

**FIRST QUARTER REPORT**

*For the three months ended March 31, 2014*

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**HIGHLIGHTS**

- Average production of 4,373 boe per day in the quarter, up from 3,007 boe per day in the first quarter of 2013, an increase of 33% per debt-adjusted share.
- The operating netback was \$36.71 per boe in the first quarter of 2014, compared to \$21.98 per boe in the same period of 2013 (a 67% increase) due to the Company's higher liquids weighting and a significant improvement in natural gas prices; the realized gas price during the quarter was up 83% year-over-year.
- Production growth and improved netbacks drove strong growth in cash flow per share. Petrus generated \$13.5 million in cash flow from operations during the first quarter, a one-and-a-half-fold increase over the \$5.6 million generated in the same period a year ago. On a debt-adjusted per share basis, year-over-year cash flow growth was 121%.
- Operating expenses decreased from \$11.38 per boe to \$9.47 per boe year over year. Production in Tangent and Berwyn is now tied in to water disposal facilities constructed in 2013 which results in a significant reduction in water hauling and third party disposal fees.
- During the quarter, Petrus closed the previously announced acquisition of oil and natural gas assets in the foothills of Alberta; included in this acquisition were 875 boe per day of production and 36,307 net acres of undeveloped land. The acquisition was made for total cash consideration of approximately \$19.1 million.
- Over the three month period ended March 31, 2014, Petrus invested \$43.0 million in exploration and acquisition activity, up from \$19.5 million in the same period of 2013.
- Petrus had 86.4 million common shares outstanding at March 31, 2014 and access to a \$90.0 million credit facility. The Company ended the quarter with net debt of \$51.6 million, or 0.9x annualized first quarter cash flow.
- At quarter end Petrus had 169,646 net acres of undeveloped land, with a large inventory of oil and gas drilling locations in each of its core operating areas.
- The Petrus Board of Directors approved a base capital budget of \$74 million for 2014, excluding acquisitions. The capital budget provides for the drilling of 36 gross (24 net) wells, with approximately \$45 million directed at foothills development and \$29 million directed toward the Peace River area. Concurrent with closing of the foothills acquisition the capital budget increased to \$100 million. The capital budget will be funded through cash flow and available credit facilities.
- On June 2, 2014 the Company closed its previously announced private placement of common shares; 9,240,000 common shares were issued by way of a brokered private placement and 6,016,000 common shares and 115,000 flow-through shares were issued by way of a concurrent non-brokered private placement. Aggregate gross proceeds of \$50,030,500 from the Offering will be used to fund ongoing capital expenditures and for general corporate purposes.

**SELECTED FINANCIAL INFORMATION**

(000s) except per boe amounts	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013	Three months ended Dec. 31, 2013	Three months ended Sept. 30, 2013	Three months ended June 30, 2013
<b>OPERATIONS</b>					
<b>Average Production</b>					
Natural gas (mcf/d)	12,864	10,315	10,848	10,405	9,681
Oil (bbl/d)	2,134	1,212	1,778	1,373	1,300
NGLs (bbl/d)	95	76	72	54	76
<b>Total (boe/d)</b>	<b>4,373</b>	<b>3,007</b>	<b>3,658</b>	<b>3,162</b>	<b>2,990</b>
<b>Total (boe)</b>	<b>393,601</b>	<b>270,638</b>	<b>336,539</b>	<b>290,877</b>	<b>272,090</b>
<b>Natural gas sales weighting</b>	<b>49%</b>	<b>57%</b>	<b>49%</b>	<b>55%</b>	<b>54%</b>
<b>Exit production (boe/d)</b>	<b>4,641</b>	<b>3,071</b>	<b>4,052</b>	<b>3,235</b>	<b>3,065</b>
<b>Exit natural gas sales weighting</b>	<b>57%</b>	<b>53%</b>	<b>54%</b>	<b>53%</b>	<b>53%</b>
<b>Realized Sales Prices</b>					
Natural gas (\$/mcf)	6.03	3.29	3.78	2.54	3.60
Oil (\$/bbl)	94.13	77.02	77.83	93.93	88.13
NGLs (\$/bbl)	60.91	71.55	65.17	67.20	45.37
Total (\$/boe)	64.99	44.15	50.33	50.31	51.14
Hedging gain (loss) (\$/boe)	(3.64)	(1.21)	(1.21)	(1.46)	(0.55)
<b>Operating Netback (\$/boe)</b>					
Effective price	61.35	42.94	49.12	48.85	50.59
Royalty income <sup>(1)</sup>	0.73	0.55	0.46	0.56	0.57
Royalty expense <sup>(1)</sup>	(13.69)	(8.31)	(7.05)	(8.02)	(7.39)
Operating expense	(9.47)	(11.38)	(9.88)	(8.46)	(10.12)
Transportation expense	(2.21)	(1.82)	(1.61)	(2.19)	(1.71)
<b>Operating netback <sup>(3)</sup> (\$/boe)</b>	<b>36.71</b>	<b>21.98</b>	<b>31.04</b>	<b>30.74</b>	<b>31.94</b>
G & A expense	(1.61)	(1.02)	(1.73)	(1.96)	(1.57)
Net interest expense <sup>(2)</sup>	(0.85)	(0.02)	(0.75)	(0.74)	(0.79)
<b>Corporate netback <sup>(3)</sup> (\$/boe)</b>	<b>34.25</b>	<b>20.94</b>	<b>28.56</b>	<b>28.04</b>	<b>29.58</b>
<b>FINANCIAL (\$000s except per share)</b>					
Oil and natural gas revenue <sup>(1)</sup>	25,581	12,128	17,094	14,741	14,093
Cash flow from operations <sup>(3)</sup>	13,482	5,566	9,320	8,157	8,048
Cash flow from operations per share <sup>(3)</sup>	0.16	0.06	0.11	0.09	0.09
Net income (loss)	2,208	46	2,086	2,171	4,010
Net income (loss) per share	0.03	0.01	0.02	0.03	0.05
Capital expenditures	23,930	19,533	9,736	14,166	15,416
Net acquisitions (dispositions)	19,113	—	—	—	(1,701)
Common shares outstanding	86,377	86,276	86,377	86,377	86,362
Weighted average shares	86,377	86,276	86,377	86,369	86,349
<b>As at quarter end (\$000s)</b>					
Working capital (deficit)	(51,638)	(10,551)	(22,288)	(21,558)	(15,756)
Bank debt outstanding	51,901	11,304	23,380	17,966	20,968
Bank debt available	38,099	28,696	36,620	42,034	39,032
Shareholder's equity	158,655	146,432	156,002	153,857	151,304
Total assets	257,245	184,139	211,952	201,208	199,508

(1) The Company re-classified gross overriding royalty expense from oil and natural gas revenue to royalty expenses in the Statement of Net Income and Comprehensive Income. The comparative information has been re-classified to conform to current presentation.

(2) Interest expense is presented net of interest income.

(3) Non-GAAP measures defined on pages 4 and 5 of the MD&A for the period ended March 31, 2014.



## **OPERATIONS UPDATE**

### **Foothills**

Three successful light oil wells (0.8 net) were drilled in the Cordel area during the first quarter of 2014. Each well had test oil production rates in line with expectations. One of the wells was on production at quarter end with gross production of 339 boe per day (85 net), comprised of 70% light oil. The other two wells were put on production early in the second quarter adding gross production of 360 bbl per day (191 net) of light oil.

During the quarter Petrus closed the previously announced foothills asset acquisition, adding 875 boe per day (94% natural gas) of production. The base purchase price of \$22.9 million was reduced to net cash consideration of \$19.1 million, as \$2.6 million was received due to exercise of a third party ROFR on a minor facility working interest in addition to purchase price adjustments. The acquisition was funded using available credit facilities.

In Brown Creek Petrus has entered into a two Cardium oil well farm-in with an industry partner. A summer drilling program operated by Petrus will drill two to three wells in Brown Creek and two to five wells on other foothills land currently owned by Petrus. This program will primarily target Cardium oil but other zones of interest will also be tested, including Cardium and Notikewin gas.

### **Peace River**

During the first quarter Petrus drilled six net Montney oil wells. Five of the wells produced economic quantities of oil, contributing 335 bbl per day of light oil during the first quarter.

Two new oil batteries with water disposal capabilities are now fully operational at Tangent and Berwyn contributing to reduced operating costs and increased runtime. Petrus is evaluating the economics of a pilot waterflood in each of Tangent and Berwyn and has commenced water injection operations in both areas. The Company believes the waterflood will ultimately improve Montney oil recoveries, based on offset pools in the area.

Petrus has planned a seven to 10 well summer drilling program in Peace River which will commence later in the second quarter.

## **ANNUAL GENERAL MEETING**

The Company's Annual General Meeting will be held at the Jamieson Place Conference Centre, 3<sup>rd</sup> floor, 308-4<sup>th</sup> Ave SW Calgary, Alberta, on Tuesday June 3, 2014 at 9:00 a.m. (Calgary time). The Information Circular and Annual Report for 2013 will be available on the Company's website, [www.petrusresources.com](http://www.petrusresources.com).



## MANAGEMENT'S DISCUSSION & ANALYSIS

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, 2014. The report is dated June 2, 2014. This MD&A should be read in conjunction with the March 31, 2014 interim financial statements. Readers are directed to the advisories at the end of this report regarding forward-looking statements, BOE presentation and non-IFRS measures.

## FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013	Three months ended Dec. 31, 2013	Three months ended Sept. 30, 2013	Three months ended June 30, 2013
<b>Quarterly average production</b>					
Natural gas (mcf/d)	12,864	10,315	10,848	10,405	9,681
Oil (bbl/d)	2,134	1,212	1,778	1,373	1,300
NGLs (bbl/d)	95	76	72	54	76
<b>Total (boe/d)</b>	<b>4,373</b>	<b>3,007</b>	<b>3,658</b>	<b>3,162</b>	<b>2,990</b>
Total (boe)	393,601	270,638	336,539	290,877	272,090
Exit production (boe/d)	4,641	3,071	4,052	3,235	3,065
Exit gas weighting	57%	53%	54%	53%	53%
<b>Revenue (000s)</b>					
Natural Gas	6,980	3,058	3,775	2,431	3,174
Oil	18,081	8,399	12,734	11,866	10,426
NGLs	521	491	430	336	315
Commodity revenue	25,581	11,948	16,939	14,634	13,915
Royalty revenue <sup>(1)</sup>	288	180	155	107	179
Oil and natural gas revenue <sup>(1)</sup>	25,869	12,128	17,094	14,741	14,094
<b>Average realized prices</b>					
Natural gas (\$/mcf)	6.03	3.29	3.78	2.54	3.60
Oil (\$/bbl)	94.13	77.02	77.83	93.93	88.13
NGLs (\$/bbl)	60.91	71.55	65.17	67.20	45.37
Total (\$/boe)	64.99	44.15	50.33	50.31	51.14
Hedging gain (loss)	(3.64)	(1.21)	(1.21)	(1.46)	(0.55)
Total realized (\$/boe)	61.35	42.94	49.12	48.85	50.59
<b>Average benchmark prices</b>					
Natural gas					
AECO (C\$/mcf)	6.00	3.26	3.53	2.43	3.53
Crude Oil					
Edm Lt. (C\$/ bbl)	100.18	88.54	86.70	105.05	92.90
Foreign Exchange					
US\$/C\$	0.91	1.00	0.94	0.96	0.98

(1) The Company re-classified gross overriding royalty expense from oil and natural gas revenue to royalty expenses in the Statement of Net Income and Comprehensive Income. The comparative information has been re-classified to conform to current presentation.

## OIL AND NATURAL GAS REVENUE

Average production for the first quarter of 2014 was 4,373 boe per day (49% natural gas), compared to 3,007 boe per day (57% natural gas) for the first quarter of the prior year. Total commodity revenue increased from \$12.0 million in the first quarter of 2013 to \$25.6 million in the comparative period of 2014.

### Natural gas

During the three months ended March 31, 2014, the benchmark natural gas price in Canada (set at the AECO hub) increased by 84% from the prior year (average price of \$6.00 per mcf in the first quarter compared to \$3.26 per mcf in the first quarter of the prior year). The Company's average realized gas price during the first quarter of 2014 was \$6.03 per mcf compared to \$3.29 per mcf in the first quarter of the prior year, which represents an 83% increase. Natural gas revenue for the first quarter of 2014 was \$7.0 million and production of 1,157,765 mcf accounted for approximately 49% of first quarter production volume and 27% of commodity revenue (compared to revenue



of \$3.1 million and production of 928,350 mcf for 57% of production volume and 26% of commodity revenue in the first quarter of the prior year).

**Crude oil and condensate**

Edmonton Light Sweet (“Edmonton”) crude oil prices increased 13% from the first quarter of 2013 to the first quarter of 2014 (\$100.18 per bbl for the first quarter of 2014 compared to an average price of \$88.54 per bbl for the prior period). The average realized price of Petrus’ crude oil and condensate was \$94.13 per bbl for the first quarter of 2014 compared to \$77.02 per bbl for the same period in the prior year. Oil and condensate revenue for the first quarter of 2014 was \$18.1 million and production of 192,088 bbl accounted for approximately 49% of total production volume and 71% of commodity revenue (compared to revenue of \$8.4 million and production of 109,080 bbl for 40% of total production volume and 70% of commodity revenue in the first quarter of the prior year).

**Natural gas liquids (NGLs)**

Petrus’ NGL production mix consists of ethane, propane, butane, pentane and sulphur. The pricing received for Petrus’ NGL production is based on the product mix, the fractionation process required and the demand for fractionation facilities. In the first quarter of 2014, Petrus’ overall realized NGL price averaged \$60.91 per bbl compared to \$71.55 per bbl in the prior year. NGL revenue for the first quarter of 2014 was \$520,930 and production of 8,553 bbl accounted for approximately 2% of the Company’s production volume and 2% of commodity revenue in the first quarter (compared to revenue of \$491,000 and production of 6,840 bbl for 3% of total production and 4% of commodity revenue for the first quarter of the prior year).

**Royalty Revenue**

Petrus records gross overriding royalty revenue for production related to land or mineral rights owned. The revenue is included in “Oil and Natural Gas Revenue” on the Company’s Statement of Net Income and Comprehensive Income. Royalty revenue earned in the first quarter was \$288,000 compared to \$180,000 in the comparative quarter of the prior year. As noted the Company re-classified gross overriding royalty expense from other income to royalty expenses. The comparative information has been re-classified to conform to current presentation.

**NON-GAAP MEASURES**

Petrus uses key performance indicators and industry benchmarks such as “cash flow from operations,” “cash flow from operations per share,” “cash flow from operations per debt-adjusted share,” and “net debt” to analyze financial and operating performance. These indicators are not defined by IFRS and therefore may not be comparative to performance measures presented by other companies. Management believes that in addition to net income, the aforementioned non-IFRS measurements are useful supplemental measures as they assist in the determination of the Company’s operating performance, leverage and liquidity. Investors should be cautioned, however, that these measures should not be construed as an alternative to both net income and net cash from operating activities, which are determined in accordance with IFRS, as indicators of the Company’s performance.

**Cash Flow from Operations**

Cash flow from operations represents cash flow from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations. Petrus evaluates its financial performance primarily on cash flow from operations and considers it a key performance indicator as it demonstrates the Company’s ability to generate sufficient cash flow to fund capital investment and repay debt. The reconciliation between cash flow from operations and cash flow from operating activities, as defined by IFRS, is as follows:

<b>(\$000s)</b>	<b>Three months ended Mar. 31, 2014</b>	Three months ended Mar. 31, 2013
Cash flow from operating activities	10,912	7,416
Changes in non-cash working capital	2,553	(1,850)
Settlement of decommissioning obligations	17	—
<b>Cash flow from operations</b>	<b>13,482</b>	<b>5,566</b>



### Net Debt

Working capital (net debt) is a non-GAAP measure and is calculated as current assets (excluding financial derivative assets) less current liabilities (excluding financial derivative liabilities) and bank debt. Petrus uses net debt as a key indicator of its leverage and strength of its balance sheet. The reconciliation of net debt, as defined, is as follows:

(\$000s)	As at Mar. 31, 2014	As at Mar. 31, 2013
Current assets (excluding financial derivative assets)	15,202	10,389
Less: current liabilities (excluding financial derivative liabilities)	(14,939)	(9,636)
Less: bank debt	(51,901)	(11,304)
<b>Working capital (net debt)</b>	<b>(51,638)</b>	<b>(10,551)</b>

### Debt-adjusted shares

Debt-adjusted shares are calculated by adding the shares outstanding for the relevant period to the share equivalent of the Company's net debt at end of period. The calculation assumes the debt is extinguished with a share issuance. Petrus is a privately held company with no public market pricing data. In order to determine the price to convert the Company's debt to shares, Petrus uses a six times debt-adjusted cash flow multiple on trailing quarter annualized cash flow. This multiple does not, in any way, indicate a fair value for Petrus' shares and the sole purpose is to show a comparative metric. Weighted average shares are used for the average quarterly and annual production metrics as well as for cash flow growth; end-of-period shares outstanding are used for exit production and reserves growth performance metrics. The table below reconciles the debt-adjusted shares for the average year-over-year cash flow growth performance metric.

(\$000s, except per share amounts)	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013
Weighted average shares outstanding	86,377	86,276
Annualized cash flow from operations before interest	55,008	22,464
Share price to extinguish debt <sup>(1)</sup>	3.22	1.44
Ending net debt	(51,638)	(10,551)
Share equivalent on ending net debt	16,021	7,320
<b>Debt-adjusted shares</b>	<b>102,398</b>	<b>93,596</b>

<sup>(1)</sup>Six times debt-adjusted cash flow multiple.



## CASH FLOW FROM OPERATIONS AND EARNINGS

Petrus generated cash flow from operations of \$13.5 million during the quarter ended March 31, 2014 (\$5.6 million during the first quarter of 2013). Commodity prices, natural gas in particular, improved materially from the prior year. Natural gas (AECO) increased 84% from the first quarter of 2013 to the first quarter of 2014, and Edmonton crude increased 13% for the same period.

Net income increased to \$2.2 million in the first quarter of 2014 (compared to net income of \$46,000 in the first quarter of the prior year). The increase is due to an increase in production and commodity prices relative to the prior year. The following table provides detail on the Company's cash flow from operations on a barrel of oil equivalent ("boe") basis.

	Three months ended Mar. 31, 2014		Three months ended Mar. 31, 2013	
	\$000s	\$/boe	\$000s	\$/boe
Oil and natural gas revenue	25,581	64.99	11,948	44.15
Transportation	(872)	(2.21)	(491)	(1.82)
Net revenue	24,709	62.78	11,457	42.33
Royalty expense <sup>(1)</sup>	(5,387)	(13.69)	(2,282)	(8.31)
Royalty income <sup>(1)</sup>	288	0.73	180	0.55
<b>Net oil and natural gas revenue</b>	<b>19,610</b>	<b>49.82</b>	<b>9,355</b>	<b>34.57</b>
Operating expense <sup>(2)</sup>	(3,727)	(9.47)	(3,080)	(11.38)
Hedging gain (loss)	(1,433)	(3.64)	(327)	(1.21)
General & administrative	(633)	(1.61)	(276)	(1.02)
Interest expense <sup>(3)</sup>	(335)	(0.85)	(106)	(0.39)
<b>Cash flow from operations</b>	<b>13,482</b>	<b>34.25</b>	<b>5,566</b>	<b>20.57</b>

<sup>(1)</sup> The Company re-classified gross overriding royalty expense from oil and natural gas revenue to royalty expenses in the Statement of Net Income and Comprehensive Income. The comparative information has been re-classified to conform to current presentation.

<sup>(2)</sup> Operating expenses are presented net of processing income and overhead recoveries.

<sup>(3)</sup> Interest expense is presented net of interest income.

(000s except per share)	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013
<b>Cash flow from operations</b>	<b>13,482</b>	<b>5,566</b>
Cash flow from operations/share	<b>0.16</b>	0.06
<b>Net Income (loss)</b>	<b>2,208</b>	<b>46</b>
Net income (loss)/share	<b>0.03</b>	0.01
<b>Common shares</b>	<b>86,377</b>	<b>86,276</b>
Weighted average shares	<b>86,377</b>	86,276

## Performance Metrics

Petrus uses certain performance metrics as key indicators to demonstrate the Company's ability to generate shareholder value. On a debt-adjusted per share basis, Petrus increased cash flow from operations 121% quarter-over-quarter from 2013. Petrus increased exit production on a per debt-adjusted thousand share basis 38% from the prior year as shown in the table below:

	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013	% Change
<b>Cash flow from operations per debt-adjusted share<sup>(1)</sup> (\$)</b>	<b>0.13</b>	0.06	<b>121%</b>
<b>Exit production per debt-adjusted thousand shares<sup>(1)</sup> (boe per day)</b>	<b>16.54</b>	11.98	<b>38%</b>

<sup>(1)</sup> Cash flow from operations per debt-adjusted share is a non-GAAP measure and is reconciled to the nearest GAAP measure on page 4 in the section heading "Non-GAAP" Measures.



## RESULTS OF OPERATIONS

### Royalty Expenses

Royalties are paid to the Government of Alberta and to gross overriding royalty owners. The following table shows the Company's quarterly royalty expenses by product category, based upon the primary product produced at the well.

Royalty Expenses (\$000s)	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013
<b>Oil and NGLs (\$000s)</b>	<b>5,000</b>	2,100
% of production revenue	27%	24%
<b>Natural gas (000s)</b>	<b>714</b>	622
% of production revenue	10%	20%
<b>Gas cost (allowance) (000s)</b>	<b>(625)</b>	(472)
<b>Gross overriding<sup>(1)</sup></b>	<b>299</b>	32
<b>Total (000s)</b>	<b>5,388</b>	2,282

<sup>(1)</sup> The Company re-classified gross overriding royalty expense from oil and natural gas revenue to royalty expenses in the Statement of Net Income and Comprehensive Income.

The increase in total royalties from the first quarter of 2013 (\$2.3 million) to the first quarter of 2014 (\$5.4 million) is the result of new production and an increased oil royalty rate paid for certain foothills production.

### Financial Instruments

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 March 31, 2014:

Natural Gas			
Period Hedged	Type	Daily Volume	Price (CAD \$/GJ)
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	1,500 GJ	\$3.44/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	2,500 GJ	\$3.61/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	1,000 GJ	\$3.64/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	1,500 GJ	\$3.65/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	1,000 GJ	\$3.99/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	500 GJ	\$4.07/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	1,000 GJ	\$4.32/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	2,000 GJ	\$3.75/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	2,000 GJ	\$3.81/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	\$3.84/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	\$4.04/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	\$4.10/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	500 GJ	\$4.18/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	\$4.43/GJ

Crude Oil			
Period Hedged	Type	Daily Volume	Price (\$/Bbl)
Apr. 1, 2014 to Jun. 30, 2014	Fixed price	300 Bbl	WTI \$95.90/Bbl
Apr. 1, 2014 to Dec. 31, 2014	Put Option	200 Bbl	WTI \$85.00/Bbl
Apr. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI \$89.00/Bbl
Apr. 1, 2014 to Dec. 31, 2014	Fixed price	100 Bbl	WTI \$92.00/Bbl
Apr. 1, 2014 to Dec. 31, 2014	Fixed price	200 Bbl	WTI \$93.80/Bbl
Apr. 1, 2014 to Jun. 30, 2014	Fixed price	100 Bbl	WTI \$96.05/Bbl
Apr. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI \$CAD105.20/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI \$92.10/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	200 Bbl	WTI \$94.05/Bbl
Aug. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI \$CAD103.05/Bbl
Jan. 1, 2015 to Dec. 31, 2015	Fixed price	200 Bbl	WTI \$CAD100.00/Bbl





Electric Power Period Hedged	Type	Annual Volume	Price (CAD)
Apr. 1, 2014 to Dec. 31, 2014	Fixed price	12,264 MW	\$57.75/MWH
Jan. 1, 2015 to Dec. 31, 2015	Fixed price	12,264 MW	\$50.00/MWH

Subsequent to March 31, 2014 the Company entered into the following financial derivative contracts:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD \$/GJ)
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	\$4.83/GJ

The impact of the contracts which were outstanding during the reporting periods are recorded as realized hedging gains (losses) and affect the Company's realized commodity price. The unrealized gain (loss) is recorded to demonstrate the impact of the outstanding contracts had they settled on the relative financial reporting period date. The contracts entered had the following impact on net income:

Other Income (\$000s)	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013
Realized hedging gain (loss)	(1,432)	(328)
Unrealized hedging gain (loss)	(4,360)	(1,475)
<b>Total gain (loss) on derivatives</b>	<b>(5,792)</b>	<b>(1,803)</b>

Strong commodity prices resulted in a first quarter realized hedging loss of \$1.4 million, compared to a \$328,000 loss realized in the comparative quarter of the prior year. The first quarter realized loss decreased the Company's realized price by \$3.64 per boe, compared to a decrease in the prior year comparative period of \$1.21 per boe.

### Operating Expenses

The following table shows the Company's operating expenses for the reporting periods which are shown net of processing income and overhead recoveries:

Operating Expenses (\$000s)	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013
Operating expense, net	3,727	3,080
Operating expense, net (\$ per boe)	9.47	11.38

Operating expenses totalled \$3.7 million for the first quarter of 2014, a 21% increase from \$3.1 million recorded in the first quarter of the prior year. On a per boe basis, operating expenses declined from \$11.38 to \$9.47 year over year. The reduction is attributed to lower water hauling and disposal fees in Berwyn and Tangent. Production in these Peace River operating areas is now tied in to newly constructed water disposal facilities. Operating expenses are also lower than the prior year (on a per boe basis) due to the prolific nature of Cordel (Foothills) wells on production relative to the prior year.

### Transportation Expenses

The following table shows transportation expenses paid in the reporting periods:

Transportation Expenses (\$000s)	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013
Transportation expense	872	491
\$ per boe	2.21	1.82

Petrus pays commodity and demand charges for transporting its gas on various pipeline systems. The Company also incurs trucking costs on the portion of its oil and natural gas liquids production that is not pipeline connected. Transportation expenses totalled \$872,000 or \$2.21 per boe in the first quarter of 2014 (\$491,000 or \$1.82 per boe for the comparative period of the prior year). The increase in transportation costs is due to the higher reliance on trucking to deliver liquids production to sales points. Production volume increased and trucking costs on a per unit basis increased.



### General and Administrative Expenses

The following table illustrates the Company's general and administrative expenses which are shown net of capitalized costs directly related to exploration and development activities:

General and Administrative Expenses (\$000s)	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013
Gross general and administrative expense	1,079	744
Capitalized general and administrative	(445)	(467)
<b>Net general and administrative expense</b>	<b>634</b>	<b>276</b>
Share based compensation expense	445	585
Capitalized share based compensation	(222)	(293)
<b>Total general and administrative expense, net</b>	<b>857</b>	<b>569</b>

First quarter 2014 net general and administration expenses (excluding non-cash share based compensation), totalled \$634,000 or \$1.61 per boe (compared to \$276,000 or \$1.02 per boe for the first quarter of 2013). Petrus capitalizes and reclassifies those general and administrative expenses which are directly attributable to the acquisition, exploration and development activities of the Company.

### Depletion and Depreciation

The following table compares depletion and depreciation expenses recorded in the reporting periods:

Depletion and Depreciation (\$000s)	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013
Depletion	5,223	3,492
Depreciation	501	105
<b>Total Depletion and Depreciation</b>	<b>5,724</b>	<b>3,597</b>
Depletion (\$ per boe)	13.27	12.90
Depreciation (\$ per boe)	1.27	0.39
<b>Total (\$ per boe)</b>	<b>14.54</b>	<b>13.29</b>

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 2014 of \$5.2 million or \$13.27 per boe, compared to the first quarter of 2013, when \$3.5 million or \$12.90 per boe was recorded. For the quarter ended March 31, 2014, depreciation expense totalled \$501,000, compared to \$105,000 in the comparative quarter of the prior year. The Company's depletion and depreciation have increased from prior year due to the increased production and reserves base.

### SHARE CAPITAL

The authorized share capital consists of an unlimited number of common voting shares without par value. The following table details the number of issued and outstanding instruments for the financial periods shown:

(000s)	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013
<b>Weighted average outstanding commons shares</b>		
Basic	86,376,598	86,275,633
Diluted	87,548,398	86,275,633
<b>Outstanding instruments</b>		
Common shares	86,376,598	86,275,633
Stock options	4,810,000	4,094,000
Warrants	6,422,603	6,422,603



Subsequent to March 31, 2014 the Company issued 245,000 stock options. As at June 2, 2014 the Company had 5,050,000 and 6,407,603 stock options and performance warrants outstanding, respectively.

On June 2, 2014, the Company closed its private placement of 15,371,000 common shares and had 101,747,598 common shares outstanding.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company has a credit facility of \$90 million with a major Canadian lender. The credit facility consists of an \$80 million demand revolver and a \$10 million development line. The facility is available on a revolving basis for a period until June 29, 2014 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 \$200 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 scheduled review will take place June 30, 2014. At March 31, 2014, the Company has no outstanding letters of credit against the facility (December 31, 2013; Nil) and had drawn \$51.9 million against the facility (December 31, 2013; \$23.4 million).

The Petrus Board of Directors approved a base capital budget of \$74 million (before acquisitions) for 2014. The capital budget provides for the drilling of 36 gross (24 net) wells, with approximately \$45 million directed at foothills development and \$29 million directed toward the Peace River area. Concurrent with closing of the acquisition of foothills assets on February 28, 2014 the capital budget increased to \$100 million. The capital budget will be funded through cash flow and credit facilities.

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.



## CAPITAL EXPENDITURES

Petrus invested \$43.0 million in total capital expenditures in the first quarter of 2014 (compared to \$19.5 million in the first quarter of the prior year). The investments were funded by cash flow from operations and the Company's credit facility. The Company closed the acquisition of petroleum and natural gas assets in the foothills of Alberta on February 28, 2014 and the other expenditures were invested in drilling and completions, construction of production facilities and tie-ins. During the quarter Petrus drilled 10 wells (7.0 net). The following table shows capital expenditures for the reporting periods indicated. All capital is presented before decommissioning obligations and settlements:

(\$000s)	Three months ended Mar. 31, 2014	Three months ended Mar. 31, 2013
Drill and complete	17,008	15,411
Oil and gas equipment	4,935	2,658
Geological	658	2
Land and lease	605	673
Office	56	28
Capitalized general and administrative	668	760
<b>Total</b>	<b>23,930</b>	<b>19,533</b>
<b>Acquisitions/(dispositions)</b>	<b>19,113</b>	<b>-</b>
<b>Total capital</b>	<b>43,043</b>	<b>19,533</b>
Gross (net) wells spud	10 (7.0)	5 (2.7)

## SUMMARY OF QUARTERLY RESULTS

(\$000s) except per share amounts	Three months ended							
	Mar. 31, 2014	Dec. 31, 2013	Sep. 30, 2013	Jun. 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sep 30, 2012	Jun. 30, 2012
Oil and natural gas revenue	25,581	16,939	14,634	13,915	11,948	11,372	9,637	1,950
Transportation	(872)	(543)	(636)	(466)	(491)	(277)	(303)	(140)
<b>Net revenue</b>	<b>24,709</b>	<b>16,396</b>	<b>13,998</b>	<b>13,449</b>	<b>11,457</b>	<b>11,095</b>	<b>9,334</b>	<b>1,810</b>
Royalty expense <sup>(1)</sup>	(5,387)	(2,372)	(2,276)	(2,034)	(2,282)	(1,856)	(1,630)	503
Royalty income <sup>(1)</sup>	288	155	107	179	180	134	111	61
<b>Net oil and natural gas revenue</b>	<b>19,610</b>	<b>14,179</b>	<b>11,829</b>	<b>11,594</b>	<b>9,355</b>	<b>9,374</b>	<b>7,815</b>	<b>2,374</b>
Operating expense <sup>(2)</sup>	(3,727)	(3,716)	(2,460)	(2,753)	(3,080)	(1,998)	(3,236)	(1,259)
Hedging gain (loss)	(1,432)	(409)	(425)	(150)	(328)	(142)	270	242
General and administrative expense	(634)	(582)	(571)	(427)	(276)	(546)	(379)	(658)
Interest expense <sup>(3)</sup>	(335)	(252)	(216)	(216)	(5)	(71)	32	(194)
<b>Cash flow from operations</b>	<b>13,482</b>	<b>9,320</b>	<b>8,157</b>	<b>8,048</b>	<b>5,566</b>	<b>6,616</b>	<b>4,502</b>	<b>505</b>
Per share – basic	0.16	0.11	0.09	0.09	0.06	0.08	0.05	0.02
<b>Net income (loss)</b>	<b>2,208</b>	<b>2,086</b>	<b>2,171</b>	<b>4,010</b>	<b>47</b>	<b>(706)</b>	<b>1,738</b>	<b>(2,060)</b>
Per share – basic	0.03	0.02	0.03	0.05	0.01	(0.01)	0.02	(0.06)
<b>Common shares (000s)</b>	<b>86,377</b>	<b>86,377</b>	<b>86,377</b>	<b>86,362</b>	<b>86,276</b>	<b>86,276</b>	<b>86,276</b>	<b>83,493</b>
Weighted average shares (000s)	86,377	86,377	86,369	86,349	86,276	86,276	86,124	32,174
Total assets	257,245	211,952	201,208	199,507	184,139	181,976	167,438	153,422
<b>Net working capital (net debt)</b>	<b>(51,638)</b>	<b>(22,288)</b>	<b>(21,558)</b>	<b>(15,756)</b>	<b>(10,551)</b>	<b>2,826</b>	<b>17,285</b>	<b>21,440</b>

(1) The Company re-classified gross overriding royalty expense from other income to royalty expenses in the Statement of Net Income and Comprehensive Income. The comparative information has been re-classified to conform to current presentation.

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

(3) Interest expense is presented net of interest income.



## CRITICAL ACCOUNTING ESTIMATES

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

### ***Depletion and reserve estimates***

Petroleum and natural gas assets are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). The calculation incorporates the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reservoir engineering reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Reserves estimates, although not reported as part of the Company's financial statements, can have a significant effect on net income (loss), assets and liabilities as a result of their impact on depletion and depreciation, decommissioning liabilities, deferred taxes, asset impairments and business combinations. Independent reservoir engineers perform evaluations of the Company's petroleum and natural gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgment. Estimates of economically recoverable petroleum and natural gas reserves are based upon a number of variables and assumptions such as geoscientific interpretation, production forecasts, commodity prices, costs and related future cash flows, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available or as economic conditions change.

### ***Impairment indicators and cash-generating units***

For purposes of impairment testing, 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.

## **ACCOUNTING POLICIES AND NEW STANDARDS**

### ***Significant accounting policies***

The Company's significant accounting policies can be read in note 3 to the Company's audited financial statements as at and for the year ended December 31, 2013.

### ***New standards and interpretations not yet adopted***

#### ***Levies***

In May 2013, the IASB issued IFRIC 21 Levies, which clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. No liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 is required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. Petrus is currently assessing whether these changes will have an effect on its financial statements.

#### ***Other accounting standards and interpretations***

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. IFRS 9 is expected to be published in three parts. The first part, Phase 1 – classification and measurement of financial instruments sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Phase 1 simplifies the measurement of financial assets by classifying all financial assets as those being recorded at amortized cost or being recorded at fair value. Phase 1 is effective for periods beginning on or after January 1, 2015, although earlier adoption is allowed. Except for certain additional disclosures, the adoption of this standard is not expected to have an impact on the Company's financial statements.



## 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, 2013. 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 nine 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



<i>bbl</i>	<i>barrel</i>
<i>bbl/d</i>	<i>barrels per day</i>
<i>bcf</i>	<i>billion cubic feet</i>
<i>boe/d</i>	<i>barrel of oil equivalent per day</i>
<i>CAD</i>	<i>Canadian dollar</i>
<i>GJ</i>	<i>gigajoule</i>
<i>GJ/d</i>	<i>gigajoules per day</i>
<i>mbbls</i>	<i>thousand barrels</i>
<i>mboe</i>	<i>thousand barrels of oil equivalent</i>
<i>mcf</i>	<i>thousand cubic feet</i>
<i>mcf/d</i>	<i>thousand cubic feet per day</i>
<i>mmbbls</i>	<i>million barrels</i>
<i>mmboe</i>	<i>millions of barrels of oil equivalent</i>
<i>mmcf</i>	<i>million cubic feet</i>
<i>mmcf/d</i>	<i>million cubic feet per day</i>
<i>NGLs</i>	<i>natural gas liquids</i>
<i>USD</i>	<i>United States dollar</i>
<i>WTI</i>	<i>West Texas Intermediate</i>

**Cover page photo credit: Alain Sleighter Photography**





**BALANCE SHEETS  
(UNAUDITED)**

(Expressed in Canadian dollars)

As at	March 31, 2014	December 31, 2013
<b>ASSETS</b>		
<b>Current</b>		
Deposits and prepaid expenses	239,825	303,101
Accounts receivable	14,962,517	10,880,771
Risk management asset (note 8)	—	26,418
	<b>15,202,342</b>	<b>11,210,290</b>
<b>Non-current</b>		
Exploration and evaluation assets (notes 3 and 4)	60,540,941	50,528,518
Property, plant and equipment (notes 3 and 5)	181,502,073	150,212,756
	242,043,013	200,741,274
	<b>257,245,355</b>	<b>211,951,564</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current</b>		
Bank indebtedness (note 6)	51,900,907	23,379,651
Accounts payable and accrued liabilities	14,939,056	10,092,329
Risk management liability (note 8)	6,620,303	2,286,940
	<b>73,460,266</b>	<b>35,758,920</b>
<b>Non-Current</b>		
Decommissioning obligation (note 7)	19,631,460	15,546,813
Deferred income tax liability	5,498,857	4,644,065
	<b>98,590,583</b>	<b>55,949,798</b>
<b>Shareholders' Equity</b>		
Share capital (note 9)	144,339,234	144,339,234
Contributed surplus	4,406,700	3,961,972
Retained earnings (deficit)	9,908,839	7,700,560
	<b>158,654,773</b>	<b>156,001,766</b>
	<b>257,245,355</b>	<b>211,951,564</b>

See accompanying notes to the financial statements

Approved by the Board of Directors,

(signed) "Don T. Gray"

**Don T. Gray**  
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, 2014	Three months ended March 31, 2013
<b>REVENUE</b>		
Oil and natural gas revenue	25,868,939	12,275,496
Royalty expense	5,387,234	2,429,889
<b>Oil and natural gas revenue, net of royalties</b>	<b>20,481,705</b>	<b>9,845,607</b>
Other income	—	—
Gain (loss) on financial derivatives <i>(note 8)</i>	(5,791,850)	(1,803,244)
	<b>14,689,855</b>	<b>8,042,364</b>
<b>EXPENSES</b>		
Operating	3,726,839	3,079,637
Transportation expenses	871,537	491,232
General and administrative	633,410	276,091
Share-based compensation <i>(note 9)</i>	222,364	292,718
Finance	447,882	166,639
Depletion and depreciation <i>(note 5)</i>	5,724,751	3,596,819
	<b>11,626,784</b>	<b>7,903,136</b>
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>3,063,071</b>	<b>139,228</b>
Current tax expense	—	—
Deferred income tax expense	854,792	92,846
	<b>854,792</b>	<b>92,846</b>
<b>TOTAL NET INCOME AND COMPREHENSIVE INCOME</b>	<b>2,208,279</b>	<b>46,382</b>
<b>Net income per common share</b>		
Basic and diluted	0.03	0.01

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
<b>Balance, December 31, 2012</b>	<b>144,119,128</b>	<b>2,103,466</b>	<b>(440,254)</b>	<b>145,782,340</b>
Net income	—	—	8,140,814	8,140,814
Issuance of common shares ( <i>note 9</i> )	215,540	—	—	215,540
Premium liability of flow-through shares	(13,610)	—	—	(13,610)
Share-based compensation expensed	—	929,253	—	929,253
Share-based compensation capitalized	—	929,253	—	929,253
Tax benefit of share issue costs	18,176	—	—	18,176
<b>Balance, December 31, 2013</b>	<b>144,339,234</b>	<b>3,961,972</b>	<b>7,700,560</b>	<b>156,001,766</b>
Net income	—	—	2,208,279	2,208,279
Share-based compensation expensed	—	222,364	—	222,364
Share-based compensation capitalized	—	222,364	—	222,364
<b>Balance, March 31, 2014</b>	<b>144,339,234</b>	<b>4,406,700</b>	<b>9,908,839</b>	<b>158,654,773</b>

*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, 2014	Three months ended March 31, 2013
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	2,208,279	46,382
Adjust items not affecting cash:		
Share-based compensation	222,364	292,718
Unrealized hedging losses (note 10)	4,359,781	1,475,342
Finance expenses (note 12)	112,394	61,979
Depletion and depreciation (note 7)	5,724,751	3,596,819
Deferred income tax expense	854,792	92,846
Decommissioning expenditures	(16,441)	—
	<b>13,465,920</b>	<b>5,566,086</b>
Change in operating non-cash working capital	(2,553,731)	1,850,285
<b>Funds generated by operations</b>	<b>10,912,189</b>	<b>7,416,371</b>
<b>FINANCING ACTIVITIES</b>		
Increase in bank indebtedness	28,521,256	11,304,172
<b>Funds generated by financing activities</b>	<b>28,521,256</b>	<b>11,304,172</b>
<b>INVESTING ACTIVITIES</b>		
Property and equipment (acquisitions) dispositions (note 7)	(19,113,194)	—
Exploration and evaluation asset expenditures (note 6)	(4,455,192)	(5,744,367)
Petroleum and natural gas property expenditures (note 7)	(19,190,541)	(13,182,607)
Other capital expenditures	(56,506)	(16,789)
Change in investing non-cash working capital	3,381,988	(11,365,813)
<b>Funds used in investing activities</b>	<b>(39,433,445)</b>	<b>(30,309,576)</b>
<b>Increase (decrease) in cash</b>	<b>—</b>	<b>(11,589,033)</b>
<b>Cash, beginning of period</b>	<b>—</b>	<b>11,589,033</b>
<b>Cash, end of period</b>	<b>—</b>	<b>—</b>
Cash interest paid	286,054	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, 2014 and were approved by the Company’s Audit Committee June 2, 2014.

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 – 4<sup>th</sup> Avenue SW, Calgary, Alberta Canada.

### 2. BASIS OF PRESENTATION

#### (a) Statement of Compliance

These financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) and adopted by the Canadian Institute of Chartered Accountants (“CICA”).

#### (b) New standards and interpretations not yet adopted

On January 1, 2013, the Company adopted the following new standards and amendments which became effective for periods on or after January 1, 2013:

IFRS 10 *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 replaces those parts of IAS 27 *Consolidated and Separate Financial Statements* (revised 2011) that address when and how an entity should prepare consolidated financial statements and replaces SIC 12.

IFRS 11 *Joint Arrangements* provides for a more substance based reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. IAS 28 *Investments in Associates and Joint Ventures* (revised 2011) has been amended to conform to changes based on the issuance of IFRS 10 and IFRS 11.

IFRS 12 *Disclosure of Interests in Other Entities* requires extensive disclosures relating to an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that help users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The effective date of IFRS 12 is January 1, 2013.

IFRS 13 *Fair Value Measurement* establishes a single framework for measuring fair values. This standard applies to all transactions and balances (whether financial or non-financial) for which IFRS requires or permits fair value measurements, with the exception of share-based payment transactions accounted for under IFRS 2 *Share-based Payment* and leasing transactions within the scope of IAS 17 *Leases*. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements.

Petrus has assessed the impact of adopting these pronouncements and has determined these standards did not have a material impact on the Company’s financial statements.

In 2013, the IASB issued amendments to IAS 36 “Impairment of Assets” which reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are to be adopted retrospectively for fiscal years beginning January 1, 2014. Petrus will adopt these amendments effective January 1, 2014. The adoption will impact disclosures in the notes to the financial statements only in periods when an impairment loss or impairment reversal is recognized.

#### **Levies**

In May 2013, the IASB issued IFRIC 21 Levies, which clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. No liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 is required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. Petrus is currently assessing whether these changes will have an effect on its financial statements.

#### **Other accounting standards and interpretations**

IFRS 9 *Financial Instruments* – In November 2009, the International Accounting Standards Board (“IASB”) issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard was expanded in October 2010 and will be published in three phases, of which two phases have been published. The first phase replaces the current approach to classification and measurement of financial assets and



liabilities and uses a model of only two classification categories: fair value or amortized cost. The second phase, amended in 2013 by the IASB, incorporates a new general hedge accounting model which will allow reporting entities more opportunities to apply hedge accounting. The third phase clarifies the use of a single impairment method when evaluating financial instruments. A mandatory effective date for IFRS 9 in its entirety will be announced when the project is closer to completion. Early adoption of phases one and two is permitted only if adopted in their entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the financial statements.

### 3. ACQUISITIONS

#### *Business combination*

On February 28, 2014 Petrus closed an acquisition of petroleum and natural gas assets in the central Alberta foothills, with an effective date of January 1, 2014, for total cash consideration of \$19.1 million, net of adjustments. 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. The acquisition was financed by way of the Company's revolving credit facility. Acquisition related costs, which relate to professional fees, will be charged to finance expenses in the Statement of Net Income and Comprehensive Income.

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

<b>Fair value of net assets acquired</b>	
Exploration and evaluation assets	5,446,050
Petroleum and natural gas properties and equipment	17,058,504
Decommissioning obligations	(3,391,360)
<b>Total net assets acquired</b>	<b>19,113,194</b>

### 4. EXPLORATION AND EVALUATION ASSETS

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

<b>Balance, December 31, 2012</b>	<b>45,790,854</b>
Additions	4,441,890
Acquisitions (dispositions)	—
Capitalized G&A and share-based compensation	1,220,230
Decommissioning costs incurred	—
Transfers to property, plant and equipment	(924,456)
<b>Balance, December 31, 2013</b>	<b>50,528,518</b>
Additions	4,232,525
Acquisitions (dispositions)	5,446,050
Capitalized G&A and share-based compensation	333,848
<b>Balance, March 31, 2014</b>	<b>60,540,941</b>

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. For the three month period ended March 31, 2014 the Company incurred exploration and evaluation expense in the Statement of Net Income and Comprehensive Income of \$Nil which relates to expiring undeveloped land in minor properties (March 31, 2013 - \$Nil).

During the three month period ended March 31, 2014 the Company capitalized \$333,848 (March 31, 2013 - \$380,061) of general & administrative expenses ("G&A") directly attributable to exploration activities. Included in this amount is non-cash share-based compensation of \$111,182 (March 31, 2013 - \$146,359).

**5. PROPERTY, PLANT AND EQUIPMENT**

\$	Accumulated		
	Cost	DD&A	Net book value
<b>Balance, December 31, 2012</b>	<b>120,700,567</b>	<b>(8,715,422)</b>	<b>111,985,145</b>
Cash additions	52,168,855	—	52,168,855
Acquisitions (dispositions)	(1,901,319)	200,000	(1,701,319)
Capitalized G&A and share-based compensation	1,220,232	—	1,220,232
Transfers from exploration and evaluation assets	924,456	—	924,456
Depletion & depreciation	—	(17,162,735)	(17,162,735)
Change in decommissioning provision	2,778,122	—	2,778,122
<b>Balance, December 31, 2013</b>	<b>175,890,913</b>	<b>(25,678,157)</b>	<b>150,212,756</b>
Cash additions	19,024,382	—	19,024,382
Acquisitions (dispositions)	13,667,144	—	13,667,144
Capitalized G&A and share-based compensation	333,848	—	333,848
Depletion & depreciation	—	(5,724,751)	(5,724,751)
Change in decommissioning provision	3,988,694	—	3,988,694
<b>Balance, March 31, 2014</b>	<b>212,904,981</b>	<b>(31,402,908)</b>	<b>181,502,073</b>

Estimated future development costs of \$58.8 million (December 31, 2013 - \$58.8 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 month period ended March 31, 2014 the Company capitalized \$333,848 (March 31, 2013 - \$380,061) of general & administrative expenses ("G&A") directly attributable to development activities. Included in this amount is non-cash share-based compensation of \$111,182 (March 31, 2013 - \$146,359).

**6. REVOLVING CREDIT FACILITY**

The Company has a credit facility of \$90 million with a major Canadian lender. The credit facility consists of an \$80 million demand revolver and a \$10 million development line. The facility is available on a revolving basis for a period until June 29, 2014 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 \$200 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 scheduled review will take place June 30, 2014. At March 31, 2014, the Company has no outstanding letters of credit against the facility (December 31, 2013; Nil) and had drawn \$51.9 million against the facility (December 31, 2013; \$23.4 million).

**7. 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 (December 31, 2013; three percent and two percent, respectively). The Company has estimated the net present value of the decommissioning obligations to be \$19.6 million as at March 31, 2014 (\$15.6 million at December 31, 2013). The undiscounted, uninflated total future liability at March 31, 2014 is \$24.8 million (\$19.7 million at December 31, 2013). The payments are expected to be incurred over the operating lives of the assets. The following table reconciles the decommissioning liability:

<b>Balance, December 31, 2012</b>	<b>12,395,714</b>
Dispositions	(80,000)
Liabilities incurred	749,308
Change in estimates	2,108,814
Accretion expense	372,977
<b>Balance, December 31, 2013</b>	<b>15,546,813</b>
Acquisitions	3,391,360
Liabilities incurred	542,649
Liabilities settled	(16,441)
Change in estimates	54,685
Accretion expense	112,394
<b>Balance, March 31, 2014</b>	<b>19,631,460</b>



**8. 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 March 31, 2014:

<b>Natural Gas</b>			
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Price (CAD\$/GJ)</b>
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	1,500 GJ	\$3.44/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	2,500 GJ	\$3.61/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	1,000 GJ	\$3.64/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	1,500 GJ	\$3.65/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	1,000 GJ	\$3.99/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	500 GJ	\$4.07/GJ
Apr. 1, 2014 to Oct. 31, 2014	Fixed price	1,000 GJ	\$4.32/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	2,000 GJ	\$3.75/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	2,000 GJ	\$3.81/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	\$3.84/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	\$4.04/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	\$4.10/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	500 GJ	\$4.18/GJ
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	\$4.43/GJ

  

<b>Crude Oil</b>			
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Price (\$/Bbl)</b>
Apr. 1, 2014 to Jun. 30, 2014	Fixed price	300 Bbl	WTI \$95.90/Bbl
Apr. 1, 2014 to Dec. 31, 2014	Put Option	200 Bbl	WTI \$85.00/Bbl
Apr. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI \$89.00/Bbl
Apr. 1, 2014 to Dec. 31, 2014	Fixed price	100 Bbl	WTI \$92.00/Bbl
Apr. 1, 2014 to Dec. 31, 2014	Fixed price	200 Bbl	WTI \$93.80/Bbl
Apr. 1, 2014 to Jun. 30, 2014	Fixed price	100 Bbl	WTI \$96.05/Bbl
Apr. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI \$CAD105.20/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI \$92.10/Bbl
Jul. 1, 2014 to Dec. 31, 2014	Fixed price	200 Bbl	WTI \$94.05/Bbl
Aug. 1, 2014 to Dec. 31, 2014	Fixed price	300 Bbl	WTI \$CAD103.05/Bbl
Jan. 1, 2015 to Dec. 31, 2015	Fixed price	200 Bbl	WTI \$CAD100.00/Bbl

  

<b>Electric Power</b>			
<b>Period Hedged</b>	<b>Type</b>	<b>Annual Volume</b>	<b>Price (CAD)</b>
Apr. 1, 2014 to Dec. 31, 2014	Fixed price	12,264 MW	\$57.75/MWH
Jan. 1, 2015 to Dec. 31, 2015	Fixed price	12,264 MW	\$50.00/MWH

For the three months ended March 31, 2014, Petrus recorded a realized loss of \$1.4 million and an unrealized loss of \$4.4 million (March 31, 2013 a realized loss of \$327,902 and an unrealized loss of \$1.5 million).



**9. 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
<b>Balance, December 31, 2012</b>	<b>86,275,633</b>	<b>144,119,128</b>
Common shares issued under private placement (a)	52,655	105,310
Flow-through shares issued, net of premium (b)	34,024	68,048
Tax benefit of share issue costs	—	18,176
Common shares issued under private placement (c)	14,286	28,572
<b>Balance, December 31, 2013</b>	<b>86,376,598</b>	<b>144,339,234</b>
Common shares issued under private placement	-	-
Flow-through shares issued, net of premium	-	-
Tax benefit of share issue costs	-	-
Common shares issued under private placement	-	-
<b>Balance, March 31, 2014</b>	<b>86,376,598</b>	<b>144,339,234</b>

**Share Issuances**

- (a) 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. Of the issuance price, \$0.40 per share or \$13,610 was determined to be the premium on the flow-through shares. The issuance was 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 expired August 27, 2013.
- (b) On August 19, 2013 the Company issued 14,286 common shares at a price of \$2.00 per share for gross proceeds of \$28,572. The issuance was 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 expired December 19, 2013.

**SHARE-BASED COMPENSATION**
**Performance Warrants**

The Company has issued performance warrants to employees, consultants and directors of the Company. Performance warrants were granted 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. The warrants expire five years from the date of issuance. Upon exercise of the warrants the Company may settle 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, 2014, 6,422,603 (December 31, 2013; 6,422,603) performance warrants were issued.

	Number of warrants	Weighted Average Exercise Price (\$)
<b>Balance, December 31, 2012</b>	<b>6,422,603</b>	<b>\$2.00</b>
Forfeited or expired	(417,000)	\$2.00
Granted	417,000	\$2.25
<b>Balance, December 31, 2013</b>	<b>6,422,603</b>	<b>\$2.02</b>
<b>Balance, March 31, 2014</b>	<b>6,422,603</b>	<b>\$2.02</b>

At March 31, 2014 there are no exercisable performance warrants given the market (one third vest as certain share price hurdles are achieved) criteria has not yet been met.

The following tables summarize information about the performance warrants granted since inception:

Warrants Issued			Warrants Exercisable		
Number granted	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price	
6,932,603	\$2.02	2.94	—	\$2.02	

**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, 2014, 4,810,000 stock options were issued. The summary of stock option activity is presented below:



	Number of stock options	Weighted Average Exercise Price (\$)
<b>Balance, December 31, 2012</b>	<b>3,995,000</b>	<b>\$1.75</b>
Granted	584,000	\$2.20
Forfeited or expired	224,000	\$1.75
<b>Balance, December 31, 2013</b>	<b>4,355,000</b>	<b>\$1.84</b>
Granted	455,000	\$2.42
Forfeited or expired	—	—
<b>Balance, March 31, 2014</b>	<b>4,810,000</b>	<b>\$1.86</b>

The following tables summarize information about the stock options granted since inception:

<b>Stock Options Issued</b>			
	Number granted	Weighted average exercise price	Weighted average remaining life (years)
	5,034,000	\$1.86	3.57

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

<b>Share-based compensation costs (\$):</b>	Three months ended	Three months ended
	March 31, 2014	March 31, 2013
Expensed in net income	222,364	292,718
Capitalized to exploration and evaluation assets	111,182	146,359
Capitalized to property, plant and equipment	111,182	146,359
<b>Total share-based compensation</b>	<b>444,728</b>	<b>585,436</b>

## 10. SUBSEQUENT EVENTS

### *Financial Risk Management*

Subsequent to March 31, 2014 the Company entered into the following financial derivative contract:

<b>Natural Gas</b>			
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Price (CAD\$/GJ)</b>
Nov. 1, 2014 to Mar. 31, 2015	Fixed price	1,000 GJ	\$4.83/GJ

### *Share Capital*

On April 11, 2014 the Company granted 120,000 stock options at an exercise price of \$2.75. On April 23, 2014 the Company cancelled 15,000 performance warrants and 5,000 stock options. On April 28, 2014 the Company granted 125,000 stock options at an exercise price of \$3.25.

On June 2, 2014 the Company issued 15,256,000 common shares at a price of \$3.25 per share and 115,000 flow-through shares at a price of \$3.90 per share for total gross proceeds of \$50,030,500. The issuance was made by way of private placement. Under National Instrument 45-102, the common shares issued are subject to a restricted hold period which expires October 3, 2014.

**CORPORATE INFORMATION****OFFICERS**

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President and Chief Executive Officer

**DIRECTORS**

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Chairman  
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