Annual Report

December 31, 2015

Petrus Resources

HIGHLIGHTS

Petrus Resources Ltd. ("Petrus" or the "Company") (TSX: PRQ) is pleased to report financial and operating results for the three month periods and years ending December 31, 2015 and 2014, and provide 2015 year-end reserves information as evaluated by Sproule Associates Limited ("Sproule"). The associated Management's Discussion and Analysis ("MD&A") and audited financial statements dated as at and for the year ended December 31, 2015 can be found at www.sedar.com.

- Petrus generated $44.6 million in funds from operations during the year, compared to $61.3 million in 2014. Commodity prices declined significantly from the prior year; however, the Company's strong hedge position ($16.6 million realized gain in 2015) moderated its exposure to commodity price volatility. The average benchmark natural gas price in Canada (AECO) decreased by 42% year-over-year (averaging $2.69 per mcf in 2015, compared to $4.64 per mcf in 2014). The average price of Edmonton Light Sweet crude oil decreased 39% over the same period (from $94.45 per bbl to $57.48 per bbl).

- Average 2015 production was 8,762 boe per day, up from 6,032 boe per day in 2014. Production in the fourth quarter averaged 8,172 boe per day (36% oil and liquids), a decrease of 17% compared to 9,822 boe per day (41% oil and liquids) in the fourth quarter of 2014. Since mid-January 2015, a portion of the Company's sales volume (affecting three of the Company's four operating areas) was restricted due to transportation curtailments on TransCanada Corporation infrastructure. During the fourth quarter, approximately 1,300 boe per day remained under curtailment by these third-party transportation restrictions. Third party restrictions have been lifted since February 2016.

- Reserves per share increased by 21% and 23% on a proved plus probable and total proved basis, respectively. Total proved plus probable reserves increased from 40.6 mmboe in 2014 to 49.2 mmboe in 2015. The Company replaced 3.7 times annual production at an all-in annual Finding, Development and Acquisition cost of $15.40 per boe including the change in future development capital for the proved plus probable category. Petrus ended 2015 with $402.3 million of proved plus probable reserve value before-tax, discounted at 10%, a 17% reduction from the December 31, 2014 report, despite a 35% reduction in forward price forecasts.

- Petrus added 64.9 new net proven undeveloped and 18.7 new net probable undeveloped locations. Proved plus probable future development costs for the December 31, 2015 report are $325 million, a $125 million increase from 2014, which was a result of new reserve bookings.

- Over the twelve month period ended December 31, 2015, Petrus invested $55.4 million in exploration and acquisition activity, down from $443.0 million in 2014. Petrus invested $54.5 million in finding and development activities, along with $0.9 million in acquisitions (net of dispositions). The investments were funded by cash flow and the draw down of a portion of the Company's revolving credit facility.

- Petrus initiated certain financing transactions in the fourth quarter of 2015 which closed subsequent to year end. The Company entered into an arrangement agreement (the "Arrangement Agreement") with the entity formerly called PhosCan Chemical Corp. (TSX: FOS) ("PhosCan"), Petrus Resources Corp. ("Old Petrus") and a wholly-owned subsidiary of PhosCan pursuant to which the Company acquired all of the outstanding shares of each of Old Petrus and PhosCan by way of a plan of arrangement (the "Arrangement") under the *Business Corporations Act* (Alberta). Upon the closing of the Arrangement on February 2, 2016, each of PhosCan, which at that time held approximately $45.4 million of cash and cash equivalents, and Old Petrus became wholly-owned subsidiaries of Petrus. Petrus also completed a concurrent $30 million bought deal financing (the “Bought Deal Financing”), resulting in approximately $74.2 million in net proceeds. At closing of the Arrangement, the Petrus shares were consolidated on a 4 to 1 basis. Petrus currently has 45.3 million shares outstanding.

- Petrus received listing approval for the listing of its shares on the Toronto Stock Exchange ("TSX") under the symbol "PRQ" during the first quarter. Petrus commenced trading on the TSX on February 8, 2016.

- On March 22, 2016, upon a $40 million pay down of the Company's $90 million second lien term loan, the term loan was extended to October 2017 at the same terms which include no prepayment penalty and an annual interest rate of the Canadian Dealer Offered Rate (CDOR) plus 700 basis points. The Company concurrently reduced the amount drawn on its first lien revolving credit facility by $40 million.

- The Company currently has hedges in place for approximately 65% of its 2016 forecast production volumes and approximately 35% of its 2017 forecast production volumes to help mitigate any further downward pressure on commodity prices.

- At December 31, 2015 Petrus had 35.1 million shares outstanding (after giving effect to the 4-to-1 share consolidation which occurred February 2, 2016) and was drawn $145.0 million against its $160.0 million credit facility. The Company ended the year with net debt of $226.7 million, which was reduced to $153.0 million at March 22, 2016 as a result of the debt reductions following the Arrangement and Bought Deal Financing.

- At the end of 2015, Petrus had 248,035 net acres of undeveloped land, and a diverse drilling inventory, including economic projects at current strip pricing.

- The Petrus Board of Directors approved a base capital budget of $11.0 million for the first half of 2016, excluding acquisitions. The capital budget includes the drilling of 4 gross (3.6 net) wells and some tie-in and pipeline costs to optimize the Company's new gas plant in the Ferrier area to reduce future third-party processing fees. The capital budget is expected to be funded with a portion of cash flow.

SELECTED FINANCIAL INFORMATION

(000s) except per boe amounts	Twelve months ended Dec. 31, 2015	Twelve months Ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Sept. 30, 2015	Three months ended June 30, 2015	Three months ended Mar. 31, 2015
OPERATIONS						
Average Production						
Natural gas (mcf/d)	32,088	20,540	31,217	32,505	33,103	31,525
Oil (bbl/d)	2,838	2,227	2,380	2,616	2,811	3,559
NGLs (bbl/d)	576	382	590	634	560	519
Total (boe/d)	**8,762**	**6,032**	**8,172**	8,668	8,890	9,333
Total (boe)	**3,198,158**	**2,201,856**	**751,845**	797,439	808,947	839,927
Natural gas sales weighting	***61%***	***57%***	***64%***	62%	62%	56%
Realized Sales Prices						
Natural gas ($/mcf)	2.93	4.59	2.79	2.92	2.90	3.12
Oil ($/bbl)	52.47	87.14	48.27	50.91	64.76	47.38
NGLs ($/bbl)	25.09	45.23	30.52	16.14	24.99	29.77
Total ($/boe)	29.43	50.67	26.90	27.48	32.85	30.27
Hedging gain (loss) ($/boe)	5.18	0.42	6.68	4.72	3.58	5.81
Operating Netback ($/boe)						
Effective price	34.61	51.09	33.58	32.20	36.43	36.08
Royalty income	0.14	0.52	0.32	0.10	0.08	0.09
Royalty expense	(3.74)	(8.69)	(3.74)	(2.89)	(3.73)	(4.55)
Operating expense	(8.90)	(8.23)	(11.00)	(7.87)	(9.14)	(7.78)
Transportation expense	(1.64)	(1.94)	(1.31)	(1.43)	(1.93)	(1.86)
Operating netback [2] ($/boe)	**20.47**	**32.75**	**17.85**	20.11	21.71	21.98
G & A expense [1]	(2.35)	(2.27)	(3.08)	(2.10)	(2.28)	(1.98)
Net interest expense	(4.16)	(1.82)	(5.83)	(4.41)	(3.91)	(2.72)
Corporate netback [2] ($/boe)	**13.96**	**28.66**	**8.94**	13.60	15.52	17.28
FINANCIAL ($000s except per share)						
Oil and natural gas revenue	94,587	112,705	20,460	21,991	26,641	25,495
Cash flow from operations [2]	44,639	61,250	6,717	10,838	12,549	14,535
Cash flow operations per share [2][4]	1.27	2.30	0.19	0.31	0.36	0.41
Net income (loss)	(69,031)	(47,492)	(36,425)	(19,055)	(7,239)	(6,312)
Net income (loss) per share [4]	(1.96)	(1.78)	(1.04)	(0.54)	(0.21)	(0.18)
Capital expenditures	54,469	115,218	6,757	9,041	13,288	25,383
Net acquisitions (dispositions)	938	327,746	—	—	(125)	1,063
Common shares outstanding [4]	35,148	35,148	35,148	35,148	35,148	35,148
Weighted average shares [4]	35,148	26,680	35,148	35,148	35,148	35,148
As at quarter end ($000s)						
Net debt [3]	226,742	215,048	226,742	226,809	228,562	227,607
Bank debt outstanding	235,000	190,000	235,000	233,000	232,000	205,000
Bank debt available	12,600	100,000	12,600	34,600	35,600	85,000
Shareholder's equity	243,904	311,760	243,904	280,118	299,061	305,912
Total assets	555,145	647,304	555,145	595,890	627,808	641,547

[1] G&A expenses are shown net of capitalized general & administrative costs. Please refer to the G&A section on page 12 in the December 31, 2015 MD&A.
[2] Non-GAAP measures, including the methodology used to calculate debt-adjusted share amounts, are defined on page 8 of the December 31, 2015 MD&A.
[3] Net debt includes working capital surplus or (deficiency).
[4] All share capital instruments have been retrospectively adjusted to reflect the notional 4-to-1 share consolidation on February 2, 2016.

OPERATIONS UPDATE

The Petrus Board of Directors approved a base capital budget of $11.0 million for the first half of 2016. The capital budget includes the drilling of 4 gross (3.6 net) wells and some tie-in and pipeline costs to optimize the Company's new gas plant in the Ferrier area to reduce future third-party processing fees. The capital budget will be funded through a portion of cash flow.

The Company's production was significantly impacted during the year as a result of third party pipeline restrictions which limited production. To date in 2016 Petrus has been largely unaffected by these curtailments. Average fourth quarter production from the Company's four operating areas was as follows:

Average production for the quarter ended December 31, 2015	Foothills	Peace River	Ferrier	Central Alberta	Total
Average Production					
Natural gas (mcf/d)	7,066	3,003	11,476	9,672	**31,217**
Oil (bbl/d)	583	617	457	722	**2,379**
NGLs (bbl/d)	59	29	264	238	**590**
Total (boe/d)	**1,819**	**1,147**	**2,634**	**2,572**	**8,172**
Natural gas sales weighting	***65%***	***44%***	***73%***	***63%***	***64%***

Ferrier

Petrus established its initial position in the Ferrier area through a corporate acquisition in the third quarter of 2014. Since then Petrus has nearly doubled its undeveloped acreage in the area and has increased total proved plus probable reserves 70% since 2014 year end. Petrus constructed a 25 mmcf per day gas plant in 2015 which was designed to control costs and maximize value from the Company's high liquids content gas drilling opportunities in the area. The plant was completed during the fourth quarter and is operating as planned with ample excess capacity to enable growth. Ferrier is a low-risk, resource-style play with a drilling inventory that includes economic locations at current strip pricing, and is the focus of the Company's 2016 development activity.

Central Alberta

Petrus established its position in the Thorsby/Pembina area of Alberta through a corporate acquisition in the fourth quarter of 2014. The Company's assets in the area are predominantly oil with associated natural gas. Petrus owns and operates the majority of its working interest and facilities in Thorsby/Pembina. A portion of the Central Alberta assets are on waterflood and Petrus expects to optimize the other assets by implementing waterflood expansions to increase the economic recovery of the property.

Foothills

Petrus has low cost, low decline assets in the Foothills along with a significant amount of undeveloped land with an expansive drilling inventory at higher commodity prices. The Company owns extensive processing infrastructure throughout the Foothills and will continued to evaluate development opportunities in the area.

Peace River

Petrus owns legacy oil production in the Peace River area with production facilities as well as development land on which Petrus has developed a Montney oil play. Petrus has invested in production and water disposal facilities in its Peace River area and two oil batteries with water disposal capabilities now fully operational at Tangent and Berwyn contributing to significantly reduced operating costs and increased runtime. Petrus has initiated a pilot waterflood program at Berwyn and expects to expand the waterflood area over the next few years.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at the Riverview Room, International Hotel, 35th floor, 220-4th Ave SW Calgary, Alberta, on Thursday May 12, 2016 at 9:00 a.m. (Calgary time). The Information Circular, Annual Information Form and Annual Report for 2015 will be available on the SEDAR filing system (www.sedar.com) as well as the Company's website (www.petrusresources.com).

PetrusResources

PRESIDENT'S MESSAGE

At the risk of understatement, 2015 proved to be an extremely difficult year for our industry and for Petrus. The list of headwinds, from oil and gas prices, to pipeline restrictions, uncertainty over royalties and the ever changing politics of market access and environmental regulation formed a perfect storm that has many companies reeling.

Petrus reacted to industry conditions early in the year limiting drilling and completion capital expenditures. Oil prices rallied in the second quarter and Petrus was able to establish significant new hedges for the balance of 2015 and 2016. These hedges proved timely as the price rally stalled in July and prices declined through the second half of the year and into 2016 eventually reaching into the mid $20/Bbl range. By mid-2015 also, access curtailments on the TCPL gas transmission system significantly impacted sales volumes for industry including several Petrus properties. The resultant coincident reductions in both sales volumes and commodity prices severely impacted cash flows.

The deteriorating industry conditions forced us in August to realign our staff levels to the new operating realities. The resulting layoffs of several of our talented colleagues are a painful reminder of vicious industry conditions in 2015. We want to thank these families for their many contributions to Petrus and wish them well in the future.

Operationally we continued to focus on cost optimization activities and directed capital spending to projects that would improve our operational control and reduce future operating expense. One such project was a new operated gas compression and processing facility in our key Ferrier area. The new plant and associated TCPL meter station were commissioned in early December and will result in much improved operational control over our product value chain and significantly reduce third party processing expenses in the years ahead.

From a corporate perspective our primary objective was to improve the balance sheet and to complete the process of taking the company public. To this end, in early 2016 we completed an Arrangement with Phoscan Chemical Corp together with a $30MM equity financing which brought approximately $75MM of new capital into the company. Shortly thereafter Petrus commenced trading on the TSX under the symbol "PRQ". The new equity puts Petrus in a much stronger position to take advantage of opportunities and position the company to prosper in the recovery.

Although recovery seems agonizingly slow to set in, we are starting to see signs of potential rebalancing in the market. Severely reduced capital budgets in the energy sector worldwide are beginning to result in lower production levels. Together with continuing increases in demand, lower production will lead to rebalancing. Oil prices have recovered modestly from their recent lows and a more sustained rally would be a welcome respite. We are optimistic that the worst is behind us.

Kevin Adair
President, CEO and Director

Petrus Resources

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 twelve month periods ended December 31, 2015. The report is dated March 22, 2016 and should be read in conjunction with the audited financial statements and accompanying notes for the years ended December 31, 2015 and 2014. The Company's 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 referred to the advisories for additional information regarding forecasts, assumptions and other forward-looking information contained in the "Forward Looking Information and Statements" section of this MD&A. Readers are directed to the advisories at the end of this report regarding forward-looking statements, BOE presentation and non-IFRS measures.

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 recent filed Annual Information Form ("AIF"), can be accessed at www.sedar.com or from the Company's website at www.petrusresources.com.

FINANCING TRANSACTIONS AND RECENT DEVELOPMENTS

To improve liquidity and refinance a portion of the Company's long term debt, Petrus completed the following financing transactions:

Plan of Arrangement and Equity Financing

Plan of Arrangement and Equity Financing

On November 29, 2015 Petrus entered into an arrangement agreement (the "Arrangement Agreement") with a company formerly named PhosCan Chemical Corp. (TSX: FOS) ("PhosCan"), Petrus Acquisition Corp. ("New Petrus") and a wholly-owned subsidiary of PhosCan ("Fox River Resources Corp.") whereby New Petrus will acquire all of the outstanding shares of each of Petrus and PhosCan by way of a plan of arrangement (the "Arrangement") under the Business Corporations Act (Alberta) (the "ABCA"). The consideration for the PhosCan shares was approximately $51 million of cash and cash equivalents ($45.4 million after adjusting for PhosCan shareholders who exercised dissent rights). Petrus announced a concurrent $30 million bought deal financing on November 29, 2015.

On February 2, 2016 Petrus closed the Arrangement Agreement which provided $45.4 million in incremental cash and cash equivalents. The equity financing provided Petrus with an additional $28.8 million, net of costs.

Pursuant to the Arrangement Agreement, Petrus Acquisition Corp. ("New Petrus") acquired all of the issued and outstanding common shares of Petrus ("Old Petrus") ("Old Petrus Shares") on the basis of 0.25 of a common share of New Petrus ("New Petrus Shares") for each Old Petrus Share, reflecting a notional 4 to 1 consolidation of the Old Petrus Shares. All share capital instruments have been adjusted to reflect the Arrangement Agreement which closed February 2, 2016. On close, the Company was renamed Petrus Resources Corp., New Petrus was renamed Petrus Resources Ltd., and PhosCan was renamed Petrus Resources Inc.

Public Listing

Petrus listed its shares on the Toronto Stock Exchange ("TSX") under the symbol "PRQ" and the Petrus Shares commenced trading on the TSX on February 8, 2016. Pro forma the Arrangement and the Financing, there are approximately 45.3 million Petrus shares issued and outstanding.

Term Loan Extension

On March 22, 2016 Petrus amended and restated the credit agreement with the holder of the $90 million term loan. Concurrent with a $40 million pay down of the term loan, the instrument was extended to October 2017 at the same terms which include no prepayment penalty and an annual interest rate of the Canadian Dealer offered Rate (CDOR) plus 700 basis points.

These financing transactions reduced and extended the term of the Company's second lien debt to October 8, 2017, reduced the first lien borrowings and provide Petrus with improved liquidity. The Company has hedge contracts in place for approximately 65% of its 2016 forecast production volume and approximately 35% of its 2017 forecast production volume.

PetrusResources

FINANCIAL AND OPERATIONAL RESULTS OF OIL AND NATURAL GAS ACTIVITIES

	Twelve months ended Dec. 31, 2015	Twelve months ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Sept. 30, 2015	Three months ended June 30, 2015	Three months ended Mar. 31, 2015
Quarterly average production						
Natural gas (mcf/d)	32,088	20,540	31,217	32,505	33,103	31,525
Oil (bbl/d)	2,838	2,227	2,379	2,616	2,811	3,559
NGLs (bbl/d)	576	382	590	634	560	519
Total (boe/d)	**8,762**	**6,032**	**8,172**	8,668	8,890	9,333
Total (boe)	**3,198,158**	**2,201,856**	**751,845**	797,439	808,947	839,927
Exit production (boe/d)	**8,300**	**11,200**	—	—	—	—
Exit gas weighting	**65%**	54%	—	—	—	—
Revenue (000s)						
Natural Gas	34,307	34,415	7,999	8,718	8,734	8,857
Oil	54,565	70,846	10,566	12,254	16,568	15,176
NGLs	5,262	6,302	1,655	942	1,274	1,391
Commodity revenue	94,134	111,563	20,220	21,914	26,576	25,424
Royalty revenue	453	1,142	239	77	65	72
Oil and natural gas revenue	94,587	112,705	20,459	21,991	26,641	25,496
Average realized prices						
Natural gas ($/mcf)	2.93	4.59	2.79	2.92	2.90	3.12
Oil ($/bbl)	52.47	87.14	48.27	50.91	64.76	47.38
NGLs ($/bbl)	25.09	45.23	30.52	16.14	24.99	29.77
Total ($/boe)	29.43	50.67	26.90	27.48	32.85	30.27
Hedging gain (loss)	5.18	0.42	6.68	4.72	3.58	5.81
Total realized ($/boe)	34.61	51.09	33.58	32.20	36.43	36.08

Average benchmark prices	Twelve months ended Dec. 31, 2015	Twelve months ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Sept. 30, 2015	Three months ended June 30, 2015	Three months ended Mar. 31, 2015
Natural gas						
AECO (C$/mcf)	2.69	4.64	2.47	2.91	2.64	2.74
Crude Oil						
Edm Lt. (C$/ bbl)	57.48	94.45	52.52	54.95	69.66	52.81
Foreign Exchange						
US$/C$	0.78	0.91	0.75	0.76	0.81	0.81

OIL AND NATURAL GAS REVENUE

Average production for the fourth quarter of 2015 was 8,172 boe per day (64% natural gas), compared to 9,822 boe per day (59% natural gas) for the fourth quarter of the prior year. Total commodity revenue decreased from $111.6 million in 2014 to $94.1 million in the year ended December 31, 2015.

Natural gas

During the three months ended December 31, 2015, the benchmark natural gas price in Canada (set at the AECO hub) decreased by 32% from the prior year (average price of $2.47 per mcf in the fourth quarter of 2015 compared to $3.61 per mcf in the prior year). The AECO price decreased 42% from the average annual price of $4.64 per mcf in 2014 to $2.69 per mcf in 2015.

The Company's average realized gas price during the fourth quarter of 2015 was $2.79 per mcf compared to $3.97 per mcf in the prior year, which represents a 30% decrease. Natural gas revenue for the fourth quarter of 2015 was $8.0 million and production of 2,871,932 mcf accounted for approximately 64% of fourth quarter production volume and 40% of commodity revenue (compared to revenue of $12.6 million and production of 3,185,615 mcf for 59% of production volume and 36% of commodity revenue in the prior year).

The Company's average realized gas price for the year ended December 31, 2015 was $2.93 per mcf compared to $4.59 per mcf in the prior year, which represents a 36% decrease. Natural gas revenue for the year ended December 31, 2015 was $34.3 million and production of 11,712,014 mcf accounted for approximately 61% of 2015 production volume and 36% of commodity revenue (compared to revenue of $34.4 million and production of 7,497,099 mcf for 57% of production volume and 31% of commodity revenue in the prior year).

Crude oil and condensate

Edmonton Light Sweet ("Edmonton") crude oil prices decreased 30% from the fourth quarter of 2014 to the fourth quarter of 2015 ($52.52 per bbl for the fourth quarter of 2015 compared to an average price of $75.44 per bbl for the prior period).

The average realized price of Petrus' crude oil and condensate was $48.27 per bbl for the fourth quarter of 2015 compared to $67.47 per bbl for the same period in the prior year. For the year ended December 31, 2015 the Company's average realized price for crude oil and condensate decreased 40% from 2014 ($52.47 per bbl in 2015 compared to an average price of $87.14 per bbl in 2014). Petrus realized an average negative oil differential of $3.62 in 2015,

compared to a negative differential of $7.43 in 2014. Petrus realized a negative differential of $2.74 in the fourth quarter of 2015 compared to a negative differential of $6.53 in the comparable period of the prior year.

Oil and condensate revenue for the fourth quarter of 2015 was $10.6 million and production of 218,902 bbl accounted for approximately 29% of total production volume and 52% of commodity revenue (compared to revenue of $19.7 million and production of 275,812 bbl for 30% of total production volume and 55% of commodity revenue in the fourth quarter of the prior year). Revenue decreased from the prior year as a result of the decline in production and commodity prices from the prior year.

Oil and condensate revenue for the year ended December 31, 2015 was $54.6 million and production of 1,035,719 bbl accounted for approximately 32% of total production volume and 58% of commodity revenue (compared to revenue of $70.9 million and production of 812,986 bbl for 37% of total production volume and 64% of commodity revenue in the prior year). The decrease in production from 2014 to 2015 is attributed to decreased exploration and development activity in 2015. Revenue decreased from the prior year due to lower production and lower commodity prices compared to the prior year.

Natural gas liquids (NGLs)

The Company's NGL production mix consists of ethane, propane, butane, pentane and sulphur. The pricing received for NGL production is based on the product mix, the fractionation process required and the demand for fractionation facilities. In the fourth quarter, Petrus' combined realized NGL price averaged $30.52 per bbl compared to $47.52 per bbl in the prior year. NGL revenue for the fourth quarter of 2015 was $1.7 million and production of 54,288 bbl accounted for approximately 7% of the Company's production volume and 8% of commodity revenue in the fourth quarter (compared to revenue of $3.2 million and production of 96,873 bbl for 10% of total production and 9% of commodity revenue for the fourth quarter of the prior year). The decrease in NGL production and revenue is attributed to natural declines, combined with lower commodity prices.

NGL revenue for the year ended December 31, 2015 was $5.3 million and production of 210,314 bbl accounted for approximately 7% of the Company's production volume and 6% of commodity revenue in the year (compared to revenue of $6.3 million and production of 139,354 bbl for 6% of total production and 5% of commodity revenue for the prior year). The decrease in NGL production and revenue is attributed to natural declines, combined with lower commodity prices.

Royalty Revenue

Petrus records gross overriding royalty revenue for production related to land or mineral rights owned. Royalty revenue received in the fourth quarter was $0.2 million compared to $0.4 million in the same quarter of the prior year. For the year ended December 31, 2015 Petrus earned $0.5 million, a decrease of 17% from $0.6 million earned in the year ended December 31, 2014. The decrease is attributed to lower commodity prices and production.

Petrus Resources

NON-GAAP MEASURES

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

Cash Flow from Operations

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

($000s)	**Twelve months ended Dec 31, 2015**	Twelve months ended Dec 31, 2014
Cash flow from operating activities	**15,525**	80,988
Changes in non-cash working capital	**28,779**	(20,834)
Decommissioning expenditures	**335**	1,096
Cash flow from operations	**44,639**	61,250

Operating Netback

Operating netback is a common non-GAAP metric used in the oil and gas industry which is a useful supplemental measure to evaluate the specific operating performance by product at the oil and gas lease level. The operating netback is calculated as realized price less royalties, operating and transportation expenses on a per unit basis.

Corporate Netback

Corporate netback is also a common non-GAAP metric used in the oil and gas industry which evaluates the Company's profitability at the corporate level. It is calculated as the operating netback less cash general & administrative and finance expenses.

Net Debt

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

($000s)	**As at Dec. 31, 2015**	As at Dec. 31, 2014
Current assets (excluding financial derivative assets)	20,097	43,902
Less: current liabilities (excluding financial derivative liabilities)	(141,839)	(69,831)
Less: bank debt	(105,000)	(189,119)
Working capital (net debt)	**(226,742)**	**(215,048)**

CASH FLOW FROM OPERATIONS AND EARNINGS

Petrus generated cash flow from operations of $6.7 million during the quarter ended December 31, 2015 ($24.6 million during the fourth quarter of 2014). Natural gas (AECO C$/mcf) decreased 32% from the fourth quarter of 2014 to the fourth quarter of 2015, and crude oil (Edm. Lt. C$/bbl) decreased 30% for the same period.

The Company's cash flow from operations declined from $61.3 million generated in 2014 to $44.6 million for 2015. The decrease is attributed to a significant decline in commodity prices. Year over year natural gas (AECO C$/mcf) decreased 42% and crude oil decreased 39%. Petrus incurred one-time transaction costs during the fourth quarter of 2015 in conjunction with financing activities which closed in the first quarter of 2016.

Petrus reported a net loss of $36.4 million in the fourth quarter of 2015 (compared to net loss of $63.3 million in the fourth quarter of the prior year). The losses were incurred due to impairment charges attributed to weaker commodity prices. For the year ended December 31, 2015, Petrus reported a net loss of $69.0 million compared to net loss of $47.5 million in the prior year. The following table provides detail on the Company's cash flow from operations on a barrel of oil equivalent ("boe") basis.

	Twelve months ended Dec. 31, 2015		Twelve months ended Dec. 31, 2014		Three months ended Dec. 31, 2015		Three months ended Dec. 31, 2014	
	$000s	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**	**$000s**	**$/boe**
Oil and natural gas revenue	94,134	29.43	111,563	50.67	20,221	26.90	35,575	39.37
Transportation	(5,250)	(1.64)	(4,279)	(1.94)	(986)	(1.31)	(1,126)	(1.25)
Net revenue	88,884	27.79	107,284	48.73	19,235	25.59	34,449	38.12
Royalty expense	(11,962)	(3.74)	(19,140)	(8.69)	(2,809)	(3.74)	(3,958)	(4.38)
Royalty income	453	0.14	1,141	0.52	238	0.32	423	0.47
Net oil and natural gas revenue	**77,375**	**24.19**	**89,285**	**40.56**	**16,664**	**22.17**	**30,914**	**34.21**
Operating expense [(1)]	(28,478)	(8.90)	(18,130)	(8.23)	(8,269)	(11.00)	(5,815)	(6.43)
Hedging gain (loss)	16,563	5.18	(918)	(0.42)	5,020	6.68	3,371	3.73
General & administrative[(2)]	(7,500)	(2.35)	(4,992)	(2.27)	(2,318)	(3.08)	(2,117)	(2.34)
Interest expense [(3)]	(13,321)	(4.16)	(3,995)	(1.82)	(4,380)	(5.83)	(1,744)	(1.93)
Cash flow from operations	**44,639**	**13.96**	**61,250**	**27.82**	**6,717**	**8.94**	**24,609**	**27.25**

[(1)] Operating expenses are presented net of processing income and overhead recoveries.
[(2)] G&A expenses are shown net of capitalized general & administrative costs. Please see the G&A section on page 12 in the MD&A for more detail.
[(3)] Interest expense is presented net of interest income.

(000s except per share)	**Twelve months ended Dec. 31, 2015**	**Twelve months ended Dec. 31, 2014**	**Three months ended Dec. 31, 2015**	**Three months ended Dec. 31, 2014**
Cash flow from operations	**44,639**	**61,250**	**6,717**	**24,609**
Cash flow from operations/share[(1)]	**1.27**	2.30	**0.19**	0.70
Net Income (loss)	**(69,031)**	**(47,492)**	**(36,425)**	**(63,308)**
Net income (loss)/share[(1)]	**(1.96)**	(1.78)	**(1.04)**	(1.80)
Common shares[(1)]	35,148	35,148	35,148	35,148
Weighted average shares[(1)]	35,148	26,680	35,148	35,142

[(1)] All share capital instruments have been retrospectively adjusted to reflect the notional 4 to 1 consolidation of the existing Petrus shares by New Petrus.

RESULTS OF OPERATIONS

Royalty Expenses

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

Royalty Expenses ($000s)	Twelve months ended Dec. 31, 2015	Twelve months ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Dec. 31, 2014
Oil and NGLs ($000s)	**6,375**	16,270	**1,440**	3,653
% of production revenue	**11%**	21%	**12%**	16%
Natural gas (000s)	**2,684**	6,219	**406**	2,902
% of production revenue	**8%**	18%	**5%**	23%
Gas cost (allowance) (000s)	**(2,962)**	(6,020)	**(75)**	(4,543)
Gross overriding and other	**5,865**	2,671	**1,038**	1,946
Total (000s)	**11,962**	**19,140**	**2,809**	**3,958**

The decrease in total royalties from the fourth quarter of 2014 ($4.0 million) to the fourth quarter of 2015 ($2.8 million) is the result of lower production levels and commodity prices.

For the year ended December 31, 2015 Petrus recorded total royalties of $12.0 million compared to $19.1 million in the prior year. The decrease is attributed to a significant reduction in commodity prices from the prior year. Gross overriding and other royalty expenses incurred in 2015 ($5.9 million) was significantly higher than the prior year ($2.7 million) due to the overriding royalty structure attributed to acquired properties which occurred in the fourth quarter of 2014.

Financial Instruments

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus has outstanding as at December 31, 2015:

Natural Gas Contract Period	Type	Daily Volume	Price (CAD$/GJ)
Nov. 1, 2015 to Mar. 31, 2016	Fixed price	6,000 GJ	$3.74/GJ
Nov. 1, 2015 to Mar. 31, 2016	Fixed price	6,000 GJ	$2.87/GJ
Nov. 1, 2015 to Mar. 31, 2016	Fixed price	4,000 GJ	$2.96/GJ
Nov. 1, 2015 to Mar. 31, 2016	Fixed price	2,000 GJ	$3.03/GJ
Jan. 1, 2016 to Mar. 31, 2016	Fixed price	5,000 GJ	$3.26/GJ
Feb. 1, 2016 to Mar. 31, 2016	Fixed price	2,000 GJ	$2.23/GJ
Apr. 1, 2016 to Oct. 31, 2016	Fixed price	2,000 GJ	$2.93/GJ
Apr. 1, 2016 to Oct. 31, 2016	Fixed price	2,000 GJ	$2.28/GJ
Apr. 1, 2016 to Oct. 31, 2016	Fixed price	6,000 GJ	$2.75/GJ
Apr. 1, 2016 to Oct. 31, 2016	Fixed price	2,000 GJ	$2.85/GJ
Apr. 1, 2016 to Oct. 31, 2016	Fixed price	5,000 GJ	$2.91/GJ
Apr. 1, 2016 to Oct. 31, 2016	Costless Collar	5,000 GJ	$2.50-3.15/GJ
Nov. 1, 2016 to Mar. 31, 2017	Fixed price	2,000 GJ	$3.38/GJ
Nov. 1, 2016 to Mar. 31, 2017	Fixed price	2,000 GJ	$3.31/GJ
Nov. 1, 2016 to Mar. 31, 2017	Fixed price	6,000 GJ	$3.21/GJ
Nov. 1, 2016 to Mar. 31, 2017	Costless Collar	5,000 GJ	$2.75-3.75/GJ
Jan. 1, 2016 to Mar. 31, 2017	Fixed price	4,000 GJ	$2.54/GJ
Apr. 1, 2017 to Oct. 31, 2017	Fixed price	5,000 GJ	$2.64/GJ
Apr. 1, 2017 to Oct. 31, 2017	Fixed price	7,000 GJ	$2.84/GJ
Nov. 1, 2017 to Mar. 31, 2018	Fixed price	5,000 GJ	$3.02/GJ

Crude Oil Contract Period	Type	Daily Volume	Price ($/Bbl)
Jan. 1, 2016 to Mar. 31, 2016	Costless Collar	250 Bbl	WTI $USD40.00-75.00/Bbl
Jan. 1, 2016 to Jun. 30, 2016	Fixed Price	250 Bbl	WTI $CAD 77.70/Bbl
Jan. 1, 2016 to Jun. 30, 2016	Costless Collar	250 Bbl	WTI $CAD70.00-83.40/Bbl
Jan. 1, 2016 to Dec. 31, 2016	Costless Collar	250 Bbl	WTI $CAD70.00-82.30/Bbl
Jan. 1, 2016 to Dec. 31, 2016	Costless Collar	700 Bbl	WTI $CAD70.00-75.75/Bbl
Jul. 1, 2016 to Sep. 30, 2016	Costless Collar	250 Bbl	WTI $CAD70.00-84.00/Bbl
Oct. 1, 2016 to Dec. 31, 2016	Costless Collar	250 Bbl	WTI $CAD70.00-85.00/Bbl
Jan. 1, 2017 to Mar. 31, 2017	Costless Collar	500 Bbl	WTI $CAD70.00-78.00/Bbl
Jan. 1, 2017 to Mar. 31, 2017	Costless Collar	500 Bbl	WTI $CAD65.00-71.00/Bbl
Jan. 1, 2017 to Jun. 30, 2017	Costless Collar	500 Bbl	WTI $CAD70.00-78.40/Bbl
Apr. 1, 2017 to Jun. 30, 2017	Costless Collar	400 Bbl	WTI $CAD65.00-72.70/Bbl
Jul. 1, 2017 to Sep. 30, 2017	Costless Collar	500 Bbl	WTI $CAD65.00-74.20/Bbl
Oct. 1, 2017 to Dec. 31, 2017	Costless Collar	400 Bbl	WTI $CAD65.00-75.85/Bbl

Subsequent to December 31, 2015 the Company entered into the following financial derivative contracts:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD$/GJ)
Apr. 1, 2016 to Dec. 31, 2016	Fixed price	1,200 GJ	$1.77/GJ
Nov. 1, 2016 to Dec. 31, 2016	Fixed price	1,200 GJ	$2.33/GJ
Nov. 1, 2016 to Mar. 31, 2017	Fixed price	2,000 GJ	$2.80/GJ
Apr. 1, 2017 to Oct. 31, 2017	Fixed price	2,650 GJ	$2.27/GJ
Apr. 1, 2017 to Oct. 31, 2017	Fixed price	2,000 GJ	$2.65/GJ
Nov. 1, 2017 to Mar. 31, 2018	Fixed price	1,500 GJ	$2.69/GJ
Crude Oil Contract Period	**Type**	**Daily Volume**	**Price ($/Bbl)**
Apr. 1, 2016 to Dec. 31, 2016	Costless collar	150 Bbl	WTI $CDN40.00-61.80/Bbl
Apr. 1, 2017 to Sep. 30, 2017	Fixed price	300 Bbl	WTI $CDN59.25/Bbl
Jul. 1, 2017 to Sep. 30, 2017	Fixed price	600 Bbl	WTI $CDN59.80/Bbl
Oct. 1, 2017 to Mar. 31, 2018	Costless collar	300 Bbl	WTI $CDN55.00-64.02/Bbl

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

Other Income ($000s)	Twelve months ended Dec. 31, 2015	Twelve months ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Dec. 31, 2014
Realized hedging gain (loss)	**16,563**	(918)	**5,020**	3,371
Unrealized hedging gain (loss)	**(479)**	17,311	**3,363**	15,205
Total gain (loss) on derivatives	**16,084**	**16,393**	**8,383**	**18,576**

Reduced commodity prices resulted in a realized hedging gain of $5.0 million during the fourth quarter of 2015, compared to a $3.4 million gain realized in the same quarter of the prior year. The fourth quarter realized gain increased the Company's realized price by $6.68 per boe, compared to an increase in the prior year comparable period of $3.73 per boe. For the year ended December 31, 2015 Petrus recorded a $16.6 million realized gain on financial derivatives compared to a $0.9 million realized loss recorded in the prior year.

Operating Expenses

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

Operating Expenses ($000s)	Twelve months ended Dec. 31, 2015	Twelve months ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Dec. 31, 2014
Operating expense, net	**28,479**	18,129	**8,269**	5,815
Operating expense, net ($ per boe)	**8.90**	8.23	**11.00**	6.43

Operating expenses totaled $8.3 million for the fourth quarter of 2015, a 42% increase from $5.8 million recorded in the same quarter of the prior year. The increase in aggregate net operating expenses is due to the corporate acquisitions which occurred in the fourth quarter of the prior year. The Company's

operating expenses on a per boe basis for the fourth quarter were higher as a result of lower production due to third party pipeline curtailments. The Company incurred certain additional operating expenses in the fourth quarter related to year end equalizations and processing fees.

For the year ended December 31, 2015, operating costs on a per boe basis were consistent with the prior year. New facilities and operating cost reductions throughout Petrus' asset base contributed to operating cost reductions.

Transportation Expenses

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

Transportation Expenses ($000s)	Twelve months ended Dec. 31, 2015	Twelve months ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Dec. 31, 2014
Transportation expense	**5,250**	4,279	**986**	1,126
$ per boe	**1.64**	1.94	**1.31**	1.25

Petrus pays commodity and demand charges for transporting its gas on various pipeline systems. The Company also incurs trucking costs on the portion of its oil and natural gas liquids production that is not pipeline connected. Transportation expenses totaled $1.0 million or $1.31 per boe in the fourth quarter of 2015 ($1.1 million or $1.25 per boe for the comparative period in the prior year). The increase in transportation costs on a per boe basis is due to third party pipeline curtailments which required the Company to obtain transportation through other counterparties which incurred higher costs.

Transportation costs decreased year over year from $1.94 per boe for the year ended December 31, 2014 to $1.64 per boe for the same period in 2015. The decrease is due to an increased proportion of natural gas in the Company's production mix which attributes lower transportation costs than crude oil and natural gas liquids.

General and Administrative Expenses

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

General and Administrative Expenses ($000s)	Twelve months ended Dec. 31, 2015	Twelve months ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Dec. 31, 2014
Gross general and administrative expense	**9,168**	6,794	**2,470**	**2,144**
Capitalized general and administrative	**(1,668)**	(1,802)	**(152)**	(27)
Net general and administrative expense	**7,500**	**4,992**	**2,318**	**2,117**
Share based compensation expense	**1,175**	1,483	**239**	459
Capitalized share based compensation	**(520)**	(741)	**(165)**	(229)
Total general and administrative expense, net	**8,155**	**5,734**	**2,392**	**2,347**

Fourth quarter 2015 gross general and administration expenses (before capitalized G&A and share based compensation), totaled $2.5 million or $3.29 per boe (compared to $2.1 million or $2.37 per boe for the fourth quarter of 2014). Petrus incurred transaction and one-time costs in the fourth quarter attributed to the corporate acquisitions and financing activities which occurred late in 2015 and closed in the first quarter of 2016. One-time costs totaled $1.5 million (during the fourth quarter of 2014 there were $1.3 million of one-time transaction costs incurred).

For the year ended December 31, 2015, the Company's gross G&A costs (before capitalized G&A and share based compensation) were $9.2 million compared to $6.8 million incurred in 2014. The increase is due to the organic growth of the Company. Gross G&A for 2014 was $3.63 per boe and in 2015 gross G&A expenses decreased to $2.87 per boe due to increased production.

Finance Expenses

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

Finance Expense ($000s)	Twelve months ended Dec. 31, 2015	Twelve months ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Dec. 31, 2014
Cash expenses:				
Interest expense	13,366	4,007	**4,510**	1,750
Foreign exchange gain	(567)	(2)	—	—
	12,799	**4,005**	**4,510**	**1,750**
Non-cash expenses:				
Accretion on decommissioning obligations	1,261	691	353	275
Amortization of deferred financing costs	1,216	—	—	—
Total finance expense	**15,276**	**4,696**	**4,863**	**2,025**

The Company incurred total finance expenses of $4.9 million in the fourth quarter of 2015 which is comprised of $0.4 million of non-cash accretion of its decommissioning liability and $4.5 million of cash interest expense related to its credit facilities and term loan. In the fourth quarter of 2014, Petrus incurred total finance expenses of $2.0 million which is comprised of $0.3 million of accretion expense and $1.8 million of cash interest expense. The increase in interest expense is attributed to Petrus' term loan which was advanced in the fourth quarter of 2014.

The Company incurred total finance expenses of $15.3 million in 2015, compared to $4.7 million in 2014. The significant increase from the prior year is due to higher outstanding debt balances giving rise to higher cash interest expense, as well as higher accretion expense due to the higher decommissioning liability relative to the prior year. In 2015 the Company also recognized $1.2 million related to amortization of the up-front fees paid for the Company's term loan.

Depletion and Depreciation

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

Depletion and Depreciation ($000s)	Twelve months ended Dec. 31, 2015	Twelve months ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Dec. 31, 2014
Depletion	**54,410**	36,797	**12,157**	18,703
Depreciation	**217**	53	**109**	20
Total	**54,627**	**36,850**	**12,266**	**18,723**
Depletion ($ per boe)	**17.01**	16.75	**16.17**	20.70
Depreciation ($ per boe)	**0.07**	0.02	**0.14**	0.02
Total ($ per boe)	**17.08**	**16.77**	**16.31**	**20.72**

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

Petrus recorded depletion expense in the fourth quarter of 2015 of $12.2 million or $16.17 per boe, compared to the fourth quarter of 2014, when $18.7 million or $20.70 per boe was recorded.

For the year ended December 31, 2015 Petrus recorded $54.4 million or $17.01 per boe related to depletion which represents a $0.26 per boe or 48% increase from $36.8 million or $16.75 per boe recorded in the prior year. The Company's depletion expense has increased from the prior year due to the increased production and reserves base (primarily attributed to assets acquired during the fourth quarter of 2014).

Impairment

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

Impairment ($000s)	Twelve months ended Dec. 31, 2015	Twelve months ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Dec. 31, 2014
Impairment	67,494	104,762	38,954	104,762
Total	**67,494**	**104,762**	**38,954**	**104,762**

At December 31, 2015, due to a decrease in forward commodity prices and recent transaction metrics, the Company determined that indicators of impairment exist and therefore, an impairment test was performed for all of the Company's CGUs. The recoverable value of the Company's CGU's was estimated as the fair value less costs to sell based on the net present value of before tax cash flows from crude oil and natural gas proved plus probable reserves originally estimated by third party reserve evaluators and a discount rate of 10%.

The Company recorded property, plant and equipment impairments in the fourth quarter of 2015 of $39.0 million on two of its four CGUs (Central Alberta - $5.0 million; and Foothills - $34.0 million). In the fourth quarter of 2014 Petrus recorded property, plant and equipment impairments of $104.8 million on its four CGUs (Central Alberta - $60.3 million; Ferrier - $26.1 million; Peace River - $13.6 million; and Foothills - $4.8 million). The recoverable amount at December 31, 2015 for the two CGUs was as follows: Central Alberta - $128.7 million; and Foothills - $74.6 million (2014 - Central Alberta - $155.2 million; Ferrier - $100.2 million; Peace River - $59.7 million; and Foothills - $120.8 million).

For the year ended December 31, 2015 the Company recorded property, plant and equipment impairments of $67.5 million on three of its four CGUs (Central Alberta - $5.0 million; Peace River - $8.8 million and Foothills - $53.7 million). For the year ended December 31, 2014 Petrus recorded property, plant and equipment impairments of $104.8 million on its four CGUs (Central Alberta - $60.3 million; Ferrier - $26.1 million; Peace River - $13.6 million; and Foothills - $4.8 million). The recoverable amount at December 31, 2015 for the three CGUs was as follows: Central Alberta - $128.7 million; Peace River - $51.3 million; and Foothills - $74.6 million (2014 - Central Alberta - $155.2 million; Ferrier - $100.2 million; Peace River - $59.7 million; and Foothills - $120.8 million).

PetrusResources

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

(000s)	Twelve months ended Dec. 31, 2015	Twelve months ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Dec. 31, 2014
Weighted average outstanding common shares				
Basic[(1)]	**35,148**	26,680	**35,148**	35,143
Diluted[(1)]	**35,148**	26,680 v	**35,148**	36,128
Outstanding instruments				
Common shares[(1)]	**35,148**	35,148	**35,148**	35,148
Stock options[(1)]	**1,454**	1,529	**1,454**	1,529
Warrants[(1)]	**1,569**	1,602	**1,569**	1,602

(1) All share capital instruments have been retrospectively adjusted to reflect the notional 4 to 1 consolidation of the existing Petrus shares by New Petrus.

At March 22, 2016 the Company had 45,349,192 common shares outstanding. As at March 22, 2016 the Company had 1,453,750 and 1,568,568 stock options and performance warrants outstanding, respectively.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2015 Petrus has two debt instruments outstanding. The first is a reserve-based, revolving credit facility with a syndicate of lenders, comprised of an operating facility and a syndicated term-out facility (altogether the “Revolving Credit Facility” or “RCF”). The second is a second lien term loan (the “Term Loan”).

(a) Revolving Credit Facility
At December 31, 2015 the Company’s RCF is comprised of a $20 million operating facility and a $140 million syndicated term-out facility. The Company has provided collateral by way of a $600 million debenture over all of the present and after acquired property of the Company. The term-out facility has a revolving period that ends July 29, 2016 at which time it will either be renewed or converted to a one-year term facility.

At December 31, 2015, the Company had a $2.4 million letter of credit outstanding against the RCF (December 31, 2014; Nil) and had drawn $145 million against the RCF (December 31, 2014; $99.7 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 majority lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF.

(b) Long Term Debt
At December 31, 2015 the Company had a $90 million Term Loan outstanding which was repayable on October 8, 2016. Interest is due and payable monthly and accrues at a per annum rate of (three-month) the Canadian Dealer offered Rate (CDOR) plus 700 basis points.

Covenants
The following definitions are used in the covenant calculations for both debt instruments:

Debt to EBITDA Ratio
Debt is defined as Petrus’ total debt outstanding of the borrower and EBITDA means earnings before interest, taxes, depreciation and amortization.

PV10 to Net Secured Debt Ratio
Net Secured Debt means all amounts owing under the RCF and any other secured debt of Petrus, minus restricted cash and cash equivalents and “PV10” means the discounted net present value (at a discount rate of 10%) of Petrus’ proved reserves, as adjusted for commodity swaps in effect.

Working Capital
Working Capital means Current Assets to Current Liabilities whereby Current Assets means on any date of determination, the current assets of Petrus that would, in accordance with IFRS, be classified as of that date as current assets plus any undrawn availability under the RCF, less any non-cash amount required to be included in current assets as the result of the application of IFRS including non-cash commodity and interest rate hedges assets and liabilities and whereby Current Liabilities means, on any date of determination, the liabilities of Petrus that would, in accordance with IFRS, be classified as of that date as current liabilities, excluding (a) non-cash obligations under IFRS including non-cash commodity and interest rate hedges assets and liabilities, and (b) the current portion of long-term debt.

Working Capital Ratio *means the ratio of Current Assets to Current Liabilities as defined above.*

Proved Asset and PDP Asset Coverage Ratio
Means the ratio of (a) Total Adjusted Present Value or (b) PDP Present Value depending on the reserve category, to Total Debt
Whereby Total Adjusted or PDP reserve value means the present value (discounted at 10.0%) of future net revenues attributable to the respective reserve category based on the reserve report most recently delivered to the lender.

The RCF carries the following covenants:

(a) The Company is unable to borrow amounts greater than the RCF limit;
(b) PV10 to Net Secured Debt Ratio will not be less than 1.25 to 1.00 and must be reported at each borrowing base redetermination date, using the most current reserve report and the Net Secured Debt at the date of the borrowing base redetermination

The RCF and the Term Loan carry the following covenants:

a. Working Capital Ratio at the end of each fiscal quarter will not be less than 1.00 to 1.00;
b. Proved Asset Coverage Ratio will not be less than 1.25 to 1.00; and
c. PDP Asset Coverage Ratio will not be less than 1.00 to 1.00 whereby the asset coverage ratios must be reported at each borrowing base redetermination date, using the most current reserve report and the Total Debt at the date of the borrowing base redetermination.

At December 31, 2015 the Company was not in breach of the covenants.

Subsequent Event

On March 22, 2016 the banking agreements related to the RCF and Term Loan were amended as follows:

(a) Maturity and repayment date of the Term Loan was extended to October 8, 2017;
(b) From March 22, 2016 to the May 2016 borrowing base redetermination, borrowings by the Company under the RCF in an aggregate amount exceeding $120 million shall require consent of the first lien lenders;
(c) When any indebtedness under the Term Loan remains outstanding the following covenants apply to both instruments:
    a. Total Debt to EBITDA Ratio shall not exceed (i) 4.0:1.0 for the period beginning April 1, 2016 and ending December 31, 2016, and (ii) 3.5:1.0 for the period beginning January 1, 2017 and thereafter; and
    b. Total Debt of Petrus shall not exceed $190 million, provided that, prior written consent of all of the lenders is required for any drawdown in excess of the total RCF.

On March 22, 2016 the Company reduced the amount drawn on the RCF by $40 million (classified as current at December 31, 2015) and as a result, the total outstanding on the RCF is $105 million in addition to a $2.4 million letter of credit outstanding against the RCF. On March 22, 2016 the Company reduced the amount drawn on the Term Loan by $40 million. As a result, the total outstanding on the Term Loan at March 22, 2016 is $50 million.

The Company's general capital management policy is to maintain a sufficient capital base in order to manage its business to enable the Company to increase the value of its assets and therefore its underlying share value. The Company's objectives when managing capital are (i) to manage financial flexibility in order to preserve the Company's ability to meet financial obligations; (ii) maintain a capital structure that allows Petrus the ability to finance its growth using internally generated cash flow, and (iii) to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk level and provides an optimal return to equity holders.

In the management of capital, Petrus includes share capital and total net debt, which is made up of debt and working capital (current assets less current liabilities). Petrus manages its capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Petrus may issue new equity, increase or decrease debt, adjust capital expenditures and acquire or dispose of assets. Petrus anticipates that it will have adequate liquidity to fund future working capital and forecasted capital expenditures in 2015 through a combination of cash flow and current working capital. Petrus is able to modify its capital program in response to changes in commodity prices and cash flows. Should the Company choose to expand its capital program, actual funding alternatives will be influenced by the then current market environment and the ability to access capital on reasonable terms, balanced with the investment opportunities presented.

CAPITAL EXPENDITURES

Capital expenditures totaled $6.8 million in the fourth quarter of 2015 compared to $53.0 million in the fourth quarter of the prior year. During the fourth quarter the majority of funds were invested in the construction of production facilities and tie-ins. Petrus invested $55.4 million (including acquisitions net of dispositions) in 2015, funded by cash flow from operations and utilization of its revolving credit facility. During the year Petrus drilled 5 wells (4.7 net) and constructed a gas plant with NGL processing capability in the Ferrier area. The following table shows capital expenditures for the reporting periods indicated. All capital is presented before decommissioning obligations:

($000s)	Twelve months ended Dec. 31, 2015	Twelve months ended Dec. 31, 2014	Three months ended Dec. 31, 2015	Three months ended Dec. 31, 2014
Drill and complete	**30,313**	78,543	**2,117**	39,423
Oil and gas equipment	**21,853**	28,433	**4,262**	10,389
Geological	**302**	2,630	—	1,202
Land and lease	**106**	3,170	—	2,152
Office	**227**	640	—	372
Capitalized general and administrative	**1,668**	1,802	**378**	(489)
Total	**54,469**	**115,218**	**6,757**	**53,049**
Acquisitions/(dispositions)	**938**	327,746	—	195,027
Total capital	**55,407**	**442,964**	**6,757**	**248,076**
Gross (net) wells spud	**5 (4.7)**	43 (29.3)	—	14 (10.4)

PetrusResources

RESERVES

Petrus' 2015 year end reserves were evaluated by independent reserves evaluator Sproule and Associates in accordance with the definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook") and National instrument 51-101 – Standards of Disclosure for Oil and Gas Activities ("NI 51-101") as of December 31, 2015. Additional reserve information as required under NI 51-101 will be included in our Annual Information Form which will be filed on SEDAR on or before March 30, 2016.

The following table provides a summary of the Company's before tax reserves, as evaluated by Sproule and Associates:

Reserves and Reserve Ratio Summary

	December 31, 2015			December 31, 2014		
Company Interest Reserves	**(MBoe)**	**FD&A[1]**	**RLI[2]**	**(MBoe)**	**FD&A[1]**	**RLI[2]**
Proved Producing	15,664	$23.18	5.2	16,533	$35.35	4.6
Total Proved	32,723	$16.77	10.9	26,557	$27.44	7.3
Total Proved +Probable	49,203	$15.40	16.4	40,590	$21.49	11.2
Net Present Value Discounted at 10%	**($000s)**			**($000s)**		
Proved Producing	175,796	—	—	264,310	—	—
Total Proved	248,095	—	—	329,415	—	—
Total Proved +Probable	402,338	—	—	488,480	—	—

[1]FD&A (finding, development and acquisition) cost is defined as capital costs for the time period including change in future development capital divided by change in reserves including revisions and production for that same time period.
[2]RLI (reserve life index) is defined as total reserves by category divided by the annualized fourth quarter production.

In 2015 Petrus' total company interest reserves increased 21% to 49.2 mmboe on a proved plus probable ("P+P") basis and 23% on a total proved basis to 32.7 mmboe. The 11.8 mmboe net reserves addition in the company interest P+P category was accomplished at an all in finding, development and acquisition ("FD&A") cost of $15.40 per boe including the change in future development capital ("FDC").

As part of the December 31, 2015 Sproule reserve report Petrus added 64.9 new net proven undeveloped and 18.7 new net probable undeveloped locations. This was a result of work completed by Sproule and Petrus during 2015 to better model Petrus' future development opportunities as prescribed by NI 51-101. Proved plus probable FDC for the year-end report is $325 million which is a $126 million increased from year end 2014.

Petrus has a reserves committee, comprised of independent board members, that reviews the qualifications and appointment of the independent reserve evaluators. The committee also reviews the procedures for providing information to the evaluators. All booked reserves are based upon annual evaluations by the independent qualified reserve evaluators conducted in accordance with the COGE Handbook and NI 51-101. The evaluations are conducted using all available geological and engineering data. The reserves committee has reviewed the reserves information and approved the reserve report.

PERFORMANCE RATIOS

The following table highlights annual performance ratios for the Company from 2012 to 2015.

	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012
Proved Producing				
FD&A ($/boe) [1]	**$23.18**	$35.35	$34.72	$39.16
Reserve Life Index (yr) [2]	**5.2**	4.6	4.2	7.4
Reserve Replacement Ratio[3]	**0.7**	5.9	1.4	4.2
Total Proved				
FD&A ($/boe) [1]	**$16.77**	$27.44	$31.38	$35.13
Reserve Life Index (yr) [2]	**10.9**	7.3	6.4	11.0
Reserve Replacement Ratio[3]	**2.9**	9.1	1.8	4.9
Future Development Capital ($000s)	**223,409**	122,326	17,877	14,469
Total Proved + Probable				
FD&A ($/boe) [1]	**$15.4**	$21.49	$21.57	$22.34
Reserve Life Index (yr) [2]	**16.4**	11.2	11.0	17.7
Reserve Replacement Ratio[3]	**3.7**	12.7	3.2	9.0
Future Development Capital ($000s)	**325,325**	199,410	40,864	37,091

[1]FD&A (finding, development and acquisition) cost is defined as capital costs for the time period including change in future development capital divided by change in reserves including revisions and production for that same time period.
[2]RLI (reserve life index) is defined as total reserves by category divided by the annualized fourth quarter production.
[3]The reserve replacement ratio is calculated by dividing the yearly change in reserves net of production by the actual annual production for the year.

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SUMMARY OF QUARTERLY RESULTS

($000s) except per share amounts	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014
	Three months ended							
Oil and natural gas revenue	20,221	21,914	26,576	25,423	35,574	23,592	26,815	25,581
Transportation	(986)	(1,142)	(1,561)	(1,560)	(1,126)	(1,303)	(979)	(872)
Net revenue	**19,235**	**20,772**	**25,015**	**23,863**	**34,448**	**22,289**	**25,836**	**24,709**
Royalty expense [(1)]	(2,809)	(2,308)	(3,020)	(3,825)	(3,958)	(4,035)	(5,760)	(5,387)
Royalty income [(1)]	238	77	65	72	423	128	303	288
Net oil and natural gas revenue	16,664	18,541	22,060	20,110	30,913	18,382	20,379	19,610
Operating expense [(2)]	(8,269)	(6,277)	(7,396)	(6,536)	(5,815)	(4,395)	(4,194)	(3,727)
Hedging gain (loss)	5,020	3,767	2,894	4,881	3,371	(1,359)	(1,496)	(1,432)
General and administrative expense [(3)]	(2,318)	(1,674)	(1,843)	(1,664)	(2,117)	(1,446)	(797)	(634)
Interest expense [(4)]	(4,380)	(3,519)	(3,166)	(2,256)	(1,725)	(1,304)	(614)	(335)
Cash flow from operations	**6,717**	**10,838**	**12,549**	**14,535**	**24,627**	**9,878**	**13,278**	**13,482**
Per share – basic[(5)]	0.19	0.31	0.36	0.41	0.70	0.37	0.58	0.62
Net income (loss)	**(36,425)**	**(19,055)**	**(7,239)**	**(6,312)**	**(63,308)**	**7,530**	**5,505**	**2,208**
Per share – basic[(5)]	(1.04)	(0.54)	(0.21)	(0.18)	(1.80)	0.28	0.24	0.10
Common shares[(5)] (000s)	**35,148**	**35,148**	**35,148**	**35,148**	**35,148**	**35,115**	**25,437**	**21,594**
Weighted average shares[(5)] (000s)	35,148	35,148	35,148	35,148	35,143	27,043	22,777	21,594
Total assets	555,145	595,890	627,808	641,547	647,304	549,248	259,110	257,245
Net working capital (net debt)	**(226,742)**	**(226,809)**	**(228,562)**	**(227,607)**	**(215,049)**	**21,014**	**415**	**(51,638)**

[(1)] The Company re-classified gross overriding royalty expense from other income to royalty expenses in the Statement of Net Income and Comprehensive Income. The comparative information has been re-classified to conform to current presentation.
[(2)] Operating expenses are presented net of processing income and overhead recoveries.
[(3)] General and administrative expense is presented net of capitalized G&A.
[(4)] Interest expense is presented net of interest income.
[(5)]All share capital instruments have been retrospectively adjusted to reflect the notional 4 to 1 consolidation of the existing Petrus shares by New Petrus.

The oil and natural gas exploration and production industry is cyclical in nature. Petrus' financial position, results of operations and cash flows are affected by commodity prices and production levels.

In the first quarter of 2014, Petrus' production volume averaged 4,373 boe per day. The Company's production grew significantly from that period to the fourth quarter of 2015 as a result of asset and corporation acquisitions as well as exploration and development investment activity. Production volumes have declined in the second half of 2015 as a result of reduced capital investment, combined with third party pipeline curtailments which have restricted production volume.

The Corporation's funds flow from operations was $13.5 million in the first quarter of 2014 and $6.7 million in the fourth quarter of 2015. Throughout the two year period, funds flow from operations increased with higher production levels as well as strengthened commodity prices, natural gas in particular and more recently, declined as a result of a significant decline in commodity prices. Commodity price improvements can enable higher reinvestment in exploration, development and acquisition activities in future periods as they increase the funds received from operations. Commodity price reductions reduce revenues received and can challenge the economics of the Corporation's development program as the quantity of reserves may not be economically recoverable. Petrus' reinvestment in future reserves will be dependent on its ability to obtain debt and equity financing as well as the funds it receives from operations.

CRITICAL ACCOUNTING ESTIMATES

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

Depletion and reserve estimates

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

Impairment indicators and cash-generating units

For purposes of impairment testing, petroleum and natural gas assets are aggregated into cash-generating units ("CGU's"), based on separately identifiable and largely independent cash inflows. The determination of the Company's CGU's is subject to judgment.

The recoverable amounts of CGU's and individual assets have been determined based on the higher of the value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions, including the discount rate, future petroleum and natural gas prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available and changes in economic conditions take place. Changes may impact the estimated life of the field and economical reserves recoverable and may require a material adjustment to the carrying value of petroleum and natural gas assets. The Company monitors internal and external indicators of impairment relating to its tangible assets.

Technical feasibility and commercial viability of exploration and evaluation assets

The determination of technical feasibility and commercial viability, based on the presence of proved and probable reserves, results in the transfer of assets from exploration and evaluation assets to property, plant and equipment. As discussed above, the estimate of proved and probable reserves is inherently complex and requires significant judgment. Thus any material change to reserve estimates could affect the technical feasibility and commercial viability of the underlying assets.

Decommissioning obligation

At the end of the operating life of the Company's facilities and properties and upon retirement of its petroleum and natural gas assets, decommissioning costs will be incurred by the Company. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and discount rates to determine the present value of these cash flows.

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable income available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in income or loss in the period in which the change occurs. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Measurement of share-based compensation

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

Business combinations

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

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

ACCOUNTING POLICIES AND NEW STANDARDS

Significant accounting policies

The Company's significant accounting policies can be read in note 3 to the Company's audited financial statements as at and for the year ended December 31, 2015.

New standards and interpretations

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. IFRS 9 will be applied by Petrus on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements.

In May 2014, the IASB issued IFRS 15"Revenue from Contracts with Customers" which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Petrus on January 1, 2018 and the Company is currently evaluating the impact of the standard on Petrus's statements.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on the Company's financial statements.

ADVISORIES

Basis of Presentation

Financial data presented below have largely been derived from the Company's financial statement, prepared in accordance with International Financial Reporting Standards ("IFRS"). Accounting policies adopted by the Company are set out in the notes to the audited financial statements as at and for the twelve months ended December 31, 2015. The reporting and the measurement currency is the Canadian dollar. All financial information is expressed in Canadian dollars, unless otherwise stated.

Forward Looking Statements

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

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

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

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

BOE Presentation

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

Abbreviations

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

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

Annual Financial Statements

As at and for the years ended December 31, 2015 and 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Petrus Resources Ltd.**

We have audited the accompanying financial statements of Petrus Resources Ltd., which comprise the balance sheets as at December 31, 2015 and 2014 and the statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Petrus Resources Ltd. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Calgary, Canada
March 22, 2016
Chartered Professional Accountants

BALANCE SHEETS

(Expressed in 000's of Canadian dollars)

As at	December 31, 2015	December 31, 2014
ASSETS		
Current		
Cash	1,234	19,524
Deposits and prepaid expenses	1,109	1,042
Accounts receivable *(note 15)*	17,754	23,336
Risk management asset *(notes 4 and 10)*	13,978	14,609
	34,075	**58,511**
Non-current		
Exploration and evaluation assets *(notes 5 and 6)*	88,178	94,073
Property, plant and equipment *(notes 5 and 7)*	432,892	494,720
	521,070	588,793
	555,145	**647,304**
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Current portion of long term debt *(note 8)*	130,000	—
Accounts payable and accrued liabilities	11,839	69,831
Risk management liability *(notes 4 and 10)*	45	197
	141,884	**70,028**
Non-Current		
Long term debt *(note 8)*	105,000	189,119
Decommissioning obligation *(note 9)*	64,357	58,634
Deferred income tax liability *(note 16)*	—	17,763
	311,241	**335,544**
Shareholders' Equity		
Share capital *(note 11)*	346,106	346,106
Contributed surplus	6,620	5,445
Retained earnings (deficit)	(108,822)	(39,791)
	243,904	**311,760**
	555,145	**647,304**

See accompanying notes to the financial statements
Commitments *(note 21)*

Approved by the Board of Directors,

(signed) "Don T. Gray"

Don T. Gray
Chairman

(signed) "Donald Cormack"

Donald Cormack
Director

STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(Expressed in 000's of Canadian dollars, except for share information)

	Year ended December 31, 2015	Year ended December 31, 2014
REVENUE		
Oil and natural gas revenue	**94,587**	**112,705**
Royalty expense	(11,962)	(19,140)
Oil and natural gas revenue, net of royalties	**82,625**	**93,565**
Other income	105	7
Net gain on financial derivatives *(note 10)*	16,084	16,393
	98,814	**109,965**
EXPENSES		
Operating *(note 18)*	28,479	18,129
Transportation expenses	5,250	4,279
General and administrative *(note 19)*	7,500	4,992
Share-based compensation *(note 11)*	655	741
Finance *(note 13)*	15,276	4,696
(Gain) loss on disposition of assets *(note 5)*	52	(2,175)
Exploration and evaluation expense *(note 6)*	6,275	1,158
Depletion and depreciation *(note 7)*	54,627	36,850
Impairment *(note 7)*	67,494	104,762
	185,608	**173,432**
NET LOSS BEFORE INCOME TAXES	**86,794**	**63,467**
Deferred income tax recovery *(note 16)*	17,763	15,975
TOTAL NET LOSS AND COMPREHENSIVE LOSS	**69,031**	**47,492**
Net loss per common share		
Basic and diluted *(note 12)*	**1.96**	**1.78**

See accompanying notes to the financial statements

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in 000's of Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total
Balance, December 31, 2013	**144,339**	**3,962**	**7,701**	**156,002**
Net income (loss)	—	—	(47,492)	(47,492)
Issuance of common shares *(note 11)*	205,571	—	—	205,571
Premium liability of flow-through shares *(note 11)*	(235)	—	—	(235)
Share-based compensation *(note 11)*	—	1,483	—	1,483
Share issue costs	(4,759)	—	—	(4,759)
Tax effect of share issue costs	1,190	—	—	1,190
Balance, December 31, 2014	**346,106**	**5,445**	**(39,791)**	**311,760**
Net income (loss)	—	—	(69,031)	(69,031)
Share-based compensation *(note 11)*	—	1,175	—	1,175
Balance, December 31, 2015	**346,106**	**6,620**	**(108,822)**	**243,904**

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

(Expressed in 000's of Canadian dollars)

	Year ended December 31, 2015	Year ended December 31, 2014
OPERATING ACTIVITIES		
Net income (loss)	**(69,031)**	**(47,492)**
Adjust items not affecting cash:		
Share-based compensation *(note 11)*	655	742
Unrealized hedging (gains) losses *(note 10)*	479	(17,311)
Finance expenses *(note 13)*	1,851	691
Depletion and depreciation *(note 7)*	54,627	36,850
Impairment *(note 7)*	67,494	104,762
Exploration and evaluation expense *(note 6)*	6,275	1,158
Loss (gain) on disposition *(note 5)*	52	(2,175)
Deferred income tax recovery *(note 16)*	(17,763)	(15,975)
Decommissioning expenditures (note 9)	(335)	(1,096)
Funds generated by operations	**44,304**	**60,154**
Change in operating non-cash working capital *(note 17)*	(28,779)	20,834
Cash provided by operations	**15,525**	**80,988**
FINANCING ACTIVITIES		
Issuance of common shares *(note 11)*	—	205,571
Share issue costs *(note 11)*	—	(4,759)
Increase in bank indebtedness	45,290	73,097
Increase in long term debt	—	90,000
Change in financing non-cash working capital *(note 17)*	458	(881)
Cash provided by financing activities	**45,748**	**363,028**
INVESTING ACTIVITIES		
Property and equipment (acquisitions) dispositions *(note 5)*	(938)	(29,746)
Corporate acquisitions *(note 5)*	—	(298,000)
Exploration and evaluation asset expenditures *(note 6)*	(1,358)	(6,654)
Petroleum and natural gas property expenditures *(note 7)*	(53,111)	(107,922)
Other capital expenditures	—	(642)
Change in investing non-cash working capital *(note 17)*	(24,156)	18,472
Cash used in investing activities	**(79,563)**	**(424,492)**
Increase (decrease) in cash	**(18,290)**	**19,524**
Cash, beginning of year	**19,524**	**—**
Cash, end of year	**1,234**	**19,524**

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF THE ORGANIZATION

Petrus Resources Ltd. ("Petrus" or the "Company") was incorporated under the laws of the Province of Alberta on December 13, 2010. On October 8, 2014 Petrus amalgamated its two wholly owned subsidiaries, Arriva Energy Inc. and Ravenwood Energy Corp.

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

On November 29, 2015 Petrus announced an equity financing involving a $30 million private placement and an arrangement agreement (the "Arrangement Agreement") with PhosCan Chemical Corp. ("PhosCan") and a newly formed entity, Petrus Acquisition Corp. ("New Petrus"). The equity financing and transactions contemplated in the Arrangement Agreement closed on February 2, 2016.

New Petrus will carry on business as Petrus Resources Ltd. As a result of Amalgamation, Petrus common shares were consolidated on the basis of 0.25 of a common share of New Petrus. New Petrus also acquired $45.4 million of PhosCan's cash (PhosCan's cash adjusted for the PhosCan shareholders who exercised dissent rights) in exchange for 6.1 million New Petrus common shares.

As a result of the share consolidation all Petrus shares, performance warrants and stock options referenced in these financial statements have been adjusted to reflect the 0.25 to 1 consolidation of Petrus common shares.

Petrus is the continuing accounting entity following the Arrangement Agreement. Accordingly the financial position and results of operations of New Petrus will be those of Petrus presented on a continuity of interest basis.

These financial statements report the year ended December 31, 2015 and comparative period and were approved by the Company's Audit Committee on March 22, 2016.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Measurement Basis

These financial statements were prepared on the basis of historical cost except for financial derivatives which are measured at fair value. This method is consistent with the method used in prior years. The financial statements are presented in Canadian dollars.

(c) Critical Accounting Estimates

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

Depletion and reserve estimates

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

Impairment indicators and cash-generating units

For purposes of impairment testing, petroleum and natural gas assets are aggregated into cash-generating units ("CGUs"), based on separately identifiable and largely independent cash inflows. The determination of the Company's CGUs is subject to judgment.

The recoverable amounts of CGU's and individual assets have been determined based on the higher of the value-in-use calculations and fair value less costs of disposal. These calculations require the use of estimates and assumptions, including the discount rate, future petroleum and natural gas prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves. These

assumptions are subject to change as new information becomes available and changes in economic conditions take place. Changes may impact the estimated life of the field and economical reserves recoverable and may require a material adjustment to the carrying value of petroleum and natural gas assets. The Company monitors internal and external indicators of impairment relating to its tangible assets.

Technical feasibility and commercial viability of exploration and evaluation assets
The determination of technical feasibility and commercial viability, based on the presence of proved and probable reserves, results in the transfer of assets from exploration and evaluation assets to property, plant and equipment. As discussed above, the estimate of proved and probable reserves is inherently complex and requires significant judgment. Thus any material change to reserve estimates could affect the technical feasibility and commercial viability of the underlying assets.

Financial Instruments
Financial instruments are subject to valuations at the end of each reporting period. Generally the valuation is based on active and efficient markets. However, certain financial instruments may not be traded on an efficient market or the market may disappear or be subject to conditions that impede the efficiency of the market.

Decommissioning obligation
At the end of the operating life of the Company's facilities and properties and upon retirement of its petroleum and natural gas assets, decommissioning costs will be incurred by the Company. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and discount rates to determine the present value of these cash flows.

Income taxes
Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods. Income taxes are subject to measurement uncertainty.

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

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

Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized when volumes are delivered and title passes to an external party at contractual delivery points and are recorded gross of transportation charges incurred by the Company.

The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

(b) Exploration & evaluation assets

Capitalization
All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs, other direct costs of exploration (drilling, testing and evaluating the technical feasibility and commercial viability of extraction) and appraisal and including any directly attributable general and administration costs and share-based payments, are accumulated and capitalized as exploration and evaluation assets.

Certain costs incurred prior to acquiring the legal rights to explore are charged directly to net income (loss).

Depletion & depreciation
Exploration and evaluation costs are not amortized prior to the conclusion of appraisal activities. At the completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then the carrying value of the relevant exploration and evaluation asset will be reclassified as a property, plant and equipment asset into the CGU to which it relates, but only after the carrying value of the relevant exploration and evaluation asset has been assessed for impairment and, where appropriate, its carrying value adjusted. Technical feasibility and commercial viability are considered to be demonstrable when proved or probable reserves are determined to exist. If it is

determined that technical feasibility and commercial viability have not been achieved in relation to the exploration and evaluation assets appraised, all other associated costs are written down to the recoverable amount in net income (loss).

Expired land leases included as undeveloped land in exploration and evaluation assets are recognized in exploration and evaluation cost in net income (loss) upon expiry.

Impairment
Indicators of impairment of exploration and evaluation assets are assessed at each reporting date. When there are such indications, an impairment test is carried out and any resulting impairment loss is written off to net income (loss). The recoverable amount is the greater of fair value, less costs of disposal, or value-in-use.

(c) Property, plant and equipment
The Company's property, plant and equipment is comprised of petroleum and natural gas assets and corporate assets.

Capitalization
Petroleum and natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, if any. Petroleum and natural gas assets consists of the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Petroleum and natural gas assets include developing and producing interests such as land acquisitions, geological and geophysical costs, facility and production equipment, including any directly attributable general and administration costs and share-based payments and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

Subsequent costs
Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as developing and producing petroleum and natural gas interests when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves, and are accumulated on a field or geotechnical area basis. The cost of day-to-day servicing of an item of petroleum and natural gas assets is expensed in income or loss as incurred. Petroleum and natural gas assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal of an asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in net income or loss.

Depletion and depreciation
The costs for petroleum and natural gas properties, including related pipelines and facilities, are depleted using a unit-of-production method based on the commercial proved and probable reserves.

Petroleum and natural gas assets are not depleted until production commences. This depletion calculation includes actual production in the period and total estimated proved and probable reserves attributable to the assets being depleted, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production (before royalties) are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Proved and probable reserves are estimated using independent reservoir engineering reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Corporate assets are recorded at cost less accumulated depreciation. Depreciation is calculated on a declining balance method so as to write off the cost of these assets, less estimated residual values, over their estimated useful lives consistent with the treatment used for tax purposes.

Impairment
The assessment for impairment entails comparing the carrying value of the CGU with its recoverable amount: that is, the higher of fair value, less costs of disposal, and value in use. Petrus' property, plant and equipment are grouped into CGUs based on separately identifiable and largely independent cash inflows considering geological characteristics, shared infrastructure and exposure to market risks. Estimates of future cash flows used in the calculation of the recoverable amount are based on reserve evaluation reports prepared by independent reservoir engineers.

The CGU's are reviewed quarterly for indicators of impairment. Indicators are events or changes in circumstances that indicate that the carrying amount may not be recoverable. If indicators of impairment exist, the recoverable amount of the CGU is estimated. If the carrying amount of the CGU exceeds the recoverable amount, the CGU is written down with an impairment recognized in net income (loss).

The recoverable amount is the higher of fair value, less costs of disposal, and the value-in-use. Fair value, less costs of disposal, is derived by estimating the discounted pre-tax future net cash flows. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted using market-based rates to reflect a market participant's view of the risks associated with the assets. Value-in-use is assessed using the expected future cash flows discounted at a pre-tax rate.

Impairments of property, plant and equipment are reversed when there is significant evidence that the impairment has been reversed, but only to the extent of what the carrying amount would have been had no impairment been recognized.

(d) Business combinations
Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets

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

(e) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and reclamation requirements. Costs related to these abandonment activities are estimated by management in consultation with the Company's engineers based on risk-adjusted current costs which take into consideration current technology in accordance with existing legislation and industry practices.

Decommissioning obligations are measured at the present value of the best estimate of expenditures required to settle the obligations at the reporting date. When the fair value of the liability is initially measured, the estimated cost, discounted using a risk-free rate, is capitalized by increasing the carrying amount of the related petroleum and natural gas assets. The increase in the provision due to the passage of time, or accretion, is recognized as a finance expense. Increases and decreases due to revisions in the estimated future cash flows are recorded as adjustments to the carrying amount of the related petroleum and natural gas assets.

Actual costs incurred upon settlement of the liability are charged against the obligation to the extent that the obligation was previously established. The carrying amount capitalized in petroleum and natural gas assets is depleted in accordance with the Company's depletion policy. The Company reviews the obligation at each reporting date and revisions to the estimated timing of cash flows, discount rates and estimated costs will result in an increase or decrease to the obligations. Any difference between the actual costs incurred upon settlement of the obligation and recorded liability is recognized as an increase or reduction in income.

(f) Finance expenses

Finance expense may be comprised of interest expense on borrowings, acquisition related (transaction) costs, foreign exchange expenses and accretion of the discount on decommissioning obligations.

(g) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash, accounts receivables, deposits, accounts payable and long term debt. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured based on their classification. The Company has made the following classifications:

- Cash is classified as held for trading.
- Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest method.
- Accounts payable and long term debt are classified as other liabilities and are measured at amortized cost using the effective interest method.

Risk Management Contracts

The Company enters into risk management contracts in order to manage its exposure to market risks from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. Petrus has not designated its risk management contracts as effective hedges, and thus has not applied hedge accounting, even though it considers most of these contracts to be economic hedges. As a result, all risk management contracts are classified as fair value through profit or loss and are recorded at fair value on the balance sheet with changes in fair value recorded in the statement of income (loss) and comprehensive income (loss). The fair values of these derivative instruments are generally based on an estimate of the amounts that would be paid or received to settle these instruments at the balance sheet date.

(h) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a reduction in share capital, net of any tax effects.

(i) Flow-through shares

The resources expenditure deductions for income tax purposes related to exploratory activities funded by flow-through shares are renounced to investors in accordance with tax legislation. Upon issuance of a flow-through share, a liability is recognized representing the premium paid on flow-through common shares over regular common shares. This liability is reduced as the expenditures are incurred and tax attributes are renounced.

(j) Income taxes

The Company's income tax expense is comprised of current and deferred tax. Income tax expense is recognized through income or loss except to the extent that it relates to items recognized directly in equity, in which case the related income taxes are also recognized in equity.

Current tax is the expected tax payable on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end

of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

(k) Joint arrangements

A portion of the Company's exploration, development and production activities are conducted jointly with others through unincorporated joint operations. These financial statements reflect only the Company's proportionate interest of these joint operations and the proportionate share of the relevant revenue and related costs.

(l) Share-based compensation

Share-based compensation expense is determined based on the estimated fair value of shares on the date of grant. Forfeitures are estimated at the grant date and are subsequently adjusted to reflect actual forfeitures. The expense is recognized over the service period, with a corresponding increase to contributed surplus. The Company capitalizes the qualifying portion of share-based compensation expense directly attributable to the exploration and development activities of exploration and evaluation assets and petroleum and natural gas assets, with a corresponding decrease to share-based compensation expense. At the time the stock options or performance warrants are exercised, the issuance of common shares is recorded as an increase to shareholders' capital and a corresponding decrease to contributed surplus.

(m) Earnings per share

Earnings per share are presented for basic and diluted earnings. Basic per share information is computed by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period. The weighted average number of shares for diluted earnings per share information is calculated using the treasury stock method whereby it is assumed that proceeds obtained upon exercise of performance warrants and stock options would be used to purchase common shares at the average market price during the period. The treasury stock method also assumes that the deemed proceeds related to unrecognized share-based payments expense are used to repurchase shares at the average market price during the period. Under the treasury stock method, stock options and share warrants have a dilutive effect only when the average market price of the common shares during the period exceeds the exercise price of the options or warrants (they are "in-the-money"). Exercise of in-the-money stock options and share warrants is assumed at the beginning of the year or date of issuance, if later. Should the Company have a loss for the period, stock options and share warrants would be anti-dilutive and therefore will have no effect on the determination of loss per share.

(n) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use an asset. Leases which transfer substantially all the risks and benefits of ownership to the Company are classified as finance leases. The leased asset is recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments. Finance lease assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Other leases are classified as operating leases and payments are amortized on a straight-line basis over the lease term.

(o) New standards and interpretations

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. IFRS 9 will be applied by Petrus on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements.

In May 2014, the IASB issued IFRS 15" Revenue from Contracts with Customers" which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Petrus on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements.

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on its financial statements.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Petroleum and natural gas properties and equipment and exploration and evaluation assets

The fair value of petroleum and natural gas properties and equipment recognized in a business combination and for impairment testing, is based on market values. The market value of petroleum and natural gas properties and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and

natural gas interests (included in petroleum and natural gas properties and equipment) and intangible exploration and evaluation assets is estimated with reference to the discounted cash flow expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The fair value less cost to dispose value used to determine the recoverable amount of the impaired petroleum and natural gas properties are classified as Level 3 fair value measurements. Refer to *"Financial Instruments"* section below for fair value hierarchy classifications.

Derivatives

The fair value of commodity price risk management contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options is based on option models that use published information with respect to volatility, prices and interest rates.

Share-based payments

The fair value of employee share-based payments is measured using a Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility in share price (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividend yield, risk-free interest rate (based on government bonds) and estimated forfeiture rate at the initial grant date.

Financial Instruments

The Company's fair value measurements require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. The Company's cash is considered Level 1 and the financial instruments are considered Level 2.

5. ACQUISITIONS AND DISPOSITIONS

a. Property acquisitions and dispositions

Business combination

On January 20, 2015 Petrus closed an acquisition of petroleum and natural gas assets in the Ferrier area of Alberta, for total cash consideration of $4.4 million, net of adjustments. The transaction was accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value. The acquisition was financed by way of the Company's revolving credit facility. Acquisition related costs, which relate to professional fees, are charged to finance expenses in the Statement of Net Income (Loss).

Petrus obtained resource tax pools equal to the total net assets acquired of $4.4 million.

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

Fair value of net assets acquired $000s	
Exploration and evaluation assets	1,136
Petroleum and natural gas properties and equipment	3,313
Decommissioning obligations	(91)
Total net assets acquired	**4,358**

Property disposition

On February 6, 2015 Petrus closed the disposition of non-core petroleum and natural gas assets in the Pembina area of Alberta for total cash consideration of $7.7 million after post-closing adjustments. The Company recorded a loss of $0.05 million on the divestiture.

Business combination

On February 6, 2015 Petrus closed an acquisition of petroleum and natural gas assets in the Ferrier area of Alberta for total cash consideration of $4.4 million, net of adjustments. The transaction was accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed were recorded at fair value. The acquisitions were financed by way of the Company's revolving credit facility. Acquisition related costs, which relate to professional fees, are charged to finance expenses in the Statement of Net Income (Loss).

Petrus obtained resource tax pools equal to the total net assets acquired of $4.4 million.

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

Fair value of net assets acquired $000s	
Exploration and evaluation assets	1,063
Petroleum and natural gas properties and equipment	3,921
Decommissioning obligations	(631)
Total net assets acquired	**4,353**

From the date of their respective acquisitions to December 31, 2015, the above business combinations contributed approximately $0.7 million of revenue and $0.5 million of operating income. If the acquisitions had taken place at January 1, 2015, the proforma incremental revenue and operating income (defined as revenue, net of royalties, less operating and transportations costs) of the Company for the year ended December 31, 2015 would have been approximately $0.8 million and $0.6 million, respectively. The proforma information is not necessarily indicative of the results of operations that would have resulted had the acquisitions been effective on the dates indicated, or future results.

Property disposition

On May 7, 2015 Petrus closed the disposition of non-core exploration and evaluation assets in the Ferrier area of Alberta for total cash consideration of $0.1 million.

Business combination

On February 28, 2014 Petrus closed an acquisition of petroleum and natural gas assets in the central Alberta foothills, for total cash consideration of $19.1 million, net of adjustments. The transaction was accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value. The acquisition was financed by way of the Company's revolving credit facility. Acquisition related costs, which relate to professional fees, are charged to finance expenses in the Statement of Net Income (Loss).

Petrus obtained resource tax pools equal to the total net assets acquired of $19.1 million. Neither deferred tax nor goodwill was recorded in conjunction with the acquisition.

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

Fair value of net assets acquired $000s	
Exploration and evaluation assets	5,446
Petroleum and natural gas properties and equipment	17,058
Decommissioning obligations	(3,391)
Total net assets acquired	**19,113**

From the date of acquisition to December 31, 2014, the assets contributed approximately $6.9 million of revenue and $4.1 million of operating income. If the acquisition had taken place at January 1, 2014, the proforma incremental revenue and operating income (defined as revenue, net of royalties, less operating and transportations costs) of the Company for the year ended December 31, 2014 would have been approximately $8.9 million and $5.3 million, respectively. The proforma information is not necessarily indicative of the results of operations that would have resulted had the acquisitions been effective ono the dates indicated, or future results.

Royalty interest disposition

On August 29, 2014 Petrus closed the disposition of non-core royalty interest properties for total cash consideration of $4.2 million after post-closing adjustments. The Company recorded a gain of $2.2 million on the divestiture during the year ended December 31, 2014.

Business combination

On September 5, 2014 Petrus closed an acquisition of petroleum and natural gas assets in the Ferrier area of Alberta and on November 7, 2014 Petrus closed a minor acquisition of petroleum and natural gas assets in the Peace River area of Alberta, for total cash consideration of $14.9 million, net of adjustments. The transactions were accounted for as business combinations using the acquisition method whereby the net assets acquired and the liabilities assumed were recorded at fair value. The acquisitions were financed by way of the Company's revolving credit facility. Acquisition related costs, which relate to professional fees, are charged to finance expenses in the Statement of Net Income (Loss).

Petrus obtained resource tax pools equal to the total net assets acquired of $14.9 million. Neither deferred tax nor goodwill was recorded in conjunction with the acquisition.

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

Fair value of net assets acquired $000s	
Exploration and evaluation assets	10,864
Petroleum and natural gas properties and equipment	7,703
Decommissioning obligations	(3,695)
Total net assets acquired	**14,872**

From the date of acquisition to December 31, 2014, the assets contributed approximately $0.7 million of revenue and $0.4 million of operating income. If the acquisition had taken place at January 1, 2014, the proforma incremental revenue and operating income (defined as revenue, net of royalties, less operating and transportations costs) of the Company for the twelve months ended December 31, 2014 would have been approximately $2.4 million and

$1.6 million, respectively. The proforma information is not necessarily indicative of the results of operations that would have resulted had the acquisitions been effective on the dates indicated, or future results.

b. Corporate acquisitions and dispositions

(i) Arriva Energy Inc.

On September 8, 2014 Petrus acquired all of the issued and outstanding shares of Arriva Energy Inc. ("Arriva") at a price of $2.05 per share. As consideration Petrus paid $103 million in cash by way of its revolving credit facility. Transaction costs of $0.2 million were charged to general & administrative expenses. Arriva was a privately held entity with oil and natural gas operations in the Ferrier area of Alberta, Canada. Petrus acquired the business in order to establish a core operating area in this geographic location as well as to provide accretive, liquids rich natural gas weighted petroleum and natural gas assets to Petrus.

Results from Arriva operations are included in the Company's financial statements from the closing date of the transaction. Petrus obtained the tax base of the identifiable assets and liabilities of Arriva at pre-acquisition amounts and obtained tax basis for the cost of the shares acquired. No goodwill was recorded in connection with the acquisition. The temporary differences gave rise to an $18.5 million deferred tax liability.

The acquisition has been accounted for using the acquisition method based on fair values.

Fair value of net assets acquired $000s	
Accounts receivable	593
Other current assets	1,520
Current liabilities	(1,042)
Petroleum and natural gas properties and equipment	113,908
Exploration and evaluation assets	8,809
Bank debt	—
Decommissioning obligations	(2,330)
Deferred income tax liability	(18,450)
Risk management liability	(8)
Total net assets acquired	**103,000**
Cash consideration	103,000
Excess of net assets acquired over consideration	**—**

From the date of acquisition to December 31, 2014, the acquisition contributed approximately $5.7 million of revenue and $3.7 million of operating income. If the acquisition had taken place at January 1, 2014, the proforma incremental revenue and operating income defined as revenue, net of royalties, less operating and transportations costs of the Company for the year ended December 31, 2014 would have been approximately $15.0 million and $10.1 million, respectively. The proforma information is not necessarily indicative of the results of operations that would have resulted had the acquisitions been effective on the dates indicated, or future results.

(ii) Ravenwood Energy Corp.

On October 8, 2014 Petrus acquired all of the issued and outstanding common shares of Ravenwood for $195 million, inclusive of debt and transaction costs. Ravenwood was a privately held entity with oil and natural gas operations in the Thorsby and Pembina areas of Alberta, Canada and was controlled by a shareholder of Petrus. Petrus acquired the business in order to establish a core operating area in this geographic location as well as to provide accretive, oil weighted petroleum and natural gas assets to Petrus. Transaction costs of $0.4 million were incurred in conjunction with the acquisition and relate to professional service fees. These transaction costs were recorded in the Statement of Net Income (Loss) as general & administrative expenses. The transaction was accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value. The acquisition was financed by way of a Term Loan (note 8) as well as proceeds from the Company's equity issuances (note 11).

The acquisition has been accounted for using the acquisition method as follows:

Fair value of net assets acquired $000s	
Cash	30,703
Accounts receivable	7,177
Other current assets	1,191
Risk management asset	177
Current liabilities	(22,429)
Petroleum and natural gas properties and equipment	226,524
Exploration and evaluation assets	12,706
Bank debt	(28,249)
Decommissioning obligations	(20,169)
Deferred income tax liability	(11,825)
Risk management liability	(806)
Total net assets acquired	**195,000**
Cash consideration	195,000
Excess of net assets acquired over consideration	**—**

From the date of acquisition to December 31, 2014, the acquisition contributed approximately $13 million of revenue and $8.9 million of operating income. If the acquisition had taken place at January 1, 2014, the proforma incremental revenue and operating income defined as revenue, net of royalties, less

operating and transportations costs of the Company for the year ended December 31, 2014 would have been approximately $55.2 million and $43.7 million, respectively. The proforma information is not necessarily indicative of the results of operations that would have resulted had the acquisitions been effective on the dates indicated, or future results.

6. EXPLORATION AND EVALUATION ASSETS

$000s	
Balance, December 31, 2013	**50,529**
Additions	5,753
Property acquisitions *(note 5)*	16,310
Corporate acquisitions *(note 5)*	21,514
Exploration and evaluation expense	(1,158)
Capitalized G&A and share-based compensation	1,272
Transfers to property, plant and equipment	(147)
Balance, December 31, 2014	**94,073**
Additions	941
Property acquisitions *(note 5)*	2,199
Property dispositions *(note 5)*	(217)
Exploration and evaluation expense	(6,275)
Capitalized G&A and share-based compensation	547
Transfers to property, plant and equipment	(3,090)
Balance, December 31, 2015	**88,178**

Exploration and evaluation assets consist of Petrus' undeveloped land and exploration and development projects which are pending the determination of technical feasibility. Additions represent the Company's share of costs incurred on these assets during the period. For the year ended December 31, 2015 the Company incurred $6.3 million of exploration and evaluation expense in the Statement of Net Income (Loss) and Comprehensive Income (Loss) which relates to expiring undeveloped land in non-core properties (2014 - $1.2 million).

During the year ended December 31, 2015 the Company capitalized $0.5 million (2014 - $1.3 million) of general & administrative expenses ("G&A") directly attributable to exploration activities. Included in this amount is non-cash share-based compensation of $0.1 million (2014 - $0.4 million).

7. PROPERTY, PLANT AND EQUIPMENT

$000s	Cost	Accumulated DD&A	Net book value
Balance, December 31, 2013	**175,891**	**(25,678)**	**150,213**
Additions	107,662	—	107,662
Property acquisitions *(note 5)*	17,675	—	17,675
Property (dispositions) *(note 5)*	(2,880)	816	(2,064)
Corporate acquisitions *(note 5)*	317,935	—	317,935
Capitalized G&A and share-based compensation	1,272	—	1,272
Transfers from exploration and evaluation assets	147	—	147
Depletion & depreciation	—	(36,850)	(36,850)
Increase in decommissioning provision *(note 9)*	43,492	—	43,492
Impairment loss	—	(104,762)	(104,762)
Balance, December 31, 2014	**661,194**	**(166,474)**	**494,720**
Additions	51,860	—	51,860
Property acquisitions *(note 5)*	6,512	—	6,512
Property dispositions *(note 5)*	(10,781)	3,173	(7,608)
Capitalized G&A and share-based compensation	1,641	—	1,641
Transfers from exploration and evaluation assets *(note 6)*	3,090	—	3,090
Depletion & depreciation	—	(54,627)	(54,627)
Increase in decommissioning provision *(note 9)*	4,798	—	4,798
Impairment loss	—	(67,494)	(67,494)
Balance, December 31, 2015	**718,314**	**(285,422)**	**432,892**

Estimated future development costs of $325.3 million (2014 - $199.4 million) associated with the development of the Company's proved plus probable undeveloped reserves were included with the costs subject to depletion. During the year ended December 31, 2015 the Company capitalized $1.6 million (2014 - $1.3 million) of general & administrative expenses ("G&A") directly attributable to development activities. Included in this amount is non-cash share-based compensation of $0.4 million (2014 - $0.3 million).

For the year ended December 31, 2015, the Company recorded property, plant and equipment impairments of $67.5 million, resulting from a decline in oil and natural gas price forecasts on three of its four CGUs; Central Alberta - $5.0 million; Peace River - $8.8 million; and Foothills - $53.7 million (2014 - $104.8; Central Alberta - $60.3 million; Ferrier - $26.1 million; Peace River - $13.6 million; and Foothills - $4.8 million). The recoverable amounts of the Company's CGUs were estimated at fair value less costs of disposal, based on the net present value of pre-tax cash flows from oil and natural gas reserves, using reserve values estimated by independent reserve evaluators. The recoverable amount for each of the Company's four CGUs was as

follows: Central Alberta - $128.7 million; Ferrier - $139.9 million; Peace River - $51.3 million; and Foothills - $74.6 million (2014 - Central Alberta - $155.2 million; Ferrier - $100.2 million; Peace River - $59.7 million; and Foothills - $120.8 million).

In calculating the net present values of cash flows from oil and natural gas reserves, the Company used a pre-tax discount rate of 10% and the following forward commodity price estimates:

	Oil (CDN$/bbl)[(1)]	AECO Gas (CDN$/mcf)
2016	55.20	2.25
2017	69.00	2.95
2018	78.43	3.42
2019	89.41	3.91
2020	91.71	4.20
2021	93.08	4.28
2022	94.48	4.35
2023	95.90	4.43
2024	97.34	4.51
2025	98.80	4.59
2026	100.28	4.67
Remainder	+1.5%/yr	1.5%/yr

(1) Source: Sproule Canadian price forecasts ($CDN/bbl) for Canadian Light Sweet Crude

As at December 31, 2015, a one percent change in pre-tax discount rate is estimated to change the impairment by approximately $9.4 million; a $1.00/Bbl change in the price of oil is estimated to change the impairment by approximately $4.8 million; and a $0.10/mcf change in the price of natural gas is estimated to change the impairment by approximately $5.5 million.

8. DEBT

At December 31, 2015 Petrus has two debt instruments outstanding. The first is a reserve-based, revolving credit facility with a syndicate of lenders. The total facility is comprised of an operating facility and a syndicated term-out facility (altogether the "Revolving Credit Facility" or "RCF"). The second is a second lien term loan (the "Term Loan").

(a) Revolving Credit Facility

At December 31, 2015 the Company's RCF is comprised of a $20 million operating facility and a $140 million syndicated term-out facility. The Company has provided collateral by way of a $600 million debenture over all of the present and after acquired property of the Company. The term-out facility has a revolving period that ends July 29, 2016 at which time it will either be renewed or converted to a one-year term facility.

At December 31, 2015, the Company had a $2.4 million letter of credit outstanding against the RCF (December 31, 2014; Nil) and had drawn $145 million against the RCF (December 31, 2014; $99.7 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 majority lender consent. A decrease in the borrowing base could result in a reduction to the available credit under the RCF.

(b) Long Term Debt

At December 31, 2015 the Company had a $90 million Term Loan outstanding which was repayable on October 8, 2016. Interest is due and payable monthly and accrues at a per annum rate of (three-month) the Canadian Dealer offered Rate (CDOR) plus 700 basis points.

Covenants

The following definitions are used in the covenant calculations for both debt instruments:

Debt to EBITDA Ratio

Debt is defined as Petrus' total debt outstanding of the borrower and EBITDA means earnings before interest, taxes, depreciation and amortization.

PV10 to Net Secured Debt Ratio

Net Secured Debt means all amounts owing under the RCF and any other secured debt of Petrus, minus restricted cash and cash equivalents and "PV10" means the discounted net present value (at a discount rate of 10%) of Petrus' proved reserves, as adjusted for commodity swaps in effect.

Working Capital

Working Capital means Current Assets to Current Liabilities whereby Current Assets means on any date of determination, the current assets of Petrus that would, in accordance with IFRS, be classified as of that date as current assets plus any undrawn availability under the RCF, less any non-cash amount required to be included in current assets as the result of the application of IFRS including non-cash commodity and interest rate hedges assets and liabilities and whereby Current Liabilities means, on any date of determination, the liabilities of Petrus that would, in accordance with IFRS, be classified as of that date as current liabilities, excluding (a) non-cash obligations under IFRS including non-cash commodity and interest rate hedges assets and liabilities, and (b) the current portion of long-term debt.

Working Capital Ratio *means the ratio of Current Assets to Current Liabilities as defined above.*

Proved Asset and PDP Asset Coverage Ratio
Means the ratio of (a) Total Adjusted Present Value or (b) PDP Present Value depending on the reserve category, to Total Debt
Whereby Total Adjusted or PDP reserve value means the present value (discounted at 10.0%) of future net revenues attributable to the respective reserve category based on the reserve report most recently delivered to the lender.

The RCF carries the following covenants:

(a) The Company is unable to borrow amounts greater than the RCF limit;
(b) PV10 to Net Secured Debt Ratio will not be less than 1.25 to 1.00 and must be reported at each borrowing base redetermination date, using the most current reserve report and the Net Secured Debt at the date of the borrowing base redetermination

The RCF and the Term Loan carry the following covenants:

a. Working Capital Ratio at the end of each fiscal quarter will not be less than 1.00 to 1.00;
b. Proved Asset Coverage Ratio will not be less than 1.25 to 1.00; and
c. PDP Asset Coverage Ratio will not be less than 1.00 to 1.00 whereby the asset coverage ratios must be reported at each borrowing base redetermination date, using the most current reserve report and the Total Debt at the date of the borrowing base redetermination.

At December 31, 2015 the Company was not in breach of the covenants.

Subsequent Event
On March 22, 2016 the banking agreements related to the RCF and Term Loan were amended as follows:

(a) Maturity and repayment date of the Term Loan was extended to October 8, 2017;
(b) From March 22, 2016 to the May 2016 borrowing base redetermination, borrowings by the Company under the RCF in an aggregate amount exceeding $120 million shall require consent of the first lien lenders;
(c) When any indebtedness under the Term Loan remains outstanding the following covenants apply to both instruments:
    a. Total Debt to EBITDA Ratio shall not exceed (i) 4.0:1.0 for the period beginning April 1, 2016 and ending December 31, 2016, and (ii) 3.5:1.0 for the period beginning January 1, 2017 and thereafter; and
    b. Total Debt of Petrus shall not exceed $190 million, provided that, prior written consent of all of the lenders is required for any drawdown in excess of the total RCF.

On March 22, 2016 the Company reduced the amount drawn on the RCF by $40 million (classified as current at December 31, 2015) and as a result, the total outstanding on the RCF is $105 million in addition to a letters of credit against the RCF which total $2.8 million. On March 22, 2016 the Company reduced the amount drawn on the Term Loan by $40 million. As a result, the total outstanding on the Term Loan at March 22, 2016 is $50 million.

9. 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 2.04 percent and an inflation rate of 2 percent (December 31, 2014; 2.33 percent and 2 percent, respectively). Changes in estimates in 2015 are due to the decrease in discount rate from 2.33 percent to 2.04 percent at December 31, 2015 and changes in estimated well life due to revised commodity price forecasts. The Company has estimated the net present value of the decommissioning obligations to be $64.4 million as at December 31, 2015 ($58.6 million at December 31, 2014). The undiscounted, uninflated total future liability at December 31, 2015 is $64.8 million ($61.8 million at December 31, 2014). 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, 2013	**15,547**
Property acquisitions (note 5)	7,086
Corporate acquisitions (note 5)	22,498
Liabilities incurred	7,009
Liabilities settled	(1,096)
Change in estimates	6,899
Accretion expense	691
Balance, December 31, 2014	**58,634**
Property acquisitions (note 5)	723
Property dispositions (note 5)	(517)
Liabilities incurred	543
Liabilities settled	(335)
Change in estimates	4,048
Accretion expense	1,261
Balance, December 31, 2015	**64,357**

10. FINANCIAL RISK MANAGEMENT

The Company utilizes commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table summarizes the financial derivative contracts Petrus has outstanding as at December 31, 2015:

Natural Gas Contract Period	Type	Daily Volume	Price (CAD$/GJ)
Nov. 1, 2015 to Mar. 31, 2016	Fixed price	6,000 GJ	$3.74/GJ
Nov. 1, 2015 to Mar. 31, 2016	Fixed price	6,000 GJ	$2.87/GJ
Nov. 1, 2015 to Mar. 31, 2016	Fixed price	4,000 GJ	$2.96/GJ
Nov. 1, 2015 to Mar. 31, 2016	Fixed price	2,000 GJ	$3.03/GJ
Jan. 1, 2016 to Mar. 31, 2016	Fixed price	5,000 GJ	$3.26/GJ
Feb. 1, 2016 to Mar. 31, 2016	Fixed price	2,000 GJ	$2.23/GJ
Apr. 1, 2016 to Oct. 31, 2016	Fixed price	2,000 GJ	$2.93/GJ
Apr. 1, 2016 to Oct. 31, 2016	Fixed price	2,000 GJ	$2.28/GJ
Apr. 1, 2016 to Oct. 31, 2016	Fixed price	6,000 GJ	$2.75/GJ
Apr. 1, 2016 to Oct. 31, 2016	Fixed price	2,000 GJ	$2.85/GJ
Apr. 1, 2016 to Oct. 31, 2016	Fixed price	5,000 GJ	$2.91/GJ
Apr. 1, 2016 to Oct. 31, 2016	Costless Collar	5,000 GJ	$2.50 – 3.15/GJ
Nov. 1, 2016 to Mar. 31, 2017	Fixed price	2,000 GJ	$3.38/GJ
Nov. 1, 2016 to Mar. 31, 2017	Fixed price	2,000 GJ	$3.31/GJ
Nov. 1, 2016 to Mar. 31, 2017	Fixed price	6,000 GJ	$3.21/GJ
Nov. 1, 2016 to Mar. 31, 2017	Costless Collar	5,000 GJ	$2.75 – 3.75/GJ
Jan. 1, 2016 to Mar. 31, 2017	Fixed price	4,000 GJ	$2.54/GJ
Apr. 1, 2017 to Oct. 31, 2017	Fixed price	5,000 GJ	$2.64/GJ
Apr. 1, 2017 to Oct. 31, 2017	Fixed price	7,000 GJ	$2.84/GJ
Nov. 1, 2017 to Mar. 31, 2018	Fixed price	5,000 GJ	$3.02/GJ

Crude Oil Contract Period	Type	Daily Volume	Price ($/Bbl)
Jan. 1, 2016 to Mar. 31,2016	Costless Collar	250 Bbl	WTI $USD40.00-75.00/Bbl
Jan. 1, 2016 to Jun. 30, 2016	Fixed Price	250 Bbl	WTI $CAD77.70/Bbl
Jan. 1, 2016 to Jun. 30, 2016	Costless Collar	250 Bbl	WTI $CAD70.00-83.40/Bbl
Jan. 1, 2016 to Dec. 31, 2016	Costless Collar	250 Bbl	WTI $CAD70.00-82.30/Bbl
Jan. 1, 2016 to Dec. 31, 2016	Costless Collar	700 Bbl	WTI $CAD70.00-75.75/Bbl
Jul. 1, 2016 to Sep. 30, 2016	Costless Collar	250 Bbl	WTI $CAD70.00-84.00/Bbl
Oct. 1, 2016 to Dec. 31, 2016	Costless Collar	250 Bbl	WTI $CAD70.00-85.00/Bbl
Jan. 1, 2017 to Mar. 31, 2017	Costless Collar	500 Bbl	WTI $CAD70.00-78.00/Bbl
Jan. 1, 2017 to Mar. 31, 2017	Costless Collar	100 Bbl	WTI $CAD65.00-71.00/Bbl
Jan. 1, 2017 to Jun. 30, 2017	Costless Collar	500 Bbl	WTI $CAD70.00-78.40/Bbl
Apr. 1, 2017 to Jun. 30, 2017	Costless Collar	400 Bbl	WTI $CAD65.00-72.70/Bbl
Jul. 1, 2017 to Sep. 30, 2017	Costless Collar	500 Bbl	WTI $CAD65.00-74.20/Bbl
Oct. 1, 2017 to Dec. 31, 2017	Costless Collar	400 Bbl	WTI $CAD65.00-75.85/Bbl

Risk Management Asset and Liability

$000s At December 31, 2015	Current Asset	Current Liability
Commodity derivatives	13,978	45
	13,978	**45**
$000s At December 31, 2014	**Current Asset**	**Current Liability**
Commodity derivatives	14,609	197
	14,609	**197**

Subsequent to December 31, 2015 the Company entered into the following financial derivative contracts:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD$/GJ)
Apr. 1, 2016 to Dec. 31, 2016	Fixed price	1,200 GJ	$1.77/GJ
Nov. 1, 2016 to Dec. 31, 2016	Fixed price	1,200 GJ	$2.33/GJ
Nov. 1, 2016 to Mar. 31, 2017	Fixed price	2,000 GJ	$2.80/GJ
Apr. 1, 2017 to Oct. 31, 2017	Fixed price	2,650 GJ	$2.27/GJ
Apr. 1, 2017 to Oct. 31, 2017	Fixed price	2,000 GJ	$2.65/GJ
Nov. 1, 2017 to Mar. 31, 2018	Fixed price	1,500 GJ	$2.69/GJ

Crude Oil Contract Period	Type	Daily Volume	Price ($/Bbl)
Apr. 1, 2016 to Dec. 31, 2016	Costless collar	150 Bbl	WTI $CDN40.00-61.80/Bbl
Apr. 1, 2017 to Jun 30, 2017	Fixed price	300 Bbl	WTI $CDN59.25/Bbl
Jul. 1, 2017 to Sep. 30, 2017	Fixed price	600 Bbl	WTI $CDN59.80/Bbl
Oct. 1, 2017 to Mar. 31, 2018	Costless collar	300 Bbl	WTI $CDN55.00-64.02/Bbl

Earnings Impact of Realized and Unrealized Gains (Losses) on Commodity Financial Instruments

$000s	Year ended Dec. 31, 2015	Year ended Dec. 31, 2014
Realized gain (loss)	16,563	(918)
Unrealized gain (loss)	(479)	17,311
	16,084	**16,393**

11. SHARE CAPITAL

Authorized

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

Issued and Outstanding

Common shares $000s *except share amounts*	Number of Shares [(1)]	Amount
Balance, December 31, 2013	**21,594,150**	**144,339**
Common shares issued under private placement (a)	3,814,000	49,582
Flow-through shares issued, net of premium (a)	28,750	374
Common shares issued under private placement (b)	4,446,181	71,139
Flow-through shares issued, net of premium (b)	50,000	800
Common shares issued under private placement (c)	5,181,319	82,901
Common shares issued under private placement (d)	33,750	540
Share issue costs	—	(4,759)
Tax effect of share issue costs	—	1,190
Balance, December 31, 2014 and 2015	**35,148,150**	**346,106**

[(1)] All share capital instruments have been retrospectively adjusted to reflect the notional 4 to 1 consolidation of the existing Petrus shares by New Petrus as described in Note 1.

Share Issuances

(a) On June 2, 2014 the Company issued 3,814,000 common shares at a price of $13.00 per share and 28,750 flow-through shares at a price of $15.60 per share for total gross proceeds of $50.0 million. Of the issuance price, $2.60 per share or $0.1 million was determined to be the premium on the flow-through shares. The common shares issued were subject to a restricted hold period which expired on October 3, 2014.

(b) On September 5, 2014 the Company issued 4,446,181 common shares at a price of $16.00 per share and 50,000 flow-through shares at a price of $19.20 per share for total gross proceeds of $72.1 million. Of the issuance price, $3.20 per share or $0.2 million was determined to be the premium on the flow-through shares. The common shares issued are subject to a restricted hold period which expired on January 6, 2015.

(c) On September 23, 2014 the Company issued 5,181,319 common shares at a price of $16.00 per share for total gross proceeds of $82.9 million. The common shares issued are subject to a restricted hold period which expired on January 24, 2015.

(d) On October 15, 2014 the Company issued 33,750 common shares at a price of $16.00 per share for total gross proceeds of $0.5 million. The common shares issued are subject to a restricted hold period which expired on February 15, 2015

SHARE-BASED COMPENSATION

Performance Warrants

The Company has issued performance warrants to employees, consultants and directors of the Company. Performance warrants were granted and vest based on three criteria, time (one third vest per year), market (one third vest as certain share price hurdles are achieved) and employment or service. The warrants expire five years from the date of issuance. Upon exercise of the warrants the Company will settle the obligation by issuing common shares of the Company. The shares to be offered consist of common shares of the Company`s authorized but unissued common shares. The aggregate number of shares issuable upon the exercise of all warrants granted shall not exceed 20% of the 8,028,254 issued and outstanding shares as at April 30, 2012. At December 31, 2015, 1,568,568 (December 31, 2014; 1,601,901) performance warrants were issued and outstanding.

	Number of Outstanding Warrants [1]	Weighted Average Exercise Price ($)
Balance, December 31, 2013	**1,605,651**	**$8.07**
Forfeited or expired	(3,750)	$8.00
Balance, December 31, 2014	**1,601,901**	**$8.07**
Forfeited or expired	(33,333)	$8.00
Balance, December 31, 2015	**1,568,568**	**$8.07**
Exercisable, December 31, 2015	**916,558**	**$8.33**

[1] All share capital instruments have been retrospectively adjusted to reflect the notional 4 to 1 consolidation of the existing Petrus shares by New Petrus as described in Note 1.

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

Range of Exercise Price	Warrants Outstanding [1]			Warrants Exercisable [1]		
	Number granted	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price	Weighted average remaining life (years)
$8.00 - $9.00	1,568,568	$8.07	1.01	916,558	$8.33	1.07
	1,568,568	**$8.07**	**1.01**	**916,558**	**$8.33**	**1.07**

[1] All share capital instruments have been retrospectively adjusted to reflect the notional 4 to 1 consolidation of the existing Petrus shares by New Petrus as described in Note 1.

Stock Options

The Company has a stock option plan in place whereby it may issue stock options to employees, consultants and directors of the Company. The aggregate number of shares that may be acquired upon exercise of all options granted pursuant to the plan shall, at any date or time of determination, be equal to ten percent (10%) of the number that is equal to (i) the number of the Company's basic common shares then issued and outstanding; minus (ii) a number equal to five (5) times the number of common shares that are issuable upon exercise of the then outstanding performance warrants minus (iii) a number equal to fifty percent (50%) of the number of Common Shares that have previously been issued upon the exercise of performance warrants. The options vest based on time (one third vest per year starting on the date of grant) and expire five years from the date of issuance. At December 31, 2015, 1,453,750 (December 31, 2014; 1,528,750) stock options were outstanding. The summary of stock option activity is presented below:

	Number of stock options [1]	Weighted Average Exercise Price ($)
Balance, December 31, 2013	**1,088,750**	**$7.36**
Forfeited or expired	(11,250)	$15.00
Granted	451,250	$12.72
Balance, December 31, 2014	**1,528,750**	**$8.79**
Granted	126,250	$14.00
Forfeited or expired	(201,250)	$8.50
Balance, December 31, 2015	**1,453,750**	**$9.28**
Exercisable, December 31, 2015	**992,167**	**$7.46**

[1] All share capital instruments have been retrospectively adjusted to reflect the notional 4 to 1 consolidation of the existing Petrus shares by New Petrus as described in Note 1.

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

Range of Exercise Price	Stock Options Outstanding [1]			Stock Options Exercisable [1]		
	Number granted	Weighted average exercise price	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price	Weighted average remaining life (years)
$7.00 - $8.00	918,750	$7.00	1.46	909,667	$6.99	1.46
$8.01 - $11.00	147,500	$9.61	3.09	26,250	$9.51	2.90
$11.01 - $16.00	387,500	$14.01	3.76	56,250	$14.04	3.66
	1,453,750	**$9.19**	**2.25**	**992,167**	**$7.46**	**1.62**

[1] All share capital instruments have been retrospectively adjusted to reflect the notional 4 to 1 consolidation of the existing Petrus shares by New Petrus as described in Note 1.

The weighted average fair value of each stock option granted in 2015 of $4.96 (2014 - $4.48) per option is estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	Year ended 2015	Year ended 2014
Risk free interest rate	1.20% - 1.40%	1.20% - 1.40%
Expected life (years)	5	5
Estimated volatility of underlying common shares (%)	50%	50%
Estimated forfeiture rate	20%	20%
Expected dividend yield (%)	0%	0%

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

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

$000s	**2015**	**2014**
Expensed in net loss	655	741
Capitalized to exploration and evaluation assets	130	371
Capitalized to property, plant and equipment	390	371
Total share-based compensation	**1,175**	**1,483**

12. EARNINGS PER SHARE

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

	Year ended December 31, 2015	**Year ended December 31, 2014**
Net loss for the year ($000s)	**(69,031)**	**(47,492)**
Weighted avg number of common shares – basic[1] (000s)	35,148	26,680
Weighted avg number of common shares – diluted[1] (000s)	35,148	26,680
Net loss per common share – basic	**(1.96)**	**(1.78)**
Net loss per common share – diluted	**(1.96)**	**(1.78)**

[1] All share capital instruments have been retrospectively adjusted to reflect the notional 4 to 1 consolidation of the existing Petrus shares by New Petrus as described in Note 1.

In computing net loss per share for the year ended December 31, 2015, 1,568,568 warrants and 1,453,750 stock options were considered however no instruments were added to the calculation as their impact is anti-dilutive (December 31, 2014, 1,601,901 warrants and 1,528,7501 stock options were considered however no instruments were added to the calculation as their impact is anti-dilutive).

13. FINANCE EXPENSES

The components of finance expenses are as follows:

$000s	**2015**	**2014**
Cash:		
Interest	13,366	4,007
Foreign exchange	(567)	(2)
	12,799	**4,005**
Non cash:		
Accretion on decommissioning obligations *(note 9)*	1,261	691
Amortization of deferred financing costs	1,216	—
Total finance expenses	**15,276**	**4,696**

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

In the management of capital, Petrus includes share capital and total net debt, which is made up of debt and working capital (current assets less current liabilities). Petrus manages its capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Petrus may issue new equity, increase or decrease debt, adjust capital expenditures and acquire or dispose of assets (refer to Note 8 for restrictions).

15. FINANCIAL INSTRUMENTS

Risks associated with Financial Instruments

Credit risk

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

At December 31, 2015, financial assets on the balance sheet are comprised of cash, deposits, risk management assets and accounts receivable. The maximum credit risk associated with these financial instruments is the total carrying value.

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risk. Concentration of credit risk is mitigated by marketing the 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 $17.8 million of accounts receivable outstanding at December 31, 2015 (December 31, 2014; $23.3 million), $15.7 million is owed from 21 parties (December 31, 2014 - $16.6 million from 19 parties), and the majority of the balance was received subsequent to year end. At December 31, 2015 Petrus recorded a $0.2 million allowance for doubtful accounts (2014 - $nil). As at December 31, 2015 and 2014, approximately 90% of Petrus' accounts receivable were all aged less than 90 days and the Company does not anticipate any significant collection issues.

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

Liquidity risk

Liquidity risk relates to the risk the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by cash as they become due. The Company's approach to managing liquidity risk is to ensure, as much as possible, that it will have sufficient liquidity to meet its' short-term and long-term financial obligations when due, under both normal and unusual conditions without incurring unacceptable losses or risking harm to the Company's reputation. The financial liabilities on its balance sheet consist of accounts payable, bank indebtedness, long term debt, risk management liabilities and accrued liabilities. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future cash flows.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a normal period. To achieve this objective, the Company prepares monthly operational and capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company has a hedging policy in order to reduce commodity price volatility related to its cashflows. The Company utilizes authorizations for expenditures on operated and non-operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th day of each month. The Company monitors its net debt position and forecasts its debt covenants to ensure appropriate measures are taken to continue to meet its debt covenants. The Company is not in breach of any covenant however reduction in forecast cashflow or an increase in total debt could result in a breach of covenant. Furthermore, continued deterioration of forward commodity price forecasts could result in a reduction to the Company's reserve values which could also result in a breach of a covenant under the Company's banking agreements.

At December 31, 2015, the Company had a $160 million Revolving Credit Facility, of which $12.6 million was undrawn (December 31, 2014, the Company had a $200 million credit facility of which $100 million was undrawn). On March 22, 2016 Petrus reduced its RCF borrowings by $40 million using equity proceeds therefore the total amount drawn was $105 million. The banking agreement related to the RCF was amended and as of March 22, 2016, the Company requires lender consent to borrow in excess of $120 million. Petrus anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available bank room on its Revolving Credit Facility. The Company is exposed to the risk of reductions to its borrowing base for purposes of the RCF or Term Loan. The next scheduled borrowing base redetermination date for the RCF is May 31, 2016.

The following are the contractual maturities of financial liabilities as at December 31, 2015:

$000s	**Total**	**< 1 year**	**1-5 years**
Accounts payable	11,839	11,839	—
Bank indebtedness	145,000	40,000	105,000
Long term debt[(1)]	90,000	90,000	—
Total	**246,839**	**141,839**	**105,000**

(1) On March 22, 2016 the maturity and repayment date was extended to October 8, 2017.

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 and accounts receivable are not exposed to significant interest rate risk given their short-term or liquid nature. The revolving credit facility and long term debt are exposed to interest rate cash flow risk as the instruments are priced on a floating interest rate subject to fluctuations in market interest rates. The remainder of Petrus' financial assets and liabilities are not exposed to interest rate risk. A 1% change in the Canadian prime interest rate in the year ended December 31, 2015 would have changed net income (loss) by approximately $2.1 million, which relates to interest expense on the average outstanding revolving credit facility and long term debt during the year, assuming that all other variables remain constant (year ended December 31, 2014 – $1.1 million). The Company considers this risk to be limited.

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.

For the year ended December 31, 2015, it is estimated that a $0.25/mcf change in the price of natural gas would have changed net income (loss) by $3.1 million (year ended December 31, 2014 - $1.9 million). For the year ended December 31, 2015, it is estimated that a $5.00/CDN WTI/bbl change in the price of oil would have changed net income (loss) by $5.5 million (year ended December 31, 2014 - $4.1 million).

16. DEFERRED INCOME TAXES

$000s	2015	2014
Income (loss) before taxes	**(86,794)**	**(63,467)**
Combined federal and provincial tax rate	26.0%	25%
Computed "expected" tax expense (recovery)	(22,566)	(15,867)
Increase/(decrease) in taxes resulting from:		
Permanent items	177	680
Tax impact of flow-through shares	—	352
Impact of rate change	633	—
True up and other	918	(1,140)
Unrecognized deferred income tax asset	3,075	—
Deferred tax expense (recovery)	**(17,763)**	**(15,975)**
Effective tax rate	**20.6%**	**25.2%**

The components of the Company's deferred tax position at December 31, 2015 and 2014 are as follows:

$000s	2015	2014
Net book value of assets in excess of tax pools	(32,774)	(44,507)
Asset retirement obligations	17,376	14,658
Share issuance costs	967	1,449
Non capital loss carry-forwards	18,193	14,240
Unrealized hedging gain	(3,762)	(3,603)
Deferred tax liability	**—**	**(17,763)**

As at December 31, 2015, Petrus did not recognize income tax assets from non-capital losses of $11.5 million (December 31, 2014 – nil).

The Company had non-capital losses of approximately $81.8 million (2014 - $56.7 million) which may be applied against future income for Canadian tax purposes. These non-capital losses expire in 2025 and onwards.

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

$000s	2015	2014
Source (use) in non-cash working capital:		
Accounts receivable	5,582	(12,455)
Deposits and prepaid expenses	(67)	(739)
Accounts payable and accrued liabilities	(57,992)	58,858
Working capital deficiency acquired	—	(7,239)
	(52,477)	**38,425**
Operating activities	(28,779)	20,834
Financing activities	458	(881)
Investing activities	(24,156)	18,472

18. OPERATING EXPENSES

The Company's gross operating expenses for 2015 were $31.2 million (December 31, 2014; $20.7 million) which includes $8.5 million of processing, gathering and compression charges (December 31, 2014; $7.9 million).

The Company generated processing income recoveries of $2.7 million (December 31, 2014; $2.6 million) which reduced the Company's reported gross operating expenses to $28.5 million for the year ended December 31, 2015 ($18.1 million for the year ended December 31, 2014).

19. GENERAL AND ADMINISTRATIVE EXPENSES

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

$000s	2015	2014
Salaries and benefits	4,098	3,604
Subscriptions and licenses	161	490
Office costs	2,441	552
Legal, accounting and consulting	1,104	1,127
Transaction costs	1,364	1,021
Capitalized general and administrative	(1,668)	(1,802)
	7,500	**4,992**

20. RELATED PARTY TRANSACTIONS

The Company consider its directors and officers to be key management personnel. The following table outlines transactions with key management personnel:

$000s	2015	2014
Salaries and wages	900	711
Short term employee benefits	31	26
Share based compensation, gross	761	472
	1,692	**1,209**

21. COMMITMENTS

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

$000s	Total	< 1 year	1-5 years
Corporate office lease	3,150	910	2,240
Total commitments	**3,150**	**910**	**2,240**

CORPORATE INFORMATION

OFFICERS

Kevin L. Adair, P. Eng.
President and Chief Executive Officer

Neil Korchinski, P. Eng.
Vice President, Engineering and
Chief Operating Officer

Cheree Stephenson, CA
Vice President, Finance and
Chief Financial Officer

DIRECTORS

Don T. Gray
Chairman
Calgary, Alberta

Kevin L. Adair
Calgary, Alberta

Patrick Arnell
Calgary, Alberta

Donald Cormack
Calgary, Alberta

Brian Minnehan
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Jeff Zlotky
Irving, Texas

Stephen White
Calgary, Alberta

Peter Verburg
Calgary, Alberta

SOLICITOR
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Calgary, Alberta

AUDITOR
Ernst & Young LLP
Chartered Professional Accountants
Calgary, Alberta

INDEPENDENT RESERVE EVALUATORS
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