

THIRD QUARTER REPORT

For the three and nine months ended September 30, 2021

Petrus Resources Ltd. ("Petrus" or the "Company") (TSX: PRQ) is pleased to report financial and operating results as at and for the three and nine months ended September 30, 2021. Petrus is focused on generating free cash flow to support further development of its Ferrier Cardium assets to benefit all stakeholders.

HIGHLIGHTS

- **Transformative debt reduction** – During the quarter Petrus executed certain transactions, transforming its debt situation as follows:
 - Reduced net debt⁽¹⁾ by 46% from \$110.3 million to \$60.1 million during the third quarter of 2021. Debt to annualized funds flow (excluding realized hedge settlements) is now 1.3x;
 - Second Lien Term Loan settled in full;
 - First Lien debt is the only remaining debt and is now fully conforming;
 - interest expense has been reduced by approximately \$5 million annually; and
 - the going concern disclosure in the second quarter 2021 interim consolidated financial statements has been removed with concurrence from the Company's auditors.
- **Commodity price improvements** – Realized price per boe increased by 70% in the third quarter of 2021 compared to the third quarter of 2020 due to strengthening oil and gas prices which increased by 78% and 61%, respectively.
- **Operating netback** – Operating netback⁽¹⁾ increased by 87% to \$25.86/boe in the third quarter of 2021 from \$13.83/boe in the third quarter of 2020.
- **Funds flow** – Petrus generated funds flow⁽¹⁾ and corporate netback of \$7.9 million (\$14.43/boe) in the third quarter of 2021, which was 4% higher than the third quarter of the previous year. Realized derivative losses were the main reason for the smaller increase in corporate netback (4%) relative to the increase in operating netback (87%). Petrus remains significantly hedged at below current market prices through the first quarter of 2022. Hedging contracts beyond that point are reflective of current strip pricing.
- **Production** – Petrus has held production relatively flat through the first nine months of 2021 with the focus on debt repayment, limiting capital reinvestment. Third quarter 2021 production of 5,937 boe/d was essentially unchanged from the 5,912 boe/d of production in the first quarter of 2021. Production for the first nine months of 2021 averaged 6,053 boe/d.

During the third quarter of 2021, the Company reduced net debt from \$110.3 million to \$60.1 million; a 46% decrease. To achieve this, the Company's subordinated secured term loan (the "Second Lien Loan"), in the principal amount of \$39.4 million, was settled in full (the "Second Lien Settlement") in consideration for the issuance of \$15.8 million of common shares of Petrus ("Common Shares") to the holders of the Second Lien Loan at an issue price of \$0.55 per share. In addition, the Company completed a private placement financing of an aggregate of \$10 million of Common Shares at an issue price of \$0.55 per share (the "Equity Financing") the proceeds from which were applied to outstanding indebtedness under the First Lien Loan. The First Lien Loan is now Petrus' sole credit facility and at September 30, 2021 had \$59.9 million drawn. The maturity date of the Company's First Lien Loan has been extended to May 31, 2022.

2021 OUTLOOK

The completion of the debt restructuring transactions during the third quarter of 2021 transformed Petrus from a company with limited capital resources to one with the ability to create meaningful shareholder value. The substantial debt reduction associated with the Second Lien Settlement and Equity Financing has bolstered the Company's financial position and provides the flexibility required to invest in the development of its land base and unlock proven value. The Company will start to accelerate its capital program in the fourth quarter of 2021 with the planned drilling of three (3.0 net) wells.

Petrus has a concentrated land base in its core area of Ferrier, where the liquids rich Cardium is one of the leading plays in North America. The asset includes owned and operated infrastructure, which affords optionality, operational efficiency and a low cost structure. The results of recent operated drills in the area show compelling rates of return with payouts of less than 6 months at current commodity prices. The Company also has a material land position and ownership in critical infrastructure in North Ferrier where recent non-operated drilling results have proven to be highly competitive. The Company's premier land position in these areas combined with a strengthened balance sheet make Petrus well positioned for growth. We expect to continue to increase capital spending in 2022. Further details will be communicated once our 2022 budget has been finalized.

⁽¹⁾ Refer to "Non-GAAP Financial Measures" in the Management's Discussion & Analysis attached hereto.

⁽²⁾ Refer to "Advisories - Forward-Looking Statements" in the Management's Discussion & Analysis attached hereto.



MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2021

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the financial and operating results of Petrus Resources Ltd. ("Petrus" or the "Company") as at and for the three and nine months ended September 30, 2021. This MD&A is dated November 10, 2021 and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019 as well as the Company's interim consolidated financial statements as at September 30, 2021. The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS"). Readers are directed to the "Advisories" section at the end of this MD&A regarding forward-looking statements and boe presentation and to the section "Non-GAAP Financial Measures" herein.

The principal undertaking of Petrus is the investment in energy assets. The operations of the Company consist of the acquisition, development, exploration and exploitation of these assets. The Company's head office is located at 2400, 240 - 4th Avenue SW, Calgary, Alberta, Canada. Additional information on Petrus, including the most recently filed Annual Information Form ("AIF"), are available under the Company's profile on SEDAR (the System for Electronic Document Analysis and Retrieval) at www.sedar.com.

SELECTED FINANCIAL INFORMATION

OPERATIONS	Three months ended	Three months ended	Three months ended	Three months ended	Three months ended
	Sept. 30, 2021	Sept. 30, 2020	Jun. 30, 2021	Mar. 31, 2021	Dec. 31, 2020
Average production					
Natural gas (mcf/d)	23,942	26,181	24,291	22,985	26,177
Oil (bbl/d)	937	1,103	1,214	923	980
NGLs (bbl/d)	1,010	997	1,046	1,158	1,014
Total (boe/d)	5,937	6,463	6,309	5,912	6,357
Total (boe)	546,227	594,599	574,084	532,099	584,860
Light oil weighting	21 %	17 %	19 %	15 %	15 %
Realized Prices					
Natural gas (\$/mcf)	4.04	2.51	3.28	3.33	3.07
Oil (\$/bbl)	82.56	46.46	75.99	66.61	49.64
NGLs (\$/bbl)	45.10	22.05	39.76	36.79	23.52
Total realized price (\$/boe)	37.00	21.48	33.87	30.55	24.05
Royalty income	0.18	0.12	0.19	0.15	0.13
Royalty expense	(3.94)	(2.09)	(4.87)	(3.74)	(2.02)
Net oil and natural gas revenue (\$/boe)	33.24	19.51	29.19	26.96	22.16
Operating expense	(5.57)	(4.05)	(6.80)	(6.12)	(5.53)
Transportation expense	(1.81)	(1.63)	(1.84)	(1.62)	(1.68)
Operating netback⁽¹⁾ (\$/boe)	25.86	13.83	20.55	19.22	14.95
Realized gain (loss) on derivatives (\$/boe)	(6.41)	2.20	(3.21)	(2.28)	0.65
Other income (cash)	0.02	0.04	1.77	0.04	0.31
General & administrative expense	(1.47)	(1.07)	(2.41)	(1.65)	(1.81)
Cash finance expense	(3.30)	(2.16)	(2.52)	(1.93)	(2.49)
Decommissioning expenditures	(0.27)	(0.13)	(0.14)	(0.27)	(0.63)
Funds flow & corporate netback⁽¹⁾⁽²⁾ (\$/boe)	14.43	12.71	14.04	13.13	10.98
FINANCIAL (000s except \$ per share)	Three months ended	Three months ended	Three months ended	Three months ended	Three months ended
	Sept. 30, 2021	Sept. 30, 2020	Jun. 30, 2021	Mar. 31, 2021	Dec. 31, 2020
Oil and natural gas revenue	20,306	12,840	19,553	16,339	14,143
Net income (loss)	7,343	(3,678)	(4,265)	(3,155)	(151)
Net income (loss) per share					
Basic	0.14	(0.07)	(0.09)	(0.06)	—
Fully diluted	0.13	(0.07)	(0.09)	(0.06)	—
Funds flow	7,874	7,551	8,070	6,993	6,423
Funds flow per share					
Basic	0.15	0.15	0.16	0.14	0.13
Fully diluted	0.14	0.15	0.16	0.14	0.13
Capital expenditures	6,101	2,543	663	7,917	2,797
Weighted average shares outstanding					
Basic	54,167	49,469	49,513	49,469	49,469
Fully diluted	57,638	49,469	49,513	49,469	49,469
As at period end					
Common shares outstanding					
Basic	96,603	49,469	49,559	49,469	49,469
Fully diluted	100,074	49,469	49,559	49,469	49,469
Total assets	173,101	179,895	176,629	177,587	177,914
Non-current liabilities	40,200	44,471	40,838	42,028	45,321
Net debt ⁽¹⁾	60,071	116,717	110,346	116,634	114,361

⁽¹⁾ Refer to "Non-GAAP Financial Measures" in the Management's Discussion & Analysis attached hereto.

⁽²⁾ Corporate netback is equal to funds flow which is a comparable additional GAAP measure. Petrus analyzes these measures on an absolute value and per unit basis.



OPERATIONS UPDATE

Third quarter average production by area was as follows:

For the three months ended September 30, 2021	Ferrier	Foothills	Central Alberta	Kakwa	Total
Natural gas (mcf/d)	17,648	1,449	4,603	236	23,936
Oil (bbl/d)	540	100	252	43	935
NGLs (bbl/d)	868	6	128	10	1,012
Total (boe/d)	4,349	348	1,148	92	5,937

Third quarter 2021 production averaged 5,937 boe/d compared to 6,309 boe/d in the second quarter of 2021. Two gross (1.2 net) wells were drilled and brought on production in August, adding 452 boe/d to the third quarter average which largely offset natural declines; however, third party and non-operated downtime resulted in a 6% decrease in production quarter over quarter.

CAPITAL EXPENDITURES

Capital expenditures (net of dispositions) totaled \$6.1 million in the third quarter of 2021, compared to \$2.5 million in the prior year comparative period. Third quarter 2021 capital spending was largely directed toward the drilling, completion and tie-in of two gross (1.2 net) wells in the Ferrier area which accounted for \$4.2 million of the total. Also of note, the Company invested approximately \$1.0 million in the expansion of a third-party processing plant in the North Ferrier area, in which Petrus holds a working interest.

The following table shows capital expenditures for the reporting periods indicated. All capital is presented before decommissioning obligations.

Capital Expenditures (\$000s)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Drill and complete	4,460	2,250	11,113	9,881
Oil and gas equipment and facilities	1,432	—	2,814	765
Geological	—	—	—	—
Land and lease	10	5	249	35
Acquisitions (dispositions)	1	—	(99)	—
Capitalized general and administrative expense	198	288	604	820
Total capital expenditures	6,101	2,543	14,681	11,501
Gross (net) wells spud	2 (1.2)	1 (1.0)	6 (3.4)	4 (3.0)

RESULTS OF OPERATIONS

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Three months ended Sept. 30, 2021	Three months ended Sept. 30, 2020	Three months ended Jun. 30, 2021	Three months ended Mar. 31, 2021	Three months ended Dec. 31, 2020
Average production					
Natural gas (mcf/d)	23,942	26,181	24,291	22,985	26,177
Oil (bbl/d)	937	1,103	1,214	923	980
NGLs (bbl/d)	1,010	997	1,046	1,158	1,014
Total (boe/d)	5,937	6,463	6,309	5,912	6,357
Total (boe)	546,227	594,599	574,084	532,099	584,860
Revenue (\$000s)					
Natural gas	8,902	6,035	7,261	6,889	7,395
Oil	7,120	4,714	8,397	5,532	4,475
NGLs	4,188	2,022	3,784	3,836	2,195
Royalty revenue	96	69	111	82	78
Oil and natural gas revenue	20,306	12,840	19,553	16,339	14,143
Average realized prices					
Natural gas (\$/mcf)	4.04	2.51	3.28	3.33	3.07
Oil (\$/bbl)	82.56	46.46	75.99	66.61	49.64
NGLs (\$/bbl)	45.10	22.05	39.76	36.79	23.52
Total realized price (\$/boe)	37.00	21.48	33.87	30.55	24.05
Hedging gain (loss) (\$/boe)	(6.41)	2.20	(3.21)	(2.28)	0.65
Total price including hedging (\$/boe)	30.59	23.68	30.66	28.27	24.70

Average benchmark prices	Three months ended Sept. 30, 2021	Three months ended Sept. 30, 2020	Three months ended Jun. 30, 2021	Three months ended Mar. 31, 2021	Three months ended Dec. 31, 2020
Natural gas					
AECO 5A (C\$/GJ)	3.41	2.02	2.93	2.98	2.50
AECO 7A (C\$/GJ)	3.36	2.04	2.70	2.77	2.62
Crude oil					
Mixed Sweet Blend Edm (C\$/bbl)	84.17	48.96	76.16	68.62	49.34
Natural gas liquids					
Propane Conway (US\$/bbl)	47.04	19.78	34.86	35.74	25.50
Butane Edmonton (C\$/bbl)	55.58	19.04	34.02	26.04	19.32
Foreign exchange					
US\$/C\$	0.79	0.74	0.81	0.79	0.77

FUNDS FLOW AND NET INCOME (LOSS)

Petrus generated funds flow of \$7.9 million in the third quarter of 2021 compared to \$7.6 million in the third quarter of 2020. The 4% increase is due to higher oil and natural gas prices partially offset by higher derivative losses and increased royalty, operating and finance expenses. In the third quarter of 2021 Petrus' total realized price was \$37.00/boe compared to \$21.48/boe in the third quarter of 2020.

Petrus reported net income of \$7.3 million in the third quarter of 2021, compared to a net loss of \$3.7 million in the third quarter of 2020. The net income in the third quarter of 2021 compared to the net loss in the third quarter of 2020 is primarily due to improved commodity prices after depressed pricing in 2020 due to the ongoing COVID-19 pandemic.

On a nine month basis, the Company generated a net loss of \$0.1 million for the nine months ended September 30, 2021 compared to a net loss of \$97.4 million for the nine months ended September 30, 2020. The decrease in net loss is due to the \$98.0 million impairment loss booked during the first quarter of 2020.

(\$000s except per share)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Funds flow	7,874	7,551	22,934	19,974
Funds flow per share - basic	0.15	0.15	0.45	0.40
Funds flow per share - fully diluted	0.14	0.15	0.42	0.40
Net income (loss)	7,343	(3,678)	(77)	(97,403)
Net income (loss) per share - basic	0.14	(0.07)	—	(1.97)
Net income (loss) per share - fully diluted	0.13	(0.07)	—	(1.97)
Common shares outstanding (000s)				
Basic	96,603	49,469	96,603	49,469
Fully diluted	100,074	49,469	100,074	49,469
Weighted average shares outstanding (000s)				
Basic	54,167	49,469	51,065	49,469
Fully diluted	57,638	49,469	54,537	49,469

OIL AND NATURAL GAS REVENUE

Third quarter average production in 2021 was 5,937 boe/d (67% natural gas), 8% lower than the third quarter of 2020 (6,463 boe/d; 68% natural gas). Third quarter oil and natural gas revenue in 2021 was \$20.3 million compared to \$12.8 million in 2020. The 58% increase is due to significantly higher oil and natural gas prices.

The following table provides a breakdown of composition of the Company's production volume by product:

Production Volume by Product (%)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Natural gas	67 %	68 %	65 %	70 %
Crude oil and condensate	16 %	17 %	17 %	15 %
Natural gas liquids	17 %	15 %	18 %	15 %
Total commodity sales from production	100 %	100 %	100 %	100 %

The following table presents oil and natural gas revenue by product and the change from the prior comparative periods:

Oil and Natural Gas Revenue (\$000s)	Three months ended	Three months ended	% Change	Nine months ended	Nine months ended	% Change
	September 30, 2021	September 30, 2020		September 30, 2021	September 30, 2020	
Natural gas	8,902	6,035	48 %	23,052	18,628	24 %
Crude oil and condensate	7,120	4,714	51 %	21,049	12,018	75 %
Natural gas liquids	4,188	2,022	107 %	11,808	5,277	124 %
Royalty income	96	69	39 %	289	302	(4)%
Total oil and natural gas revenue	20,306	12,840	58 %	56,198	36,225	55 %



The following table provides the average benchmark and the Company's average realized commodity prices:

	Three months ended September 30, 2021	Three months ended September 30, 2020	% Change	Nine months ended September 30, 2021	Nine months ended September 30, 2020	% Change
Average benchmark prices						
Natural gas						
AECO 5A (C\$/GJ)	3.41	2.02	69 %	3.11	1.95	59 %
AECO 7A (C\$/GJ)	3.36	2.04	65 %	2.94	1.96	50 %
Crude oil						
Mixed Sweet Blend Edm (C\$/bbl)	84.17	48.96	72 %	76.32	44.47	72 %
Natural gas liquids						
Propane Conway (US\$/bbl)	47.04	19.78	138 %	35.28	16.57	113 %
Butane Edmonton (C\$/bbl)	55.58	19.04	192 %	30.03	25.34	19 %
Average realized prices						
Natural gas (\$/mcf)	4.04	2.51	61 %	3.56	2.42	47 %
Oil (\$/bbl)	82.56	46.46	78 %	75.23	42.39	77 %
NGLs (\$/bbl)	45.10	22.05	105 %	40.40	19.90	103 %
Total average realized price	37.00	21.48	72 %	33.83	19.59	73 %

Natural gas

Natural gas revenue for the nine months ended September 30, 2021 was \$23.1 million which accounted for 41% of oil and natural gas revenue, compared to revenue of \$18.6 million, which accounted for 52% of oil and natural gas revenue in the prior year comparative period. Third quarter 2021 average realized natural gas price was \$4.04/mcf, compared to \$2.51/mcf in the third quarter of 2020 (61% increase). The increase in revenue for the third quarter and the nine months ended September 30, 2021, compared to the same periods in 2020, was due to an increase in natural gas pricing (AECO 5A) of 69% and 59%, respectively.

Crude oil and condensate

Oil and condensate revenue for the nine months ended September 30, 2021 was \$21.0 million, which accounted for approximately 38% of oil and natural gas revenue, compared to revenue of \$12.0 million, which accounted for 33% in the prior year comparative period.

The average realized price of Petrus' light oil and condensate was \$82.56/bbl for the third quarter of 2021 compared to \$46.46 /bbl in the third quarter of 2020. The 78% increase is attributed to the increase in oil prices in the current quarter and nine month period as prices continue to recover from the low pricing seen during the second and third quarter of 2020 due to the effects of the COVID-19 global pandemic.

Natural gas liquids (NGLs)

NGL revenue for the nine months ended September 30, 2021 was \$11.8 million and accounted for 21% of oil and natural gas revenue, compared to revenue of \$5.3 million accounting for 15% in the prior year comparative period. The increase was due to higher NGL prices.

The Company's NGL production mix consists of ethane, propane, butane and pentane. The pricing received for NGL production is based on annual contracts effective the first of April each year. The contract prices are based on the product mix, the fractionation process required and the demand for fractionation facilities. In the third quarter of 2021, the Company's realized NGL price averaged \$45.10/bbl, compared to \$22.05/bbl in the prior year comparative period. The 105% increase is attributed to higher contract prices for the NGL products, especially butane and propane. Third quarter market pricing for propane at Conway increased 138% from the prior year. Petrus' butane production is priced as a function of WTI (oil) which also increased in the third quarter compared to the prior year.

ROYALTY EXPENSE

Royalties are paid to the Government of Alberta and to gross overriding royalty owners. The following table shows the Company's royalty expense (net of royalty allowances and incentives) for the periods shown:

Royalty Expense (\$000s)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Crown	1,013	498	3,856	1,340
Percent of production revenue	5 %	4 %	7 %	4 %
Gross overriding	1,137	747	3,077	2,671
Total	2,150	1,245	6,933	4,011

Third quarter royalty expense increased from \$1.2 million in 2020 to \$2.2 million in 2021. On a nine month basis, total royalty expense (net of royalty allowances and incentives) increased from \$4.0 million in 2020 to \$6.9 million in 2021. The increase in royalties for the third quarter and the nine months ended September 30, 2021 is due to higher revenue (as a result of increased commodity prices).

Gross overriding royalties increased from \$0.7 million in the third quarter of 2020 to \$1.1 million in the third quarter of 2021, due to higher revenue and commodity prices. Gross overriding royalties remained consistent at \$2.7 million for the nine months ended September 30, 2020 and \$3.1 million for the nine months ended September 30, 2021.

OTHER INCOME

During the third quarter of 2021, the Company recorded \$0.4 million as other income, which relates to a government grant provided to Petrus for decommissioning activities. During the second quarter of 2021, other income of \$1.0 million was recorded and related to the settlement of an outstanding dispute associated with the transportation and marketing of the Company's Ferrier area condensate volume.

RISK MANAGEMENT

The Company utilizes financial derivative contracts to mitigate commodity price risk and provide stability and sustainability to the Company's economic returns, funds flow and capital development plan. Petrus' risk management program is governed by guidelines approved by its Board of Directors.

The impact of the contracts that were settled during the reporting periods are actual cash settlements and are recorded as realized hedging gains (losses). The unrealized gain (loss) is recorded to demonstrate the change in fair value of the outstanding contracts at the end of the financial reporting period for financial statement purposes. Petrus does not follow hedge accounting for any of its risk management contracts in place. Petrus considers all of its risk management contracts to be effective economic hedges of its underlying business transactions.

The table below shows the realized and unrealized gain or loss on risk management contracts for the periods shown:

Net Gain (Loss) on Financial Derivatives (\$000s)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Realized hedging gain (loss)	(3,504)	1,308	(6,564)	6,138
Unrealized hedging gain (loss)	384	(4,183)	(8,472)	1,170
Net gain (loss) on derivatives	(3,120)	(2,875)	(15,036)	7,308

In the third quarter of 2021, the Company recognized a realized hedging loss of \$3.5 million compared to a gain of \$1.3 million in the third quarter of 2020. The realized loss in the third quarter of 2021 decreased the Company's corporate netback by \$6.41/boe, compared to an increase of \$2.20/boe in 2020. The Company recognized a realized hedging loss of \$6.6 million during the nine months ended September 30, 2021, in comparison to the \$6.1 million gain realized in the same period of the prior year. The realized loss for the three and nine months ended September 30, 2021 was due to higher commodity prices (relative to the respective contracts settled).

During the third quarter of 2021, the Company recognized an unrealized gain of \$0.4 million compared to an unrealized loss of \$4.2 million in the third quarter of 2020. The Company recognized an unrealized hedging loss of \$8.5 million for the nine months ended September 30, 2021 compared to an unrealized gain of \$1.2 million for the nine months ended September 30, 2020. The loss represents the change in the unrealized risk management net liability position during the first nine months of 2021. This change is a result of changes related to contracts entered into and contracts settled during the period as well as changes in value of existing contracts due to changes in commodity prices.



The Company's risk management contracts provide protection from significant changes in crude oil and natural gas commodity prices for 2021 and 2022. The Company endeavors to hedge approximately half of its forecast production for the following year, and approximately 30% of its forecast production for the subsequent year. The Company's hedging strategy is intended to provide stability and sustainability to the Company's economic returns, funds flow and capital development plan. A summary of Petrus' risk management contracts is included in note 8 of the Company's interim consolidated financial statements as at and for the period ended September 30, 2021. The table below summarizes Petrus' average crude oil and natural gas hedged volumes. The average volume of oil hedged for the remainder of 2021 (900 bbl/d) represents 46% of third quarter 2021 average oil and natural gas liquids production. The 15,333 GJ/day average natural gas hedged for the remainder of 2021 represents 68% of third quarter 2021 average natural gas production.

The following table summarizes the average and minimum and maximum cap and floor prices for the 2021 to 2022 oil and natural gas contracts outstanding as at September 30, 2021:

	2021					2022				
	Q1	Q2	Q3	Q4	Avg. ⁽¹⁾	Q1	Q2	Q3	Q4	Avg. ⁽¹⁾
Oil hedged (bbl/d)	700	800	900	900	825	800	—	—	—	200
Avg. WTI cap price (\$/bbl)	68.42	66.94	66.46	65.85	66.83	70.95	—	—	—	70.95
Avg. WTI floor price (\$/bbl)	68.42	66.94	66.46	65.85	66.83	70.95	—	—	—	70.95
Natural gas hedged (GJ/d)	17,000	16,000	14,000	15,333	15,583	13,000	4,000	4,000	1,333	5,583
Avg. AECO 7A cap price (\$/GJ)	2.18	2.15	2.08	2.94	2.33	2.94	3.50	3.50	3.50	3.17
Avg. AECO 7A floor price (\$/GJ)	2.18	2.15	2.08	2.94	2.33	2.94	3.50	3.50	3.50	3.17

⁽¹⁾The volumes and prices reported are the weighted average volumes and prices for the period.

OPERATING EXPENSE

The following table shows the Company's operating expense for the reporting periods shown:

Operating Expense (\$000s)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Fixed and variable operating expense	2,527	2,010	8,951	6,669
Processing, gathering and compression charges	767	631	1,975	1,983
Total gross operating expense	3,294	2,641	10,926	8,652
Overhead recoveries	(252)	(233)	(727)	(666)
Total net operating expense	3,042	2,408	10,199	7,986
Operating expense, net (\$/boe)	5.57	4.05	6.17	4.36

For the three months ended September 30, 2021, net operating expense totaled \$3.0 million, a 26% increase from \$2.4 million during the prior year comparative period. On a per boe basis, net operating expense was 38% higher at \$5.57/boe in the third quarter of 2021 compared to \$4.05/boe in 2020.

For the nine months ended September 30, 2021, net operating expense totaled \$10.2 million, a 28% increase from the \$8.0 million incurred in the prior year comparative period.

The increase in operating expense for the three and nine months ended September 30, 2021 is due to a number of factors, the most significant, in order of value, are: lower cost recoveries (on a percentage to total gross operating expense basis); higher power prices; a one-time billing adjustment for prior year non-operated gas processing fees; and higher property tax and regulatory fees that were deferred or reduced in 2020 as a result of the COVID-19 pandemic relief.

TRANSPORTATION EXPENSE

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

Transportation Expense (\$000s)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Transportation expense	991	967	2,911	2,469
Transportation expense (\$/boe)	1.81	1.63	1.76	1.35

Petrus pays commodity and demand charges for transporting its gas on pipeline systems. The Company also incurs trucking costs on the portion of its oil and natural gas liquids production that is not pipeline connected. For the three months ended September 30, 2021



transportation expense was \$1.0 million or \$1.81/boe compared to \$1.0 million or \$1.63/boe in the prior year comparative period. On a nine month basis, transportation expense totaled \$2.9 million, or \$1.76/boe for 2021, which is 27% and 43% higher, respectively, than the \$2.5 million costs incurred (or \$1.35/boe) in the prior year comparative period. The increase in transportation expense is attributed to the pipeline firm transportation contract that began at the end of the second quarter of 2020.

GENERAL AND ADMINISTRATIVE EXPENSE

The following table illustrates the Company's general and administrative ("G&A") expense which is shown net of capitalized costs directly related to exploration and development activities:

General and Administrative Expense (\$000s)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Personnel, consultants and directors	683	569	2,459	1,989
Administrative expenses	328	335	1,122	802
Regulatory and professional expenses	196	33	576	792
Gross general and administrative expense	1,207	937	4,157	3,583
Capitalized general and administrative expense	(183)	(214)	(589)	(739)
Overhead recoveries	(220)	(88)	(507)	(494)
General and administrative expense	804	635	3,061	2,350
General and administrative expense (\$/boe)	1.47	1.07	1.85	1.28

G&A expense (net of capitalized G&A expense and overhead recoveries) for the third quarter of 2021 totaled \$0.8 million or \$1.47/boe, compared to \$0.6 million or \$1.07/boe in the third quarter of 2020. Gross G&A expense (before capitalized G&A expense and overhead recoveries) was 29% higher than the prior year (\$1.2 million in the third quarter of 2021 compared to \$0.9 million in the third quarter of 2020) due to one-time expenses related to management changes and lower wage subsidy received from the federal government during the third quarter of 2021.

For the nine months ended September 30, 2021, gross G&A expense was \$4.2 million compared to \$3.6 million in the prior year comparative period, which represents a 16% increase. Net G&A expense for the nine months ended September 30, 2021, was \$3.1 million or \$1.85/boe which is higher than the \$2.4 million or \$1.28/boe for the prior year comparative period (45% increase on a per boe basis).

The net and gross increases in G&A are attributed to one-time expenses related to management changes and lower wage subsidy from the federal government during 2021.

SHARE-BASED COMPENSATION EXPENSE

The following table illustrates the Company's share-based compensation expense which is shown net of capitalized costs directly related to exploration and development activities:

Share-Based Compensation Expense (\$000s)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Gross share-based compensation expense	47	163	191	320
Capitalized share-based compensation expense	(15)	(19)	(47)	(82)
Share-based compensation expense	32	144	144	238

Share-based compensation expense (net of capitalized portion) was \$0.03 million for the third quarter of 2021, which is 77% lower than the \$0.14 million recognized in the third quarter of the prior year. For the nine months ended September 30, 2021, net share-based compensation expense was \$0.14 million, which is 40% lower than the \$0.24 million in the prior year comparative period. The decrease in stock based compensation expense for the current three and nine month periods compared to the prior year comparative periods is due to options fully vesting during 2020 and deferred new option grants during 2021.



FINANCE EXPENSE

The following table illustrates the Company's finance expense which includes cash and non-cash expenses:

Finance Expense (\$000s)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Interest expense	1,180	1,005	3,297	4,657
Finance fees	623	281	980	548
Deferred financing costs	44	236	305	480
Non-cash term loan interest payment-in-kind	672	877	2,573	877
Accretion on decommissioning obligations	191	95	509	387
Total finance expense	2,710	2,494	7,664	6,949

Third quarter total finance expense was \$2.7 million in 2021, comprised of \$0.2 million of non-cash accretion of its decommissioning obligations, \$1.2 million of cash interest expense, \$0.6 million of finance fees, and \$0.7 million of non-cash term loan interest payment-in-kind related to the Second Lien Term Loan. In the third quarter of 2020, the Company incurred total finance expense of \$2.5 million, comprised of \$0.1 million in non-cash accretion of its decommissioning obligation, \$1.0 million cash interest expense, \$0.3 million of finance fees, \$0.9 million of non-cash term loan interest payment-in-kind related to the Second Lien Term Loan and \$0.2 million of deferred financing fee amortization.

The Company incurred total finance expense of \$7.7 million for the nine months ended September 30, 2021, which is higher than the \$6.9 million for the prior year comparative period.

The increases in total finance expense are due to legal and professional fees incurred related to the loan extension.

DEPLETION AND DEPRECIATION

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

Depletion and Depreciation Expense (\$000s)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Depletion and depreciation expense	5,879	5,759	17,484	19,110
Depletion and depreciation expense (\$/boe)	10.76	9.69	10.58	10.42

Depletion and depreciation expense is calculated on a unit-of-production (boe) 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 cost. 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 and depreciation expense in the third quarter of 2021 of \$5.9 million or \$10.76/boe, compared to the third quarter of 2020, when \$5.8 million or \$9.69/boe was recorded. The increase in the depletion expense for the third quarter of 2021 compared to the third quarter of 2020 was primarily due to the new well brought on production during the quarter.

For the nine months ended September 30, 2021, the Company recorded \$17.5 million or \$10.58/boe, compared to \$19.1 million or \$10.42 per boe for the prior year comparative period. The decrease in total depletion and depreciation expense is attributed to the impairment recorded in 2020 that lowered the DD&A per boe.

IMPAIRMENT

The following table illustrates impairment losses recorded in the reporting periods:

Impairment (\$000s)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Impairment	—	—	—	98,000
Total	—	—	—	98,000



Petrus recognized an impairment loss of \$98.0 million in the Ferrier CGU during the nine months ended September 30, 2020, due to the significant decrease in forward benchmark commodity prices at March 31, 2020 compared to December 31, 2019. For more information, refer to notes 3 and 4 of the September 30, 2021 interim consolidated financial statements.

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. The Company has not issued any preferred shares. The following table details the number of issued and outstanding securities for the periods shown:

Share Capital (000s)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Weighted average common shares outstanding				
Basic	54,167	49,469	51,065	49,469
Fully diluted	57,638	49,469	54,537	49,469
Common shares outstanding				
Basic	96,603	49,469	96,603	49,469
Fully diluted	100,074	49,469	100,074	49,469
Stock options outstanding	1,853	1,908	1,853	1,908

At September 30, 2021, the Company had 96,602,558 common shares and 1,853,181 stock options outstanding.

During the third quarter of 2021, the Company completed a private placement financing of an aggregate of \$10 million of Common Shares at an issue price of \$0.55 per share (the "Equity Financing"). All proceeds from the Equity Financing have been applied to outstanding indebtedness under the First Lien Loan. Prior to September 30, 2021, Petrus had a second debt instrument, a subordinated secured term loan (the "Term Loan"). During the third quarter of 2021, the Company settled its Term Loan with a principal amount (carrying value) of \$39.4 million (the "Second Lien Settlement") in consideration for the issuance of \$15.8 million (the settlement amount) of common shares of Petrus to the holders of the Term Loan at an issue price of \$0.55 per share.

The Company has a deferred share unit plan in place whereby it may issue deferred share units ("DSUs") to directors of the Company. At September 30, 2021, 1,618,702 DSUs were issued and outstanding (December 31, 2020 – 2,158,270). Each DSU entitles the participants to receive, at the Company's discretion, either common shares or a cash equivalent to the number of DSUs multiplied by the current trading price of the equivalent number of common shares. All DSUs vest and become payable upon retirement of the director.

LIQUIDITY AND CAPITAL RESOURCES

Petrus has one debt instrument outstanding; a reserve-based, senior secured revolving credit facility with a syndicate of lenders, which is comprised of an operating facility and a syndicated term-out facility (together, the "Revolving Credit Facility" or "RCF").

Revolving Credit Facility

At September 30, 2021 the RCF was comprised of a \$19.4 million operating facility and a \$45.3 million syndicated term-out facility with a maturity date of May 31, 2022. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

At September 30, 2021, the Company had a \$0.6 million letter of credit outstanding against the RCF (December 31, 2020 – \$0.6 million) and had drawn \$59.3 million against the RCF (December 31, 2020 – \$77.5 million).

The amount of the RCF is subject to a borrowing base review performed on a semi-annual basis by the lenders, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. In addition, asset dispositions require unanimous lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF. Subsequent to September 30, 2021, the syndicate of lenders reconfirmed the Company's borrowing base of \$64.8 million, which will be reduced by \$2.75 million on December 31, 2021 and by a further \$5.0 million on March 31, 2022. In addition, Petrus and the lenders under the RCF have agreed to a cash sweep provision under which 75% of excess cash flow will be used to accelerate repayment of the Company's First Lien Loan. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2022. In the event that the lenders reduce the borrowing base below the amount drawn at the time of redetermination, the Company has 60 days to eliminate any shortfall by repaying amounts in excess of the new re-determined borrowing base.



Debt Settlement - Term Loan

Prior to September 30, 2021, Petrus had a second debt instrument, a subordinated secured term loan (the "Term Loan"). During the third quarter of 2021, the Company settled its Term Loan with a principal amount of \$39.4 million (the "Second Lien Settlement") in consideration for the issuance of \$15.8 million of common shares of Petrus ("Common Shares") to the holders of the Term Loan at an issue price of \$0.55 per share.

Liquidity

At September 30, 2021, the Company had a working capital deficiency (excluding non-cash risk management assets and liabilities) of \$60.3 million due to the classification of the Company's borrowings under its RCF as a current liability. However, the Company remains in compliance with all financial covenants pertaining to its debt, and based on current available information relating to future production volumes, forward commodity pricing, future costs including capital, operating and general and administrative, forward exchange rates, interest rates and taxes, all of which are subject to measurement uncertainty, management expects to comply with all financial covenants during the subsequent 12 month period.

Financial Covenants

The Company's RCF is subject to certain financial covenants. For the financial covenants' definitions and calculation methodology refer to the Company's Audited Consolidated Financial Statements as at and for the year ended December 31, 2020.

The key financial covenants are summarized in note 5 of the September 30, 2021 interim consolidated financial statements.

Contractual Maturities

The following are the contractual maturities of financial liabilities as at September 30, 2021:

\$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	11,192	11,192	—
Risk management liability	8,551	8,551	—
Bank indebtedness and current portion of long term debt ⁽¹⁾	59,300	59,300	—
Lease obligations	870	210	660
Total	79,913	79,253	660

⁽¹⁾Excludes deferred finance fees.

Commitments

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

\$000s	Total	< 1 year	1-5 years	> 5 years
Firm service transportation	11,460	2,045	8,851	564

Risk Management

Petrus is engaged in the acquisition, development, exploration and exploitation of oil and natural gas in western Canada. The Company is exposed to a number of risks, both financial and operational, through the pursuit of its strategic objectives. Actively managing these risks improves the ability to effectively execute Petrus' business strategy. Financial risks associated with the oil and natural gas industry include fluctuations in commodity prices, interest rates, currency exchange rates and the cost of goods and services. Financial risks also include third party credit risk and liquidity risk. Operational risks include reservoir performance uncertainties, competition, regulatory, environment and safety concerns.

For a more in-depth discussion of risk management, see notes 8 and 13 of the Company's September 30, 2021 interim consolidated financial statements.



SUMMARY OF QUARTERLY RESULTS

(\$000s unless otherwise noted)	Sept. 30, 2021	Jun. 30, 2021	Mar. 31, 2021	Dec. 31, 2020	Sept. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019
Average Production								
Natural gas (mcf/d)	23,942	24,291	22,985	26,177	26,181	27,630	30,604	32,641
Oil (bbl/d)	937	1,214	923	980	1,103	867	1,134	1,834
NGLs (bbl/d)	1,010	1,046	1,158	1,014	997	819	1,088	1,018
Total (boe/d)	5,937	6,309	5,912	6,357	6,463	6,291	7,323	8,292
Total (boe)	546,227	574,084	532,099	584,860	594,599	572,440	666,361	762,874
Financial Results								
Oil and natural gas revenue	20,306	19,553	16,339	14,143	12,840	9,041	14,344	20,998
Royalty expense	(2,150)	(2,794)	(1,989)	(1,183)	(1,245)	(867)	(1,899)	(2,218)
Net oil and natural gas revenue	18,156	16,759	14,350	12,960	11,595	8,174	12,445	18,780
Transportation expense	(991)	(1,057)	(863)	(983)	(967)	(799)	(703)	(991)
Operating expense	(3,042)	(3,903)	(3,254)	(3,237)	(2,408)	(2,543)	(3,035)	(3,407)
Operating netback	14,123	11,799	10,233	8,740	8,220	4,832	8,707	14,382
Realized gain (loss) on derivatives	(3,504)	(1,843)	(1,215)	381	1,308	3,656	1,174	(1,417)
Other income (cash)	12	1,018	23	184	23	99	48	7
General and administrative expense	(804)	(1,381)	(876)	(1,059)	(635)	(817)	(898)	(1,459)
Cash finance expense	(1,803)	(1,444)	(1,029)	(1,456)	(1,286)	(1,831)	(2,089)	(1,939)
Decommissioning expenditures	(150)	(79)	(143)	(366)	(79)	(84)	(376)	(314)
Corporate netback and funds flow	7,874	8,070	6,993	6,424	7,551	5,855	6,566	9,260
Oil and natural gas revenue	20,306	19,553	16,339	14,143	12,840	9,041	14,344	20,998
Per share - basic	0.37	0.39	0.33	0.29	0.26	0.18	0.29	0.42
Per share - fully diluted	0.35	0.39	0.33	0.29	0.26	0.18	0.29	0.42
Net income (loss)	7,343	(4,265)	3,365	(151)	(3,678)	(6,281)	(87,444)	(3,176)
Per share - basic	0.14	(0.09)	0.07	—	(0.07)	(0.13)	(1.77)	(0.06)
Per share - fully diluted	0.13	(0.09)	0.07	—	(0.07)	(0.13)	(1.77)	(0.06)
Common shares outstanding (000s)								
Basic	96,603	49,559	49,469	49,469	49,469	49,469	49,469	49,469
Fully diluted	100,074	49,559	49,469	49,469	49,469	49,469	49,469	49,469
Weighted average shares outstanding (000s)								
Basic	54,167	49,513	49,469	49,469	49,469	49,469	49,469	49,469
Fully diluted	57,638	49,513	49,469	49,469	49,469	49,469	49,469	49,469
Total assets	173,101	176,629	177,587	177,914	179,895	184,532	193,679	289,225
Net debt	(60,071)	(110,346)	(116,634)	(114,361)	(116,717)	(120,570)	(125,974)	(123,744)

The oil and natural gas exploration and production industry is cyclical in nature. Petrus' financial position, results of operations and corporate netback are affected by commodity prices, exchange rates, Canadian price differentials and production levels. Petrus' average quarterly production has decreased from 8,292 boe/d in the fourth quarter of 2019 to 5,937 boe/d in the third quarter of 2021. The 40% production decrease is attributable to Petrus' disciplined capital program prioritizing debt repayment as well as non-operated and third party downtime.

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. The



Company's critical accounting estimates can be read in note 2 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2020.

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The rapid outbreak and subsequent measures intended to limit the spread of COVID-19 have contributed to a significant increase in economic uncertainty, with more volatile commodity prices, currency exchange rates and interest rates. The duration and severity of the business disruptions and reduction in consumer activity nationally and internationally and the resulting financial effect is difficult to reliably estimate. The results of the potential economic downturn and any potential resulting direct or indirect effect on the Company has been considered in management's estimates at period end; however, there could be a further prospective material effect in future periods.

OTHER FINANCIAL INFORMATION

Significant accounting policies

The Company's significant accounting policies can be read in note 3 of the Company's audited consolidated financial statements as at and for the year ended December 31, 2020.

New standards and interpretations

The Company has not adopted any new standards and interpretations for the period ended September 30, 2021.

Internal Control over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on July 1, 2021 and ending on September 30, 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

NON-GAAP FINANCIAL MEASURES

This MD&A makes reference to the terms "operating netback", "funds flow and corporate netback" and "net debt". These indicators are not recognized measures under GAAP (IFRS) and do not have a standardized meaning prescribed by GAAP (IFRS). Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Management uses these terms for the reasons set forth below.

Operating Netback

Operating netback is a common non-GAAP financial measure used in the oil and natural gas industry which is a useful supplemental measure to evaluate the specific operating performance by product at the oil and natural gas lease level. The most directly comparable GAAP measure to operating netback is funds flow. Operating netback is calculated as oil and natural gas revenue less royalties, operating and transportation expenses. It is presented on an absolute value and per unit basis.

Funds Flow and Corporate Netback

Corporate netback is a common non-GAAP financial measure used in the oil and natural gas industry which evaluates the Company's profitability at the corporate level. Corporate netback is equal to funds flow which is a directly comparable GAAP measure. Petrus analyzes these measures on an absolute value and per unit basis. Management believes that funds flow and corporate netback provide information to assist a reader in understanding the Company's profitability relative to current commodity prices. It is calculated, in the following table,



as the operating netback less general and administrative expense, finance expense, decommissioning expenditures, plus other income and the net realized gain (loss) on financial derivatives.

	Three months ended		Three months ended		Nine months ended		Nine months ended	
	Sept. 30, 2021		Sept. 30, 2020		September 30, 2021		September 30, 2020	
	\$000s	\$/boe	\$000s	\$/boe	\$000s	\$/boe	\$000s	\$/boe
Oil and natural gas revenue	20,306	37.18	12,840	21.59	56,198	34.00	36,225	19.76
Royalty expense	(2,150)	(3.94)	(1,245)	(2.09)	(6,933)	(4.20)	(4,011)	(2.19)
Net oil and natural gas revenue	18,156	33.24	11,595	19.50	49,265	29.80	32,214	17.57
Transportation expense	(991)	(1.81)	(967)	(1.63)	(2,911)	(1.76)	(2,469)	(1.35)
Operating expense	(3,042)	(5.57)	(2,408)	(4.05)	(10,199)	(6.17)	(7,986)	(4.36)
Operating netback	14,123	25.86	8,220	13.82	36,155	21.87	21,759	11.86
Realized gain (loss) on financial derivatives	(3,504)	(6.41)	1,308	2.20	(6,564)	(3.97)	6,138	3.35
Other income	12	0.02	23	0.04	1,053	0.64	170	0.09
General & administrative expense	(804)	(1.47)	(635)	(1.07)	(3,061)	(1.85)	(2,350)	(1.28)
Cash finance expense ⁽¹⁾	(1,803)	(3.30)	(1,286)	(2.16)	(4,277)	(2.59)	(5,205)	(2.84)
Decommissioning expenditures	(150)	(0.27)	(79)	(0.13)	(372)	(0.23)	(538)	(0.29)
Funds flow and corporate netback	7,874	14.43	7,551	12.70	22,934	13.87	19,974	10.89

⁽¹⁾Excludes non-cash Term Loan interest payment-in-kind

Net Debt

Net debt is a non-GAAP financial measure and is calculated as current assets (excluding unrealized financial derivative assets) less current liabilities (excluding unrealized financial derivative liabilities, right-of-use lease obligations, and deferred share unit liabilities) and long term debt. Petrus uses net debt as a key indicator of its leverage and strength of its balance sheet. There is no GAAP measure that is reasonably comparable to net debt.

(\$000s)	As at September 30, 2021	As at December 31, 2020
Adjusted current assets ⁽¹⁾	10,666	7,428
Less: adjusted current liabilities ⁽¹⁾	(70,737)	(121,789)
Net debt	(60,071)	(114,361)

⁽¹⁾Adjusted for unrealized risk management assets, liabilities, lease obligations and unrealized deferred share unit liabilities.

OIL AND GAS DISCLOSURES

Our oil and gas reserves statement for the year ended December 31, 2020, which includes disclosure of our oil and natural gas reserves and other oil and natural gas information in accordance with NI 51-101, is contained in the AIF. The recovery and reserve estimates contained herein are estimates only and there is no guarantee that the estimated reserves will be recovered.

Management uses oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare Petrus' operations over time. Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented in this MD&A, should not be relied upon for investment or other purposes.

While the references in this document to initial production rates are useful in confirming the presence of hydrocarbons, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. In all cases in this document, initial production results are not necessarily indicative of long-term performance of the relevant wells or of ultimate recovery of hydrocarbons.

ADVISORIES

Basis of Presentation

Financial data presented above has largely been derived from the Company's financial statements, prepared in accordance with GAAP which require publicly accountable enterprises to prepare their financial statements using IFRS. Accounting policies adopted by the Company are set out in the notes to the consolidated financial statements as at and for the twelve months ended December 31, 2019. 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 MD&A 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: prospective changes to the terms of the RCF and Term Loan; Petrus’ capital program, flexibility and utilization of free cash flow; Petrus’ utilization of Federal and Provincial programs; Petrus’ expectations regarding second half 2021 production volumes; Petrus’ ability to modify its operations, including its ability to adjust liquid volumes and the results thereof; expectations regarding the adequacy of Petrus’ liquidity and the funding of its financial liabilities; the impact of the current economic environment on Petrus; the performance characteristics of the Company’s crude oil, NGL and natural gas properties; future prospects; the focus of and timing of capital expenditures; access to debt and equity markets; 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; and treatment under governmental regulatory regimes and tax laws. 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; impact of the economic crisis on the Company’s lenders; willingness of the Company’s lenders to negotiate; 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; willingness of its lenders to negotiate; the impact of the current financial crisis; 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.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Petrus’ prospective results of operations including, without limitation, its ability to repay debt, which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. Petrus’ actual results, performance or achievement could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits Petrus will derive therefrom. Petrus has included the FOFI in order to provide readers with a more complete perspective on Petrus’ future operations and such information may not be appropriate for other purposes.



These forward-looking statements and FOFI are made as of the date of this MD&A and the Company disclaims any intent or obligation to update any forward-looking statements and FOFI, 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 equivalence of the two commodities at the burner tip. Boe’s do not represent an economic value equivalence at the wellhead and therefore may be a misleading measure if used in isolation.

Abbreviations

<i>\$000’s</i>	<i>thousand dollars</i>
<i>\$/bbl</i>	<i>dollars per barrel</i>
<i>\$/boe</i>	<i>dollars per barrel of oil equivalent</i>
<i>\$/GJ</i>	<i>dollars per gigajoule</i>
<i>\$/mcf</i>	<i>dollars per thousand cubic feet</i>
<i>bbl</i>	<i>barrel</i>
<i>bbl/d</i>	<i>barrels per day</i>
<i>boe</i>	<i>barrel of oil equivalent</i>
<i>mboe</i>	<i>barrel of oil equivalent</i>
<i>mmboe</i>	<i>thousand barrel of oil equivalent</i>
<i>boe/d</i>	<i>million barrel of oil equivalent per day</i>
<i>GJ</i>	<i>gigajoule</i>
<i>GJ/d</i>	<i>gigajoules per day</i>
<i>mcf</i>	<i>thousand cubic feet</i>
<i>mcf/d</i>	<i>thousand cubic feet per day</i>
<i>mmcf/d</i>	<i>million cubic feet per day</i>
<i>NGLs</i>	<i>natural gas liquids</i>
<i>WTI</i>	<i>West Texas Intermediate</i>



**CONSOLIDATED BALANCE SHEETS
(UNAUDITED)**

(Presented in 000's of Canadian dollars)

As at	September 30, 2021	December 31, 2020
ASSETS		
Current		
Deposits and prepaid expenses	1,510	1,150
Accounts receivable (note 13)	9,156	6,278
Risk management asset (note 8)	—	934
Total current assets	10,666	8,362
Non-current		
Risk management asset (note 8)	—	15
Exploration and evaluation assets (note 3)	13,086	17,568
Property, plant and equipment (note 4)	149,349	151,969
	162,435	169,552
Total assets	173,101	177,914
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	245	32
Current portion of long term debt (note 5)	59,300	114,049
Accounts payable and accrued liabilities (note 13)	11,192	7,708
Risk management liability (note 8)	8,551	986
Lease obligations (note 6)	210	188
Total current liabilities	79,498	122,963
Non-current liabilities		
Lease obligations (note 6)	660	824
Decommissioning obligation (note 7)	39,540	44,456
Risk management liability (note 8)	—	41
Total liabilities	119,698	168,284
Shareholders' equity		
Share capital (note 9)	455,870	430,119
Contributed surplus	27,695	9,596
Deficit	(430,162)	(430,085)
Total shareholders' equity	53,403	9,630
Total liabilities and shareholders' equity	173,101	177,914

Commitments and contingencies (note 17)

Related party transactions (note 19)

See accompanying notes to the interim consolidated financial statements

Approved by the Board of Directors,

(signed) "Don T. Gray"

 Don T. Gray
Chairman

(signed) "Donald Cormack"

 Donald Cormack
Director


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

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

	Three months ended	Three months ended	Nine months ended	Nine months ended
	Sept. 30, 2021	Sept. 30, 2020	Sept. 30, 2021	Sept. 30, 2020
REVENUE				
Oil and natural gas revenue (note 18)	20,306	12,840	56,198	36,225
Royalty expense	(2,150)	(1,245)	(6,933)	(4,011)
Net oil and natural gas revenue	18,156	11,595	49,265	32,214
Other income (note 18)	386	23	1,427	170
Net gain (loss) on financial derivatives (note 8)	(3,120)	(2,875)	(15,036)	7,308
	15,422	8,743	35,656	39,692
EXPENSES				
Operating (note 11)	3,042	2,408	10,199	7,986
Transportation	990	967	2,910	2,469
General and administrative (note 12)	804	635	3,061	2,350
Share-based compensation (note 9)	32	144	144	238
Finance (note 15)	2,710	2,494	7,663	6,949
Exploration and evaluation (note 3)	46	14	108	18
Depletion and depreciation (note 4)	5,879	5,759	17,484	19,110
Gain on sale of assets	—	—	(412)	(25)
Impairment (notes 3 and 4)	—	—	—	98,000
Total expenses	13,503	12,421	41,157	137,095
NET INCOME (LOSS) BEFORE INCOME TAX	1,919	(3,678)	(5,501)	(97,403)
Income tax recovery	(5,424)	—	(5,424)	—
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	7,343	(3,678)	(77)	(97,403)
Net income (loss) per common share				
Basic (note 10)	0.14	(0.07)	—	(1.97)
Diluted (note 10)	0.13	(0.07)	—	(1.97)

See accompanying notes to the interim consolidated financial statements



**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)**

(Presented in 000's of Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2019	430,119	9,112	(332,531)	106,700
Net loss	—	—	(97,403)	(97,403)
Share-based compensation (note 9)	—	320	—	320
Balance, September 30, 2020	430,119	9,432	(429,934)	9,617
Balance, December 31, 2020	430,119	9,596	(430,085)	9,630
Net income	—	—	(77)	(77)
Deferred Share Unit settlement (note 9)	—	(223)	—	(223)
Issuance of common shares (note 9)	25,862	18,131	—	43,993
Share issue costs (note 9)	(111)	—	—	(111)
Share-based compensation (note 9)	—	191	—	191
Balance, September 30, 2021	455,870	27,695	(430,162)	53,403

See accompanying notes to the interim consolidated financial statements



**CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

(Presented in 000's of Canadian dollars)

	Three months ended	Three months ended	Nine months ended	Nine months ended
	Sept. 30, 2021	Sept. 30, 2020	Sept. 30, 2021	Sept. 30, 2020
OPERATING ACTIVITIES				
Net loss	7,343	(3,678)	(77)	(97,403)
Adjust items not affecting cash:				
Share-based compensation (note 9)	32	144	144	238
Unrealized (gain) loss on financial derivatives (note 8)	(385)	4,183	8,473	(1,170)
Non-cash finance expenses (note 15)	235	331	814	867
Non-cash term loan interest payment-in-kind (note 5)	672	877	2,573	877
Depletion and depreciation (note 4)	5,879	5,759	17,484	19,110
Impairment (notes 3 and 4)	—	—	—	98,000
Exploration and evaluation expense (note 3)	46	14	108	18
Gain on sale of assets (note 4)	—	—	(412)	(25)
Recovery of income taxes on debt settlement (note 5)	(5,424)	—	(5,424)	—
Other income (note 18)	(374)	—	(376)	—
Decommissioning expenditures (note 7)	(150)	(79)	(373)	(538)
Funds flow	7,874	7,551	22,934	19,974
Change in operating non-cash working capital (note 16)	5,054	958	234	4,364
Cash flows from operating activities	12,928	8,509	23,168	24,338
FINANCING ACTIVITIES				
Deferred Share Unit payment (note 9)	26	—	(31)	—
Issuance of shares (note 9)	10,070	—	10,070	—
Repayment of revolving credit facility	(15,345)	(5,850)	(18,445)	(11,950)
Drawing of bank indebtedness	245	(186)	213	—
Repayment of lease liabilities (note 6)	(48)	(45)	(142)	(91)
Change in financing non-cash working capital (note 16)	(161)	(405)	(162)	(248)
Cash flows used in financing activities	(5,213)	(6,486)	(8,497)	(12,289)
INVESTING ACTIVITIES				
Property and equipment dispositions (note 4)	—	—	128	—
Exploration and evaluation asset expenditures (note 3)	(47)	(54)	(457)	(185)
Petroleum and natural gas property expenditures (note 4)	(6,055)	(2,489)	(14,354)	(11,314)
Change in investing non-cash working capital (note 16)	(1,925)	587	12	(739)
Cash flows used in investing activities	(8,027)	(1,956)	(14,671)	(12,238)
Increase (decrease) in cash	(312)	67	—	(189)
Cash, beginning of period	312	—	—	256
Cash, end of period	—	67	—	67
Cash interest paid (note 15)	1,803	1,286	4,277	5,205

See accompanying notes to the interim consolidated financial statements



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at September 30, 2021 and for the three and nine months ended September 30, 2021 and 2020

1. NATURE OF THE ORGANIZATION

Petrus Resources Ltd. (the "Company" or "Petrus") was incorporated under the laws of the Province of Alberta on November 25, 2015. The principal undertaking of Petrus is the investment in energy business-related assets. The operations of the Company consist of the acquisition, development, exploration and exploitation of these assets. These consolidated financial statements reflect only the Company's proportionate interest in such activities and are comprised of the Company and its subsidiaries, Petrus Resources Corp. and Petrus Resources Inc.

The Company's head office is located at 2400, 240 - 4th Avenue SW, Calgary, Alberta, Canada.

These interim consolidated financial statements, for the three and nine months ended September 30, 2021 and prior year comparative periods, were approved by the Company's Audit Committee and Board of Directors on November 10, 2021.

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared by management on a historical basis, except for certain financial instruments that have been measured at fair value. These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting." Certain information and disclosures normally included in the notes to the annual financial statements have been condensed. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2020 which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of these condensed interim consolidated financial statements requires the use of certain critical accounting estimates and also requires management to exercise judgment in applying the Company's accounting policies. In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended December 31, 2020. The condensed interim consolidated financial statements have been prepared following the same accounting policies as the financial statements for the year ended December 31, 2020. These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency, except where otherwise noted.

Significant Accounting Policies and Critical Accounting Estimates

The Company's significant accounting policies and critical accounting estimates can be read in note 3 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2020.

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, shareholders' equity, revenue and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are continuously reviewed with the financial statement effect being recognized in the reporting period that the changes to estimates are made.

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The rapid outbreak and subsequent measures intended to limit the spread of COVID-19 have contributed to a significant increase in economic uncertainty, with more volatile commodity prices, currency exchange rates and interest rates. The duration and severity of the business disruptions and reduction in consumer activity internationally and the resulting financial effect is difficult to reliably estimate. The results of the potential economic downturn and any potential resulting direct or indirect effect on the Company has been considered in management's estimates at period end; however, there could be a further prospective material effect in future periods.

3. EXPLORATION AND EVALUATION ASSETS

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

\$000s	
Balance, December 31, 2019	36,116
Additions	4,590
Property acquisitions	(58)
Exploration and evaluation expense	(18)
Capitalized G&A	279
Capitalized share-based compensation	26
Transfers to property, plant and equipment (<i>note 4</i>)	(367)
Impairment loss	(23,000)
Balance, December 31, 2020	17,568
Additions	327
Disposition	(18)
Exploration and evaluation expense	(108)
Capitalized G&A	148
Capitalized share-based compensation (<i>note 9</i>)	12
Transfers to property, plant and equipment (<i>note 4</i>)	(4,843)
Balance, September 30, 2021	13,086

During the three and nine months ended September 30, 2021, the Company incurred exploration and evaluation expenses of \$0.1 million which relates to expired and nearly expired undeveloped, non-core land (three and nine months ended September 30, 2020 – nil).

During the three and nine months ended September 30, 2021, the Company capitalized \$0.05 million and \$0.15 million, respectively, of general and administrative expenses ("G&A") (three and nine months ended September 30, 2020 – \$0.05 million and \$0.19 million) and \$0.004 million and \$0.012 million of non-cash share-based compensation directly attributable to exploration activities (three and nine months ended September 30, 2020 – nil and \$0.02 million).

During the nine months ended September 30, 2021, the Company had transferred \$4.8 million from E&E assets to PP&E assets, related to the Kakwa CGU that was brought on production during the second quarter. Upon transfer of the E&E assets to PP&E, an impairment test was performed on the assets transferred. No impairment was identified upon transfer of the assets from E&E to PP&E.

The Company did not identify any indicators of impairment or impairment reversal for the three and nine months ended September 30, 2021.

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

4. PROPERTY, PLANT AND EQUIPMENT

The components of the Company's property, plant and equipment ("PP&E") assets are as follows:

\$000s	Cost	Accumulated DD&A	Net book value
Balance, December 31, 2019	821,861	(583,383)	238,478
Additions	8,600	—	8,600
Capitalized G&A	838	—	838
Capitalized share based compensation	77	—	77
Transfer from exploration and evaluation assets (note 3)	367	—	367
Depletion & depreciation	—	(25,231)	(25,231)
Increase in decommissioning expenses	3,840	—	3,840
Impairment provision	—	(75,000)	(75,000)
Balance, December 31, 2020	835,583	(683,614)	151,969
Additions	13,912	—	13,912
Property dispositions	(14,489)	12,439	(2,050)
Capitalized G&A	443	—	443
Capitalized share-based compensation (note 9)	35	—	35
Transfers from exploration and evaluation assets (note 3)	4,843	—	4,843
Depletion & depreciation	—	(17,484)	(17,484)
Changes in decommissioning provision (note 7)	(2,318)	—	(2,318)
Balance, September 30, 2021	838,009	(688,659)	149,350

At September 30, 2021, estimated future development costs of \$252.3 million (December 31, 2020 – \$252.3 million) associated with the development of the Company's proved plus probable undeveloped reserves were included with the costs subject to depletion. During the three and nine months ended September 30, 2021, the Company capitalized \$0.1 million and \$0.4 million, respectively, of general and administrative expenses ("G&A") (three and nine months ended September 30, 2020 – \$0.2 million and \$0.6 million) and non-cash share-based compensation of \$0.02 million and \$0.03 million, respectively (three and nine months ended September 30, 2020 – \$0.01 million and \$0.06 million), directly attributable to development activities.

During the nine months ended September 30, 2021, the Company recorded a gain of \$0.4 million on the disposition of certain E&E and PP&E assets in the Foothills CGU for cash consideration of \$0.1 million and the assumption of \$2.4 million of decommissioning liabilities.

During the nine months ended September 30, 2021, the Company had transferred \$4.8 million from E&E assets to PP&E assets, related to the Kakwa CGU that was brought on production during the second quarter. The Company did not identify any indicators of impairment in any of the Company's CGUs as at September 30, 2021.

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

No impairment was recorded for the Foothills and Central Alberta CGUs for the three and nine months ended September 30, 2021.

At September 30, 2021, the carrying balance of the right of use asset was \$0.9 million.

5. DEBT

Petrus has one debt instrument outstanding; a reserve-based, senior secured revolving credit facility with a syndicate of lenders, which is comprised of an operating facility and a syndicated term-out facility (together, the "Revolving Credit Facility" or "RCF").

Revolving Credit Facility

At September 30, 2021 the RCF was comprised of a \$19.4 million operating facility and a \$45.3 million syndicated term-out facility with a maturity date of May 31, 2022. The Company has provided collateral by way of a debenture over all of the present and after acquired property of the Company.

At September 30, 2021, the Company had a \$0.6 million letter of credit outstanding against the RCF (December 31, 2020 – \$0.6 million) and had drawn \$59.3 million against the RCF (December 31, 2020 – \$77.5 million).



The amount of the RCF is subject to a borrowing base review performed on a semi-annual basis by the lenders, based primarily on reserves and commodity prices estimated by the lenders as well as other factors. In addition, asset dispositions require unanimous lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF. Subsequent to September 30, 2021, the syndicate of lenders reconfirmed the Company's borrowing base of \$64.8 million, which will be reduced by \$2.75 million on December 31, 2021 and by a further \$5.0 million on March 31, 2022. In addition, Petrus and the lenders under the RCF have agreed to a cash sweep provision under which 75% of excess cash flow will be used to accelerate repayment of the Company's First Lien Loan. The next scheduled borrowing base redetermination date for the RCF is on or before May 31, 2022. In the event that the lenders reduce the borrowing base below the amount drawn at the time of redetermination, the Company has 60 days to eliminate any shortfall by repaying amounts in excess of the new re-determined borrowing base.

Debt Settlement - Term Loan

Prior to September 30, 2021, Petrus had a second debt instrument, a subordinated secured term loan (the "Term Loan"). During the third quarter of 2021, the Company settled its Term Loan with a principal amount (carrying value) of \$39.4 million (the "Second Lien Settlement") in consideration for the issuance of \$15.8 million (the settlement amount) of common shares of Petrus ("Common Shares") to the holders of the Term Loan at an issue price of \$0.55 per share. The difference between the carrying value and the settlement amount of the debt was added to contributed surplus in the amount of \$18.1 million (net of the recovery of income taxes of \$5.4 million).

Liquidity

At September 30, 2021, the Company had a working capital deficiency (excluding non-cash risk management assets and liabilities) of \$60.3 million due to the classification of the Company's borrowings under its RCF as a current liability. However, the Company remains in compliance with all financial covenants pertaining to its debt, and based on current available information relating to future production volumes, forward commodity pricing, future costs including capital, operating and general and administrative, forward exchange rates, interest rates and taxes, all of which are subject to measurement uncertainty, management expects to comply with all financial covenants during the subsequent 12 month period.

Financial Covenants

The Company's RCF is subject to certain financial covenants. For the financial covenants' definitions and calculation methodology refer to the Company's Audited Consolidated Financial Statements as at and for the year ended December 31, 2020.

The key financial covenants as at September 30, 2021 are summarized in the following table. At September 30, 2021 the Company is in compliance with all financial covenants.

Financial Covenant Description	Required Ratio	As at September 30, 2021
Working Capital Ratio	Over 0.60	1.36

6. LEASES

The Company's lease obligations are as follows:

\$000s	
Balance, December 31, 2020	1,012
Finance expense	53
Lease payments	(195)
Balance, September 30, 2021	870

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

\$000s	As at September 30, 2021
Less than 1 year	268
1 to 3 years	715
Total lease payments	983
Amounts representing finance expense	(113)
Present value of lease obligation	870
Current portion of lease obligation	210
Non-current portion of lease obligation	660

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 1.92 percent and an inflation rate of 2.00 percent (1.1 percent and 1.4 percent, respectively at December 31, 2020). Changes in estimates in 2020 and 2021 are due to the changes in the risk free rate and changes in the estimated future cash flow to reclaim the wells and facilities. The Company has estimated the net present value of the decommissioning obligations to be \$39.5 million as at September 30, 2021 (\$44.5 million at December 31, 2020). The undiscounted, uninflated total future liability at September 30, 2021 is \$38.8 million (\$41.4 million at December 31, 2020). The payments are expected to be incurred over the operating lives of the assets.

The following table reconciles the decommissioning liability:

\$000s	
Balance, December 31, 2019	41,259
Property dispositions	(98)
Other adjustments	(135)
Liabilities incurred	320
Liabilities settled	(904)
Change in estimates	3,520
Accretion expense	494
Balance, December 31, 2020	44,456
Property dispositions	(2,361)
Other adjustments	(373)
Liabilities incurred	233
Liabilities settled	(373)
Change in estimates	(2,551)
Accretion expense	509
Balance, September 30, 2021	39,540

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 had outstanding as at September 30, 2021:

Contract Period	Type	Total Daily Volume (GJ)	Average Price (CDN\$/GJ)
Natural Gas Swaps			
Oct. 1, 2021 to Oct. 31, 2021	Fixed price	14,000	\$2.08
Nov. 1, 2021 to Mar. 31, 2022	Fixed price	8,000	\$2.61
Jan. 1, 2022 to Mar. 31, 2022	Fixed price	2,000	\$2.61
Contract Period	Type	Total Daily Volume (Bbl)	Average Price (CDN\$/Bbl)
Crude Oil Swaps			
Oct. 1, 2021 to Dec 31, 2021	Fixed Price	900	\$65.85
Jan. 1, 2022 to Mar. 31, 2022	Fixed price	600	\$62.73
Contract Period	Type	Average Rate (%)	Notional Amount (000s CDN\$)
Interest Rate Swaps			
Oct. 1, 2021 to Dec. 31, 2022	Fixed rate	2.34	\$20,000

Risk management asset and liability:

\$000s At September 30, 2021	Asset	Liability
Current commodity derivatives	—	8,551
	—	8,551
\$000s At December 31, 2020		
Current commodity derivatives	934	986
Non-current commodity derivatives	15	41
	949	1,027

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

\$000s	Three months ended	Three months ended	Nine months ended	Nine months ended
	Sept. 30, 2021	Sept. 30, 2020	Sept. 30, 2021	Sept. 30, 2020
Realized gain (loss) on financial derivatives	(3,505)	1,308	(6,563)	6,138
Unrealized gain (loss) on financial derivatives	385	(4,183)	(8,473)	1,170
Net gain (loss) on financial derivatives	(3,120)	(2,875)	(15,036)	7,308

The Company had the following physical commodity contracts in place as at September 30, 2021:

Contract Period	Type	Total Daily Volume (GJ)	Price (CDN\$/GJ)
Natural Gas			
Nov. 1, 2021 to Mar. 31, 2022	Fixed price	1,000	\$4.69
Apr. 1, 2022 to Oct. 31, 2022	Fixed price	1,000	\$3.38

9. SHARE CAPITAL

Authorized

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

Issued and Outstanding

Common shares (\$000s)	Number of Shares	Amount
Balance, December 31, 2020	49,469,358	430,119
Common shares issued for private placement, equity conversion and debt settlement	46,909,092	25,762
Common shares issued on exercise of stock options	224,108	100
Share issue costs	—	(111)
Balance, September 30, 2021	96,602,558	455,870

Additionally, the Company has completed a private placement financing of an aggregate of \$10 million of Common Shares at an issue price of \$0.55 per share (the "Equity Financing"). All proceeds from the Equity Financing have been applied to outstanding indebtedness under the First Lien Loan (see note 5). Prior to September 30, 2021, Petrus had a second debt instrument, a subordinated secured term loan (the "Term Loan"). During the third quarter of 2021, the Company settled its Term Loan with a principal amount (carrying value) of \$39.4 million (the "Second Lien Settlement") in consideration for the issuance of \$15.8 million (the settlement amount) of common shares of Petrus ("Common Shares") to the holders of the Term Loan at an issue price of \$0.55 per share. The difference between the carrying value and the settlement amount of the debt was added to contributed surplus in the amount of \$18.1 million (net of the recovery of income taxes of \$5.4 million)

SHARE-BASED COMPENSATION

Stock Options

The Company has a stock option plan in place whereby it may issue stock options to employees, consultants and directors of the Company. The aggregate number of shares that may be acquired upon exercise of all options granted pursuant to the plans shall, at any date or time of determination, be equal to ten percent (10%) of the number that is equal to (i) the number of the Company's basic common shares then issued and outstanding; minus (ii) a number equal to five (5) times the number of common shares that are issuable upon exercise of the then outstanding Performance Warrants, if any, minus (iii) a number equal to fifty percent (50%) of the number of common shares that have previously been issued upon the exercise of Performance Warrants, if any.



At September 30, 2021, 1,853,181 (December 31, 2020 – 2,276,923) stock options were outstanding. The summary of stock option activity is presented below:

	Number of stock options	Weighted average exercise price
Balance, December 31, 2019	2,361,958	\$2.87
Granted	1,122,276	\$0.23
Cancelled/forfeited	(353,320)	\$1.06
Expired	(853,991)	\$2.16
Balance, December 31, 2020	2,276,923	\$0.40
Granted	750,000	\$0.53
Forfeited	(550,735)	\$0.37
Expired	(198,780)	\$1.68
Exercised for cash	(200,119)	\$0.25
Exercised for shares	(224,108)	\$0.31
Balance, September 30, 2021	1,853,181	\$0.37
Exercisable, September 30, 2021	20,394	\$0.23

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

Range of Exercise Price	Stock Options Outstanding		
	Number granted	Weighted average exercise price	Weighted average remaining life (years)
\$0.23 - \$0.50	1,084,980	\$0.25	1.77
\$0.51 - \$0.80	768,201	\$0.54	2.64
	1,853,181	\$0.37	2.13

During the nine months ended September 30, 2021, the Company granted options which vest equally over three years, and upon vesting, expire 30 business days thereafter. The weighted average fair value of each option granted during the nine months ended September 30, 2021 of \$0.18 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2021	2020
Risk free interest rate	0.15% - 0.49%	0.20% - 0.29%
Expected life (years)	1.08 - 3.08	1.08 - 3.08
Estimated volatility of underlying common shares (%)	100%	80% to 100%
Estimated forfeiture rate	30%	20%
Expected dividend yield (%)	—%	—%

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

Deferred Share Unit ("DSU") Plan

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

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

The compensation expense was calculated using the fair value method based on the trading price of the Company's shares on the grant date. At September 30, 2021, 1,618,702 DSUs were issued and outstanding (December 2020 – 2,158,270). During the first quarter of 2021, the Company settled 539,568 DSUs for \$0.2 million in cash.



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

\$000s	Three months ended	Three months ended	Nine months ended	Nine months ended
	Sept. 30, 2021	Sept. 30, 2020	Sept. 30, 2021	Sept. 30, 2020
Expensed	32	144	144	238
Capitalized to exploration and evaluation assets	4	4	12	21
Capitalized to property, plant and equipment	22	15	35	61
Total share-based compensation	58	163	191	320

10. EARNINGS (LOSS) PER SHARE

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

	Three months ended	Three months ended	Nine months ended	Nine months ended
	Sept. 30, 2021	Sept. 30, 2020	Sept. 30, 2021	Sept. 30, 2020
Net income (loss) for the period (\$000s)	7,343	(3,678)	(77)	(97,403)
Weighted average number of common shares – basic (000s)	54,167	49,469	51,065	49,472
Weighted average number of common shares – diluted (000s)	57,638	49,469	54,537	49,472
Net income (loss) per common share – basic	\$0.14	(\$0.07)	—	(\$1.97)
Net income (loss) per common share – diluted	\$0.13	(\$0.07)	—	(\$1.97)

In computing diluted earnings per share for the three and nine months ended September 30, 2021, 1,853,181 outstanding stock options and 1,618,702 DSUs were considered (December 31, 2020 – 2,276,923 and 2,158,270 respectively), which were included in calculating the number of diluted common shares.

11. OPERATING EXPENSES

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

\$000s	Three months ended	Three months ended	Nine months ended	Nine months ended
	Sept. 30, 2021	Sept. 30, 2020	Sept. 30, 2021	Sept. 30, 2020
Fixed and variable operating expenses	2,527	2,010	8,951	6,669
Processing, gathering and compression charges	767	631	1,975	1,983
Total gross operating expenses	3,294	2,641	10,926	8,652
Overhead recoveries	(252)	(233)	(727)	(666)
Total net operating expenses	3,042	2,408	10,199	7,986

12. GENERAL AND ADMINISTRATIVE EXPENSES

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

\$000s	Three months ended	Three months ended	Nine months ended	Nine months ended
	Sept. 30, 2021	Sept. 30, 2020	Sept. 30, 2021	Sept. 30, 2020
Gross general and administrative expense	1,207	937	4,157	3,583
Capitalized general and administrative expense	(183)	(214)	(589)	(739)
Overhead recoveries	(220)	(88)	(507)	(494)
General and administrative expense	804	635	3,061	2,350



13. FINANCIAL INSTRUMENTS

Risks associated with financial instruments

Credit risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risk. Concentration of credit risk is mitigated by marketing the majority of the Company's production to reputable and financially sound purchasers under normal industry sale and payment terms. As is common in the petroleum and natural gas industry in western Canada, Petrus' receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Of the \$9.2 million of accounts receivable outstanding at September 30, 2021 (December 31, 2020 – \$6.3 million), \$7.6 million is owed from 4 parties (December 31, 2020 – \$4.7 million from 3 parties), and the balances were received subsequent to September 30, 2021. The Company considers accounts receivable outstanding past 120 days to be 'past due'. At September 30, 2021, the Company had an allowance for doubtful accounts of \$0.5 million (December 31, 2020 – \$0.5 million). At September 30, 2021, 95% of Petrus' accounts receivable were aged less than 120 days and 5% of Petrus' accounts receivable were aged greater than 120 days. The Company does not anticipate any material collection issues.

The Company's risk management assets and cash are with chartered Canadian banks and the Company does not consider these assets to carry material credit risk.

Liquidity risk

At September 30, 2021, the Company had a \$64.8 million RCF, on which \$59.3 million was drawn (December 31, 2020 – \$77.5 million). While the Company is exposed to the risk of reductions to the borrowing base of the RCF, the Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through funds flow and available credit capacity from its RCF. See additional discussion in note 5.

The following are the contractual maturities of financial liabilities as at September 30, 2021:

\$000s	Total	< 1 year	1-5 years
Accounts payable and accrued liabilities	11,192	11,192	—
Risk management liability	8,551	8,551	—
Bank indebtedness and current portion of long term debt ⁽¹⁾	59,300	59,300	—
Lease obligations	870	210	660
Total	79,913	79,253	660

⁽¹⁾Excludes deferred finance fees.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash, bank indebtedness and accounts receivable are not exposed to significant interest rate risk. The RCF is exposed to interest rate cash flow risk as the instrument is priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed to interest rate risk. To manage exposure to interest rate volatility, the Company entered into interest rate swap contracts (note 8). A 1% increase in the Canadian prime interest rate during the three and nine months ended September 30, 2021 would have decreased net income for the quarter (increased net loss for the nine month period ended) by approximately \$0.7 million per year, which relates to interest expense on the average outstanding RCF, net of any interest rate swaps to fix the interest rate on loans, during the period assuming that all other variables remain constant (September 30, 2020 – \$1.0 million). A 1% decrease in the Canadian prime interest rate during the year would result in an opposite impact on net income (loss).

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Company's borrowing base limit under its Revolving Credit Facility and may reduce the Company's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by Canadian and United States demand, but also by world events that dictate the levels of supply and demand.

The Company manages the risks associated with changes in commodity prices by entering into a variety of financial derivative contracts (see note 8). The Company assesses the effects of movement in commodity prices on net loss. When assessing the potential impact of these commodity price changes, the Company believes a \$5/CDN WTI/bbl change in the price of oil and a \$0.25/GJ change in the price of natural gas are reasonable measures.

As at September 30, 2021, it was estimated that a \$0.25/GJ decrease in the price of natural gas would have increased net income by \$0.6 million (September 30, 2020 – \$1.4 million). An opposite change in commodity prices would result in an opposite impact on net income for the period. As at September 30, 2021, it was estimated that a \$5.00/CDN WTI/bbl decrease in the price of oil would have increased net income by \$1.0 million (September 30, 2020 – \$0.9 million). An opposite change in commodity prices would result in an opposite impact on net income for the period.

14. CAPITAL MANAGEMENT

The Company's general capital management policy is to maintain a sufficient capital base in order to manage its business to enable the Company to increase the value of its assets and therefore its underlying share value. In the management of capital, the Company includes share capital and total net debt, which



is made up of debt and working capital (current assets less current liabilities). The Company manages its capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Petrus may issue new equity, increase or decrease debt, adjust capital expenditures and acquire or dispose of assets.

15. FINANCE EXPENSES

The components of finance expenses are as follows:

\$000s	Three months ended	Three months ended	Nine months ended	Nine months ended
	Sept. 30, 2021	Sept. 30, 2020	Sept. 30, 2021	Sept. 30, 2020
Cash:				
Interest and finance fees	1,803	1,286	4,277	5,205
Total cash finance expenses	1,803	1,286	4,277	5,205
Non-cash:				
Deferred financing costs	44	236	305	480
Non-cash term loan interest payment-in-kind	672	877	2,573	877
Accretion on decommissioning obligations (note 7)	191	95	509	387
Total non-cash finance expenses	907	1,208	3,387	1,744
Total finance expenses	2,710	2,494	7,664	6,949

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

\$000s	Three months ended	Three months ended	Nine months ended	Nine months ended
	Sept. 30, 2021	Sept. 30, 2020	Sept. 30, 2021	Sept. 30, 2020
Source (use) in non-cash working capital:				
Deposits and prepaid expenses	(21)	42	(361)	16
Transaction costs on debt	(14)	(559)	(161)	(638)
Accounts receivable	3,181	281	(2,878)	7,385
Accounts payable and accrued liabilities	(178)	1,378	3,484	(3,386)
	2,968	1,142	84	3,377
Operating activities	5,054	958	234	4,364
Financing activities	(161)	(405)	(162)	(248)
Investing activities	(1,925)	587	12	(739)

The following table reconciles the changes in liability resulting from financing activities:

\$000s	Bank Indebtedness	Revolving Credit Facility	Term Loan	Total Liabilities from Financing Activities
Balance, December 31, 2020	32	77,484	36,565	114,081
Cash flows	213	(18,445)	—	(18,232)
Payment-in-kind	—	—	2,573	2,573
Non-cash changes	—	261	(39,138)	(38,877)
Balance, September 30, 2021	245	59,300	—	59,545

17. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

\$000s	Total	< 1 year	1-5 years	> 5 years
Firm service transportation	11,460	2,045	8,851	564



CONTINGENCIES

In the normal course of Petrus' operations, the Company may become involved in, named as a party to, or be the subject of, various legal proceedings. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty. Petrus does not anticipate that these claims will have a material impact on its financial position.

18. REVENUE

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

\$000s	Three months ended	Three months ended	Nine months ended	Nine months ended
	Sept. 30, 2021	Sept. 30, 2020	Sept. 30, 2021	Sept. 30, 2020
Production Revenue				
Oil and condensate sales	7,120	4,714	21,049	12,018
Natural gas sales	8,902	6,035	23,052	18,628
Natural gas liquids sales	4,188	2,022	11,808	5,277
Total oil and natural gas production revenue	20,210	12,771	55,909	35,923
Royalty revenue	96	69	289	302
Total oil and natural gas revenue	20,306	12,840	56,198	36,225

During the nine months ended September 30, 2021, the Company recorded \$1.4 million as other income. This amount mainly relates to the settlement of an outstanding dispute associated with the transportation and marketing of its Ferrier area condensate volume.

19. RELATED PARTY TRANSACTIONS

During the third quarter of 2021, the Chairman of the Company acquired 15,636,364 Common Shares at an issue price of \$0.55 per share for total proceeds of \$8.6 million. An individual related to the Chairman of the Company acquired 2,545,455 Common Shares at an issue price of \$0.55 per share for total proceeds of \$1.4 million. Two individuals related to the Chairman of the Company settled their Term Loan with the Company for 28,727,273 Common Shares at an issue price of \$0.55 per share.

CORPORATE INFORMATION

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President and
Chief Executive Officer

Mathew Wong, CPA, CFA, CPA (WA, USA)
Vice President, Finance

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Chairman
Scottsdale, Arizona

Ken Gray
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Patrick Arnell
Calgary, Alberta

Donald Cormack
Calgary, Alberta

Peter Verburg
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SOLICITOR

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Calgary, Alberta

AUDITOR

Ernst & Young LLP
Chartered Professional Accountants
Calgary, Alberta

INDEPENDENT RESERVE EVALUATORS

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