Q1 Petrus Resources

2013 First Quarter Interim Report

For the Three Months Ended March 31, 2013

QUARTERLY HIGHLIGHTS

	Three months ended				
(000s) except per boe amounts	**Mar. 31, 2013**	**Dec. 31, 2012**	**Sept. 30, 2012**	**June 30, 2012**	**Mar. 31, 2012**
OPERATIONS					
Average Sales					
Natural gas (mcf/d)	10,315	9,128	9,189	5,219	6,425
Oil (bbl/d)	1,212	1,139	991	139	77
NGLs (bbl/d)	76	75	48	15	28
Total (boe/d)	**3,007**	**2,735**	**2,571**	**1,024**	**1,176**
Natural gas production weighting	***57%***	***56%***	***60%***	***85%***	***91%***
Realized Sales Prices					
Natural gas ($/mcf)	3.29	3.49	2.38	1.92	2.22
Oil ($/bbl)	77.02	76.31	80.55	74.8	104.97
NGLs ($/bbl)	71.55	64.08	64.33	67.39	57.52
Total ($/boe)	44.15	45.19	40.76	20.87	20.38
Hedging gain (loss) ($/boe)	(1.21)	(0.56)	1.14	2.59	1.80
Operating Netback					
Effective price ($/boe)	42.94	44.63	41.90	23.46	22.18
Royalty exp (recovery) ($/boe)	8.31	7.22	6.88	(5.85)	4.90
Operating expense ($/boe) [1]	11.38	7.94	13.69	13.51	5.66
Transportation expense ($/boe)	1.82	1.10	1.28	1.50	0.85
Operating netback ($/boe)	**21.43**	**28.37**	**20.05**	**14.30**	**10.77**
FINANCIAL ($000s except per share)					
Oil and natural gas revenue	12,096	11,468	9,742	2,011	2,253
Funds from operations	5,566	6,268	4,502	505	890
Funds from operations per share	0.06	0.07	0.05	0.02	0.03
Net income (loss)	46	551	1,352	(601)	1,459
Net income (loss) per share	0.01	0.01	0.02	(0.02)	0.05
Capital expenditures	19,533	21,457	14,471	5,507	10,725
Acquisitions	—	—	432	59,198	—
Wtd average shares (000s)	86,276	86,276	86,124	32,174	32,033
As at quarter end ($000s)					
Working capital (deficit)	(10,551)	2,793	17,285	21,652	(2,241)
Shareholder's equity	146,432	145,782	145,675	138,688	52,293
Total assets	184,139	181,976	167,438	153,261	62,836

[1] Operating expenses are presented net of processing income and overhead recoveries.

March 31, 2013

HIGHLIGHTS

- First quarter sales averaged 3,007 boe/d (57% natural gas), up from 1,176 boe/d (91% natural gas) in the first quarter of 2012. The increased production volume and oil weighting is attributed to successful light oil drilling and the oil weighted asset acquisition which closed in June 2012.

- With the increased oil weighting, the first quarter operating netback doubled to $21.43/boe from $10.77/boe in the comparable prior year period. The oil and liquids weighting continues to increase as a result of successful drilling operations.

- Sales apportionments during the first quarter of 2013 resulted in higher ending oil inventories. Petrus negotiated a rail sales option for a portion of its Rycroft oil volumes subsequent to quarter end. The excess inventory was sold via rail which will contribute to Petrus' second quarter cash flow.

- Funds from operations for the first quarter of 2013 increased over fivefold to $5.6 million from $0.9 million in the first quarter of 2012. Funds from operations on a per share basis doubled over the same period from $0.03 per share to $0.06 per share.

- Two new foothills Cardium light oil wells were brought on production in March, which added approximately 360 bbl/d (net) of light oil production, at quarter end. The gas production from the two wells will be brought on stream in the second quarter.

- In May the Company conducted its annual review with its lender. As a result of the company's successful growth, the total credit facility has been expanded from $40 million to $60 million.

OPERATIONS UPDATE

Foothills
Drilling success continues to add new oil weighted production in the foothills. Petrus realizes low operating costs on a per boe basis due to the high production and low decline rates of these Cardium wells.

Peace River
Oil and natural gas producers continue to use advancements in technology to unlock increasing quantities of oil and natural gas liquids throughout western Canada. Due to high utilization of existing pipeline capacity and increased producer activity in developmental and exploration type plays, Petrus experienced infrastructure constraints in the Peace River area during the first quarter. Petrus was required to redirect a portion of its NGL production to a new processing facility which will result in higher trucking costs. Sales deliveries of crude were also apportioned in the first quarter. As a result, Petrus held significantly higher ending crude oil inventory and first quarter cash flow was therefore lower than it could have been. Petrus sold these inventoried volumes via rail in April which reduced inventories to normal levels. Sales apportionments have been significantly reduced to date in the second quarter and if apportionments continue in the future, Petrus will utilize the rail alternative it has secured.

EXPLORATION AND DEVELOPMENT UPDATE

Foothills – Brown Creek
In Q4 2012 and the first quarter of 2013, Petrus initiated drilling of two net operated Cardium horizontal wells targeting light oil in Brown Creek. The first well produced light oil on a three month test at a stable unstimulated rate of approximately 30 bbl/d. The company is currently preparing the well for a multi-stage stimulation to enhance inflow. The second well tested natural gas at a rate of 4 mmcf/d. Tie-in of this well is underway and it is expected to be on-stream later in June at a restricted rate of 1.5 mmcf/d as a result of downstream facility constraints. The results from the first two wells have been integrated into our structural interpretation and confirm our confidence in the Brown Creek structure where Petrus has access to a number of additional drilling locations.

Foothills – Cordel
Petrus participated in the drilling of two Cardium horizontal wells in the fourth quarter of 2012 with an average working interest of 20%. The wells came on stream in the first quarter of 2013 with combined light oil production of 360 bbl/d (net). The associated natural gas was tied-in in the second quarter of 2013 adding a further 158 boe/d net.

Petrus has participated in three (1.0 net) additional Cardium horizontal wells to date in 2013. The first two wells were drilled from a multi-well pad where Petrus has a 33.33% working interest. The wells were swabbed and tested before being suspended in order to drill at least one additional well from the same pad. The first well was completed and tested at an average rate of 950 bbl/d (313 bbl/d net) of oil and approximately 480 mcf/d (158 mcf/d net) of associated natural gas. The second well was tested and free-flowed at an average rate of 750 bbl/d (280 bbl/d net) of oil, with 600 mcf/d (198 mcf/d net) of associated natural gas. This production will be brought onstream once drilling operations on the pad are complete.

Foothills – Cabin Creek

Together with an industry partner on a 50/50 basis, Petrus has recently entered into a farm-in in the Cabin Creek area of the Alberta Foothills. The prospect is targeting light oil in the Cardium with the first horizontal well earning the farmor's 100% working interest in a 6 section block subject to a non-convertible overriding royalty. The agreement provides for a rolling option which would allow Petrus and partner to drill additional wells to earn the farmor's interest (subject to a non-convertible overriding royalty) in up to an additional 18 sections of land. The first earning well is currently drilling.

Peace River

In Peace River, the Company continued to evaluate the results of its 2012 capital program in preparation for its current year program which will commence after breakup. Petrus plans to drill five (5 net) production wells and two (2 net) water disposal wells and to construct two water disposal facilities to reduce trucking and disposal fees and optimize operating netbacks.

PRESIDENT'S MESSAGE AND OUTLOOK

Petrus spent much of the first quarter evaluating results from drilling programs executed in the previous two quarters and preparing for an active program post breakup. Continued success in the foothills oil program; an exciting new foothills farm-in; and a wide range of drilling and operating cost optimization projects in the greater Tangent area provide abundant opportunities to add shareholder value. Additionally, the lack of new capital and/or incremental debt availability has starved many Canadian junior companies for an extended period of time. This has led to a continued buyer's market for companies and assets where acquisitions can be completed at historically attractive metrics. With a rapidly expanding cash flow, a clean balance sheet, and supportive shareholders, Petrus is in a very good position to take advantage of the full spectrum of available opportunities.

Petrus' Annual General Meeting will be held at the Metropolitan Conference Centre, 333 – 4th Avenue SW, Calgary on Tuesday June 4th, 2013 at 9:00 a.m. (Calgary time).

Kevin Adair
President, CEO and Director

MANAGEMENT'S DISCUSSION & ANALYSIS

Petrus Resources Ltd. ("Petrus" or the "Company") 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. Additional information relating to the Company, is available electronically on the Company's website at www.petrusresources.com.

The following is management's discussion and analysis ("MD&A") of the financial and operating results of the Company as at and for the three month period ended March 31, 2013. This MD&A should be read in conjunction with the interim financial statements for the three months ended March 31, 2013 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 June 3, 2013.

QUARTERLY FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

			Three months ended		
	Mar. 31, 2013	**Dec. 31, 2012**	**Sept. 30, 2012**	**June 30, 2012**	**Mar. 31, 2012**
Quarterly average sales					
Natural gas (mcf/d)	10,315	9,128	9,189	5,219	6,425
Oil (bbl/d)	1,212	1,139	991	139	77
NGLs (bbl/d)	76	75	48	15	28
Total (boe/d)	**3,007**	**2,735**	**2,571**	**1,024**	**1,176**
Total (boe)	270,638	251,621	236,406	93,151	107,027
Exit production (boe/d) (1)	3,071	2,853	2,682	2,612	1,152
Exit gas weighting	53%	58%	57%	68%	91%
Revenue (000s)					
Natural Gas	3,058	2,935	2,012	913	1,297
Oil	8,399	8,000	7,248	946	736
NGLs	491	437	376	91	148
Commodity revenue	11,948	11,372	9,636	1,950	2,181
Royalty revenue	148	95	107	61	72
Oil and natural gas revenue	12,096	11,467	9,744	2,011	2,253
Average realized prices					
Natural gas ($/mcf)	3.29	3.49	2.38	1.92	2.22
Oil ($/bbl)	77.02	76.31	80.55	74.80	104.97
NGLs ($/bbl)	71.55	64.08	64.33	67.39	57.52
Total ($/boe)	44.15	45.19	40.76	20.93	20.38
Hedging gain (loss)	(1.21)	(0.56)	1.14	2.59	1.80
Total realized ($/boe)	42.94	44.63	41.90	23.52	22.18

			Three months ended		
Average benchmark prices	**Mar. 31, 2013**	**Dec. 31, 2012**	**Sept. 30, 2012**	**June 30, 2012**	**Mar. 31, 2012**
Natural gas					
AECO (C$/mcf)	3.09	3.05	2.14	1.85	2.11
Crude Oil					
Edm Lt. (C$/ bbl)	88.54	82.85	84.79	84.38	97.62
Foreign Exchange					
US$/C$	1.00	1.01	1.01	0.99	0.99

(1) Oil production as at and for the three months ended March 31, 2013 was approximately 100 bbl/d higher than oil sales due to sales apportionments. Sales are expected to resume to normal levels in the second quarter, therefore ending inventory values will decrease in future periods.

PRODUCTION AND COMMODITY PRICES

Exit production for the first quarter of 2013 was 3,071 boe/d, compared to 1,152 boe/d for the first quarter of the prior year. The increase is due to incremental production related to the Company's drilling program as well as the Peace River asset acquisition in the second quarter of 2012. The production weighting was approximately 53% natural gas at March 31, 2013 (March 31, 2012 – 91%).

During the three months ended March 31, 2013, the benchmark natural gas price in Canada (set at the AECO hub) increased by 46% from the prior year (average price of $3.09 per mcf in the first quarter compared to $2.11 per mcf in the prior year). The average realized gas price during the first quarter of 2013 was $3.29 per mcf compared to $2.22 per mcf in the prior year, which represents a 48% increase. Natural gas revenue for the first quarter of 2013 was $3.1 million and production of 928,350 mcf accounted for approximately 57% of fourth quarter production volume and 26% of total revenue (compared to $1.3 million and production of 584,690 mcf for 91% of production volume and 60% of total revenue in the prior year).

Oil prices decreased 9% from the first quarter of the prior year to the first quarter of 2013. The West Texas Intermediate benchmark (WTI) averaged $88.54 per bbl for the first quarter of 2013 compared to an average price of $97.62 per bbl for the first quarter of 2012. 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 condensate in the oil revenue stream for reporting purposes. The average realized price of Petrus' crude oil and condensate was $77.02 for the first quarter of 2013 compared to $104.97 per bbl for the prior year comparable period. The oil and condensate revenue for the first quarter of 2013 was $8.4 million and production of 109,080 bbl accounted for approximately 40% of first quarter production volume and 70% of first quarter total revenue (compared to $736,000 and production of 7,020 bbl for 7% of production volume and 34% of total revenue in the first quarter of the prior year).

Petrus' natural gas liquids (NGL) production mix consisted of ethane, butane, propane, pentane 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 first quarter of 2013, Petrus' overall realized NGL price averaged $71.55 per bbl compared to $57.52/bbl in the prior year. The NGL revenue for the first quarter of 2013 was $491,000 and production of 6,840 bbl accounted for approximately 3% of the Company's production volume and 4% of total revenue in the first quarter (compared to $148,000 and production of 2,558 bbl for 3% of total production and 7% of total revenue for the first quarter of the prior year).

FUNDS FROM OPERATIONS AND EARNINGS

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.

Petrus generated funds from operations of $5.6 million during the quarter ended March 31, 2013 ($890,000 during the first quarter of 2012). The significant increase is attributed to the increase in oil weighting and production over the year due to the asset acquisition in the second quarter of 2012 as well as successful drilling results.

Net income decreased to $46,382 in the first quarter of 2013 (compared to net income of $1.5 million in the first quarter of the prior year). The decreased net income is explained by increased expenses attributed to the increased asset and production base and a significant unrealized hedging gain recognized in the prior year.

The following table provides detail on the Company's funds from operations on a barrel of oil equivalent ("boe") basis.

	Three months ended									
	Mar. 31, 2013		**Dec. 31, 2012**		**Sept. 30, 2012**		**June 30, 2012**		**Mar. 31, 2012**	
	$000s	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**
O&G revenue	11,948	44.15	11,372	45.19	9,637	40.76	1,950	20.87	2,181	20.38
Transportation	(491)	(1.82)	(277)	(1.10)	(303)	(1.28)	(140)	(1.50)	(91)	(0.85)
Net revenue	11,457	42.33	11,095	44.09	9,334	39.48	1,810	19.37	2,090	19.53
Royalty expense	(2,250)	(8.31)	(1,818)	(7.22)	(1,626)	(6.88)	503	5.85	(524)	(4.90)
Royalty income	148	0.55	96	0.38	106	0.46	61	0.72	72	0.67
Net O&G revenue	**9,355**	**34.57**	**9,373**	**37.25**	**7,816**	**33.06**	**2,416**	**25.94**	**1,638**	**15.30**
Operating exp (1)	(3,080)	(11.38)	(1,998)	(7.94)	(3,236)	(13.69)	(1,259)	(13.51)	(607)	(5.66)
Hedging gain (loss)	(327)	(1.21)	(142)	(0.56)	270	1.14	242	2.59	193	1.80
G&A expense	(276)	(1.02)	(546)	(2.17)	(379)	(1.60)	(658)	(7.06)	(348)	(3.25)
Interest expense	(106)	(0.39)	(71)	(1.02)	32	0.13	(236)	(2.54)	14	0.12
Funds from operations	**5,566**	**20.57**	**6,616**	**25.56**	**4,502**	**19.04**	**505**	**5.42**	**890**	**8.32**

(1) Operating expenses are presented net of processing income and overhead recoveries.

(000s)	Three months ended				
	Mar. 31, 2013	**Dec. 31, 2012**	**Sept. 30, 2012**	**June 30, 2012**	**Mar 31, 2012**
Funds from operations	**5,566**	**6,616**	**4,502**	**505**	**890**
Funds from operations/share	0.06	0.07	0.05	0.02	0.03
Net income (loss)	**46**	**(706)**	**1,738**	**(2,060)**	**1,459**
Net income (loss)/share	0.01	(0.01)	0.02	(0.06)	0.05
Common shares (000s)	86,276	86,276	86,276	83,493	32,033
Wtd average shares (000s)	86,276	86,276	86,124	32,174	32,033

Crown Royalties	Three months ended			
	Mar. 31, 2013	Mar. 31, 2012	Change	Dec. 31, 2012
Oil and NGLs (000s)	2,100	291	622%	1,382
% of production revenue	24%	33%	(27)%	21%
Natural gas (000s)	150	233	(36)%	436
% of production revenue	6%	18%	(67)%	15%
Total (000s)	**2,250**	**524**	**329%**	**1,818**
% of production revenue	**20%**	**24%**	**(17)%**	**16%**

Petrus' overall effective crown royalty rate was 20% for the three months ended March 31, 2013 which is lower than the 24% paid in the first quarter of 2012, due to increased gas cost allowances received, attributed to the Peace River asset acquisition. The Company's increased light oil weighting further decreased the effective royalty rate paid on oil and natural gas liquids production.

Other Income (000s)	Three months ended			
	Mar. 31, 2013	Mar. 31, 2012	Change	Dec. 31, 2012
Interest income	—	17	(100)%	48
Total other income	**—**	**17**	**(100)%**	**48**
Realized hedging gain (loss)	(328)	194	(269)%	(142)
Unrealized hedging gain (loss)	(1,475)	1,677	(188)%	(2,327)
Total gain (loss) on derivatives	**(1,803)**	**1,871**	**(196)%**	**(2,469)**

Petrus enters into future financial derivative contracts to hedge against the risk of commodity price declines. Improvements in commodity prices resulted in a first quarter hedging loss of $327,902, compared to a $193,552 gain realized in the same quarter of the prior year. At March 31, 2013, Petrus recorded a risk management asset of $334,423 as well as a risk management liability of $1.7 million ($1.3 million net), which represents the value of the future derivative contracts had they settled on that date (comparatively Petrus recognized a $1.7 million risk management asset at March 31, 2012).

Operating Expenses (000s)	Three months ended			
	Mar. 31, 2013	Mar. 31, 2012	Change	Dec. 31, 2012
Operating expense	3,293	976	237%	3,236
Processing revenue	(213)	(370)	157%	(1,238)
Operating expense, net	3,080	606	408%	1,998
Operating expense, net (per boe)	$11.38	$5.66	101%	$7.94

Operating expenses totalled $3.3 million for the first quarter of 2013, a 237% increase from $976,402 recorded in the same quarter of the prior year. The difference is due to the Peace River asset acquisition in June 2012 and increased production from new drilling. Operating costs net of recoveries and processing income were $11.38 per boe for the first quarter, as compared to $7.94 per boe for the previous quarter. The increase in net operating costs is attributed in part to (i) high offsetting recoveries received in the fourth quarter of 2012 related to jointly owned facility turnaround projects and (ii) high water and emulsion trucking fees incurred on new Peace River production. Petrus will install new facilities in 2013 to dispose of water which will reduce operating costs on its operated production.

Transportation Expenses (000s)	Three months ended			
	Mar. 31, 2013	Mar. 31, 2012	Change	Dec. 31, 2012
Transportation expense	491	91	440%	277
$/boe	$1.82	$0.85	114%	$1.10

Petrus pays commodity and demand charges for transporting its gas on various pipeline systems as well the Company incurs trucking costs on a portion of its oil and natural gas liquids production. Transportation expenses totalled $491,232 or $1.82 per boe ($90,932 or $0.85 per boe for the comparative period in the prior year). The increase is due to the Peace River asset acquisition as well as increased light oil production from the drilling program.

G&A Expenses (000s)	Three months ended			
	Mar. 31, 2013	Mar. 31, 2012	Change	Dec. 31, 2012
Gross G&A expense	744	383	94%	966
Capitalized G&A	(467)	(35)	1,234%	(420)
Net G&A expense	**276**	**348**	**(21)%**	**546**
Share based compensation, net	293	223	31%	323
Total G&A expense, net	**569**	**571**	**(1)%**	**869**

The first quarter of 2013 general and administration ("G&A") expenses, net of capitalized costs directly attributable to exploration and development totalled $276,091 or $1.02/boe (compared to $571,000 or $5.76/boe for the first quarter of 2012). The decrease in G&A is on a boe basis is due to increased capitalized G&A component, to reflect the increased exploration and development activity of the Company, as well as increased production due to the Peace River asset acquisition and new volumes attributed to successful drilling. G&A expenses are lower in the first quarter of 2013 compared to the prior quarter due to management bonuses, audit and engineering costs incurred in the fourth quarter of 2012.

Depletion and Depreciation (000s)	Three months ended			
	Mar. 31, 2013	Mar. 31, 2012	Change	Dec. 31, 2012
Depletion	3,492	783	346%	5,423
Depreciation	105	119	(12)%	174
Total	**3,597**	**902**	**299%**	**5,597**
Depletion ($/boe)	$12.90	$7.87	64%	$21.55
Depreciation ($/boe)	$0.39	$0.11	255%	$0.69
Total ($/boe)	**$13.29**	**$7.98**	**67%**	**$22.24**

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 first quarter of 2013 of $3.5 million or $12.90 per boe, compared to the first quarter of 2012, when $783,000 was recorded. The increase is due to the Peace River asset acquisition in June 2012 as well as capital costs incurred late in 2012 which were added to the depletable base late in 2012 once they had achieved technical feasibility. For the quarter ended March 31, 2013, depreciation expense totalled $105,000 (compared to $119,000 in the comparable quarter of the prior year).

CAPITAL EXPENDITURES AND ACQUISITIONS

Capital expenditures, excluding acquisitions, totalled $19.5 million in the first quarter of 2013 compared to $10.7 million in the first quarter of the prior year. The majority of funds were invested in drilling and completions as well as processing facilities and production tie-ins.

($000s)	Three months ended				
	Mar 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
Drill and complete	15,411	16,578	9,166	4,389	9,517
Oil and gas equipment	2,658	2,569	188	320	70
Geological	2	19	710	—	58
Land and lease	673	1,174	3,609	—	897
Office	28	374	280	274	52
Capitalized G&A	760	742	518	524	131
Total	**19,533**	**21,457**	**14,471**	**5,507**	**10,725**
Acquisitions	—	—	432	59,198	—
Total capital	**19,533**	**21,457**	**14,903**	**64,705**	**10,725**
Gross (net) wells spud	5 (2.7)	10 (9.1)	5 (3.2)	4 (1.1)	4 (1.6)

RESERVES

The following table provides a summary of the Company's reserves, evaluated by GLJ Petroleum Consultants ("GLJ"):

Reserves and Reserve Ratio Summary

	December 31, 2012			December 31, 2011		
Working Interest[(1)] Reserves	**(MBoe)**	**FD&A[(2)]**	**RLI[(3)]**	**(MBoe)**	**FD&A[(2)]**	**RLI[(4)]**
Proved Producing	5,084	$49.64	5.05	2,887	$14.94	6.1
Total Proved	7,584	$42.90	7.54	4,912	$10.51	10.4
Total Proved +Probable	12,171	$24.79	12.09	6,703	$8.19	14.2
Net Present Value ($000s) Discounted at 10%						
Proved Producing	71,336	—	—	38,665	—	—
Total Proved	90,923	—	—	51,968	—	—
Total Proved +Probable	149,484	—	—	67,542	—	—

(1) Working Interest reserves refer to Company interest reserves less royalty interest reserves as defined in the GLJ report

(2) FD&A (finding, development and acquisition) cost is defined as capital costs for the time period including change in future development capital divided by change in reserves including revisions and production for that same time period.

(3) RLI (reserve life index) is defined as total reserves by category divided by the annualized Q4 2012 production.

(4) RLI (reserve life index) is defined as total reserves by category divided by the annualized Nov and Dec, 2011 production.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2013, the Company had a demand revolving credit facility of $40 million with a major Canadian lender. The Company has a $180,000 letter of credit outstanding at March 31st, and had drawn $11.3 million at quarter end. Subsequent to March 31, 2013 the Company conducted its annual review with its lender. The Company's credit facility has been expanded from $40 million to $60 million and will consist of a $55 million revolving credit facility and a $5 million development line.

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 2013 through a combination of cash flow, current working capital and 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.

ADVISORIES

Basis of Presentation

Financial data presented below have largely been derived from the Company's financial statement, prepared in accordance with International Financial Reporting Standards ("IFRS"). Accounting policies adopted by the Company are set out in the notes to the audited financial statements as at and for the twelve months ended December 31, 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.

Abbreviations

000's	*thousand dollars*
bbl	*barrel*
bbl/d	*barrels per day*
bcf	*billion cubic feet*
boe/d	*barrel of oil equivalent per day*
CAD	*Canadian dollar*
GJ	*gigajoule*
GJ/d	*gigajoules per day*

mbbls	*thousand barrels*
mboe	*thousand barrels of oil equivalent*
mcf	*thousand cubic feet*
mcf/d	*thousand cubic feet per day*
mmbbls	*million barrels*
mmboe	*millions of barrels of oil equivalent*
mmcf	*million cubic feet*
mmcf/d	*million cubic feet per day*
NGLs	*natural gas liquids*
USD	*United States dollar*
WTI	*West Texas Intermediate*

BALANCE SHEETS
(UNAUDITED)

(Expressed in Canadian dollars)

As at	**March 31, 2013**	**December 31, 2012**
ASSETS		
Current		
Cash and cash equivalents	—	11,589,033
Deposits and prepaid expenses	495,918	589,566
Inventory *(note 3)*	250,000	—
Accounts receivable	9,643,255	11,649,891
Risk management asset *(note 9)*	334,423	371,574
	10,723,596	**24,200,064**
Non-current		
Exploration and evaluation assets *(notes 4 and 5)*	40,280,079	45,790,854
Property, plant and equipment *(notes 5 and 6)*	133,135,580	111,985,145
	173,415,669	157,775,999
	184,139,256	**181,976,063**
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Bank indebtedness	11,304,172	—
Accounts payable and accrued liabilities	9,636,265	21,002,078
Risk management liability *(note 9)*	2,575,753	1,137,562
	23,516,190	**22,139,640**
Non-Current		
Decommissioning obligation *(note 8)*	12,457,693	12,395,714
Deferred income tax liability	1,733,041	1,658,369
	37,706,924	**36,193,723**
Shareholders' Equity		
Share capital *(note 10)*	144,137,302	144,119,128
Contributed surplus	2,688,902	2,103,466
Deficit	(393,872)	(440,254)
	146,432,332	**145,782,340**
	184,139,256	**181,976,063**

See accompanying notes to the financial statements

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)

	Three months ended March 31, 2013	Three months ended March 31, 2012
REVENUE		
Oil and natural gas revenue	**12,095,636**	**2,252,425**
Royalty expense	2,250,029	524,031
Oil and natural gas revenue, net of royalties	**9,697,750**	**1,728,394**
Other income	—	387,081
Gain (loss) on financial derivatives *(note 9)*	(1,803,244)	1,870,647
	8,042,364	**3,986,122**
EXPENSES		
Operating	3,079,637	976,472
Transportation expenses	491,232	90,933
General and administrative	276,091	347,543
Share-based compensation *(note 10)*	292,718	219,257
Finance	166,639	7,767
Depletion and depreciation *(note 6)*	3,596,819	902,570
	7,903,136	**2,548,251**
NET INCOME (LOSS) BEFORE INCOME TAXES	**139,228**	**1,437,871**
Current tax expense	—	—
Deferred income tax expense	92,846	(21,294)
	92,846	**(21,294)**
TOTAL NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**46,382**	**1,459,165**
Net income (loss) per common share		
Basic and diluted	**0.01**	**0.05**

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 at inception	—	—	—	—
Net loss	—	—	(871,193)	(871,193)
Issuance of common shares	54,204,418	—	—	54,204,418
Premium liability of flow-through shares	(1,188,386)	—	—	(1,188,386)
Share-based compensation expensed	—	22,674	—	22,674
Share-based compensation capitalized	—	9,717	—	9,717
Share issue costs	(2,206,403)	—	—	(2,206,403)
Tax benefit of share issue costs	584,697	—	—	584,697
Deferred tax benefits	(376,167)	—	—	(376,167)
Balance, December 31, 2011	**51,018,159**	**32,391**	**(871,193)**	**50,179,357**
Net income	—	—	430,939	430,939
Issuance of common shares	95,160,000	—	—	95,160,000
Premium liability of flow-through shares	(215,422)	—	—	(215,422)
Share-based compensation expensed	—	1,099,242	—	1,099,242
Share-based compensation capitalized	—	971,834	—	971,834
Share issue costs	(2,914,580)	—	—	(2,914,580)
Tax benefit of share issue costs	876,400	—	—	876,400
Deferred tax benefits	194,570	—	—	194,570
Balance, December 31, 2012	**144,119,128**	**2,103,466**	**(440,254)**	**145,782,340**
Net income	—	—	46,382	46,382
Share-based compensation expensed	—	292,718	—	292,718
Share-based compensation capitalized	—	292,718	—	292,718
Tax benefit of share issue costs	18,174	—	—	18,174
Balance, March 31, 2013	**144,137,302**	**2,688,902**	**(393,872)**	**146,432,332**

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Expressed in Canadian dollars)

Funds generated by (used in):	**Three months ended March 31, 2013**	**Three months ended March 31, 2012**
OPERATING ACTIVITIES		
Net income (loss)	**46,382**	**1,459,165**
Adjust items not affecting cash:		
Share-based compensation	292,718	219,257
Unrealized hedging losses *(note 9)*	1,475,342	(1,677,495)
Finance expenses	61,979	7,767
Depletion and depreciation *(note 6)*	3,596,819	902,570
Deferred income tax recovery	92,846	(21,294)
	5,566,086	**889,970**
Change in operating non-cash working capital	(1,850,285)	(748,980)
Funds generated by operations	**7,416,371**	**140,990**
FINANCING ACTIVITIES		
Share issue costs	—	(7,500)
Issuance of bank indebtedness	11,304,172	—
Funds generated by financing activities	**11,304,172**	**(7,500)**
INVESTING ACTIVITIES		
Exploration and evaluation asset expenditures *(note 5)*	(5,744,367)	(10,421,094)
Petroleum and natural gas property expenditures *(note 6)*	(13,182,607)	(139,361)
Other capital expenditures *(note 6)*	(16,789)	(51,884)
Change in investing non-cash working capital	(11,365,813)	3,428,278
Funds used in investing activities	**(30,309,576)**	**(7,184,061)**
Increase in cash and cash equivalents	**(11,589,033)**	**(7,050,571)**
Cash and cash equivalents, beginning of year	**11,589,033**	7,786,788
Cash and cash equivalents, end of year	—	**736,217**
Cash interest paid	104,660	—
Cash taxes paid	—	—

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 three months ended March 31, 2013 and were approved by the Company's Board of Directors June 3, 2013.

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 2400, 240 – 4th Avenue SW, Calgary, Alberta Canada.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These financial statements have been prepared by management using accounting policies have been prepared in accordance 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").

These interim financial statements are stated in Canadian dollars and should be read in conjunction with the audited financial statements and accompanying notes disclosed in the Company's annual report for the year ended December 31, 2012. The interim financial statements have been prepared following the same basis of preparation, accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2012.

3. INVENTORY

At March 31, 2013 Petrus recorded oil inventory valued at its production cost of $250,000 (December 31, 2012; nil).

4. ACQUISITIONS

On June 29, 2012 Petrus closed an acquisition of petroleum and natural gas assets in the Peace River area of Alberta, with an effective date of April 1, 2012, for total cash consideration of $60.3 million, net of adjustments and acquisition related expenses. The transaction was accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value and was financed by existing cash balances and proceeds from an equity financing. A total of $72,243 in acquisition related costs, which relate to professional fees, have been charged to finance expenses in the Statement of Net Income (Loss) and Comprehensive Income (Loss) in the year ended December 31, 2012.

The following table summarizes the net assets acquired pursuant to the acquisition:

Fair value of net assets acquired	
Prepaid operating expenses	568,271
Exploration and evaluation assets	5,612,500
Petroleum and natural gas properties and equipment	61,754,458
Decommissioning obligations	(7,652,684)
Total net assets acquired	**60,282,545**

5. EXPLORATION AND EVALUATION ASSETS

The components of the Company's Exploration and Evaluation assets are as follows:

Balance at inception	**—**
Additions	1,970,697
Capitalized G&A and share-based compensation	58,267
Acquisitions *(note 6)*	5,160,551
Decommissioning costs incurred	42,955
Balance, December 31, 2011	**7,232,470**
Additions	42,693,416
Acquisitions *(note 6)*	5,612,500
Capitalized G&A and share-based compensation	957,661
Decommissioning costs incurred	919,996

Transfers to property, plant and equipment	(11,625,189)
Balance, December 31, 2012	**45,790,854**
Additions	5,510,665
Capitalized G&A and share-based compensation	380,061
Decommissioning costs incurred	—
Transfers to property, plant and equipment	(11,401,501)
Balance, March 31, 2013	**40,280,079**

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. During the year ended December 31, 2012 the Company established technical feasibility and commercial viability in each of its core operating areas, as economical quantities of reserves were determined to exist. The Company determined that no indicators of impairment exist, and transferred $11.6 million of costs to property, plant and equipment (2011 – Nil). For the three months ended March 31, 2013 the Company did not incur exploration and evaluation expense in the Statement of Net Income (Loss) and Comprehensive Income (Loss) (2011 - $Nil).

During the three months ended March 31, 2013 the Company capitalized $380,061 (three months ended March 31, 2012 - $65,000) of general & administrative expenses ("G&A") directly attributable to development activities. Included in this amount is non-cash related share-based compensation of $146,359 (three months ended March 31, 2012 - $48,000).

6. PROPERTY, PLANT AND EQUIPMENT

$	Cost	Accumulated DD&A	Net book value
Balance at inception	—	—	—
Cash additions	246,532	—	246,532
Acquisitions *(note 6)*	36,818,894	—	36,818,894
Capitalized G&A and share-based compensation	58,267	—	58,267
Transfers from exploration and evaluation assets	—	—	—
Depletion & depreciation	—	(626,733)	(626,733)
Change in decommissioning provision	3,592,084	—	3,592,084
Balance, December 31, 2011	**40,715,777**	**(626,733)**	**40,089,044**
Cash additions	5,647,482	—	5,647,482
Acquisitions *(note 6)*	61,754,458		61,754,458
Capitalized G&A and share-based compensation	957,661	—	957,661
Transfers from exploration and evaluation assets	11,625,189	—	11,625,189
Depletion & depreciation	—	(8,088,689)	(8,088,609)
Balance, December 31, 2012	**120,700,567**	(8,715,422)	**111,985,145**
Cash additions	**12,965,692**	—	**12,965,692**
Capitalized G&A and share-based compensation	**380,061**	—	**380,061**
Transfers from exploration and evaluation assets	**11,401,501**	—	**11,401,501**
Depletion & depreciation	—	(3,596,819)	**(3,596,819)**
Balance, March 31, 2013	**145,447,821**	(12,312,241)	**133,135,580**

Estimated future development costs of $42.8 million associated with the development of the Company's proved plus probable undeveloped reserves were included with the costs subject to depletion.

During the three months ended March 31, 2013 the Company capitalized $380,061 (three months ended March 31, 2012 - $65,000) of general & administrative expenses ("G&A") directly attributable to development activities. Included in this amount is non-cash related share-based compensation of $146,359 (three months ended March 31, 2012 - $48,000).

7. REVOLVING CREDIT FACILITY

The Company has a demand revolving credit facility of $40 million with a major Canadian lender. 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 March 31, 2013, the Company has a letter of credit of $180,000 against the facility (2011; no letters of credit) and has drawn $11.3 million against the facility (March 31, 2012; nil).

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 two percent and an inflation rate of two percent (December 31, 2012; two percent and two percent, respectively). The Company has estimated the net present value of the decommissioning obligations to be $12.4 million as at December 31, 2012 which is equal to the undiscounted, uninflated total future liability of $12.4 million. These payments are expected to be incurred over the operating lives of the assets (10 years). The following table reconciles the decommissioning liability:

Balance as at	**2012**
Opening balance	3,652,999
Acquisitions *(note 6)*	7,652,684
Liabilities incurred	919,996
Accretion expense	170,035
Balance, December 31, 2012	**12,395,714**
Liabilities incurred	—
Accretion expense	166,639
Balance, March 31, 2013	**12,457,693**

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 December 31, 2012:

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
Jan. 1, 2013 to Mar. 31, 2013	Fixed price	4,000 GJ	$2.25/GJ
Apr. 1, 2013 to Oct. 31, 2013	Costless collar	1,500 GJ	$2.50 - $3.02/GJ
Jan. 1, 2013 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
Nov. 1, 2013 to Mar. 31, 2014	Fixed price	1,000 GJ	$3.55/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	1,500 GJ	$3.44/GJ
Crude Oil Period Hedged	**Type**	**Daily Volume**	**Price (USD)**
Jan 1, 2013 to Dec. 31, 2013	Costless collar	400 Bbl	WTI $82.50 - $92.45/Bbl
Jan 1, 2013 to Dec. 31, 2013	Fixed price	200 Bbl	WTI $98.35/Bbl
Jan 1, 2013 to Dec. 31, 2013	Fixed price	100 Bbl	WTI $90.73/Bbl
Jan 1, 2014 to Dec. 31, 2014	Put Option	200 Bbl	WTI $85.00/Bbl
Feb 1, 2013 to Dec. 31, 2013	Fixed price	100 Bbl	WTI $95.85/Bbl
Jan 1, 2014 to Dec. 31, 2014	Fixed price	100 Bbl	WTI $92.00/Bbl
Jan 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI $89.00/Bbl
Total risk management asset			$334,423
Total risk management liability			$2,575,753

For the three months ended March 31, 2013, Petrus recorded a realized loss of $327,902 and an unrealized loss of $1.5 million (March 31, 2012 realized gain of $193,000 and unrealized gain of $1.7 million).

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 at inception	—	—
Common shares issued under private placement	11,050,000	11,050,000
Flow-through shares issued, net of premium	2,970,966	5,941,932
Common shares issued under private placement	18,012,050	36,024,100
Share issue costs	—	(2,206,403)
Tax benefit of share issue costs	—	208,530
Balance, December 31, 2011	**32,033,017**	**51,018,159**
Common shares issued under private placement	80,000	160,000
Common shares issued under private placement	50,774,571	88,855,499
Common shares issued under private placement	2,772,557	4,851,975
Flow-through shares issued, net of premium	605,488	1,059,604
Flow-through shares issued, net of premium	10,000	17,500
Share issue costs	—	(2,914,580)
Tax benefit of share issue costs	—	876,400
Deferred tax benefits	—	194,570
Balance, December 31, 2012	**86,275,633**	**144,173,650**
Balance, March 31, 2013	**86,275,633**	**144,173,650**

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 but 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 March 31, 2013, all 6,422,603 of the 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 Company's basic Common shares then issued and outstanding; minus (ii) a number equal to five (5) times the number of Common Shares that are issuable upon exercise of the then outstanding Performance Warrants minus (iii) a number equal to fifty percent (50%) of the number of Common Shares that have previously been issued upon the exercise of Performance Warrants. At March 31, 2013, 4,094,000 stock options were issued. The summary of performance warrant and stock option activity is presented below:

	Number of warrants	Weighted Average Exercise Price ($)
Balance at inception	—	—
Granted	4,934,000	$2.00
Exercised	—	—
Forfeited or expired	—	—
Balance, December 31, 2011	**4,934,000**	**$2.00**
Granted	1,581,603	$2.00
Exercised	—	—
Forfeited or expired	93,000	$2.00
Balance, December 31, 2012	**6,422,603**	**$2.00**
Balance, March 31, 2013	**6,422,603**	**$2.00**
Exercisable, March 31, 2013	—	—

The following tables summarize information about the performance warrants outstanding at March 31, 2013:

	Warrants Outstanding			Warrants Exercisable	
Grant date	**Number outstanding**	**Weighted average exercise price**	**Weighted average remaining life (years)**	**Number exercisable**	**Weighted average exercise price**
December 19, 2011	4,934,000	$2.00	3.97	—	$2.00
March 20, 2012	400,000	$2.00	4.22	—	$2.00
May 1, 2012	400,000	$2.00	4.33	—	$2.00
June 5, 2012	225,000	$2.00	4.43	—	$2.00
July 10, 2012	56,603	$2.00	4.53	—	$2.00
August 6, 2012	400,000	$2.00	4.60	—	$2.00
November 5, 2012	100,000	$2.00	4.85	—	$2.00
	6,515,603	**$2.00**	**4.08**	—	**$2.00**

The fair value of each warrant granted of $0.25 per warrant is estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions (at March 31):

	2013	2012
Risk free interest rate	1.23%	1.36%
Expected life (years)	5	5
Estimated volatility of underlying common shares (%)	50%	65%
Estimated forfeiture rate	20%	20%
Expected dividend yield (%)	0%	0%

Petrus estimated the volatility of the underlying common shares by analyzing the volatility of peer group private 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	3,995,000	$1.75
Exercised	—	—
Forfeited or expired	—	—
Balance, December 31, 2012	**3,995,000**	**$1.75**
Granted	99,000	$2.00
Balance, March 31, 2013	**4,094,000**	**$1.76**
Exercisable, March 31, 2013	—	—

The following tables summarize information about the stock options outstanding at March 31, 2013:

	Stock Options Outstanding			Stock Options Exercisable	
Grant date	**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	4.25	—	$1.75
July 10, 2012	65,000	$1.75	4.28	—	$1.75
August 27, 2012	175,000	$1.75	4.35	—	$1.75
November 5, 2012	155,000	$1.75	4.60	—	$1.75
March 18, 2013	99,000	$2.00	5.00	—	$2.00
	4,094,000	**$1.75**	**4.26**	—	**$1.76**

The fair value of each stock option granted of $0.77 per option is estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions (at March 31):

	2013	**2012**
Risk free interest rate	1.20%	–
Expected life (years)	5	–
Estimated volatility of underlying common shares (%)	50%	–
Estimated forfeiture rate	20%	–
Expected dividend yield (%)	0%	–

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

The following table summarizes the Company's share-based compensation at March 31, 2013:

Share-based compensation expensed in net income	292,718
Share-based compensation capitalized to exploration and evaluation assets	146,359
Share-based compensation capitalized to property, plant and equipment	146,359
Total share-based compensation	**585,436**

11. SUBSEQUENT EVENTS

Common share issuance

On April 26, 2013 the Company issued 52,655 common shares at a price of $2.00 per share and 34,024 flow-through shares at a price of $2.40 per share for total gross proceeds of $186,968. The issuance was a made pursuant to an Exempt Offering which provided employees and key consultants an opportunity to purchase common and flow-through shares of the Company. Under National Instrument 45-102, the common shares issued are subject to a restricted hold period which expires August 27, 2013.

Revolving credit facility

Subsequent to March 31, 2013 the Company completed its annual review with its lender. The Company's credit facility has been expanded from $40 million to $60 million and will consist of a $55 million revolving credit facility and a $5 million development line.

CORPORATE INFORMATION

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Vice President, Engineering

Cheree Stephenson, CA
Vice President, Finance and
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Peter Verburg
Corporate Secretary

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Rick F. Braund
Calgary, Alberta

Peter Verburg
Calgary, Alberta

SOLICITOR
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Calgary, Alberta

AUDITOR
Ernst & Young LLP
Chartered Accountants
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