

# PetroShale Announces Strategic Acquisition, \$40 Million Bought Deal Financing, Concurrent Private Placement and Operations Update

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CALGARY, Alberta, July 12, 2018 -- [PetroShale Inc.](#) ("PetroShale" or the "Company") (TSXV:PSH) (OTCQX:PSHIF) is pleased to announce that we have entered into an agreement with an independent oil and gas company to acquire high quality, light oil-weighted assets in the core of our focus area in the North Dakota Bakken (the "Acquisition"). The Acquisition includes approximately 550 barrels of oil equivalent per day ("boepd") of low decline, producing assets as well as significant undeveloped acreage which will enhance our net drilling location inventory and undeveloped land base (the "Acquired Assets"). Total consideration for the Acquisition is US\$55 million, prior to customary closing adjustments, payable in cash.

Concurrent with the Acquisition, PetroShale has entered into an agreement for a \$40 million bought deal financing (the "Bought Deal Financing") through a syndicate of underwriters led by Haywood Securities Inc. ("Haywood") and together with the other syndicate members, the "Underwriters"). Pursuant to the terms of the Bought Deal Financing, the Underwriters have agreed to purchase for resale to the public, on a bought deal basis, 21,622,000 subscription receipts of the Company ("Subscription Receipts") at a price of \$1.85 per Subscription Receipt for total gross proceeds of \$40 million. The Underwriters will have an option to purchase up to an additional 3,243,300 Subscription Receipts issued under the Bought Deal Financing to cover over-allotments, if any, exercisable in whole or in part at any time until 30 days after the closing date of the Bought Deal Financing.

PetroShale has also received commitments from two key investors, M. Bruce Chernoff ("Mr. Chernoff") and FR XIII PetroShale Holdings L.P. ("First Reserve") to invest \$10 million through a concurrent private placement of 5,405,405 Subscription Receipts at the same price per Subscription Receipt as the Bought Deal Financing (the "Concurrent Private Placement"; together with the Bought Deal Financing, the "Financings"). Mr. Chernoff is the Executive Chairman of the Company. First Reserve is a leading global private equity investment firm exclusively focused on energy and the holder of the Company's outstanding preferred shares.

The gross proceeds of the Financings are expected to be \$50 million and the maximum gross proceeds that could be raised under the Financings are approximately \$56 million should the over-allotment option be fully exercised.

## THE ACQUISITION

The Acquired Assets are situated in the core of PetroShale's existing focus area in North Dakota and we expect a straightforward integration. The Acquired Assets include existing light oil production as well as three drilling units, which are primarily undeveloped and will be 100% operated by PetroShale.

Anticipated benefits of the Acquired Assets include:

- 100% operatorship and held by production, which provides control over timing of development and completion technique;

- Approximately 19 gross (14.3 net) high quality, light oil drilling locations internally identified by management, representing a 24% increase to 73.8 net drilling locations from our current 59.5 net drilling locations;
- Identified locations associated with the Acquired Assets are considered by management to be low-risk, infill locations in the core of the North Dakota Bakken, and are anticipated to provide attractive economics even in lower commodity price environments;
- 1,981 net acres of land, representing a 34% increase over the Company's existing acreage position;
- High ownership in each drilling unit, ranging from 45% to 98%, is expected to enable PetroShale to realize meaningful participation in production increases from the Acquired Assets; and
- Average royalty rate of approximately 14% is below PetroShale's current corporate average of 20% and is expected to contribute to enhanced corporate operating netbacks.

The Acquisition is consistent with PetroShale's focus on acquiring and developing high quality lands in the core of the North Dakota Bakken / Three Forks, which have the potential to provide upside for our shareholders through both production and reserve growth. With the additional drilling location inventory and operated control from the Acquired Assets, PetroShale is well positioned to grow production and sustain volumes at a higher level going forward.

#### Acquisition Highlights

Total Transaction Price	US\$55 million (prior to adjustments)
Production <sup>(1)</sup>	550 boepd (~90% oil and liquids)
Total Proved Reserves <sup>(2)</sup>	9.1 mmboe
Proved plus Probable Reserves <sup>(2)</sup>	12.1 mmboe
Average Crude Oil Quality	40 degree API
Undeveloped Lands	1,931 net acres
Development Locations <sup>(6)</sup>	14.3 net undrilled locations
Reserve Life Index (P+P) <sup>(3)</sup>	~60.2 years
Operating Netback <sup>(4)</sup>	~\$35.50 per boe
Anticipated Decline Rate	~30% in the first year and 20% in the second year <sup>(5)</sup>

#### Notes:

- (1) Based on field estimates as of March 2018.  
Represents total working interest reserves of the Acquired Assets before the deduction of any royalties and incl
- (2)
- (3) Reserve life index is calculated by dividing the estimated proved plus probable reserves of the Acquired Assets  
Based on commodity revenue of \$55.40/boe, calculated using WTI US\$55.00/bbl, CND/US\$ exchange rate of U
- (4)
- (5) Based on management estimates.
- (6) See "Reader Advisories" and "Oil and Gas Advisories";

The Acquisition has an effective date of March 1, 2018 and is expected to close on August 17, 2018, subject to customary conditions and regulatory approvals. Haywood is acting as a financial advisor to the Company in respect of the Acquisition.

#### THE FINANCINGS

PetroShale has entered into an agreement for a \$40 million bought deal financing through a syndicate of Underwriters led by Haywood pursuant to which the Underwriters have agreed to purchase, for resale to the public on a bought deal basis, 21,622,000 Subscription Receipts at a price of \$1.85 per Subscription Receipt for total gross proceeds of \$40 million. The Underwriters will have an option to purchase up to an additional 3,243,300 Subscription Receipts issued under the Bought Deal Financing to cover over-allotments, if any, exercisable in whole or in part at any time until 30 days after the closing date of the Bought Deal Financing.

The Subscription Receipts will be distributed by way of a short form prospectus in the provinces of British Columbia, Alberta, Saskatchewan and Ontario and certain other jurisdictions as the Company and the Underwriters may agree on a private placement basis. Completion of the Bought Deal Financing is subject to certain conditions including the receipt of all necessary regulatory approvals, including the approval of the TSX Venture Exchange (the "TSXV") and the closing of the Concurrent Private Placement. Closing of the Bought Deal Financing is expected to occur on or about August 14, 2018. The gross proceeds from the sale of Subscription Receipts pursuant to the Financings will be held in escrow pending the completion of the Acquisition. If all outstanding conditions to the completion of the Acquisition (other than funding) are met and all necessary approvals for the Financings and the Acquisition have been obtained on or before September 17, 2018 (subject to extension as agreed to by the Underwriters and the Company), the net proceeds from the sale of the Subscription Receipts will be released from escrow to the Company to fund a portion of the purchase price for the Acquisition and each Subscription Receipt will be exchanged for one common voting share of the Company ("Common Shares") for no additional consideration and without any action on the part of the holder.

PetroShale has also entered into agreements with Mr. Chernoff and First Reserve whereby they have committed to subscribe for, on a private placement basis, 5,405,405 Subscription Receipts at a subscription price of \$1.85 per Subscription Receipt for aggregate gross proceeds of \$10 million. Completion of the Concurrent Private Placement is subject to various conditions, including the concurrent closing of the Bought Deal Financing and receipt of all necessary regulatory approvals (including that of the TSXV). Pro forma completion of the Financings, Mr. Chernoff is expected to own, or have control over, approximately 32.7% of the outstanding Common Shares of the Company and First Reserve is expected to own approximately 18.6% of the outstanding voting securities of the Company, in each case assuming the over-allotment option is not exercised by the Underwriters.

The net proceeds from the Financings will be used to partially fund the purchase price of the Acquisition, with the balance funded by a draw of approximately US\$17.6 million under PetroShale's senior credit facility, assuming the over-allotment option is not exercised. The borrowing capacity of PetroShale's senior credit facility will be increased to US\$92 million following completion of the Acquisition and, assuming the over-allotment option is not exercised, PetroShale will have approximately US\$42 million of undrawn credit capacity following closing of the Acquisition and the Financings. This undrawn credit capacity will be available to facilitate execution of PetroShale's capital development program for the remainder of 2018.

Following completion of the Acquisition and the Financings, the Company's production, capital and liquidity will be as follows:

Current	Pro Forma
59.2 million shares outstanding	86.2 million shares outstanding <sup>(1)(2)</sup>
US\$32 million credit facility	US\$50 million credit facility
US\$50 million undrawn capacity	US\$42 million undrawn capacity
Daily production of 660	660

- (1) Assumes the Financings are completed without exercise of the over-allotment option.
- (2) Does not include the 75,000 preferred shares or 39,308,176 special voting shares owned by First Reserve.

## OPERATIONS UPDATE

PetroShale's June 2018 production is approximately 6,100 boepd following completion of 3.5 net wells during the first quarter of 2018. PetroShale is currently participating in four (1.6 net) wells that we anticipate being placed on production in late July or early August. Earlier in July, PetroShale initiated a

multi-well drilling program in our core area with the spudding of our first well on the Horse Camp West pad.

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#### About PetroShale

PetroShale is an oil company engaged in the acquisition, development and consolidation of interests in the North Dakota Bakken / Three Forks.

For more information, please contact:

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#### READER ADVISORIES

##### Forward Looking Statements

This press release contains forward-looking statements and forward-looking information (collectively "forward-looking information") within the meaning of applicable securities laws relating to the Company's plans, strategy, business model, focus, objectives and other aspects of PetroShale's anticipated future operations and financial, operating and drilling and development plans and results. In addition, and without limiting the generality of the foregoing, this press release contains forward-looking information regarding: anticipated potential of and opportunities associated with the Acquired Assets; development and consolidation opportunities; integration of the Acquired Assets; drilling inventories, decline rates and operating netbacks associated with the Acquired Assets, the closing and timing of closing of the Acquisition and the Financings; the use of proceeds of the Financings; the pro-forma ownership of certain shareholders after giving effect to the Financings; the amount to be drawn from the Company's credit facility to partially fund the purchase price of the Acquisition; increases to PetroShale's credit facility as a result of the Acquisition; the undrawn capacity of the Company's credit facility following closing of the Acquisition and the use of such undrawn amount for the remainder of 2018; the Company's outstanding share count, debt and production after giving effect to the Acquisitions and the Financing; timing and other expectations with respect to certain wells the Company expects will be brought on production; timing with respect to commencing drilling on the Acquired Assets; and other matters ancillary or incidental to the foregoing.

Forward-looking information typically uses words such as "anticipate", "believe", "project", "target", "guidance", "expect", "goal", "plan", "intend" or similar words suggesting future outcomes, statements that actions, events or conditions "may", "would", "could" or "will" be taken or occur in the future. The forward-looking information is based on certain key expectations and assumptions made by PetroShale's management, including expectations concerning prevailing commodity prices, exchange rates, interest rates, applicable royalty rates and tax laws; capital efficiencies; decline rates; future production rates and estimates

of operating costs; performance of existing and future wells; reserve and resource volumes; anticipated timing and results of capital expenditures; the success obtained in drilling new wells; the sufficiency of budgeted capital expenditures in carrying out planned activities; the timing, location and extent of future drilling operations; the state of the economy and the exploration and production business; results of operations; performance; business prospects and opportunities; the availability and cost of financing, labour and services; the impact of increasing competition; ability to market oil and natural gas successfully; PetroShale's ability to access capital and the completion of the Acquisition and the Financings on the terms and timing contemplated.

Statements relating to "reserves" are also deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

Although the Company believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because PetroShale can give no assurance that they will prove to be correct. Since forward-looking information addresses future events and conditions, by its very nature they involve inherent risks and uncertainties. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits that the Company will derive therefrom. Management has included the above summary of assumptions and risks related to forward-looking information provided in this press release in order to provide securityholders with a more complete perspective on PetroShale's future operations and such information may not be appropriate for other purposes.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect PetroShale's operations or financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)).

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

#### Oil and Gas Advisories

The reserves information contained in this press release are based on PetroShale's internal evaluation prepared by a member of PetroShale's management who is a qualified reserves evaluator in accordance with NI 51-101 and the COGE Handbook. Such estimates are based on values that PetroShale's management believes to be reasonable and are subject to the same limitations discussed above under "Forward-Looking Statements".

Individual properties may not reflect the same confidence level as estimates of reserves for all properties due to the effects of aggregation.

This press release discloses drilling locations with respect to the Company's assets as at December 31, 2017 in two categories: (i) proved and probable locations; and (ii) unbooked locations. Proved plus probable drilling locations set forth herein are based on the Company's most recent independent reserves evaluation as prepared by Netherland, Sewell and Associates, Inc. ("NSAI") as of December 31, 2017, updated for the acquisition of additional working interests in existing drilling spacing units ("DSUs") where drilling locations have been booked as proved and probable locations. Unbooked locations are internal estimates based on the Company's prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves or resources. Of the 488 gross (59.5 net) drilling locations identified herein on the Company's current acreage (not including the Acquisition) on 880' spacing, 244 gross (37.2 net) are proved plus probable locations, and 244 gross (22.3 net) are unbooked locations. Unbooked locations have been identified by management as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that the Company will drill any unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil

and gas reserves, resources or production. The drilling locations on which we actually drill wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations may have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, management has less certainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

This press release discloses drilling locations with respect to the assets proposed to be acquired by the Company. Proved and probable locations are derived from our internal reserves evaluation as prepared by a member of our management who is a qualified reserves evaluator in accordance with NI 51-101 effective March 1, 2018 and account for drilling locations that have associated proved and probable reserves. Of the 19 gross (14.3 net) drilling locations identified herein on a 880' spacing basis, 100% are proved and probable locations. The drilling locations on which we actually drill wells will ultimately depend upon the availability of capital, receipt of regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. Estimates of proved and probable reserves and drilling locations included in this press release, and associated with the Acquisition, were not reviewed by the Company's independent reserves evaluator, NSAI.

Boe means barrel of oil equivalent on the basis of 6 mcf of natural gas to 1 bbl of oil. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6: 1, using a conversion on a 6: 1 basis may be misleading as an indication of value.

This press release contains certain oil and gas metrics, including reserve life index, which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics has been included in this document to provide readers with additional measures to evaluate our performance however, such measures are not reliable indicators of our future performance and future performance may not compare to our performance in previous periods and therefore such metrics should not be unduly relied upon. Reserve life index in this press release is calculated by dividing estimated reserves by estimated production.

#### Non-GAAP measure

This news release contains the term "operating netback", which does not have a standardized meaning under Canadian GAAP and therefore may not be comparable with the calculation of similar measures by other companies. We use "operating netback" to analyze our financial and operating performance. We feel this benchmark is key measure of profitability and overall sustainability for us. "Operating netback" represents revenue and realized gain or loss on financial derivatives, less royalties, production taxes, operating costs and transportation expense and has been presented on a per Boe basis.

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