



SECOND QUARTER REPORT | JUNE 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following report is management's discussion and analysis ("MD&A") of the financial and operating results for Petrus Resources Ltd. ("Petrus" or the "Company") as at and for the three and six month periods ended June 30, 2012. This MD&A should be read in conjunction with the financial statements for the six month period ended June 30, 2012 and other operating and financial information included in this report.

Readers are directed to the advisories at the end of this report regarding forward-looking statements, BOE presentation and non-IFRS measures. The following MD&A is dated August 7, 2012.

DESCRIPTION OF THE COMPANY

Petrus is a private Canadian energy company focused on property exploitation, strategic acquisitions and risk-managed exploration in the Peace River and foothills areas of Alberta. Petrus was incorporated December 13, 2010 in Calgary, Alberta.

HIGHLIGHTS

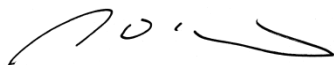
- On June 29, 2012 Petrus successfully closed the acquisition of certain oil and natural gas assets in the Peace River area of Alberta for cash consideration of \$60 million, before closing adjustments and related costs. The acquisition had an effective date of April 1, 2012. The acquisition contributed production (100% operated) of approximately 1,600 barrels of oil equivalent per day (boe/d), weighted 50% to oil, 42,500 net acres of undeveloped land and a significant inventory of drilling locations.
- Concurrently with the acquisition, Petrus closed a private placement of 50.8 million common shares at an issue price of \$1.75 per common share and 605,488 common shares issued on a "flow-through" basis pursuant to the provisions of the *Income Tax Act* (Canada) at an issue price of \$2.10 per flow through share, for aggregate gross proceeds of \$90.1 million. A portion of the net proceeds from the private placement was used to fund the Peace River acquisition and repay outstanding debt. The remaining proceeds will be used to fund the Company's exploration and development program in its two core areas and for general corporate purposes. Petrus exited the second quarter with working capital of \$21.7 million (excluding non-cash items).
- Subsequent to the end of the quarter, the Company held a second close related to the June 29, 2012 private placement, issuing an additional 2.7 million common shares at an issue price of \$1.75 per common share and 10,000 common shares issued on a flow through basis at an issue price of \$2.10 per flow through share, for aggregate gross proceeds of \$4.9 million.
- During the six month period ended June 30, 2012, Petrus allocated \$16 million of capital to exploration and development. Seven gross wells were drilled (2.4 net). The successful drilling included three (0.63 net) high impact Cardium oil wells.
- One of the new Stolberg oil wells was brought on production in June and was flowing at approximately 1,150 boe/d (242 boe/d net to Petrus), including 1,020 bbl/d (214 bbl/d net to Petrus) of light oil on June 29, 2012. The first of two offset locations was tested over a 60 hour period during July and free flowed at an un-stimulated average rate of 1,073 bbl/d (225 bbl/d net to Petrus) of light oil and 2.75 mmcf/d (0.58 mmcf/d net to Petrus) of natural gas. The second offsetting location was tested for 81 hours and was swabbed at an average un-stimulated rate of 738 bbl/d (155 bbl/d net to Petrus) of light oil. These wells are expected to be on production by the end of the third quarter.

- Production for the second quarter averaged 1,024 boe/d, compared to 1,176 boe/d in the prior quarter. The 13% decline is attributed primarily to second quarter shut-ins. At quarter end, 290 boe/d was shut in (140 boe/d attributed to uneconomic production and 150 boe/d attributed to plant turnaround activities).
- Petrus exited the quarter with production of approximately 2,613 boe/d (68% natural gas weighted). The increase relative to the Company's March 31, 2012 exit production of 1,152 boe/d is a result of the asset acquisition which closed June 29, 2012, as well as incremental production volume from successful drilling results.
- Petrus generated cash flow of \$504,515 in the second quarter, compared to \$889,970 in the prior quarter. The Company's cash flow was reduced by a decline in commodity prices, legal costs incurred in conjunction with the financing and asset acquisition, as well as increased operating costs from plant turnaround activities.
- On June 30, 2012 Petrus completed its annual credit review with its lender. Due to the acquisition and strong drilling results from the foothills program, the Company's undrawn credit facility was increased from \$22 million to \$40 million.
- Petrus ended the quarter with 83.5 million shares outstanding, of which 14% (24% fully diluted) was owned or controlled by management and directors (ownership percentages exclude shares held by NGP Natural Resources X, L.P.).
- Upon close of the acquisition and private placement, Petrus increased its previously planned \$18 million capital program (excluding acquisitions) to \$50 million to reflect planned development drilling on the newly acquired lands and continue the Company's successful light oil drilling program in the foothills.
- Petrus is currently preparing its capital program for the Peace River area and will spud its first well by the end of August 2012.

PRESIDENT'S MESSAGE

The end of the second quarter of 2012 represents the end of the first year of activity for Petrus and what an exciting year it has been. Following two major asset acquisitions and two associated financings, Petrus is very well positioned with over \$21 million in positive working capital, \$40 million in undrawn bank lines, and significant cash flow from over 2,600 boe/d of production. With two core areas anchoring our business strategy, a dedicated and growing staff, and strong shareholder support, Petrus will continue to work on proving up development concepts on our play fairways. Although commodity prices were generally weak in the second quarter, gas market dynamics including very low storage injections so far this year appear to indicate that the long anticipated gas price recovery is starting to materialize. Spot gas price increases late in the second quarter provide significant encouragement. Petrus believes that as the world continues its slow economic recovery, oil prices are also well supported in the \$80 to \$100/bbl range. In the near term, Petrus will continue to focus its capital allocation towards oil opportunities. An expanded capital program will allow us to continue the transition from acquisitions to full cycle development and per share growth.

Petrus' Annual General Meeting will be held on Wednesday, October 24th at 2:00 pm (MST) in Room B, 4th floor, Eighth Avenue Place (525 8th Avenue SW, Calgary, Alberta).

A handwritten signature in black ink, appearing to read "Kevin Adair".

Kevin Adair
President, CEO and Director

QUARTERLY FINANCIAL SUMMARY

(000s) except per boe amounts	Three months ended June 30, 2012	Three months ended March 31, 2012
FINANCIAL		
Cash flow	505	890
Net income (loss)	(2,060)	1,459
Capital expenditures	5,292	10,724
Net acquisitions	59,198	—
Working capital (deficit) outstanding	21,652	(2,241)
Shares outstanding, end of period	83,493	32,033
(000s) except per boe amounts	Three months ended June 30, 2012	Three months ended March 31, 2012
OPERATIONS		
Production		
Oil (boe/d)	139	77
NGLs (boe/d)	15	28
Natural gas (mcf/d)	5,219	6,425
Total (boe/d)	1,024	1,176
Average prices		
Oil (Cdn \$/boe)	\$74.80	\$104.97
NGLs (Cdn \$/boe)	\$67.39	\$57.52
Natural gas (Cdn \$/mcf)	\$1.92	\$2.22
Oil equivalent (\$/boe)	\$20.93	\$20.38
Oil and NGL production weighting	34%	10%
Operating netback (\$/boe)		
Oil and gas revenue	\$21.58	\$21.05
Royalty expense (recovery)	(5.40)	4.90
Operating cost expense	13.54	5.66
Transportation expense	1.50	0.85
Operating netback	11.94	9.64

2012 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

Capital expenditures and acquisitions

Capital expenditures, excluding acquisitions, totalled \$5.3 million in the second quarter of 2012 compared to \$10.7 million spent in the prior quarter. The majority of the funds were spent on drilling and completions (7 gross (2.4 net) wells were drilled over the first two quarters of 2012). A total of \$319,892 was spent during the second quarter, and \$70,087 was spent in the prior quarter to tie in two (0.28 net) successful light oil wells in the foothills area.

Petrus spent \$59.2 million on an asset acquisition during the second quarter which added approximately 1,600 boe/d of production, weighted 50% to oil and liquids. The acquisition also added 42,500 net undeveloped acres of land which Petrus plans to begin development of in the third quarter.

Capital Expenditures (000s)	Three months ended June 30, 2012	Three months ended March 31, 2012
Drilling and completions	4,544	9,517
Oil and gas equipment	320	70
Geological and geophysical	—	58
Land and lease retention	—	897
Office	59	52
Capitalized G&A, net	310	131
Total before acquisitions	5,292	10,724
Acquisitions	59,198	—
Total capital expenditures	64,490	10,724

RESERVES

The following table provides a summary of Petrus' existing reserves, as well as the reserves acquired on June 29, 2012. The reserve values presented do not include any additions attributed to the Alberta foothills drilling program. These additions will be reflected in the 2012 year end reserve evaluation

	Reserve Summary*	
	Petrus as at December 31, 2011	Acquisition as at April 1, 2012
Working Interest Reserves (MBoe)		
Proved Producing	2,887	2,686
Total Proved	4,912	3,378
Total Proved + Probable	6,703	5,615
Net Present Value (\$000s) Discounted at 10%		
Proved Producing	\$38,665	\$47,527
Total Proved	\$51,968	\$53,486
Total Proved + Probable	\$67,542	\$76,606

*Excerpts of Evaluation Reports prepared by GLJ Petroleum Consultants

CASH FLOW AND NET INCOME (LOSS)

Funds from operations is commonly used in the oil and gas industry to analyze operating performance. Funds from operations, as presented does not have any standardized meaning prescribed by IFRS. All references to funds from operations throughout this report are based on cash flow from operating activities as per the Statement of Cash Flows before changes in non-cash working capital and decommissioning obligations.

Fiscal 2012 represents the Company's first two full quarters of production from the foothills assets. Petrus generated funds from operations of \$504,515 during the quarter ended June 30, 2012 (\$889,970 during the first quarter of 2012). Declining natural gas prices as well as decreased production volume due to shut-ins contributed to the decreased cash flow. In addition, Petrus incurred certain one time severance and legal expenses during the quarter which contributed to the decrease in cash flow. Petrus incurred a net loss during the second quarter of \$601,101 compared to net income during the first quarter of \$1.5 million. The difference is attributed to an unrealized hedging loss incurred in the second quarter due to the timing and number of commodity contracts outstanding at quarter end. Petrus recognized a realized hedging gain during the second quarter of 2012 of \$241,545 (first quarter of 2012 - \$193,152). Petrus has mitigated the risk of further commodity price decreases by entering into additional financial hedging contracts for future periods.

	Three months ended June 30, 2012	Three months ended March 31, 2012
Funds from operations (\$)	504,515	889,970
Funds from operations (\$ per share)		
Basic	0.02	0.03
Diluted	0.02	0.03
Cash flow (used in) operations	(98,574)	140,990
Net income (loss) (\$)	(601,101)	1,459,165
Net income (loss) (\$ per share)		
Basic	(0.02)	0.05
Diluted	(0.02)	0.05
Shares outstanding – end of period		
Basic	83,493,075	32,033,016
Diluted	83,493,075	32,033,016
Weighted average shares outstanding		
Basic	32,173,783	32,033,016
Diluted	32,173,783	32,033,016

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Three months ended June 30, 2012	Three months ended March 31, 2012
Production		
Natural gas (mcf/d)	5,219	6,425
NGLs (boe/d)	15	28
Oil (boe/d)	139	77
Total (boe/d)	1,024	1,176
Total (boe)	93,151	107,027
Revenue (000s)		
Natural Gas	913	1,297
NGLs	90	147
Oil	947	737
Commodity revenue	1,950	2,181
Gross overriding royalty revenue	61	72
Oil and natural gas revenue	2,011	2,253
Average realized prices		
Natural gas (per mcf)	\$1.92	\$2.22
NGLs (per bbl)	\$67.39	\$57.52
Oil (per bbl)	\$74.80	\$104.97
Combined average (per boe)	\$20.93	\$20.38
Average benchmark prices		
Natural gas		
AECO (Cdn \$ per mcf)	\$2.05	\$2.21
Crude Oil		
Edmonton Light (Cdn \$ per bbl)	\$83.23	\$91.35
Foreign Exchange		
US\$/Cdn\$	0.99	0.99

Second quarter 2012 production generated from the Alberta foothills assets averaged 1,024 boe/d (compared to 1,176 boe/d in the three months ended March 31, 2012). June 2012 exit production was 2,568 boe/d (compared to March 2012 exit production of 1,152 boe/d). The 123% increase in exit production is a result of the acquisition which closed June 29, 2012 and incremental production volume from successful drilling results. At quarter end, 290 boe/d of gas production was shut in due to insufficient netbacks and plant turnaround activities and Petrus' production weighting was approximately 68% natural gas (March 31, 2012 – 90%).

During the three months ended June 30, 2012, the benchmark natural gas price in Canada (set at the AECO hub) fell by 5 percent from the prior quarter (average price of \$2.05 per mcf in the second quarter compared to \$2.21 per mcf in the prior quarter). Petrus' average realized gas price during the second quarter of 2012 was \$1.92 per mcf compared to \$2.22 per mcf during the prior quarter, which represents a 14% decrease. Petrus uses a single marketer to manage its natural gas portfolio and sells its natural gas on a daily NOVA Alberta Index. Natural gas

revenue for the second quarter of 2012 was \$912,930 and production of 474,931 mcf accounted for approximately 85% of second quarter production volume and 47% of total revenue (compared to \$1.3 million and production of 584,675 mcf for 90% of production volume and 60% of total revenue in the prior quarter).

As part of a risk management program, Petrus entered into commodity derivative contracts in December 2011 for a portion of its natural gas production to protect against downward pressure on natural gas pricing. These contracts provided price protection and Petrus realized a \$434,697 hedging gain during the first half of 2012.

Oil prices weakened from the first quarter of 2012 to the second quarter. The West Texas Intermediate (WTI) averaged \$83.23 per bbl for the three months ended June 30, 2012 (compared to an average price of \$91.35 per bbl for the three months ended March 31, 2012). The benchmark for crude oil prices in North America is WTI. As with natural gas, there can still be net price differentials due to differences in regional demand and transportation constraints which affect the actual prices received for the commodities. Petrus includes pentanes and condensates in the oil revenue stream for reporting purposes. The average realized price of Petrus' crude oil and condensate was \$74.80 for the second quarter of 2012 (compared to \$104.97 per bbl for the first quarter of 2012). The oil and condensate revenue for the second quarter of 2012 was \$946,869 and production of 12,659 boe accounted for approximately 14% of second quarter production volume and 49% of total revenue (compared to \$736,873 and production of 7,020 boe for 7% of production volume and 34% of total revenue for the prior quarter).

For the first half of 2012, Petrus' NGL production mix consisted of ethane, butane, propane and sulphur. The pricing received for Petrus' NGL production is based on the specific product being produced and can therefore vary from period to period depending on the production mix. In the second quarter of 2012, Petrus' overall realized NGL price averaged \$67.61 per boe (compared to \$57.52/bbl for the prior quarter). The NGL revenue for the second quarter of 2012 was \$90,095 and production of 1,337 boe accounted for approximately 1% of the Company's production volume and 4% of total revenue in the second quarter (compared to \$147,168 and production of 2,558 boe for 3% of total production and 6% of total revenue for the prior quarter).

Crown Royalties by Commodity	Three months ended June 30, 2012	Three months ended March 31, 2012
Oil		
(000s)	266	246
% of production revenue	28%	33%
NGLs		
(000s)	38	44
% of production revenue	42%	30%
Natural Gas		
(000s)	11	234
% of production revenue	1%	18%
Total	329	524
% of production revenue	17%	24%

Petrus' overall effective crown royalty rate was 17% in the three months ended June 30, 2012 (24% for the three months ended March 31, 2012). The 37% decrease in total royalty expense from the first quarter to the second quarter is due to a significant reduction in gas crown royalties recognized in the second quarter as Petrus recorded its cumulative gas cost allowance in the second quarter. As a result, the effective royalty rate for natural gas was 1% of production revenue for the three months ended June 30, 2012. Given it is the Company's first year of operation, Petrus had awaited definitive guidance before recording this allowance.

Operating Expenses (000s)	Three months ended June 30, 2012	Three months ended March 31, 2012
Operating expense	1,612	976
Processing revenue	(350)	(370)
Operating expense net of processing	1,247	606
Operating expense, net (per boe)	\$13.54	\$5.66

Operating expenses totalled \$1.6 million for the second quarter of 2012 (\$976,472 for the three months ended March 31, 2012). Petrus generated \$350,000 or \$3.76 per boe of processing income at jointly owned facilities for the three months ended June 30, 2012 (\$370,000 or \$3.46 per boe for the first quarter of 2012). Petrus' net operating expenses totalled \$1.2 million or \$13.54 per boe for the reporting period, compared to \$606,472 or \$5.66 per boe, in the prior period. The significant increase is due to third party annual plant turnaround costs and property taxes.

Transportation Expenses (000s)	Three months ended June 30, 2012	Three months ended March 31, 2012
Transportation expense	140	91
\$/boe	\$1.50	\$0.85

Petrus pays commodity and demand charges for transporting its gas on the Nova pipeline system. Transportation expenses totalled \$139,790 or \$1.50 per boe in the second quarter of 2012 (\$90,932 or \$0.85 per boe for the first quarter of 2012).

G&A Expenses (000s)	Three months ended June 30, 2012	Three months ended March 31, 2012
Gross G&A expense	1,305	443
Capitalized G&A	(345)	(96)
Net G&A expense	960	348
Share based compensation, net	181	219
Total G&A expense, net	1,141	567

The second quarter general and administration ("G&A") expenses, net of capitalized costs directly attributable to exploration and development totalled \$1.1 million (compared to \$567,410 for the first quarter of 2012). The significant increase is attributed to employee bonuses and accrued severance and legal fees incurred during the second quarter arising from the termination of a former employee.

Depletion and Depreciation (000s)	Three months ended June 30, 2012	Three months ended March 31, 2012
Depletion	739	783
Depreciation	84	119
Total	823	902
\$/boe		
Depletion	7.93	7.87
Depreciation	0.90	0.11
Total (\$/boe)	8.83	7.98

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

Petrus recorded depletion expense in the second quarter of 2012 of \$738,796 or \$7.93 per boe (compared to \$783,444 or \$7.87 per boe for the first quarter of 2012).

For the quarter ended June 30, 2012, depreciation expense totalled \$84,248 (compared to \$119,129 in the prior quarter).

Impairment Analysis

Under International Accounting Standard (IAS) 36 – Impairment of Assets, impairment testing is performed at the cash generating unit (CGU) level and is a one step process for testing and measuring impairment of assets wherein each CGU's carrying value is compared to the higher of "value in use" and "fair value less costs to sell." Value in use is defined as the present value of future cash flows expected to be derived from the CGU. Impairment tests were performed at June 30, 2012 using future cash flows given a present value using a discount rate of 10%. For the Company's Southern Alberta Foothills CGU at June 30, 2012, no impairment was identified.

Other Income (000s)	Three months ended June 30, 2012	Three months ended March 31, 2012
Processing revenue	350	370
Interest income	—	16
Total other income	350	386
Realized hedging gain	222	193
Unrealized hedging gain (loss)	(975)	1,678
Total gain (loss) on financial derivative contracts	(753)	1,871

Petrus generated processing revenue which relates to fees charged to joint venture partners at jointly owned processing facilities of \$349,701 in the second quarter of 2012 (compared to \$370,357 in the three months ended March 31, 2012).

In December 2011, Petrus entered into future financial derivative contracts in order to mitigate the effects of depressed commodity prices. As a result, Petrus realized a hedging gain of \$241,545 in the second quarter of 2012 compared to a hedging gain of \$193,152 in the first quarter of 2012. At June 30, 2012, Petrus recorded a risk management asset of \$706,336, which represents the value of the future derivative contracts had they settled on that date.

Liquidity and Capital Resources

As at June 30, 2012, the Company had a demand revolving credit facility of \$40 million with a major Canadian lender. At June 30, 2012, the Company has not drawn against the credit facility and the Company had working capital of \$21.7 million (excluding non-cash items).

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. The Company's objectives when managing capital are (i) to manage financial flexibility in order to preserve the Company's ability to meet financial obligations; (ii) maintain a capital structure that allows Petrus the ability to finance its growth using internally generated cash flow and (iii) to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk level and provides an optimal return to equity holders.

In the management of capital, Petrus includes share capital and total net debt, which is made up of debt and working capital (current assets less current liabilities). Petrus 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.

Petrus anticipates that it will have adequate liquidity to fund future working capital and forecasted capital expenditures in 2012 through a combination of cash flow, current working capital and possible additional use of its credit facility. Petrus is able to modify its capital program in response to changes in commodity prices and cash flows. Should the Company choose to expand its capital program, actual funding alternatives will be influenced by the then current market environment and the ability to access capital on reasonable terms, balanced with the investment opportunities presented.

Provisions and Contingencies

At June 30, 2012, the Company was committed to incur exploration expenditures of \$1.3 million on or before December 31, 2013, related to the flow through share issuance completed on June 29, 2012. The Company satisfied the obligation attributed to the flow through share financing which closed on November 14, 2011 during the first quarter of 2012.

Commitments

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

Commitments (000s)	Total	< 1 year	1-3 years	> 4 years
Office equipment lease	20	5	10	5
Capital commitments	7,178	1,778	5,400	—
Corporate office lease	2,515	315	331	1,869
Total Commitments	9,713	2,098	5,741	1,874

Subsequent Events

Financial derivative contracts

Subsequent to June 30, 2012, the Company entered into the following commodity financial derivative contracts:

Natural Gas			Price
Period Hedged	Type	Daily Volume	(CAD)
Aug. 1, 2012 to Mar. 31, 2013	Fixed price	2,000 GJ	\$2.62/GJ
Nov. 1, 2013 to Mar. 31, 2014	Costless collar	4,000 GJ	\$3.25 - \$3.53/GJ
Apr. 1, 2013 to Oct. 31, 2013	Costless collar	4,000 GJ	\$2.80 - \$3.02/GJ

Crude Oil			Price
Period Hedged	Type	Daily Volume	(USD)
Aug. 1, 2012 to Dec. 31, 2012	Costless collar	400 Bbl	WTI \$82.50 - \$90.75/Bbl
Jan 1, 2013 to Dec. 31, 2013	Costless collar	400 Bbl	WTI \$82.50 - \$92.45/Bbl

Common share issuance

In July 2012 the Company issued 2,772,557 common shares at a price of \$1.75 per share for gross proceeds of \$4.9 million. In addition, the Company issued 10,000 common shares on a flow through basis at a price of \$2.10 per share for gross proceeds of \$21,000. The issuances were subsequent additional closings related to the June 2012 private equity placement. Under National Instrument 45-102, the common shares issued are subject to a restricted hold period which expires November 5, 2012.

Contingent liability settlement

Petrus was the subject of litigation arising out of the termination of an officer of the Company. The claim was settled and closed subsequent to June 30, 2012. Petrus recorded a provision for the full settlement including related litigation fees in the second quarter of 2012, based upon the actual amounts incurred.

CRITICAL ACCOUNTING ESTIMATES AND SOURCES OF JUDGMENT

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 interim 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, 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, petroleum and natural gas assets are aggregated into cash-generating units ("CGU's"), based on separately identifiable and largely independent cash inflows. The determination of the Company's CGU's 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 values less costs to sell. 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 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 petroleum and natural gas assets. 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.

Decommissioning obligations

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. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable income available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in income or loss in the period in which the change occurs. Additionally, future 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.

Measurement of share-based payments

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

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and petroleum and natural gas assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation. Future net earnings can be affected as a result of changes in future depletion and depreciation, asset impairment or goodwill impairment.

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.

Financial Reporting Update

International Financial Reporting Standards ("IFRS")

Publicly accountable enterprises are required to apply IFRS, in full and without modification, for financial periods beginning on January 1, 2011. Private enterprises are not yet required to apply IFRS, however Petrus has elected to adopt the standards. Given that 2011 was Petrus' first year of operations, Petrus had no financial statement balances to restate as at January 1, 2010. As a result, a reconciliation of Canadian GAAP to IFRS was not required.

These financial statements present the Company's financial results of operations issued under International Financial Reporting Standards ("IFRS") as at and for the period ended June 30, 2012. These financial statements have been prepared by management using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Financial Instruments

Financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The fair values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturities.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Petrus is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosures. Petrus' President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to Petrus, is made known to them by others within the Company.

Internal Control over Financial Reporting ("ICFR")

Petrus' President and Chief Financial Officer have designed internal controls over financial reporting related to the Company to provide reasonable assurance regarding the reliability of Petrus' financial reporting and preparation of financial statements for external purposes in accordance with GAAP.

It should be noted that while Petrus' President and Chief Financial Officer believe that the Company's disclosure and internal control procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure and internal control procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Risk Factors

There are a number of risk factors facing companies that participate in the Canadian oil and gas industry. A summary of certain risk factors relating to Petrus' business are disclosed below.

Risks to Petrus' Revenues**Volatility of Commodity Prices and Markets**

Petrus' financial performance and condition are substantially dependent on the prevailing prices of oil and natural gas which are unstable and subject to fluctuation. Fluctuations in oil or natural gas prices could have an adverse effect on Petrus' operations and financial condition and the value and amount of its reserves. Prices for crude oil fluctuate in response to global supply of and demand for oil, market performance and uncertainty and a variety of other factors which are outside the control of Petrus including, but not limited, to the world economy and OPEC's ability to adjust supply to world demand, government regulation, political stability and the availability of alternative fuel sources. Natural gas prices are influenced primarily by factors within North America, including North American supply and demand, economic performance, weather conditions and availability and pricing of alternative fuel sources.

Decreases in oil and natural gas prices typically result in a reduction of Petrus' net production revenue and may change the economics of producing from some wells, which could result in a reduction in the volume of Petrus' reserves. Any further substantial declines in the prices of crude oil or natural gas could also result in delay or cancellation of existing or future drilling, development or construction programs or the curtailment of production. All of these factors could result in a material decrease in Petrus' net production revenue, cash flows and profitability causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to Petrus will in part be determined by Petrus' borrowing base. A sustained material decline in prices from historical average prices could further reduce such borrowing base, therefore reducing the bank credit available and could require that a portion of its bank debt be repaid.

Petrus may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Petrus will not benefit from such increases.

Delay in Cash Receipts and Credit Worthiness of Counterparties

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of Petrus' properties, and by the operator to Petrus, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of Petrus' properties or the establishment by the operator of reserves for such expenses. In addition, the insolvency or financial impairment of any counterparty owing money to Petrus, including industry partners and marketing agents, could prevent Petrus from collecting such debts.

Substantial Capital Requirements, Liquidity

Petrus may have to make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If revenues or reserves decline, Petrus may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require Petrus to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Petrus depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time, and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of Petrus may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Company.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, producing facilities, other property and the environment or in personal injury. In accordance with industry practice, Petrus is not fully insured against all of these risks, nor are all such risks insurable. Although Petrus maintains liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event Petrus could incur significant

costs that could have a materially adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Project Risks

The Company manages a variety of projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The Company's ability to execute projects and market oil and natural gas depends upon numerous factors beyond The Company's control.

Reserve Replacement

Petrus' future oil and natural gas reserves and production and the cash flows to be derived therefrom are highly dependent on successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves Petrus may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in reserves will depend not only on Petrus' ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that Petrus' future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Operational Dependence

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Petrus and may delay exploration and development activities.

To the extent Petrus will not be the operator of its oil and natural gas properties, it will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent.

In addition, the success of Petrus will be largely dependent upon the performance of its management and key employees. Petrus does not have any key man insurance policies and, therefore, there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

Petrus' ability to market oil and natural gas from its wells also depends upon numerous other factors beyond its control, including, among other things, the availability of natural gas processing and storage capacity, the availability of pipeline capacity, the price of oilfield services and the effects of inclement weather. Because of these factors, Petrus may be unable to market some or all of the oil and natural gas it produces or to obtain favorable prices for the oil and natural gas it produces.

Reserve Estimates

There are numerous uncertainties inherent in evaluating quantities of reserves and the net present value of future net revenue to be derived therefrom, including many factors beyond the control of Petrus. The reserves information contained in the GLJ Report and set forth herein, including information respecting the net present value of future net revenue from reserves, represents an estimate only. This estimate is based on number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the GLJ Report was prepared and many of these assumptions are subject to change and are beyond the control of Petrus. Ultimately, the actual reserves attributable to Petrus' properties will

vary from the estimates contained in the GLJ Report and those variations may be material and affect the market price of the Common shares.

Insurance

Petrus' involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although Petrus maintains insurance consistent with prudent industry practice, it is not fully insured against certain environmental risks, either because such insurance is not available or because of high premium costs. In particular, insurance against risks from environmental pollution occurring over time (as opposed to sudden and catastrophic damages) is not available on economically reasonable terms. Accordingly, Petrus' properties may be subject to liability due to hazards that cannot be insured against, or that have not been insured against due to prohibitive premium costs or for other reasons. It is also possible that changing regulatory requirements or emerging jurisprudence could render such insurance of less benefit to Petrus. The payment of any uninsured liabilities would reduce the funds available to Petrus.

Competition

There is strong competition relating to all aspects of the oil and natural gas industry. Petrus will actively compete for capital, skilled personnel, undeveloped land, reserve acquisitions, access to drilling rigs, service rigs and other equipment, access to processing facilities and pipeline and refining capacity, and in all other aspects of its operations with a substantial number of other organizations, many of which may have greater technical and financial resources than Petrus. Some of those organizations not only explore for, develop and produce oil and natural gas but also carry on refining operations and market petroleum and other products on a world-wide basis and as such have greater and more diverse resources on which to draw. Petrus' ability to increase reserves and production in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling.

Risks Associated with Government Regulation

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing, transportation and royalty rates) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Petrus' oil and natural gas operations may also be subject to compliance with federal, provincial and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Company's costs, any of which may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In order to conduct oil and gas operations, Petrus will require licenses from various governmental authorities. There can be no assurance that the Company will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

Changes to the regulation of the oil and gas industry in jurisdictions in which Petrus operates may adversely impact Petrus' ability to economically develop existing reserves and add new reserves.

Environmental Concerns

Many aspects of the oil and natural gas business present environmental risks and hazards, including the risk that Petrus may be in noncompliance with an environmental law, regulation, permit, licence, or other regulatory approval, possibly unintentionally or without knowledge. Such risks may expose Petrus to fines or penalties, third party liabilities or to the requirement to remediate, which could be material.

The operational hazards associated with possible blowouts, accidents, oil spills, gas leaks, fires, or other damage to a well or a pipeline may require Petrus to incur costs and delays to undertake corrective actions, could result in environmental damage or contamination or could result in serious injury or death to employees, consultants, contractors or members of the public, creating the potential for significant liability to Petrus. Also, the occurrence of any such incident could damage Petrus' reputation in the surrounding communities and make it more difficult for Petrus to pursue its operations in those areas.

Compliance with environmental laws and regulations could materially increase Petrus' costs. Petrus may incur substantial capital and operating costs to comply with increasingly complex laws and regulations covering the protection of the environment and human health and safety. In particular, Petrus may be required to incur significant costs to comply with future federal or provincial greenhouse gas emissions reduction requirements or other regulations, if enacted.

Abandonment and Reclamation Costs

Petrus will be responsible for compliance with terms and conditions of environmental and regulatory approvals and all laws and regulations regarding abandonment and reclamation in respect of its properties, which abandonment and reclamation costs may be substantial. A breach of such legislation or regulations may result in the imposition of fines and penalties, including an order for cessation of operations at the site until satisfactory remedies are made.

Net Asset Value

Petrus' net asset value will vary depending upon a number of factors beyond the control of Petrus' management, including oil and natural gas prices. The market price of the common shares is also determined by a number of factors which are beyond the control of management and such market price may be greater than or less than the net asset value of Petrus.

Permits and Licenses

The operations of Petrus may require licenses and permits from various governmental authorities. There can be no assurance that Petrus will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects. Further, if the Company or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of the Company's licenses or leases or the working interests relating to a license or lease may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Title to Properties

Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells as determined appropriate by management, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat a claim of Petrus which could result in a reduction of the revenue received by Petrus.

ADVISORIES

Basis of Presentation

Financial data presented below have largely been derived from the Company's financial statements for the period of inception to June 30, 2012, prepared in accordance with International Financial Reporting Standards ("IFRS"). Accounting policies adopted by the Company are set out in Note 3 to the financial statements for the period ended June 30, 2012. The reporting and the measurement currency is the Canadian dollar. All financial information is expressed in Canadian dollars, unless otherwise stated.

Forward Looking Statements

Certain information regarding Petrus set forth in this document, including management's assessment of the Company's future plans and operations, contains forward-looking statements WITHIN THE MEANING OF

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

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to: the size of, and future net revenues from, crude oil, NGL (natural gas liquids) and natural gas reserves; future prospects; the focus of and timing of capital expenditures; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; access to debt and equity markets; projections of market prices and costs; the performance characteristics of the Company’s crude oil, NGL and natural gas properties; crude oil, NGL and natural gas production levels and product mix; Petrus’ future operating and financial results; capital investment programs; supply and demand for crude oil, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; future land expiries; dispositions and joint venture arrangements; amount of operating, transportation and general and administrative expenses; treatment under governmental regulatory regimes and tax laws; estimated tax pool balances and anticipated IFRS elections and the impact of the conversion to IFRS. In addition, statements relating to “reserves” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

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

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

BOE Presentation

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

BALANCE SHEETS

(UNAUDITED)

(Expressed in Canadian dollars)

As at	June 30, 2012	December 31, 2011
ASSETS		
Current		
Cash and cash equivalents	17,793,511	7,786,788
Deposits and prepaid expenses	1,392,602	396,657
Accounts receivable	5,074,737	3,635,358
Risk management asset (note 9)	706,336	—
	24,967,186	11,818,803
Non-current		
Exploration and evaluation assets (notes 4 and 5)	24,911,892	7,232,470
Property, plant and equipment (notes 4 and 6)	103,542,599	40,089,044
	128,454,491	47,321,514
	153,421,677	59,140,317
LIABILITIES		
Current		
Accounts payable and accrued liabilities	2,608,971	4,328,105
Flow-through share premium liability	211,921	979,856
	2,820,892	5,307,961
Non-Current		
Decommissioning obligation (note 8)	11,397,384	3,652,999
Deferred income tax liability (note 14)	515,143	—
	14,733,419	8,960,960
Shareholders' Equity		
Share capital (note 10)	139,456,093	51,018,159
Contributed surplus	704,459	32,391
Retained earnings (deficit)	(1,472,294)	(871,193)
	138,688,258	50,179,357
	153,421,677	59,140,317

See accompanying notes to the financial statements

Commitments (note 18)

Subsequent events (note 19)

Approved by the Board of Directors,

(signed) "Don T. Gray"

Don T. Gray
Executive Chairman

(signed) "Patrick Arnell"

Patrick Arnell
Director

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

(Expressed in Canadian dollars, except for share information)

	Six months ended June 30, 2012	Six months ended June 30, 2011
REVENUE		
Oil and natural gas revenue	4,262,885	—
Royalty expense (recovery)	(21,303)	—
Oil and natural gas revenue, net of royalties	4,241,582	—
Other income	736,351	17,848
Gain (loss) on financial derivative contracts <i>(note 9)</i>	1,137,133	—
	6,115,066	17,848
EXPENSES		
Operating <i>(note 16)</i>	2,588,099	—
Transportation expenses	230,722	—
General and administrative <i>(note 17)</i>	960,169	41,518
Share-based compensation <i>(note 10)</i>	399,739	—
Finance <i>(note 8)</i>	273,228	312
Depletion and depreciation <i>(note 6)</i>	1,725,615	89
	6,177,572	41,920
NET INCOME (LOSS) BEFORE INCOME TAXES	(62,506)	(24,072)
Current tax expense	2,660	—
Deferred income tax expense <i>(note 14)</i>	535,935	—
	538,595	
TOTAL NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(601,101)	(24,072)
Net income (loss) per common share <i>(note 12)</i>	(0.018)	(0.002)
Basic and diluted		

See accompanying notes to the financial statements

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(Expressed in Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total
Balance, December 31, 2010	—	—	—	—
Net income (loss)	—	—	(24,072)	(24,072)
Shares issued for cash	10,650,000	—	—	10,650,000
Share issue costs	(384,029)	—	—	(384,029)
Balance, June 30, 2011	10,265,971	—	(24,072)	10,241,899

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total
Balance, December 31, 2011	51,018,159	32,391	(871,193)	50,179,357
Net income (loss)	—	—	(601,101)	(601,101)
Issuance of common shares	90,287,024	—	—	90,287,024
Premium liability of flow-through shares	(211,921)	—	—	(211,921)
Share issue costs	(2,373,658)	—	—	(2,373,658)
Share-based compensation expensed	—	399,739	—	399,739
Share-based compensation capitalized	—	272,329	—	272,329
Tax benefit of share issue costs	697,034	—	—	697,034
Deferred tax benefits (<i>note 14</i>)	39,455	—	—	39,455
Balance, June 30, 2012	139,456,093	704,459	(1,472,294)	138,688,258

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Expressed in Canadian dollars)

	Six months ended June 30, 2012	Six months ended June 30, 2011
Funds generated by (used in):		
OPERATING ACTIVITIES		
Net income (loss)	(601,101)	(24,072)
Adjust items not affecting cash:		
Share-based compensation	399,739	—
Unrealized hedging gains	(702,436)	—
Finance expenses	36,733	—
Depletion and depreciation	1,725,615	89
Deferred income tax recovery	535,933	—
	1,394,483	(23,983)
Change in operating non-cash working capital (note 15)	(2,016,966)	43,084
Funds generated by operations	(622,483)	17,338
FINANCING ACTIVITIES		
Issuance of common shares (note 10)	90,287,024	10,265,971
Share issue costs (note 10)	(2,187,818)	—
Change in financing non-cash working capital (note 15)	29,026	—
Funds generated by financing activities	88,128,232	10,265,971
INVESTING ACTIVITIES		
Property and equipment acquisitions (note 4)	(59,682,697)	—
Exploration and evaluation asset expenditures (note 5)	(5,335,890)	—
Petroleum and natural gas property expenditures (note 6)	(10,412,554)	—
Other capital expenditures (note 6)	(111,022)	(1,958)
Change in investing non-cash working capital (note 15)	(1,956,865)	(17,848)
Funds used in investing activities	(77,499,028)	(19,806)
Increase (decrease) in cash and cash equivalents	10,006,723	10,263,503
Cash and cash equivalents, beginning of period	7,786,788	—
Cash and cash equivalents, end of period	17,793,511	10,263,503

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF THE ORGANIZATION

Petrus Resources Ltd. ("Petrus" or the "Company") is a privately held entity which was incorporated under the laws of the Province of Alberta on December 13, 2010. These financial statements report the six months ended June 30, 2012. 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. It conducts many of its activities jointly with others. These financial statements reflect only the Company's share of these jointly controlled assets and its proportionate share of the relevant revenue and related costs. The Company's head office is located at 4210, 525-8th Avenue SW, Calgary, Alberta Canada.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These financial statements have been prepared by management using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

(b) Measurement Basis

These financial statements were prepared on the basis of historical cost and are presented in Canadian dollars.

(c) Critical Accounting Estimates and Sources of Judgment

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, petroleum and natural gas assets are aggregated into cash-generating units ("CGU's"), based on separately identifiable and largely independent cash inflows. The determination of the Company's CGU's 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 values less costs to sell. 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 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.

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. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable income available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in income or loss in the period in which the change occurs. Additionally, future 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.

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.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and petroleum and natural gas assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

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) Cash and cash equivalents

The Company's cash and cash equivalents consist of deposits held in the Company's chequing accounts and interest bearing savings accounts.

(b) Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized when volumes are delivered and title passes to an external party at contractual delivery points and are recorded gross of transportation charges incurred by the Company. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

Royalty income is recognized as it accrues in accordance with the terms of the respective overriding royalty agreements. Other income is recognized as it is earned which includes interest income as well as processing income.

(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, other directly attributable costs 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 bringing in or enhancing production from such 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 income or loss.

Leased assets

Other leases are capital leases, which are recognized on the Company's balance sheet. Petrus records the payments made in accordance with the lease as a reduction to the obligation recorded.

Depletion and depreciation

The costs related to area cost centres 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 allocated to its CGU.

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 stated in the statement of financial position at cost less accumulated depreciation. Depreciation is calculated on a reducing balance method so as to write off the cost of these assets, less estimated

residual values, over their estimated useful lives. The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

Impairment

The carrying amounts of property, plant and equipment are grouped into CGU's and 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 assessment for impairment entails comparing the carrying value of the CGU with its recoverable amount: that is, the higher of fair value, less costs to sell, and value in use. Each CGU is identified in accordance with IAS 36, *Impairment of Assets*. Petrus' property, plant and equipment are grouped into CGU's 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 recoverable amount is the higher of fair value, less costs to sell, and the value-in-use. Fair value, less costs to sell, is derived by estimating the discounted after-tax future net cash flows. Discounted future net cash flows are based on forecasted 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 only 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) 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).

Amortization

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 petroleum and natural gas 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.

Impairment

If and when facts and circumstances indicate that the carrying value of an exploration and evaluation asset may exceed its recoverable amount, an impairment review is performed. For exploration and evaluation assets, when there are such indications, an impairment test is carried out by grouping the exploration and evaluation assets with property, plant and equipment CGU's to which they belong for impairment testing. The equivalent combined carrying value of the CGU's is compared against the recoverable amount of the CGU's and any resulting impairment

loss is written off to net income (loss). The recoverable amount is the greater of fair value, less costs to sell, or value-in-use.

(e) Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in net income (loss). Transaction costs associated with a business combination are expensed as incurred.

(f) 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 and depreciation 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.

(g) Finance expenses

Finance expense may be comprised of interest expense on borrowings and accretion of the discount on decommissioning obligations.

(h) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities and outstanding credit facilities. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured based on their classification. The Company has made the following classifications:

- Cash and cash equivalents are classified as financial assets at fair value, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.
- Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest method. Typically, the fair value of these balances approximates their carrying value due to their short term to maturity.
- Accounts payable and accrued liabilities and outstanding credit facilities are classified as other liabilities and are measured at amortized cost using the effective interest method. Due to the short term nature of accounts payable and accrued liabilities, their carrying values approximate their fair values. The Company's outstanding credit facilities bear interest at a floating rate and accordingly the fair market value approximates the carrying value.

(i) 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.

(j) 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. The difference between the initial liability and the deferred tax liability created is recorded as a deferred tax expense.

(k) 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. 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Petrus expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(l) Joint interests

Significantly all of the Company's activities are conducted jointly with others through unincorporated joint ventures. The Company accounts for its share of the results and net assets of these Joint Ventures as jointly controlled assets. The audited financial statements include Petrus' share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(m) Share-based compensation

The Company follows the fair value method of valuing stock option and performance warrant grants. 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.

(n) 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 fully diluted earnings per share information is calculated using the treasury stock method whereby it is assumed that proceeds obtained upon exercise of share warrants and stock options issued under the Company's Stock Option Plan 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.

4. ACQUISITIONS

On June 29, 2012 Petrus closed an acquisition of petroleum and natural gas properties for cash consideration of \$59.7 million, net of adjustments. The transaction was accounted for as a business combination. Petrus recorded \$7.1 million in exploration and evaluation assets for the value of undeveloped land and seismic and \$52 million in property and equipment. \$7.6 million of decommissioning liabilities were recognized in relation to the acquired properties.

5. EXPLORATION AND EVALUATION ASSETS

	\$
Balance, December 31, 2011	7,232,470
Cash additions	10,242,384
Acquisitions (note 4)	7,075,000
Capitalized general & administrative	220,451
Change in decommissioning provision	141,587
Transfers to property, plant and equipment	—
Balance, June 30, 2012	24,911,892

Depletion

Exploration and evaluation assets consist of Petrus' undeveloped land and exploration and development projects which are pending the determination of technical feasibility. Additions represent the Company's share of costs incurred on these assets during the period. Exploration and evaluation assets are not subject to depletion.

Capitalization of general & administrative expenses

During the six months ended June 30, 2012 the Company capitalized \$220,451 of general & administrative expenses directly attributable to development activities. Included in this amount is non-cash related share-based compensation of \$136,165.

6. PROPERTY, PLANT AND EQUIPMENT

\$	Accumulated		Net book value
	Cost	DD&A	
Balance, December 31, 2011	40,715,777	(626,733)	40,089,044
Cash additions	5,226,461	—	5,226,461
Acquisitions (note 4)	52,123,237	—	52,123,237
Capitalized general & administrative	220,451	—	220,451
Depletion & depreciation	—	(1,725,614)	(1,725,614)
Change in decommissioning provision	7,609,020	—	7,609,020
Balance, June 30, 2012	105,894,946	(2,352,347)	103,542,599

Depletion and Depreciation

Estimated future development costs of \$10.2 million associated with the development of the Company's proved plus probable undeveloped reserves were included with the costs subject to depletion.

Capitalization of general & administrative expenses

During the six months ended June 30, 2012 the Company capitalized \$220,451 of general & administrative expenses directly attributable to development activities. Included in this amount is non-cash related share-based compensation of \$136,165.

7. REVOLVING CREDIT FACILITY

The Company has a demand revolving credit facility of \$40 million with a major Canadian lender which is undrawn at June 30, 2012.

The credit facility was obtained for general corporate purposes. The facility is available on a revolving basis for a period until June 29, 2013 and then for a further year under the term out provisions. The initial term out date may be extended for further 364 day periods at the request of Petrus, subject to approval by the lender. The credit facility provides that advances may be made by way of direct Canadian advances (at an interest rate equal to the Bank of Canada prime rate plus 0.75% per annum), U.S. dollar advances (at an interest rate equal to the U.S. Base Rate plus 0.75% per annum), or bankers' acceptances (at a stamping fee calculated on the face amount of the banker's acceptance at a rate equal to 175 basis points per annum).

The amount of the credit facility is subject to a borrowing base test performed on a semi-annual review by the lender, based primarily on reserves and using commodity prices estimated by the lender as well as other factors. The Company has provided security by way of a \$100 million debenture over all of the present and after acquired property of the Company. A decrease in the borrowing base could result in a reduction to the available credit facility. The next semi-annual review of the credit facility is to take place on June 29, 2013. At June 30, 2012, the Company has not drawn against the credit facility.

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 three percent and an inflation rate of two percent. The Company has estimated the net present value of the decommissioning obligations to be \$11.4 million as at June 30, 2012 based on an undiscounted total future liability of \$21 million. These payments are expected to be incurred over the operating lives of the assets. The following table reconciles the decommissioning liability:

Balance, December 31, 2011	3,652,999
Acquisitions (note 4)	7,566,065
Liabilities incurred	141,587
Accretion expense	36,733
Balance, June 30, 2012	11,397,384

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 has outstanding as at June 30, 2012 and their estimated fair value:

Natural Gas			Price	Fair value
Period Hedged	Type	Daily Volume	(CAD)	(\$'000s)
Jul. 1, 2012 to Dec. 31, 2012	Costless collar	1,500 GJ	\$2.70 - \$2.95/GJ	162.8
Jul. 1, 2012 to Oct. 31, 2012	Fixed price	1,500 GJ	\$2.77/GJ	120.9
Jul. 1, 2012 to Oct. 31, 2012	Fixed price	2,000 GJ	\$2.25/GJ	34.4
Nov. 1, 2012 to Mar. 31, 2013	Fixed price	4,000 GJ	\$2.25/GJ	84.6
Apr. 1, 2013 to Oct. 31, 2013	Costless collar	1,500 GJ	\$2.50 - \$3.02/GJ	125.2
Risk management asset (liability)				527.9
Crude Oil			Price	
Period Hedged	Type	Daily Volume	(USD)	
Jul. 1, 2012 to Dec. 31, 2012	Costless collar	75 Bbl	WTI \$95.00 - \$106.55/Bbl	175.3
Risk management asset (liability)				175.3
Foreign exchange (USD)				3.1
Total risk management asset (liability)				706.3

For the six months ended June 30, 2012, Petrus recorded a realized and unrealized gain of \$434,697 and \$702,436, respectively.

10. SHARE CAPITAL

Authorized

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

Issued and Outstanding

Common shares	Number of Shares	Amount
Balance, December 31, 2011	32,033,016	51,018,159
Common shares issued under private placement (1)	80,000	160,000
Common shares issued under private placement (2)	50,774,571	88,855,499
Flow-through shares issued, net of premium (3)	605,488	1,059,604
Share issue costs	—	(2,373,658)
Tax benefit of share issue costs	—	697,034
Deferred tax liability	—	39,455
Balance, June 30, 2012	83,493,075	139,456,093

Share Issuances

- (1) The Company completed a subsequent closing to its November 2011 private equity placement and issued 80,000 common shares at a price of \$2.00 per common share for gross proceeds of \$160,000.
- (2) The Company completed its third significant private equity placement on June 29, 2012. 50,774,571 common shares were issued at a price of \$1.75 per share for gross proceeds of \$88,855,499. Under National Instrument 45-102, the common shares issued June 29, 2012 are subject to a restricted hold period which expires October 29, 2012.
- (3) On June 29, 2012, the Company also issued 605,488 flow through shares at a price of \$2.10 per share for total gross proceeds of \$1,271,525. Of the issuance price, \$0.35 per share or \$211,921 was determined to be the premium on the flow-through shares. Petrus is committed to spending \$1,059,604 on qualified exploration and development expenditures by December 31, 2013. Under National Instrument 45-102, the flow through shares issued June 29, 2012 are subject to a restricted hold period which expires October 29, 2012.

SHARE-BASED COMPENSATION

Performance Warrants

The Company may issue performance warrants to employees, consultants and directors of the Company. Performance warrants are granted for a term of three years and vest based on three criteria, time (one third vest per year), market (one third vest as certain share price hurdles are achieved) and employment or service. Upon exercise of the warrants the

Company settles the obligation by issuing common shares of the Company and cash settlements are not required. The shares to be offered consist of common shares of the Company's authorized by unissued common shares. The aggregate number of shares issuable upon the exercise of all warrants granted shall not exceed 20% of the issued and outstanding shares as at April 30, 2012. At June 30, 2012, 5,866,000 performance warrants were issued.

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 Plan 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 Corporation's basic Common shares then issued and outstanding; minus (ii) a number equal to five (5) times the number of Common Shares that are issuable upon exercise of the then outstanding Performance Warrants minus (iii) a number equal to fifty percent (50%) of the number of Common Shares that have previously been issued upon the exercise of Performance Warrants. At June 30, 2012, 3,600,000 stock options were issued. The summary of performance warrant and stock option activity is presented below:

	Number of warrants	Weighted Average Exercise Price (\$)
Balance, December 31, 2011	4,934,000	\$2.00
Granted	1,025,000	\$2.00
Exercised	—	—
Forfeited or expired	93,000	\$2.00
Balance, June 30, 2012	5,866,000	\$2.00
Exercisable, June 30, 2012	—	—

The following tables summarize information about the performance warrants outstanding at June 30, 2012:

Grant date	Warrants Outstanding			Warrants Exercisable	
	Number outstanding	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price
December 19, 2011	4,841,000	\$2.00	4.47	—	\$2.00
March 20, 2012	400,000	\$2.00	4.72	—	\$2.00
May 1, 2012	400,000	\$2.00	4.84	—	\$2.00
June 5 2012	225,000	\$2.00	4.93	—	\$2.00
	5,866,000	\$2.00	4.53	—	\$2.00

The fair value of each warrant granted of \$0.35 per warrant is estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions (at June 30, 2012):

Fair value of warrants	\$0.35
Risk free interest rate	1.36%
Expected life (years)	5
Estimated volatility of underlying common shares (%)	65%
Estimated forfeiture rate	20%
Expected dividend yield (%)	0%

Petrus estimated the volatility of their underlying common shares by analyzing the volatility of peer group public companies with similar corporate structure, oil and gas assets and size. With respect to the market condition inherent in the warrants, Petrus estimated the probability of achieving the condition and applied the probability to each individual vesting tranche in order to fairly estimate the fair value of each warrant.

	Number of stock options	Weighted Average Exercise Price (\$)
Balance, December 31, 2011	—	—
Granted	3,600,000	\$ 1.75
Exercised	—	—
Forfeited or expired	—	—
Balance, June 30, 2012	3,600,000	\$ 1.75
Exercisable, June 30, 2012	—	—

The following tables summarize information about the stock options outstanding at June 30, 2012:

Grant date	Stock Options Outstanding			Stock Options Exercisable	
	Number outstanding	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price
June 29, 2012	3,600,000	\$ 1.75	5	—	\$ 1.75
	3,600,000	\$ 1.75	5	—	\$ 1.75

The fair value of each stock option granted of \$0.35 per option is estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions (at June 30, 2012):

Fair value of warrants	\$0.70
Risk free interest rate	1.36%
Expected life (years)	5
Estimated volatility of underlying common shares (%)	65%
Estimated forfeiture rate	20%
Expected dividend yield (%)	0%

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

The following table summarizes the Company's share-based compensation at June 30, 2012:

Share-based compensation expensed in net income	399,739
Share-based compensation capitalized to exploration and evaluation assets	136,165
Share-based compensation capitalized to property, plant and equipment	136,165
Total share-based compensation	672,069

11. 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. The Company's objectives when managing capital are (i) to manage financial flexibility in order to preserve the Company's ability to meet financial obligations; (ii) maintain a capital structure that allows Petrus the ability to finance its growth using internally generated cashflow and (iii) to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk level and provides an optimal return to equity holders.

In the management of capital, Petrus includes share capital and total net debt, which is made up of debt and working capital (current assets less current liabilities). Petrus 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.

12. EARNINGS PER SHARE AMOUNTS

Basic earnings per share amounts are calculated by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. The following table shows the calculation of basic and diluted earnings per share for the periods:

	Six months ended June 30, 2012
Net income (loss) for the period	(601,101)
Weighted average number of common shares	
Weighted average number of common shares – basic	32,173,783
Dilutive effect of outstanding warrants	–
Weighted average number of common shares – diluted	32,173,783
Basic net income (loss) per share	(0.02)
Diluted net income (loss) per share	(0.02)

At June 30, 2012, the market price of \$1.75 of the Company's shares was used to determine the dilutive effect of performance warrants. For the six months ended June 30, 2012, all performance warrants and stock options were anti-dilutive. At June 30, 2012 the Company had 83,493,075 common shares outstanding.

13. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized on the financial statements consist of cash and cash equivalents, accounts receivable and accounts payable & accrued liabilities. The fair value of Petrus' financial instruments were assessed and found to approximate their carrying amounts.

Fair Value of Financial Instruments

The fair value of Petrus' financial instruments, approximate their carrying amounts due to their short terms to maturity or the indexed rate of interest on the bank debt:

	As at June 30, 2012	
	Carrying Amount	Fair Value
Financial Assets		
<i>Loans and receivables:</i>		
Cash and cash equivalents	17,793,511	17,793,511
Accounts receivable	4,913,653	4,913,653
Financial Liabilities		
<i>Other Financial Liabilities:</i>		
Accounts payable and accrued liabilities	2,447,887	2,447,887

The Company continues to monitor its trade and other receivables and its allowance for doubtful accounts. As at June 30, 2012, there have been no impairment issues.

Risks associated with Financial Instruments

Credit risk

The Company may be exposed to certain losses in the event that counterparties to financial instruments fail to meet their obligations in accordance with agreed terms. The Company mitigates this risk by entering into transactions with highly rated major financial institutions and by routinely assessing the financial strength of its customers.

At June 30, 2012, financial assets on the statement of financial position are comprised of cash and cash equivalents and accounts receivable. The maximum credit risk associated with these financial instruments is the total carrying value.

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 two purchasers under normal industry sale and payment terms. As is common in the petroleum and natural gas industry in western Canada, Petrus' receivables relating to the sale of petroleum and natural gas are

received on or about the 25th day of the following month. Of the \$5.1 million of accounts receivable outstanding as at June 30, 2012 (all of which is less than 90 days old), \$3.5 million is owed from four parties and was received subsequent to the quarter end. No provision has been made for past due receivables as of June 30, 2012 as the Corporation has assessed there are no impaired receivables.

Liquidity risk

Liquidity risk relates to the risk the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The financial liabilities on its statement of financial position consist of accounts payable and accrued liabilities. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future cash flows.

Market risk

Market risk is the risk of uncertainty arising from movements of the market price of commodities and interest rates. For the period ended June 30, 2012, it is estimated that a \$0.25/mcf decrease in the price of natural gas would have increased the net loss by \$119,795. For the period ended June 30, 2012, it is estimated that a \$5.00/CDN WTI/bbl decrease in the price of oil would have increased the net loss by \$62,293.

14. DEFERRED INCOME TAXES

	Six months ended June 30, 2012
Income (loss) before taxes	(62,506)
Combined federal and provincial tax rate	25.0%
Computed "expected" tax expense (recovery)	(15,626)
Increase/(decrease) in taxes resulting from:	
Permanent items	168,819
Impact of flow-through shares	489,928
Deferred tax benefits previously not recognized	(122,812)
Part XXII.6 tax	2,660
Deferred tax expense	538,595
Effective tax rate	25.0%

The Corporation had non-capital losses of approximately \$10,588,929 which may be applied against future income for Canadian tax purposes. These noncapital losses expire in 2031 and 2032.

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

\$	Six months ended June 30, 2012
Source (use) in non-cash working capital:	
Accounts receivable, deposits and prepaid expenses	(2,274,240)
Accounts payable and accrued liabilities	(1,670,565)
	(3,944,805)
Operating activities	(2,016,966)
Financing activities	29,026
Investing activities	(1,956,865)

16. OPERATING EXPENSES

The Company's \$2.6 million of operating expenses for the six months ended June 30, 2012 consist of \$740,995 of processing, gathering and compression charges and \$1.8 million of other operating expenses incurred to operate the Company's producing assets.

17. GENERAL AND ADMINISTRATIVE EXPENSES

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

	Six months ended June 30, 2012
\$	
Salaries and benefits	903,076
Subscriptions and licenses	69,507
Office costs	220,770
Legal, accounting and consulting	149,023
Capitalized general and administrative	(382,207)
	960,169

18. COMMITMENTS AND CONTINGENCIES

Provisions and Contingencies

At June 30, 2012, the Company was committed to incur exploration expenditures of \$1.3 million on or before December 31, 2013, related to the flow through share issuance completed on June 29, 2012. The Company satisfied the obligation attributed to the flow through share financing which closed on November 14, 2011 during the first quarter of 2012.

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

Commitments (000s)	Total	< 1 year	1-3 years	> 4 years
Office equipment lease	20	5	10	5
Capital commitments	7,178	1,778	5,400	—
Corporate office lease	2,515	315	331	1,869
Total commitments	9,713	2,098	5,741	1,874

19. SUBSEQUENT EVENTS

Financial derivative contracts

Subsequent to June 30, 2012, the Company entered into the following commodity financial derivative contracts:

Natural Gas			Price
Period Hedged	Type	Daily Volume	(CAD)
Aug. 1, 2012 to Mar. 31, 2013	Fixed price	2,000 GJ	\$2.62/GJ
Nov. 1, 2013 to Mar. 31, 2014	Costless collar	4,000 GJ	\$3.25 - \$3.53/GJ
Apr. 1, 2013 to Oct. 31, 2013	Costless collar	4,000 GJ	\$2.80 - \$3.02/GJ

Crude Oil			Price
Period Hedged	Type	Daily Volume	(USD)
Aug. 1, 2012 to Dec. 31, 2012	Costless collar	400 Bbl	WTI \$82.50 - \$90.75/Bbl
Jan 1, 2013 to Dec. 31, 2013	Costless collar	400 Bbl	WTI \$82.50 - \$92.45/Bbl

Common share issuance

In July, 2012 the Company issued 2,772,557 common shares at a price of \$1.75 per share for gross proceeds of \$4.9 million. In addition, the Company issued 10,000 common shares on a flow through basis at a price of \$2.10 per share for gross proceeds of \$21,000. The issuances were subsequent additional closings related to the June 2012 private equity placement. Under National Instrument 45-102, the common shares issued are subject to a restricted hold period which expires November 5, 2012.

Contingent liability settlement

Petrus was the subject of litigation arising out of the termination of an officer of the Company. The claim was settled and closed subsequent to June 30, 2012. Petrus recorded a provision for the full settlement including related litigation fees in the second quarter of 2012, based upon the actual amounts incurred.

CORPORATE INFORMATION**OFFICERS**

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Cheree Stephenson, CA
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