prices and costs over the expected economic life of the reserves and discounted using market-based rates to reflect a market participant's view of the risks associated with the assets. Value-in-use is assessed using the expected future cash flows discounted at a pre-tax rate.

Impairments of property, plant and equipment are reversed when there is significant evidence that the impairment has been reversed, but only to the extent of what the carrying amount would have been had no impairment been recognized.

(d) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and reclamation requirements. Costs related to these abandonment activities are estimated by management in consultation with the Company's engineers based on risk-adjusted current costs which take into consideration current technology in accordance with existing legislation and industry practices.

Decommissioning obligations are measured at the present value of the best estimate of expenditures required to settle the obligations at the reporting date. When the fair value of the liability is initially measured, the estimated cost, discounted using a risk-free rate, is capitalized by increasing the carrying amount of the related petroleum and natural gas assets. The increase in the provision due to the passage of time, or accretion, is recognized as a finance expense. Increases and decreases due to revisions in the estimated future cash flows are recorded as adjustments to the carrying amount of the related petroleum and natural gas assets.

Actual costs incurred upon settlement of the liability are charged against the obligation to the extent that the obligation was previously established. The carrying amount capitalized in petroleum and natural gas assets is depleted in accordance with the Company's depletion policy. The Company reviews the obligation at each reporting date and revisions to the estimated timing of cash flows, discount rates and estimated costs will result in an increase or decrease to the obligations. Any difference between the actual costs incurred upon settlement of the obligation and recorded liability is recognized as an increase or reduction in income.

(e) Finance expenses

Finance expense may be comprised of interest expense on borrowings, acquisition related (transaction) costs, foreign exchange expenses and accretion of the discount on decommissioning obligations.

(f) 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.

(g) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a reduction in share capital, net of any tax effects.

(h) Flow-through shares

The resources expenditure deductions for income tax purposes related to exploratory activities funded by flow-through shares are renounced to investors in accordance with tax legislation. Upon issuance of a flow-through share, a liability is recognized representing the premium paid on flow-through common shares over regular common shares. This liability is reduced as the expenditures are incurred and tax attributes are renounced.

(i) Income taxes

The Company's income tax expense is comprised of current and deferred tax. Income tax expense is recognized through income or loss except to the extent that it relates to items recognized directly in equity, in which case the related income taxes are also recognized in equity.

Current tax is the expected tax payable on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.



Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in the jurisdictions of Alberta and Canada. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

(j) Joint arrangements

A portion of the Company's exploration, development and production activities are conducted jointly with others through unincorporated joint operations. These financial statements reflect only the Company's proportionate interest of these joint operations and the proportionate share of the relevant revenue and related costs.

(k) Share-based compensation

Share-based compensation expense is determined based on the estimated fair value of shares on the date of grant. Forfeitures are estimated at the grant date and are subsequently adjusted to reflect actual forfeitures. The expense is recognized over the service period, with a corresponding increase to contributed surplus. The Company capitalizes the qualifying portion of share-based compensation expense directly attributable to the exploration and development activities of exploration and evaluation assets and petroleum and natural gas assets, with a corresponding decrease to share-based compensation expense. At the time the stock options or performance warrants are exercised, the issuance of common shares is recorded as an increase to shareholders' capital and a corresponding decrease to contributed surplus.

For deferred share units ("DSUs") that can be settled in cash or equity at the option of the Company, the fair value of the DSUs is recognized as stock-based compensation expense, with a corresponding increase in contributed surplus.

(l) Earnings per share

Earnings per share are presented for basic and diluted earnings. Basic per share information is computed by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period. The weighted average number of shares for diluted earnings per share information is calculated using the treasury stock method whereby it is assumed that proceeds obtained upon exercise of performance warrants and stock options would be used to purchase common shares at the average market price during the period. The treasury stock method also assumes that the deemed proceeds related to unrecognized share-based payments expense are used to repurchase shares at the average market price during the period. Under the treasury stock method, stock options and share warrants have a dilutive effect only when the average market price of the common shares during the period exceeds the exercise price of the options or warrants (they are "in-the-money"). Exercise of in-the-money stock options and share warrants is assumed at the beginning of the year or date of issuance, if later. Should the Company have a loss for the period, stock options and share warrants would be anti-dilutive and therefore will have no effect on the determination of loss per share.

(m) Leases

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - the Company has the right to operate the asset; or
 - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

i) As a lessee

The Company recognizes a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The estimated useful lives of ROU assets are determined on the same basis as those of property and equipment. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.



The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

(n) Government grants

Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attaching to it, and that the grant will be received. Grants related to income are presented in the Consolidated Statement of Comprehensive Income (loss) and are deducted in reporting the related expense. Grants related to assets are presented in the Consolidated Balance Sheet by deducting the grant in arriving at the carrying amount of the asset or recognized as other income.

(o) New standards and interpretations

There are no new standards or interpretations to report.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Petroleum and natural gas properties and equipment and exploration and evaluation assets

The fair value of petroleum and natural gas properties and equipment recognized in a business combination and for impairment testing, is based on market values. The market value of petroleum and natural gas properties and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in petroleum and natural gas properties and equipment) and intangible exploration and evaluation assets is estimated with reference to the discounted cash flow expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The value-in-use and the fair value less costs of disposal value, or value, used to determine the recoverable amount of the impaired petroleum and natural gas properties are classified as Level 3 fair value measurements. Refer to "Financial Instruments" section below for fair value hierarchy classifications.

Derivatives

The fair value of commodity price risk management contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options is based on option models that use published information with respect to volatility, prices, interest rates and counter-party credit risks.

Share-based payments

The fair value of employee share-based payments is measured using a Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility in share price (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividend yield, risk-free interest rate (based on government bonds) and estimated forfeiture rate at each reporting date.

Financial instruments

The Company's fair value measurements require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. The Company's risk management contracts are considered Level 2.



5. 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
Disposition	(1,177)
Exploration and evaluation expense	(2,004)
Capitalized G&A	376
Capitalized share-based compensation	32
Transfers to property, plant and equipment (<i>note 6</i>)	(453)
Impairment	(3,086)
Balance, December 31, 2019	36,116
Additions	4,590
Disposition	(58)
Exploration and evaluation expense	(18)
Capitalized G&A	279
Capitalized share-based compensation (<i>note 11</i>)	26
Transfers to property, plant and equipment (<i>note 6</i>)	(367)
Impairment	(23,000)
Balance, December 31, 2020	17,568

During the year ended December 31, 2020, the Company capitalized \$0.3 million of general and administrative expenses ("G&A") (2019 – \$0.4 million) and \$0.03 million of non-cash share-based compensation directly attributable to exploration activities (2019 – \$0.03 million).

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

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 CGUs during the year ended December 31, 2019. For the Ferrier CGU, no impairment charge was required was recorded during the year ended December 31, 2019.

6. PROPERTY, PLANT AND EQUIPMENT

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

\$000s	Cost	Accumulated DD&A	Net book value
Balance, December 31, 2018	801,090	(525,250)	275,840
Additions	16,550	—	16,550
Transition adjustment of right of use asset ⁽¹⁾	742	—	742
Addition of right of use asset ⁽¹⁾	709	—	709
Capitalized G&A	1,129	—	1,129
Capitalized share-based compensation (note 11)	97	—	97
Transfers from exploration and evaluation assets (note 5)	453	—	453
Depletion & depreciation	—	(36,564)	(36,564)
Increase in decommissioning provision (note 9)	1,091	—	1,091
Impairment	—	(21,569)	(21,569)
Balance, December 31, 2019	821,861	(583,383)	238,478
Additions	8,600	—	8,600
Capitalized G&A	838	—	838
Capitalized share-based compensation (note 11)	77	—	77
Transfers from exploration and evaluation assets (note 5)	367	—	367
Depletion & depreciation	—	(25,231)	(25,231)
Increase in decommissioning provision (note 9)	3,840	—	3,840
Impairment	—	(75,000)	(75,000)
Balance, December 31, 2020	835,583	(683,614)	151,969

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

At December 31, 2020, estimated future development costs of \$252.3 million (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 year ended December 31, 2020, the Company capitalized \$0.8 million of general and administrative expenses ("G&A") (2019 – \$1.1 million) and non-cash share-based compensation of \$0.1 million (2019 – \$0.1 million), directly attributable to development activities.

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

The recoverable amount, a level 3 input on the fair value hierarchy, was estimated at its value-in-use, using a pre-tax discount rate of 11.0% to 12.5%. A 1% increase in the discount rate would have increase impairment by approximately \$7 million. A 1% decrease in the discount rate would decrease impairment by approximately \$6 million. The Company uses the following forward commodity price estimates:

Year	Canadian Light Sweet 40 API \$/Bbl	AECO \$/MMbtu
2021	54.55	2.86
2022	57.14	2.78
2023	63.64	2.69
2024	64.91	2.75
2025	66.21	2.80
2026	67.53	2.86
2027	68.88	2.91
2028	70.26	2.97
2029	71.66	3.03
2030	73.10	3.09
2031	74.56	3.15

Escalation rate of 2.0% thereafter.

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 (see note 4), 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 December 31, 2020, the carrying balance of the right of use asset was \$1.0 million (December 31, 2019 - \$1.2 million).

7. 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 December 31, 2020, the RCF was comprised of a \$20 million operating facility and a \$63 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 December 31, 2020, the Company had a \$0.6 million letter of credit outstanding against the RCF (December 31, 2019 - \$0.7 million) and had drawn \$77.5 million against the RCF (December 31, 2019 - \$92.3 million) excluding non-cash deferred financing fees of \$0.3 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.

(b) Term Loan

At December 31, 2020 the Company had a \$37 million (December 31, 2019 - \$35 million) Term Loan outstanding, 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 December 31, 2020, the Company had a working capital deficiency (excluding non-cash risk management assets and liabilities) of \$114.5 million which has increased due to the reclassification of the Company's borrowings under its RCF and Term Loan. See note 2(a).

However, the Company remains in compliance with all financial covenants pertaining to its debt, and based on current available information relating to future production volumes, forward commodity pricing, future costs including capital, operating and general and administrative, forward exchange rates, interest rates and taxes, all of which are subject to measurement uncertainty, management expects to comply with all financial covenants during the subsequent 12 month period.

Financial Covenants

The Company's RCF and Term Loan are subject to certain financial covenants. The following definitions are used in the covenant calculations for both debt instruments:

Working Capital

Working Capital means Current Assets to Current Liabilities whereby Current Assets means on any date of determination, the current assets of Petrus that would, in accordance with IFRS, be classified as of that date as current assets plus any undrawn availability under the RCF, less any non-cash amount required to be included in current assets as the result of the application of IFRS including non-cash commodity and interest rate



hedges assets and liabilities and whereby Current Liabilities means, on any date of determination, the liabilities of Petrus that would, in accordance with IFRS, be classified as of that date as current liabilities, excluding (a) non-cash obligations under IFRS including non-cash commodity and interest rate hedges assets and liabilities, and (b) the current portion of long-term debt.

Working Capital Ratio means the ratio of Current Assets to Current Liabilities as defined above.

The RCF carries the following covenants:

- i. The Company is unable to borrow amounts greater than the RCF limit; and
- ii. the Working Capital ratio shall not be less than 0.6:1.0.

The key financial covenant as at December 31, 2020 is summarized in the following table. At December 31, 2020 the Company is in compliance with its financial covenants.

Financial Covenant Description	Required Ratio	As at December 31, 2020
Working Capital Ratio	Over 0.6	1.67

8. LEASES

The Company's lease obligations are as follows:

\$000s	
Balance, January 1, 2020	1,149
Finance expense	82
Lease payments	(219)
Balance, December 31, 2020	1,012

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

\$000s		As at December 31, 2020
Less than 1 year		262
1 to 3 years		825
4 to 5 years		92
After 5 years		—
Total lease payments		1,179
Amounts representing finance expense		(167)
Present value of lease obligation		1,012
Current portion of lease obligation		188
Non-current portion of lease obligation		824

9. 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 1.10 percent and an inflation rate of 1.40 percent (2019 – 1.76 percent and 1.75 percent, respectively). 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 \$44.5 million as at December 31, 2020 (December 31, 2019 – \$41.3 million). The undiscounted, uninflated total future liability at December 31, 2020 is \$41.4 million (December 31, 2019 – \$41.4 million). 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	(98)
Other adjustments	(135)
Liabilities incurred	320
Liabilities settled	(904)
Change in estimates	3,520
Accretion expense	494
Balance, December 31, 2020	44,456

10. 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 December 31, 2020:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN\$/GJ)
<i>Natural Gas Swaps</i>			
Jan. 1, 2021 to Mar. 31, 2021	Fixed price	13,000	\$3.39
Jan. 1, 2021 to May. 31, 2021	Fixed price	3,000	\$2.67
Jan. 1, 2021 to Oct. 31, 2021	Fixed price	1,000	\$1.53
Apr. 1, 2021 to Oct. 31, 2021	Fixed price	10,000	\$2.02
Nov. 1, 2021 to Dec. 31, 2021	Fixed price	5,000	\$2.81
Nov. 1, 2021 to Mar. 31, 2022	Fixed price	5,000	\$2.51
Jan. 1, 2022 to Mar. 31, 2022	Fixed price	2,000	\$2.61
Contract Period	Type	Total Daily Volume (Bbl)	Average Price (CDN\$/Bbl)
<i>Crude Oil Swaps</i>			
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	500	\$66.64
Jan. 1, 2022 to Mar. 31, 2022	Fixed price	200	\$60.00
Contract Period	Type	Average Rate (%)	Notional Amount (000s CDN\$)
<i>Interest Rate Swaps</i>			
Jan. 1, 2021 to Dec. 31, 2022	Fixed rate	2.34	\$20,000

Risk management asset and liability:

\$000s At December 31, 2020	Asset	Liability
Current commodity derivatives	934	986
Non-current commodity derivatives	15	41
	949	1,027
\$000s At December 31, 2019		
Current commodity derivatives	—	1,679
Non-current commodity derivatives	11	74
	11	1,753

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

\$000s	Year ended December 31, 2020	Year ended December 31, 2019
Realized gain (loss) on financial derivatives	6,518	(1,344)
Unrealized gain (loss) on financial derivatives	1,661	(11,273)
Net gain (loss) on financial derivatives	8,179	(12,617)

11. 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 December 31, 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 December 31, 2020, 2,276,923 (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	\$2.87
Granted	1,122,276	\$0.23
Cancelled/forfeited	(353,320)	\$1.06
Expired	(853,991)	\$2.16
Balance, December 31, 2020	2,276,923	\$0.40
Exercisable, December 31, 2020	288,599	\$0.75

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)
\$0.26 - \$0.86	2,131,923	\$0.30	2.33	227,599	\$0.25	0.1
\$1.49 - \$2.33	145,000	\$1.84	0.31	61,000	\$0.49	0.01
	2,276,923	\$1.75	1.69	288,599	\$0.75	0.1

During the year ended December 31, 2020 and the year ended December 31, 2019, the Company granted options which vest equally over three years, and upon vesting, expire 30 business days thereafter. The weighted average fair value of each option granted during the year ended December 31, 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 (%)	80% to 100%	73% - 81%
Estimated forfeiture rate	20%	20%
Expected dividend yield (%)	—%	—%

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

Deferred Share Unit ("DSU") Plan

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

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

The compensation expense was calculated using the fair value method based on the weighted average trading price of the Company's shares for the five trading days ending on the reporting period date. At December 31, 2020, 2,158,270 DSUs were issued and outstanding (2019 – 1,177,510).

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

\$000s	December 31, 2020	December 31, 2019
Expensed	152	401
Capitalized to exploration and evaluation assets	26	32
Capitalized to property, plant and equipment	77	97
Deferred share units	229	198
Total share-based compensation	484	728

12. LOSS PER SHARE

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

	Year ended December 31, 2020	Year ended December 31, 2019
Net loss for the period (\$000s)	(97,554)	(42,176)
Weighted average number of common shares – basic (000s)	49,469	49,472
Weighted average number of common shares – diluted (000s)	49,469	49,472
Net loss per common share – basic	(\$1.97)	(\$0.85)
Net loss per common share – diluted	(\$1.97)	(\$0.85)

In computing diluted loss per share for the year ended December 31, 2020, 2,276,923 outstanding stock options and 2,158,270 DSUs were considered (December 31, 2019 – 2,361,958 and 739,046, respectively), which were excluded from the calculation as their impact was anti-dilutive.

13. OPERATING EXPENSES

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

\$000s	2020	2019
Fixed and variable operating expenses	9,673	10,668
Processing, gathering and compression charges	2,463	3,167
Total gross operating expenses	12,136	13,835
Overhead recoveries	(913)	(962)
Total net operating expenses	11,223	12,873

14. GENERAL AND ADMINISTRATIVE EXPENSES

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

\$000s	2020	2019
Gross general and administrative expense	5,248	6,217
Capitalized general and administrative expense	(1,117)	(1,506)
Overhead recoveries	(722)	(1,067)
General and administrative expense	3,409	3,644

15. 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 \$6.3 million of accounts receivable outstanding at December 31, 2020 (December 31, 2019 – \$13.0 million), \$4.7 million is owed from 3 parties (December 31, 2019 – \$5.7 million from 3 parties), and the balances were received subsequent to year end. The Company considers accounts receivable outstanding past 120 days to be 'past due'. At December 31, 2020, the Company had an allowance for doubtful accounts of \$0.5 million (December 31, 2019 – \$0.4 million). At December 31, 2020, 91% of Petrus' accounts receivable were aged less than 120 days and 9% 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 December 31, 2020, the Company had an \$83.0 million RCF, on which \$77.5 million was drawn (December 31, 2019 – \$92.3 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 7.



The following are the contractual maturities of financial liabilities as at December 31, 2020:

\$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	7,708	7,708	—
Risk management liability	1,027	986	41
Bank indebtedness and long term debt ⁽¹⁾	114,081	114,081	—
Lease obligations	1,012	188	824
Total	123,828	122,963	865

⁽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 10). A 1% increase in the Canadian prime interest rate during the year ended December 31, 2020 would have increased net loss by approximately \$1.0 million, respectively, 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 year assuming that all other variables remain constant (December 31, 2019 – increase net loss by \$1.1 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 10). 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 December 31, 2020, it was estimated that a \$0.25/GJ decrease in the price of natural gas would have decreased net loss by \$1.3 million (December 31, 2019 – \$1.5 million). An opposite change in commodity prices would result in an opposite impact on net loss. As at December 31, 2020, it was estimated that a \$5.00/CDN WTI/bbl decrease in the price of oil would have decreased net loss by \$1.1 million (December 31, 2019 – \$0.2 million). An opposite change in commodity prices would result in an opposite impact on net loss.

16. 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.

17. FINANCE EXPENSES

The components of finance expenses are as follows:

\$000s	2020	2019
Cash:		
Interest	6,661	8,241
Total cash finance expenses	6,661	8,241
Non-cash:		
Deferred financing costs	625	495
Non-cash term loan interest payment-in-kind	1,813	—
Accretion on decommissioning obligations (note 9)	494	777
Total non-cash finance expenses	2,932	1,272
Total finance expenses	9,593	9,513

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

\$000s	2020	2019
Source (use) in non-cash working capital:		
Deposits and prepaid expenses	179	(31)
Transaction costs on debt	(773)	196
Accounts receivable	6,758	(361)
Accounts payable and accrued liabilities	(3,655)	(10,284)
	2,509	(10,480)
Operating activities	2,527	(5,803)
Financing activities	162	196
Investing activities	(179)	(4,873)

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	32	(14,750)	—	(14,718)
Payment-in-kind	—	—	1,813	1,813
Non-cash changes	—	(16)	—	(16)
Balance, December 31, 2020	32	77,484	36,565	114,082

19. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

\$000s	Total	< 1 year	1-5 years	> 5 years
Firm service transportation	12,994	2,045	9,539	1,410

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.

20. REVENUE

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

\$000s	2020	2019
Production Revenue		
Oil and condensate sales	16,493	37,815
Natural gas sales	26,023	22,052
Natural gas liquids sales	7,472	10,917
Total oil and natural gas production revenue	49,988	70,784
Royalty revenue	380	614
Total oil and natural gas revenue	50,368	71,398



21. RELATED PARTY TRANSACTIONS

The Company considers its directors and officers to be key management personnel. The following table outlines transactions with key management personnel:

\$000s	2020	2019
Salaries, consulting fees, benefits and director fees, gross	890	1,646
Share based compensation, gross	228	473
	1,118	2,119

22. DEFERRED INCOME TAXES

\$000s	2020	2019
Loss before taxes	(97,554)	(42,176)
Combined federal and provincial tax rate	24.0 %	26.5 %
Computed "expected" tax recovery	(23,413)	(11,177)
Increase/(decrease) in taxes resulting from:		
Permanent items	4	4
Share based payments	103	108
Share issuance costs	—	(94)
Impact of rate change	976	9,767
True up and other	596	(355)
Unrecognized deferred income tax asset	21,734	1,747
Deferred tax expense (recovery)	—	—
Effective tax rate	— %	— %

The components of the Company's deferred tax position at December 31, 2020 and 2019 are as follows:

\$000s	2020	2019
Exploration and evaluation assets and property, plant and equipment	—	(7,652)
Share issuance costs	—	155
Non capital loss carry-forwards	—	7,267
Unrealized hedging loss	—	230
Deferred tax liability	—	—

The Company has unrecognized deductible temporary differences of approximately \$341.3 million (2019 – \$246.8 million) which may be applied against future income for Canadian tax purposes. These amounts include non-capital losses which begin to expire in 2027. At December 31, 2020, the Company has determined it is currently not probable that future taxable profits will be available against which the tax benefits will be utilized.

CORPORATE INFORMATION

OFFICERS

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

Chris Graham
Vice President, Finance and
Chief Financial Officer

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

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Calgary, Alberta

Macquarie Bank Limited
Houston, Texas

TRANSFER AGENT

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