CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Presented in 000's of Canadian dollars)

As at	September 30, 2023	December 31, 2022
ASSETS		
Current		
Cash	113	40
Inventory *(note 21)*	1,842	1,197
Deposits and prepaid expenses *(note 22)*	2,940	1,862
Accounts receivable *(note 14)*	14,458	22,248
Risk management asset *(note 9)*	22	4,502
Total current assets	**19,375**	**29,849**
Non-current		
Risk management asset *(note 9)*	—	619
Exploration and evaluation assets *(note 4)*	30,923	34,837
Property, plant and equipment *(note 5)*	329,802	315,752
Total non-current assets	**360,725**	**351,208**
Total assets	**380,100**	**381,057**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	3,291	658
Revolving loan facility *(note 6)*	11,737	3,949
Accounts payable and accrued liabilities *(note 14)*	21,576	45,191
Risk management liability *(note 9)*	3,419	—
Lease obligations *(note 7)*	254	240
Current portion of decommissioning obligation *(note 8)*	359	1,357
Total current liabilities	**40,636**	**51,395**
Non-current liabilities		
Long term debt *(note 6)*	25,000	25,000
Lease obligations *(note 7)*	171	363
Decommissioning obligation *(note 8)*	32,739	37,658
Risk management liability *(note 9)*	1,777	—
Total liabilities	**100,323**	**114,416**
Shareholders' equity		
Share capital *(note 10)*	492,179	492,241
Contributed surplus	31,236	29,061
Deficit	(243,638)	(254,661)
Total shareholders' equity	**279,777**	**266,641**
Total liabilities and shareholders' equity	**380,100**	**381,057**

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

Approved by the Board of Directors,

(signed) "Don T. Gray"

Don T. Gray
Chairman

(signed) "Donald Cormack"

Donald Cormack
Director

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

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

	Three months ended Sept. 30, 2023	Three months ended Sept. 30, 2022	Nine months ended Sept. 30, 2023	Nine months ended Sept. 30, 2022
REVENUE				
Oil and natural gas sales *(note 19)*	**28,273**	**28,701**	**98,858**	**103,760**
Royalty expense	(3,062)	(7,227)	(13,088)	(17,524)
Gain (loss) on risk management activities *(note 19)*	—	(497)	1,522	(4,973)
Net revenue	**25,211**	**20,977**	**87,292**	**81,263**
Other income *(note 23)*	34	30	1,463	105
Net gain (loss) on financial instruments *(note 9)*	(14,762)	4,624	(3,981)	5,546
Total income	**10,483**	**25,631**	**84,774**	**86,914**
EXPENSES				
Operating *(note 12)*	6,086	5,171	19,086	14,912
Transportation	1,401	1,155	4,844	4,029
General and administrative *(note 13)*	1,158	793	3,864	2,463
Share-based compensation *(note 10)*	491	365	1,456	711
Finance *(note 16)*	1,506	978	4,821	3,235
Exploration and evaluation *(note 4)*	—	65	3,349	303
Depletion and depreciation *(note 5)*	11,134	7,411	36,331	22,619
(Gain) on sale of assets	—	(129)	—	(129)
Total expenses	**21,776**	**15,809**	**73,751**	**48,143**
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**(11,293)**	**9,822**	**11,023**	**38,771**
Net income (loss) per common share				
Basic *(note 11)*	(0.09)	0.08	0.09	0.34
Diluted *(note 11)*	(0.09)	0.08	0.09	0.33

See accompanying notes to the condensed 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, 2021	**455,908**	**27,846**	**(315,529)**	**168,225**
Net income	—	—	38,771	38,771
Common shares issued for property acquisition *(note 3)*	15,200	—	—	15,200
Common shares issued for rights offering	20,003	—	—	20,003
Issuance of common shares	370	(118)	—	252
Share issue costs	(297)	—	—	(297)
Share-based compensation *(note 10)*	—	1,016	—	1,016
Balance, September 30, 2022	**491,184**	**28,744**	**(276,758)**	**243,170**
Balance, December 31, 2022	**492,241**	**29,061**	**(254,661)**	**266,641**
Net income	—	—	11,023	11,023
Common shares repurchased *(note 10)*	(459)	—	—	(459)
Issuance of common shares *(note 10)*	470	95	—	564
Share issue costs *(note 10)*	(73)	—	—	(73)
Share-based compensation *(note 10)*	—	2,080	—	2,080
Balance, September 30, 2023	**492,179**	**31,236**	**(243,638)**	**279,777**

See accompanying notes to the condensed interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Presented in 000's of Canadian dollars)	Three months ended Sept. 30, 2023	Three months ended Sept. 30, 2022	Nine months ended Sept. 30, 2023	Nine months ended Sept. 30, 2022
OPERATING ACTIVITIES				
Net income (loss)	**(11,293)**	**9,822**	**11,023**	**38,771**
Adjust items not affecting cash:				
Share-based compensation *(note 10)*	491	365	1,456	711
Unrealized loss (gain) on financial derivatives *(note 9)*	15,864	(4,013)	10,295	(9,568)
Non-cash finance expenses *(note 16)*	359	448	1,265	1,050
Depletion and depreciation *(note 5)*	11,134	7,411	36,331	22,619
Exploration and evaluation expense *(note 4)*	—	65	3,349	303
Other income *(note 23)*	—	—	(1,222)	—
Gain on sale of assets	—	(129)	—	(129)
Decommissioning expenditures *(note 8)*	(312)	(180)	(998)	(159)
Funds flow	**16,243**	**13,789**	**61,499**	**53,598**
Change in operating non-cash working capital *(note 17)*	2,624	22,089	(16,390)	15,789
Cash flows from operating activities	**18,867**	**35,878**	**45,109**	**69,387**
FINANCING ACTIVITIES				
Shares repurchased *(note 10)*	(172)	—	(172)	—
Net proceeds from share issuance *(note 10)*	47	83	452	20,076
Draw down (repayment) of revolving loan facility	(7,005)	(6,915)	7,788	(57,700)
Increase in bank indebtedness	2,572	—	2,633	—
Transaction costs on debt	—	173	(240)	(335)
Repayment of lease liabilities *(note 7)*	(91)	(57)	(208)	(160)
Proceeds from long term debt *(note 6)*	—	10,000	—	22,000
Change in financing non-cash working capital *(note 17)*	75	476	—	—
Cash flows from (used in) financing activities	**(4,574)**	**3,760**	**10,253**	**(16,119)**
INVESTING ACTIVITIES				
Property, plant and equipment acquisitions *(note 5)*	—	607	(50)	243
Property, plant and equipment dispositions	—	—	150	—
Exploration and evaluation asset acquisitions *(note 4)*	—	—	(138)	—
Petroleum and natural gas property expenditures *(note 5)*	(21,550)	(48,166)	(54,302)	(58,214)
Exploration and evaluation asset expenditures *(note 4)*	(60)	(1,314)	(186)	(1,423)
Other capital expenditures	(7)	(48)	(109)	(161)
Change in investing non-cash working capital *(note 17)*	7,406	16,237	(654)	8,547
Cash flows used in investing activities	**(14,211)**	**(32,684)**	**(55,289)**	**(51,008)**
Increase (decrease) in cash	82	6,954	73	2,260
Cash, beginning of period	31	234	40	4,928
Cash, end of period	**113**	**7,188**	**113**	**7,188**
Cash interest paid *(note 16)*	1,147	530	3,556	2,185

See accompanying notes to the condensed interim consolidated financial statements

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the periods ended September 30, 2023 and 2022

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 condensed interim 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 T2P 4H4.

These condensed interim consolidated financial statements, for the three and nine months ended September 30, 2023 and prior year comparative periods, were approved by the Company's Audit Committee and Board of Directors on November 7, 2023.

2. BASIS OF PRESENTATION

Statement of Compliance
These condensed interim consolidated financial statements have been prepared by management on a historical basis, except for certain financial instruments that have been measured at fair value. These condensed interim consolidated 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 interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2022 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, 2022. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2022. 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, 2022.

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.

3. PROPERTY ACQUISITION

On March 14, 2022, Petrus completed the acquisition of certain oil and liquids rich natural gas weighted properties within its Ferrier core area from a privately owned limited partnership and its general partner. The acquired partnership was managed and directed by an officer and director of Petrus and two of Petrus' major shareholders owned or controlled, in aggregate, approximately 69.5% and 50% of the acquired partnership's units and shares, respectively.

Given the close proximity of the acquired properties to the Company's existing assets and infrastructure, the acquired properties are synergistic to existing operations and complementary to current development plans. The assets were acquired for share consideration of $15.2 million (10 million common shares of Petrus at $1.52 per share on closing date). The Company applied the optional concentration test permitted under IFRS 3 to the acquisition which resulted in the acquired assets being accounted for as an asset acquisition. As such the purchase price was allocated to the identifiable assets and liabilities based on their relative fair values at the date of acquisition. Assets acquired in the transaction will be included in the Ferrier CGU. Asset acquisition transaction costs of $0.4 million were capitalized as a cost of the asset.

The amounts recognized on the date of acquisition to identifiable net assets were as follows:

$000s (except share and per share amounts)	
Net assets acquired:	
Cash & cash equivalents	433
Accounts receivable & other assets	496
Accounts payable & accrued liabilities	(405)
Property, plant and equipment	16,765
Decommissioning obligation	(2,089)
Net assets acquired	**15,200**
Purchase consideration:	
Common shares issued to partners	10,000,000
Price of Petrus common shares ($ per share) on close date	$1.52
Total purchase consideration	**15,200**

4. EXPLORATION AND EVALUATION ASSETS

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

$000s	
Balance, December 31, 2021	**35,634**
Property acquisitions	1,349
Exploration and evaluation expense	(421)
Capitalized G&A	295
Capitalized share-based compensation	122
Transfers to property, plant and equipment *(note 5)*	(2,142)
Balance, December 31, 2022	**34,837**
Additions	138
Exploration and evaluation expense	(3,349)
Capitalized G&A	186
Capitalized share-based compensation *(note 10)*	156
Transfers to property, plant and equipment *(note 5)*	(1,045)
Balance, September 30, 2023	**30,923**

During the three and nine months ended September 30, 2023, the Company incurred exploration and evaluation expenses of nil and $3.35 million, respectively, which relates to expired and nearly expired undeveloped, non-core land (three and nine months ended September 30, 2022 – $0.07 million and $0.30 million).

During the three and nine months ended September 30, 2023, the Company capitalized $0.06 million and $0.19 million, respectively, of general and administrative expenses ("G&A") (three and nine months ended September 30, 2022 – $0.06 million and $0.17 million) and $0.05 million and $0.16 million of non-cash share-based compensation directly attributable to exploration activities (three and nine months ended September 30, 2022 – $0.04 million and $0.08 million).

The Company did not identify any indicators impairment of its E&E assets for the three and nine months ended September 30, 2023.

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, 2021	**852,834**	**(613,587)**	**239,247**
Additions	94,145	—	94,145
Property acquisitions	16,765	—	16,765
Property dispositions	(71)	—	(71)
Capitalized G&A	884	—	884
Capitalized share based compensation	367	—	367
Transfer from exploration and evaluation assets *(note 4)*	2,142	—	2,142
Depletion & depreciation	—	(33,277)	(33,277)
Decrease in decommissioning expenses	(4,450)	—	(4,450)
Balance, December 31, 2022	**962,616**	**(646,864)**	**315,752**
Additions	54,284	—	54,284
Property acquisitions *(note 3)*	50	—	50
Property dispositions	(150)	—	(150)
Capitalized G&A	559	—	559
Capitalized share-based compensation *(note 10)*	468	—	468
Transfers from exploration and evaluation assets *(note 3)*	1,045	—	1,045
Depletion & depreciation	—	(36,331)	(36,331)
Decrease in decommissioning provision *(note 8)*	(5,875)	—	(5,875)
Balance, September 30, 2023	**1,012,997**	**(683,195)**	**329,802**

At September 30, 2023, estimated future development costs of $396.5 million (December 31, 2022 – $396.5 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, 2023, 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, 2022 – $0.2 million and $0.5 million) and non-cash share-based compensation of $0.16 million and $0.47 million, respectively, (three and nine months ended September 30, 2022 – $0.16 million and $0.23 million), directly attributable to development activities.

The Company did not identify any indicators of impairment or impairment reversal of it's PP&E assets for the three and nine months ended September 30, 2023.

At September 30, 2023, the carrying balance of the right of use asset was $0.4 million.

6. DEBT

At September 30, 2023, Petrus had two debt instruments outstanding; a reserve-based, secured operating revolving loan facility with an Alberta-based financial institution (the "Revolving Loan Facility" or "RLF") and a second lien secured term facility (the "Second Lien Facility").

Revolving Loan Facility

At September 30, 2023, the RLF was comprised of a $45.0 million operating facility payable on demand by the lender. The amount of the RLF is subject to a borrowing base review performed on a semi-annual basis by the lender, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. The next semi-annual review is due on November 30, 2023.

At September 30, 2023, the Company had a $0.6 million letter of credit outstanding against the RLF (December 31, 2022 – $0.6 million) and had drawn $11.7 million against the RLF (December 31, 2022 – $4.6 million).

Second Lien Facility

At September 30, 2023 the Company had $25.0 million outstanding on the $25 million Second Lien Facility. The Second Lien Facility is a three-year term facility (maturity date May 31, 2025 with an option to the borrower to extend by an additional two years) with a fixed interest rate of 11% per annum and can be repaid at the discretion of the Company after the first year. The Second Lien Facility is a related party transaction with a major shareholder who owns approximately 21% of the outstanding shares of the Company (see note 20). The total interest paid in 2022 to the major shareholder, related to the Second Lien facility, was $1.1 million.

Debt Settlement - Term Loan & Revolving Credit Facility

During 2022, the Company entered into agreements with new lenders to the Company, providing two new credit facilities, as described above, (the "New Credit Facilities") totaling $55 million. The New Credit Facilities, together with the net proceeds of the Company's $20 million rights offering, were used to repay in full all amounts owing under the Company's previous revolving credit facility (the "Revolving Credit Facility" or "RCF"). The New Credit Facilities closed in May 2022.

Financial Covenants

The Company's RLF is 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, 2022.

The key financial covenants as at September 30, 2023 are summarized in the following table. At September 30, 2023 the Company is in compliance with all financial covenants.

Financial Covenant Description	**Required Ratio**	**As at September 30, 2023**
Working Capital Ratio	Over 1.00	1.41

7. LEASES

The Company's lease obligations are as follows:

$000s	
Balance, December 31, 2022	**603**
Finance expense	30
Lease payments	(208)
Balance, September 30, 2023	**425**

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

$000s	**As at September 30, 2023**
Less than 1 year	277
1 to 3 years	161
Total lease payments	438
Amounts representing finance expense	(13)
Present value of lease obligation	425
Current portion of lease obligation	254
Non-current portion of lease obligation	171

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 3.88% and an inflation rate of 2.5% (3.31% and 3.0%, respectively at December 31, 2022). Changes in estimates in 2022 and 2023 are due to the changes in the risk free and inflation rates. The Company has estimated the net present value of the decommissioning obligations to be $33.1 million as at September 30, 2023 ($39.0 million at December 31, 2022). The undiscounted, uninflated total future liability at September 30, 2023 is $44.1 million ($41.7 million at December 31, 2022). 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, 2021	**41,569**
Property acquisitions	2,089
Property dispositions	(681)
Other adjustments	(441)
Liabilities incurred	1,231
Liabilities settled	(137)
Change in estimates	(5,681)
Accretion expense	1,066
Balance, December 31, 2022	**39,015**
Liabilities incurred	454
Liabilities settled	(998)
Change in estimates or discount rate	(6,329)
Accretion expense	956
Balance, September 30, 2023	**33,098**
Current portion of decommissioning obligation	359
Non-current portion of decommissioning obligation	32,739

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 at September 30, 2023:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN$/GJ)
Natural Gas Swaps			
Oct. 1, 2023 to Oct. 31, 2023	Fixed price	18,500	$3.75
Nov. 1, 2023 to Mar. 31, 2024	Fixed price	20,000	$4.14
Apr. 1, 2024 to Oct. 31, 2024	Fixed price	14,000	$3.14
Nov. 1, 2024 to Mar. 31, 2025	Fixed price	9,000	$3.73
Apr. 1, 2025 to Oct. 31, 2025	Fixed price	5,000	$3.08

Contract Period	Type	Total Daily Volume (Bbl)	Average Price (CDN$/Bbl)
Crude Oil Swaps			
Oct. 1, 2023 to Jun. 30, 2024	Fixed price	1,300	$101.77
Oct. 1, 2023 to Dec. 31, 2023	Fixed price	100	$102.15
Oct. 1, 2023 to Jun. 30, 2024	Fixed price	200	$90.03
Jan. 1, 2024 to Mar. 31, 2024	Fixed price	300	$95.30
Jan. 1, 2024 to Jun. 30, 2024	Fixed price	1,100	$97.75
Jan. 1, 2024 to Dec. 31, 2024	Fixed price	300	$92.13
Jul. 1, 2024 to Dec. 31, 2024	Fixed price	400	$94.83
Oct. 1, 2024 to Dec. 31, 2024	Fixed price	100	$90.40
Jan. 1, 2025 to Mar. 31, 2025	Fixed price	100	$87.85
Jan. 1, 2025 to Jun. 30, 2025	Fixed price	400	$91.36
Jul. 1, 2025 to Sept. 30, 2025	Fixed price	100	$95.25

The following table summarizes the physical commodity contracts in place at September 30, 2023:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN$/GJ)
Crude Oil Collars			
Oct. 1, 2023 to Dec. 31, 2023	Costless collar	300	$90.00-120.95

Risk management asset and liability:

$000s At September 30, 2023	**Asset**	**Liability**
Current commodity derivatives	22	3,419
Non-current commodity derivatives	—	1,777
	22	**5,196**
$000s At December 31, 2022		
Current commodity derivatives	4,502	—
Non-current commodity derivatives	619	—
	5,121	—

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

$000s	Three months ended Sept. 30, 2023	Three months ended Sept. 30, 2022	Nine months ended Sept. 30, 2023	Nine months ended Sept. 30, 2022
Realized gain (loss) on financial derivatives	1,102	610	6,314	(4,022)
Unrealized gain (loss) on financial derivatives	(15,864)	4,014	(10,295)	9,568
Net gain (loss) on financial derivatives	**(14,762)**	**4,624**	**(3,981)**	**5,546**

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 except share amounts)	Number of Shares	Amount
Balance, December 31, 2021	**96,707,912**	**455,908**
Common shares issued for property acquisition	10,000,000	15,200
Common shares issued in a rights offering	14,817,347	20,003
Common shares issued on exercise of stock options	1,713,269	1,427
Share issue costs	—	(297)
Balance, December 31, 2022	**123,238,528**	**492,241**
Common shares repurchased	(115,300)	(459)
Common shares issued on exercise of stock options	743,834	469
Share issue costs	—	(72)
Balance, September 30, 2023	**123,867,062**	**492,179**

Normal Course Issuer Bid ("NCIB")

On June 21, 2023, the Company announced the approval of its NCIB by the Toronto Stock Exchange ("the TSX"). The 2023 NCIB allows the Company to purchase up to 6,192,426 common shares over a period of twelve months commencing June 28, 2023.

Purchases are made on the open market through the TSX or alternative platforms at the market price of such common shares. All common shares purchased under the NCIB are cancelled. The total cost paid, including commissions and fees, is first charged to share capital to the extent of the average carrying value of the Company’s common shares and the excess paid is recorded to retained earnings and any shortfall is recorded to contributed surplus.

During the three months ended September 30, 2023, the Company repurchased 115,300 shares for cancellation at $1.48 per share.

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, 2023, 8,950,729 (December 31, 2022 – 8,519,709) stock options were outstanding. The summary of stock option activity is presented below:

	Number of stock options	Weighted average exercise price
Balance, December 31, 2021	**5,562,549**	**$0.67**
Granted	4,677,500	$2.27
Expired	(7,071)	$0.74
Exercised	(1,713,269)	$0.60
Balance, December 31, 2022	**8,519,709**	**$0.68**
Granted	2,205,000	$1.81
Exercised	(906,480)	$0.54
Expired	(867,500)	$2.25
Balance, September 30, 2023	**8,950,729**	**$1.46**
Exercisable, September 30, 2023	**—**	**$0.00**

The following table summarizes information about the stock options granted and outstanding:

Range of Exercise Price	**Stock Options Outstanding**		
	Number granted	**Weighted average exercise price**	**Weighted average remaining life (years)**
$0.24	94,054	$0.24	0.29
$0.53 - $0.75	2,159,402	$0.72	0.86
$0.89	682,273	$0.89	0.88
$1.51 - $1.78	2,645,000	$1.63	1.09
$2.09	580,000	$2.09	1.67
$2.25	1,735,000	$2.25	0.92
$2.81	1,055,000	$2.81	1.38
	8,950,729	**$1.46**	**0.99**

During the nine months ended September 30, 2023 the Company granted 2,205,000 options which vest equally over three years, and upon vesting, expire within 90 days thereafter. The weighted average fair value of each option granted during the three and nine months ended September 30, 2023 of $0.63 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2023	**2022**
Risk free interest rate	3.54% - 5.04%	2.46% - 4.34%
Expected life (years)	1.25 - 3.25	1.08 - 3.25
Estimated volatility of underlying common shares (%)	92% - 106%	100% - 113%
Estimated forfeiture rate	33%	33%
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 as equity using the fair value method based on the trading price of the Company's shares on the grant date. At September 30, 2023, 1,618,702 DSUs were issued and outstanding (December 2022 – 1,618,702).

Share-based Compensation

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

$000s	**Three months ended Sept. 30, 2023**	**Three months ended Sept. 30, 2022**	**Nine months ended Sept. 30, 2023**	**Nine months ended Sept. 30, 2022**
Expensed	491	365	1,456	711
Capitalized to exploration and evaluation assets	53	39	156	76
Capitalized to property, plant and equipment	158	159	468	229
Total share-based compensation	**702**	**563**	**2,080**	**1,016**

11. NET INCOME (LOSS) PER SHARE

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

	Three months ended Sept. 30, 2023	**Three months ended Sept. 30, 2022**	**Nine months ended Sept. 30, 2023**	**Nine months ended Sept. 30, 2022**
Net income (loss) for the period ($000s)	**(11,293)**	**9,822**	**11,023**	**38,771**
Weighted avg. number of common shares – basic (000s)	123,743	122,058	123,740	112,710
Weighted avg. number of common shares – diluted (000s)	123,743	126,822	127,208	117,525
Net income (loss) per common share – basic	**($0.09)**	**$0.08**	**$0.09**	**$0.34**
Net income (loss) per common share – diluted	**($0.09)**	**$0.08**	**$0.09**	**$0.33**

In computing diluted income (loss) per share for the three and nine months ended September 30, 2023, 7,420,017 and 7,101,576 outstanding stock options, respectively, were excluded (December 31, 2022 – 3,657,500).

12. OPERATING EXPENSES

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

$000s	**Three months ended Sept. 30, 2023**	**Three months ended Sept. 30, 2022**	**Nine months ended Sept. 30, 2023**	**Nine months ended Sept. 30, 2022**
Fixed and variable operating expenses	5,256	4,203	16,569	11,782
Processing, gathering and compression charges	1,196	1,271	3,611	3,974
Total gross operating expenses	**6,452**	**5,474**	**20,180**	**15,756**
Overhead recoveries	(366)	(303)	(1,094)	(844)
Total net operating expenses	**6,086**	**5,171**	**19,086**	**14,912**

13. GENERAL AND ADMINISTRATIVE EXPENSES

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

$000s	Three months ended Sept. 30, 2023	Three months ended Sept. 30, 2022	Nine months ended Sept. 30, 2023	Nine months ended Sept. 30, 2022
Gross general and administrative expense	1,493	1,505	5,008	4,335
Capitalized general and administrative expense	(240)	(238)	(745)	(672)
Overhead recoveries	(95)	(474)	(399)	(1,200)
General and administrative expense	**1,158**	**793**	**3,864**	**2,463**

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 $14.5 million of accounts receivable outstanding at September 30, 2023 (December 31, 2022 – $22.2 million), $7.4 million is owed from 2 parties (December 31, 2022 – $15.3 million from 2 parties), and the balances were received subsequent to the quarter end. The Company considers accounts receivable outstanding past 120 days to be 'past due'. At September 30, 2023, the Company had an allowance for doubtful accounts of $0.1 million (December 31, 2022 – $0.1 million). At September 30, 2023, 100% of Petrus' accounts receivable were aged less than 120 days. The Company does not anticipate any material collection issues.

The Company's risk management assets and cash are with a financial institution that is owned by the Government of Alberta and the Company does not consider these assets to carry material credit risk.

Liquidity risk

At September 30, 2023, the Company had a $45.0 million RLF, of which $11.7 million was drawn (December 31, 2022 – $4.6 million). For the three and nine months ended September 30, 2023, the Company generated cash flow from operating activities of $18.9 million and $45.1 million, respectively.

The following are the contractual maturities of financial liabilities as at September 30, 2023:

$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	21,576	21,576	—
Long term debt	29,355	2,758	26,597
Bank indebtedness	3,610	3,610	—
Revolving loan facility	12,876	12,876	—
Lease obligations	438	277	161
Total	**67,855**	**41,097**	**26,758**

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 RLF is exposed to interest rate cash flow risk as the instrument is priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed to interest rate risk. A 1% increase in the Canadian prime interest rate during the three and nine months ended September 30, 2023 would have increased/decreased net income (loss) by approximately $0.1 million for both periods, which relates to interest expense on the average outstanding RLF balance during the periods assuming that all other variables remain constant (September 30, 2022 – $0.03 million).

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 RLF 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.

At September 30, 2023, it was estimated that a $0.25/GJ decrease in the price of natural gas would have increased net income/reduced net loss by $2.3 million (September 30, 2022 – $1.0 million). An opposite change in commodity prices would result in an opposite impact on net income (loss). At September 30, 2023, it was estimated that a $5.00/CDN WTI/bbl decrease in the price of oil would have increased net income by $3.7 million (September 30, 2022 – $2.5 million). An opposite change in commodity prices would result in an opposite impact on net income (loss).

Foreign Exchange Risk
The Company is exposed to the risk of changes in the U.S./Canadian dollar exchange rate on crude oil sales based on U.S. dollar benchmark prices and commodity contracts that are settled in U.S. dollars. Foreign exchange risk is mitigated by entering into Canadian dollar denominated commodity risk management contracts.

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, 2023	Three months ended Sept. 30, 2022	Nine months ended Sept. 30, 2023	Nine months ended Sept. 30, 2022
Cash:				
Interest	1,015	290	3,089	1,366
Finance fees	132	239	467	816
Foreign exchange	—	1	—	3
Total cash finance expenses	1,147	530	3,556	2,185
Non-cash:				
Deferred financing costs	60	142	309	293
Accretion on decommissioning obligations *(note 8)*	299	306	956	757
Total non-cash finance expenses	359	448	1,265	1,050
Total finance expenses	**1,506**	**978**	**4,821**	**3,235**

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, 2023	Three months ended Sept. 30, 2022	Nine months ended Sept. 30, 2023	Nine months ended Sept. 30, 2022
Source (use) in non-cash working capital:				
Deposits and prepaid expenses	45,199	239	45,199	(1,141)
Transaction costs on debt	351	(843)	(918)	(653)
Inventory and other	60	—	69	—
Accounts receivable	98	(1,028)	(370)	(5,390)
Accounts payable and accrued liabilities	(2,334)	39,228	7,790	31,177
	43,374	**37,596**	**51,770**	**23,993**
Operating activities	2,624	22,089	(16,390)	15,789
Financing activities	75	476	—	—
Investing activities	7,406	16,237	(654)	8,547

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, 2022	**658**	**3,949**	**25,000**	**29,607**
Cash flows	2,633	7,788	—	10,421
Balance, September 30, 2023	**3,291**	**11,737**	**25,000**	**40,028**

18. COMMITMENTS AND CONTINGENCIES

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

$000s	Total	< 1 year	1-5 years
Firm service transportation	10,086	2,799	7,287

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, 2023	Three months ended Sept. 30, 2022	Nine months ended Sept. 30, 2023	Nine months ended Sept. 30, 2022
Oil and condensate sales	12,031	9,776	44,627	35,185
Natural gas sales	10,882	12,990	36,858	48,591
Natural gas liquids sales	5,308	5,708	17,095	19,398
Royalty revenue	52	227	278	586
Oil and natural gas sales	**28,273**	**28,701**	**98,858**	**103,760**
Royalty expense	(3,061)	(7,228)	(13,088)	(17,524)
Gain (loss) on risk management activities	—	(497)	1,522	(4,973)
Net revenue	**25,212**	**20,976**	**87,292**	**81,263**

20. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2022, the Company completed its debt restructuring transactions, which included the Second Lien Facility in the form of a promissory note held by a major shareholder owning approximately 21% of the outstanding shares of the Company (see note 6).

During the nine months ended September 30, 2022, the Company closed an asset acquisition that was considered a related party transaction (see note 3).

During the nine months ended September 30, 2022, the Company entered into a standby purchase agreement with three investors (collectively, the "Stand-By Guarantors") who each own more than 20% of the outstanding shares of the Company. The Company entered into a standby purchase agreement with each of Don Gray, Stuart Gray and Glen Gray (collectively, the "Stand-By Guarantors"). The Rights Offering was oversubscribed by 84% and as a result, the Stand-By Guarantors did not acquire any Common Shares in connection with the Rights Offering pursuant to their stand-by commitments. The Company had approximately 121.7 million shares outstanding following the Rights Offering with the Stand-By Guarantors owning approximately 71% of the outstanding shares.

21. INVENTORY

The components of the Company's inventory for the periods indicated are as follows:

$000s	As at September 30, 2023	As at December 31, 2022
Oil and gas equipment inventory	—	578
Carbon credits	1,842	619
Inventory	**1,842**	**1,197**

22. DEPOSITS AND PREPAID EXPENSES

The components of the Company's deposits and prepaid expenses for the periods indicated are as follows:

$000s	As at September 30, 2023	As at December 31, 2022
Prepaid interest and bank fees	160	229
Prepaid insurance	80	414
Prepaid operating expenses	—	19
Prepaid property tax	285	—
Prepaid software	423	172
Deposits	1,992	1,028
Deposits and prepaid expenses	**2,940**	**1,862**

23. OTHER INCOME

The following table presents Petrus' other income by category:

$000s	Three months ended Sept. 30, 2023	Three months ended Sept. 30, 2022	Nine months ended Sept. 30, 2023	Nine months ended Sept. 30, 2022
Carbon credits	—	—	1,222	—
Other	34	30	241	105
Other income	**34**	**30**	**1,463**	**105**

CORPORATE INFORMATION

OFFICERS & VICE PRESIDENTS

Ken Gray, P.Eng
President and
Chief Executive Officer

Mathew Wong, CPA, CFA, CPA (WA, USA)
Chief Financial Officer

Matt Skanderup
Chief Operating Officer

Lindsay Hatcher
Vice President, Commercial & Corporate Development

DIRECTORS

Don T. Gray
Chairman
Scottsdale, Arizona

Ken Gray
Calgary, Alberta

Patrick Arnell
Calgary, Alberta

Donald Cormack
Calgary, Alberta

Peter Verburg
Calgary, Alberta

SOLICITOR

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITOR
Price Waterhouse Coopers (PwC)
Chartered Professional Accountants
Calgary, Alberta

INDEPENDENT RESERVE EVALUATORS
InSite Petroleum Consultants Ltd.
Calgary, Alberta

BANKERS
ATB Financial
Calgary, Alberta

TRANSFER AGENT
Odyssey Trust Company
Calgary, Alberta

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

WEBSITE
www.petrusresources.com