

# PetroShale Announces a Comprehensive Recapitalization Transaction Including a Minimum of \$30 Million of New Equity

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## The Exchange of All Preferred Shares for Common Shares, a Rights Offering to All Common Shareholders and Amendments to its Credit Facility

CALGARY, March 4, 2021 - [PetroShale Inc.](#) ("PetroShale" or the "Company") (TSXV: PSH) (OTCQX: PSHIF) is pleased to announce that it and its subsidiary, PetroShale (US), Inc. ("PetroShale US"), have entered into an agreement (the "Recapitalization Agreement") with FR XIII PetroShale Holdings L.P. ("First Reserve") and a company that Mr. M Bruce Chernoff (the Executive Chairman and a director of the Company) is a significant shareholder of ("Chernoffco"), with respect to a comprehensive recapitalization transaction of the Company (the "Recapitalization Transaction"). The Recapitalization Transaction significantly increases PetroShale's financial flexibility and sustainability by:

- Providing the Company with a minimum of \$30.0 million, and up to \$60.6 million, of new common equity proceeds to reduce outstanding indebtedness, by way of a Private Placement from the Company's largest shareholders and a Rights Offering (as described below).
- Converting the outstanding preferred shares of PetroShale US (the "Preferred Shares") to common shares of the Company (each a "Common Share"), at a significant premium to the current trading price of the Common Shares, thereby eliminating the repayment obligation of US\$86.9 million due in January 2023.
- Reaching an agreement with the Company's lenders under its senior secured credit facility (the "Credit Facility"), providing PetroShale additional certainty with respect to the borrowing base and term thereunder, further enhancing the Company's liquidity.

The Recapitalization Transaction is expected to provide the following additional benefits to the Company:

- The elimination of the priority to the Company's assets that the Preferred Shares have over the Common Shares.
- Annual savings of approximately US\$7.8 million of Preferred Share dividend payments (assuming such dividends would be paid in cash at a rate of 9.0% per annum on the stated value of US\$86.9 million). When combined with the anticipated interest expense savings of approximately US\$1.5 - US\$2.0 million per annum following application of the Common Share equity proceeds against the Credit Facility, this will result in aggregate cash savings of approximately US\$9.3 - US\$9.8 million per annum.
- A comprehensive recapitalization of the Company that will improve and simplify the Company's balance sheet and enhance our business prospects going forward, for the benefit of all stakeholders. The combined current senior loan indebtedness and current liquidation preference of the Preferred Shares will be reduced to an estimated pro-forma level of US\$126.1 - US\$150.3 million, for a 41.8% - 51.2% reduction in financial obligations.
- The maturity of the Credit Facility will be extended from June 2022 to June 2023 and subject to ongoing semi-annual reviews, the borrowing base will be stable at US\$177.5 million, providing the Company with financial flexibility and sufficient liquidity as it resumes drilling and completion operations in 2021.
- Provides all shareholders the opportunity to participate in PetroShale's significant exposure to the core of the North Dakota Bakken, a world class oil basin, through the Rights Offering (as described below).
- Reinforcement of the long-term commitment to the Company from all significant stakeholders, including its current largest holder of Common Shares (Mr. Chernoff - the Company's Executive Chairman and a director), the holder of the Preferred Shares (First Reserve) and the Company's senior lenders.

The Recapitalization Agreement provides for the following transactions:

- The exchange price of the Preferred Shares will be amended from \$2.40 per Common Share to \$0.60 per Common Share (the "Exchange Price Amendment"). The amended exchange price of the Preferred Shares is a 200% premium to the Issue Price (as defined below) and a 150% premium to the 20-day average of the closing prices of the Common Shares on the TSX Venture Exchange ("TSXV") to March 3, 2021.

- First Reserve will exchange, in accordance with the terms of the Preferred Shares, all Preferred Shares (having a current stated value of US\$84.4 million, and assuming the Q1 2021 dividend payable thereunder is settled in-kind prior to the exchange thereof, will increase to US\$86.9 million) for Common Shares at the amended exchange price of \$0.60 per Common Share (the "Preferred Share Exchange").
- Upon the exchange of the Preferred Shares (assuming a then current stated value of US\$86.9 million), an aggregate of 182,275,798 Common Shares will be issued to First Reserve and all issued and outstanding special voting shares of the Company (the "Special Voting Shares") held by First Reserve will be cancelled and terminated.
- The Company will conduct a rights offering to all shareholders by way of rights offering circular (the "Rights Offering") for proceeds of up to \$37.7 million. Pursuant to the Rights Offering, all eligible shareholders of the Company will receive one transferable right (a "Right") for each Common Share held, with each Right entitling the holder thereof to purchase one Common Share at a price of \$0.20 per share (the "Issue Price"). In connection with the Rights Offering, all eligible shareholders of the Company on the close of business on the record date for the Rights Offering (being March 11, 2021) will be provided the right to: (i) exercise their basic subscription privilege to acquire their pro-rata portion of Rights in such Rights Offering; and (ii) exercise an additional subscription privilege to acquire such number of additional unsubscribed Rights, if any, in the Rights Offering. The Rights issued under the Rights Offering will be evidenced by transferable rights certificates, and will expire at 5:00 p.m. (Toronto time) on April 7, 2021, after which time unexercised Rights will be void and of no value. The Rights will be listed for trading on the TSXV under the symbol "PSH.RT" and will be de-listed from the TSXV at 12:00 p.m. (Toronto time) on April 7, 2021. Further details concerning the Rights Offering will be contained in the Company's Notice of Rights Offering and Rights Offering Circular to be available on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).
- In order to provide shareholders the maximum ability to participate in the Rights Offering, each of First Reserve and Mr. Chernoff (and his affiliated entities) have waived all rights of participation in the Rights Offering. In lieu of such participation in the Rights Offering, each of First Reserve and Mr. Chernoff (through Chernoffco) will provide a private placement for Common Shares as described herein, including Mr. Chernoff providing the Chernoff Backstop as defined and described herein.
- Concurrently with the completion of the Preferred Share Exchange and the Rights Offering, the Company will complete a private placement financing of Common Shares to First Reserve and Chernoffco at the Issue Price (the "Private Placement"). In connection with the Private Placement, First Reserve will acquire 50 million Common Shares for aggregate subscription proceeds of \$10.0 million and Chernoffco will acquire such amount of Common Shares as is equal to 64,455,786 Common Shares (representing the current ownership of Common Shares by Mr. Chernoff and his affiliates) multiplied by the Issue Price, plus (if applicable) such dollar amount of additional Common Shares (at the Issue Price) that would result in gross proceeds from the Rights Offering and Chernoffco's portion of the Private Placement equaling at least \$20.0 million (the "Chernoff Backstop"). Depending on the participation of the other shareholders in the Rights Offering, the Company will raise gross proceeds from the Rights Offering and the Private Placement of at least \$30.0 million and up to \$60.6 million.
- As part of closing the Recapitalization Transaction, the Company, First Reserve and Chernoffco will enter into a new investor rights agreement (the "New Investor Rights Agreement"), which will replace and supersede the current securities subscription and investor rights agreement dated December 30, 2017, between the Company, PetroShale US and First Reserve (the "Current Investor Rights Agreement"), which New Investor Rights Agreement will provide First Reserve registration rights, participation rights, certain governance rights and board representation rights (for one director), and Mr. Chernoff with participation rights, in all cases on terms and conditions as are customary for transactions of this nature and substantially similar to those currently provided in the Current Investor Rights Agreement.

In connection with the Recapitalization Transaction, the Company has also reached an agreement in principal with the lenders under the Credit Facility whereby such lenders have agreed, subject to the satisfaction of certain conditions, including the concurrent completion of the Recapitalization Transaction, to maintain the current borrowing base at US\$177.5 million and extend the maturity date of the Credit Facility to June 2023 (the "Credit Facility Amendments") subject to semi-annual reviews by the lenders to confirm the credit capacity of the Company.

The Recapitalization Transaction is subject to the satisfaction of a number of conditions, including concurrent completion of the Preferred Share Exchange, the Exchange Price Amendment, the Private Placement and the Rights Offering, as well as the receipt by the Company of all necessary third party and regulatory approvals, including the approval of the TSX Venture Exchange for the Recapitalization Transaction, as well as the completion of the Credit Facility Amendments.

#### Background of the Recapitalization Transaction

The Company, along with many of its peers, has been negatively impacted by changing market conditions affecting the oil and gas industry, primarily the result of changes to commodity prices and investor sentiment with respect to the oil and gas industry generally, all of which have been exacerbated by the effects of the COVID-19 pandemic. This has resulted in (among other things) decreased cash flows for the Company and a limited ability to access new third party capital (equity, debt or other), or to generate additional funds through assets sales, joint ventures or other industry transactions on reasonable terms.

The Company is further subject to ongoing borrowing base reviews by the lenders in respect to the Credit Facility (which is significantly drawn and currently subject to a borrowing base review to be completed in the second quarter of 2021). Given current market conditions, uncertainty in respect of its borrowing base under the Credit Facility and the January 2023 maturity of the Preferred Shares, the Company began to explore potential solutions to its liquidity and capital position to avoid potential adverse consequences. Further to this, the Company formed a special committee of independent directors in late 2020 (the "Special Committee") to help oversee such matters and to negotiate and structure, on behalf of the Company, potential transactions to address the Company's liquidity and capital position. As part of this, the Special Committee, along with the Company's management and other advisors, has engaged in discussions with various stakeholders of the Company to explore the possibility of recapitalizing the Company. The objective of these discussions was to improve the Company's prospects going forward and provide a means to continue as a viable business for the benefit of all stakeholders.

#### Special Committee and Board Approvals and Recommendations

In connection with negotiating and reviewing the terms of the Recapitalization Transaction, the Special Committee considered and reviewed a variety of matters, including a detailed assessment of the Company's prospects, cash flows, outlook and reasonable alternatives available to the Company, including the risks of continuing with the status quo. As part of their process, the Special Committee retained McCarthy Tétrault LLP as its independent legal counsel and the Company retained Haywood Securities Inc. ("Haywood") to provide an opinion as to the fairness to the Company, from a financial point of view, of the proposed Recapitalization Transaction.

Further to this, as a part of their deliberations in respect of the Recapitalization Transaction, Haywood provided the board of directors of the Company (the "Board") and Special Committee with its opinion the "Fairness Opinion") that, as at the date of the Fairness Opinion, the Recapitalization Transaction is fair, from a financial point of view, to the Company. The Fairness Opinion is subject to the assumptions, limitations and qualifications set out therein.

As such, the Special Committee recommended to the Board that the Recapitalization Transaction is in the best interests of the Company and should be approved, after consulting with its legal advisors, and after considering other relevant matters, including the anticipated benefits to the Company as described above and certain other considerations and determinations, including the conclusions set forth in the Fairness Opinion. After considering the report and recommendations of, and the factors considered by, the Special Committee, the Board (with Mr. Chernoff and Mr. Gary Reeves (the Board nominee of First Reserve) abstaining) approved the Recapitalization Transaction.

#### MI 61-101 Matters

Each of First Reserve and Chernoffco is a "related party" of the Company pursuant to Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions ("MI 61-101"). Mr. M. Bruce Chernoff, a director and Executive Chairman of the Company, who owns or controls (directly or indirectly) 64,455,786 Common Shares (representing approximately 34.2% of the outstanding Common Shares) is a significant shareholder of Chernoffco. First Reserve owns or controls 2,702,702 Common Shares and 44,241,698 Special Voting Shares (representing approximately 20.7% of the outstanding voting shares of the Company) and all of the issued and outstanding Preferred Shares.

With respect to the Exchange Price Amendment, while such transaction is expected to constitute a "related party transaction" for the purposes of MI 61-101, the Exchange Price Amendment will not be subject to the formal valuation requirements of Section 5.4 of MI 61-101 as such type of transaction is not subject to the formal valuation requirements of MI 61-101 for related party transactions (as set forth in Section 5.4(1) of MI 61-101) and is further exempt from the minority shareholder approval requirements of MI 61-101 by virtue of

Section 5.7(g) of MI 61-101 which provides that a related party transaction is exempt from the minority shareholder approval requirements if the issuer is in serious financial difficulty and the transaction is designed to improve the financial position of the company (among other criteria).

The Private Placement is also expected to constitute a related party transaction for the purposes of MI 61-101, as it will involve the Company issuing securities to "related parties" (being First Reserve and Chernoffco). While such transaction is expected to constitute a related party transaction for the purposes of MI 61-101, the Private Placement will be exempt from both the formal valuation requirements and minority approval requirements of MI 61-101 for related party transactions by virtue of Sections 5.5(g) and 5.7(e) of MI 61-101 which provides that a "related party transaction" is exempt from each of the formal valuation and minority shareholder approval requirements of MI 61-101 on the same basis as set forth above, being that that the issuer is in serious financial difficulty and the transaction is designed to improve the financial position of the company, and in respect of the minority shareholder approval requirement, there is no other requirement, corporate or otherwise, to hold a meeting to obtain any approval of the holders of any class of affected securities.

As part of their deliberations in respect of the Recapitalization Transaction, the Special Committee (each of whom are "independent directors" in respect of the Recapitalization Transaction for the purposes of MI 61-101) considered the financial position of the Company and the objectives of the Recapitalization Transaction, and the criteria and conditions with respect to the financial hardship exemptions described above, and in this regard unanimously determined that: (i) PetroShale is in serious financial difficulty; (ii) the Recapitalization Transaction (including the Exchange Price Amendment and the Private Placement) is designed to improve the financial position of the Company; and (iii) the terms of the Recapitalization Transaction (including the Exchange Price Amendment and the Private Placement) are reasonable in the circumstances of the Company.

A discussion and description of the review and approval process adopted by the Special Committee and other information required by MI 61-101 in connection with the Recapitalization Transaction, including further details and the facts supporting reliance on the financial hardship exemptions described above, will be set forth in the Company's material change report to be filed under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

PetroShale is an oil company engaged in the acquisition, development and production of high-quality oil-weighted assets in the North Dakota Bakken / Three Forks.

This press release shall not constitute an offer to sell or the solicitation of an offer to buy securities of the Company in the United States nor shall there be any sale of securities of the Company in any jurisdiction in which such offer, solicitation or sale would be unlawful. The securities described herein have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or the securities laws of any state of the United States. Accordingly, any of the securities described herein may not be offered or sold in the United States or to U.S. persons unless an exemption from registration is available.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Note Regarding Forward-Looking Statements and Other Advisories:

This press release contains forward-looking statements and forward-looking information (collectively "forward-looking information") within the meaning of applicable securities laws relating to, among other things, the completion of the Recapitalization Transaction (including the various elements thereof) and the Credit Facility Amendments, the potential benefits and effects of the Recapitalization Transaction (including the Credit Facility Amendments) on the Corporation, the timing for the completion of the Recapitalization Transaction and related matters, including the record date and expiry date for the Rights Offering, the listing of the Rights on the TSXV; the conditions to closing the Recapitalization Transaction, the Corporation's expectations with respect to the exemptions for the formal valuation requirements and minority approval requirements of MI 61-101 in respect of the Recapitalization Transaction, the anticipated use of the net proceeds of the Private Placement and Rights Offering; the receipt of any required regulatory approvals for the Recapitalization Transaction, the potential minimum and maximum gross proceeds of the Private Placement and Rights Offering, the expected filing of the Company's Rights Offering Notice, Rights Offering

Circular and material change report in respect of the Recapitalization Transaction on SEDAR; and the anticipated increase to the liquidation preference of the Preferred Shares in connection with the Q1 2021 dividend. PetroShale provided such forward-looking information in reliance on certain expectations and assumptions that it believes are reasonable at the time, including expectations and assumptions concerning prevailing commodity prices, the Company's liquidity and cash flows.

PetroShale provided such forward-looking statements in reliance on certain expectations and assumptions that it believes are reasonable at the time, including expectations and assumptions concerning the ability of the Company to reach a binding agreement with its lenders under its Credit Facility with respect to the Credit Facility Amendments (on the terms substantially as set forth herein), the receipt of all regulatory and third party approvals for Recapitalization Transaction (including the Credit Facility Amendments), the ability of the Company to complete the Rights Offering, and all other portions of the Recapitalization Transaction, in the manners described herein, that the Q1 2021 dividend will be elected to be "paid in kind" resulting in an increase to the liquidation preference of the Preferred Shares as described herein, the prevailing commodity prices, weather, regulatory approvals, liquidity, Bakken oil differentials (including as a result of any interruptions from the Dakota Access Pipeline ("DAPL") or otherwise), the ability of the Company to transport its production through DAPL or other forms of transportation (and the continued availability and capacity of such transportation means); the Company's lenders willingness to maintain the Company's borrowing capacity (including as a result of the Credit Facility Amendments); activities by third party operators; exchange rates, interest rates, applicable royalty rates and tax laws; future production rates and estimates of operating costs; performance of existing and future wells; plant turnaround times and continued rail service to transport products; reserve volumes; business prospects and opportunities; the future trading price of the Company's shares; the availability and cost of financing, labor and services; the impact of increasing competition; ability to market oil and natural gas successfully; and the Company's ability to access capital (including by way of the completion of the Recapitalization Transaction).

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 the Company can give no assurance that they will prove to be correct. Forward-looking information addresses future events and conditions, which by their very nature 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 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 security holders with a more complete perspective on the Company'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 our 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)). The forward-looking information is made as of the date of this press release and the Company 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.

This news release also contains future-oriented financial information and financial outlook information (collectively, "FOFI") about expected annual dividend and interest savings and the expected financial obligation reductions as a result of the Recapitalization Transaction, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. FOFI contained herein was made as of the date of this news release and was provided for the purpose of describing the anticipated effects of the Recapitalization Transaction on the Company's business and operations. The Company disclaims any intention or obligation to update or revise any FOFI contained herein, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained herein should not be used for purposes other than for which it is disclosed herein.

All dollar figures included herein are presented in Canadian dollars, unless otherwise noted.

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