

# PetroShale Announces First Quarter 2021 Financial and Operating Results

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CALGARY, May 20, 2021 - [PetroShale Inc.](#) ("PetroShale" or the "Company") (TSXV: PSH) (OTCQB: PSHIF) is pleased to announce our financial and operating results for the three month period ended March 31, 2021.

The Company's unaudited interim consolidated financial statements and corresponding management's discussion and analysis (MD&A) for the period will be available on SEDAR at [www.sedar.com](http://www.sedar.com), on the OTCQB website at [www.otcmarkets.com](http://www.otcmarkets.com) and PetroShale's website at [www.petroshaleinc.com](http://www.petroshaleinc.com). Copies of the materials can also be obtained upon request without charge by contacting the Company directly. Please note, currency figures presented herein are reflected in Canadian dollars, unless otherwise noted.

## FINANCIAL AND OPERATING HIGHLIGHTS

- PetroShale's first quarter 2021 production averaged 10,108 barrels of oil equivalent per day ("Boe/d"), 17% lower than the previous quarter, reflecting the impact of natural declines, limited capital investment in the fourth quarter of 2020 and temporary shut-ins following operated and non-operated well workover activity.
- Revenue from petroleum and natural gas sales totaled \$43.4 million during the period, representing a 16% increase over the fourth quarter of 2020. Stronger revenue was supported by meaningfully higher price realizations across all products, including a quarter-over-quarter price increase of 29% for crude oil, 59% for natural gas and 97% for natural gas liquids.
- Adjusted EBITDA<sup>1</sup> totaled \$15.1 million (\$0.08 per fully diluted share) in the first quarter of 2021, in-line with the fourth quarter of 2020, while cash provided by operating activities of \$15.9 million was 19% higher than in the fourth quarter 2020.
- Operating netback prior to hedging<sup>1</sup> was \$26.62 per Boe in the first quarter of 2021, an increase of 50% over the fourth quarter of 2020 and 37% higher than the comparable period of 2020, with the year-over-year change due primarily to higher revenue, partially offset by higher royalties and a realized hedging loss.
- Net debt<sup>1</sup> was reduced by approximately \$8.6 million in the first quarter of 2021 relative to year end 2020, exiting the quarter at \$318.3 million at March 31, 2021. Subsequent to quarter end, PetroShale closed a transformative transaction which reduced net debt by \$133.1 million to \$185.2 million (pro forma to March 31, 2021) and enhances its financial flexibility described more fully below.
- Net capital expenditures in the period were \$2.1 million, fully funded from operating cash flows, and largely directed to operated and non-operated well workover activities as well as facilities expansion. The Company's focus remains on maintaining and optimizing production, and generating free cash flow to reduce debt, thereby preserving long-term balance sheet strength in continued volatile market conditions.
- Operating expenses per Boe remained low at \$10.18, compared to \$8.84 in the comparable period in 2020. Transportation expenses of \$2.17 per Boe declined over the first quarter of 2020 due to lower production volumes.
- Net loss totaled \$42.6 million (\$0.23 per fully diluted share) in the first quarter, reflecting lower total revenue year-over-year, realized and unrealized losses on financial derivatives and a one-time non-cash loss on the modification of preferred shares related to the transformative transaction, described more fully below.

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<sup>1</sup> See "Non-IFRS Measures" within this press release.

## Recent Events

- On April 8, 2021, the Company closed its previously announced transformative recapitalization which included a new private placement and the conversion of the Company's Preferred Shares to common equity, which have significantly improved PetroShale's sustainability and financial flexibility while simplifying the balance sheet. The transaction was composed of the following key components:
  - A rights offering to all shareholders, affording the right to acquire additional common shares at \$0.20 per share and a private placement of common shares also at \$0.20 per share to significant shareholders of PetroShale, collectively raising \$30.0 million of new equity;
  - The conversion to common shares of all preferred shares outstanding at a price of \$0.60 per share, resulting in cash savings of approximately US\$7.8 million of Preferred Share dividend payments; and
  - PetroShale's senior lenders agreed to maintain the current borrowing base at US\$177.5 million until May 2023 and to extend the credit facility maturity to June 2023, subject to certain conditions.

## FINANCIAL & OPERATING REVIEW

	Three months ended	
	Mar 31, 2021	Mar 31, 2020
FINANCIAL (Unaudited, in \$000, except per share & share data)		
Petroleum and natural gas revenue	\$ 43,405	\$ 49,110
Cash flow from operating activities	15,893	38,837
Net loss	(44,424)	(17,266)
Per share - diluted	(0.24)	(0.09)
Adjusted EBITDA <sup>(1)</sup>	15,067	25,027
Capital expenditures, net	\$ 2,127	\$ 23,537
Net debt <sup>(1)</sup>	318,285	363,089
Common shares outstanding		
Weighted average - basic	188,543,702	188,937,046
Weighted average - diluted	197,304,468	191,940,212

(1) See "Non-IFRS Measures" within this press release.

	Three months ended	
OPERATING	Mar 31, 2021	Mar 31, 2020
Daily production volumes <sup>(2)</sup>		
Tight oil (Bbl/d)	6,376	10,155
Shale gas (Mcf/d)	11,288	12,230
NGLs (Bbl/d)	1,851	2,081
Barrels of oil equivalent (Boe/d)	10,108	14,275
Average realized prices <sup>(2)</sup>		
Tight oil (\$/Bbl)	\$ 69.39	\$ 53.93
Shale gas (\$/Mcf)	4.14	2.02
NGLs (\$/Bbl)	25.73	7.82
Operating netback (\$/Boe) <sup>(1) (2)</sup>		
Revenue	\$ 47.71	\$ 37.81
Royalties	(8.74)	(7.08)
Realized loss on derivatives	(8.05)	0.48
Lease operating costs	(5.42)	(5.03)
Workover expense	(1.38)	(0.69)
Production taxes	(3.38)	(3.12)
Transportation expense	(2.17)	(2.39)
Operating netback <sup>(1)</sup>	\$ 18.57	\$ 19.98
Operating netback prior to hedging <sup>(1)</sup>	\$ 26.62	\$ 19.50

(1) See "Non-IFRS Measures" within this press release.

(2) See "Oil and Gas Advisories" within this press release

#### MESSAGE TO SHAREHOLDERS

Although the economic impacts of the COVID-19 pandemic continue, optimism has started to return to the markets as vaccinations increase globally. In concert, positive momentum has been exhibited in the short and longer-term fundamentals for both crude oil and natural gas prices as the world begins to restart following what is believed to be the worst of the COVID-19 pandemic. Relative to the previous quarter, stronger benchmark prices positively impacted first quarter revenue, operating netbacks before hedging<sup>2</sup>, and cash provided by operating activities which were somewhat offset by lower production volumes given natural declines and wells being shut in for workovers. PetroShale's first quarter 2021 production averaged 10,108 Boe/d, 17% lower than the previous quarter and indicative of the low level of capital invested in the first quarter.

With the lower activity levels and lower production, absolute operating expenses and transportation expenses were lower in the first quarter compared to the previous quarter and the same period of the prior

year. Operating expenses per Boe (not including workover and production taxes) were moderately higher, reflecting fixed costs on lower volumes, and transportation costs per Boe are moderately lower. We invested \$2.1 million in a limited capital program during the period which was funded with internal cash flows and directed to operated and non-operated well workover activities and facilities expansion. Going forward, we will continue prioritizing the management of capital expenditures in accordance with the broader commodity price environment. As a result of the more constructive pricing environment, PetroShale expects to prudently increase our capital activity levels for the balance of the year, developing several of our high return assets to fulfill our objective of maintaining our average annual production levels while generating free cash flow to continue to reduce net borrowings.

Through our transformative transaction, PetroShale has successfully simplified our balance sheet, and set the stage for significant cash savings going forward, which are estimated at approximately US\$8.9 million per year from Preferred Share dividends and loan interest.

While timing for a full recovery from the COVID-19 pandemic remains uncertain, PetroShale's highest priority remains on ensuring the health and safety of employees and stakeholders. The Company's adherence with sound environmental, social and governance ("ESG") practices remains intact, driving our commitment to conduct operations safely, efficiently and in a manner designed to minimize environmental impact wherever possible. In addition, we have implemented several operational and financial improvements along with continued risk mitigation strategies to support the Company through this period of volatility. These initiatives include a reduction in discretionary capital expenditures, streamlining operating costs and lowering general and administrative expenses, in addition to actively hedging commodity prices through 2021 and 2022.

## OUTLOOK

Based on the quality of PetroShale's asset base, our proven North Dakota Bakken strategy and cost-effective operations, the Company will remain sharply focused on controlling cash costs to optimize margins and increase operating efficiencies, while taking a disciplined approach to capital allocation based on project economics, payback and the potential for free cash flow generation. With the recently announced transformative transaction, the Company believes we have entered a period of unprecedented opportunity with our growth inventory in the core of the Bakken Shale, underpinned by significantly enhanced financial flexibility that can support ongoing development and value creation.

For calendar year 2021, we are forecasting total capital investment of approximately \$50 to \$60 million, with the majority allocated approximately equally through the latter part of the second quarter and the third quarters of 2021. As a result, we expect an associated production response to be realized commencing in the third quarter of 2021. Based on our 2021 capital program, PetroShale expects to maintain production volumes between 10,500 Boe/d and 11,500 Boe/d<sup>2</sup> on average during the year, and forecasts generating free cash flow at current market commodity prices.

On behalf of PetroShale's Board, I would like to thank all of our dedicated employees and shareholders for their contributions and support through this period, and we look forward to updating stakeholders on our milestones and progress through the coming year.

## About PetroShale

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.

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<sup>2</sup> 2021 forecast volumes are comprised of 65%-68% of tight oil, 15%-18% of natural gas liquids and 15%-18% shale gas.

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, available aspects of management focus, objectives, strategies and business opportunities. More particularly and without limitation, this press release contains forward-looking information concerning the Company's expectations: that PetroShale will continue to focus on further streamlining per unit cash costs to optimize margins, the Company's anticipated capital spending for the remainder of the year; the Company's next borrowing base review, the Company's intention to direct any free cash flow to debt reduction; the Company's intention to prioritize managing capital expenditures in accordance with the broader commodity price environment and the expectation of a limited capital program, directed primarily towards sustaining production and maintaining the long-term integrity of the Company's assets; the Company's anticipated average production rates for 2021; the Company's expectations on the continued availability of DAPL and other alternative transportation options and the potential effects on differentials; the expectation that the share dividend settlement is expected to preserve liquidity through this period of severe commodity price weakness; PetroShale's liquidity for the coming year; and, the general outlook of the Company. 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 prevailing commodity prices, weather, regulatory approvals, liquidity, Bakken oil differentials (including as a result of any interruptions from 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; 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 its senior credit facility).

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)). These forward-looking statements are 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.

All references herein to fully diluted share basis is based upon the weighted average number of fully diluted shares as disclosed in the Company's Management & Discussion Analysis as at March 31, 2021 and for the three months ended March 31, 2021 and 2020 - "Financial and Operational Highlights".

This news release contains future oriented financial information and financial outlook information (together, "FOFI") about the Company's prospective results of operations, including generating free cash flow in 2021, which is subject to the same assumptions, risk factors, limitations and qualifications as set forth above as well as the following additional assumptions: annual average production rates in 2021 of between 10,500 and 11,500 Boe/d, \$60.00 WTI, Bakken differential of US\$3.00, and US\$1 = C\$1.26. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. The Company's actual results, performance or achievement could differ materially from those expressed in or implied by these FOFI, or if any of them do so, what benefits the Company will derive therefrom. Such financial outlook or future oriented financial information is provided for the purpose of providing information about management's reasonable expectations as to the anticipated results of its proposed business activities in the future. The Company disclaims any intention or obligation to update or revise any FOFI statements,

whether as a result of new information, future events or otherwise, except as required by law.

#### Non-IFRS Measures:

Within this press release, references are made to "operating netback", "operating netback prior to hedging", "net debt", "Adjusted EBITDA" and "free cash flow", which are not defined by IFRS and therefore may not be comparable to performance measures presented by others. Operating netback represents revenue, plus or minus any realized gain or loss on financial derivatives less royalties, production taxes, operating costs and transportation expense. The operating netback is then divided by the working interest production volumes to derive the operating netback on a per Boe basis. Operating netback prior to hedging represents operating netback prior to any realized gain or loss on financial derivatives. Net debt represents total liabilities, excluding decommissioning obligation, lease liabilities and any financial derivative liability, less current assets. Adjusted EBITDA represents cash flow from operating activities prior to changes in non-cash working capital. The Company believes that Adjusted EBITDA provides useful information to the reader in that it measures the Company's ability to generate funds to service its debt and other obligations and to fund its operations, without the impact of changes in non-cash working capital which can vary based solely on timing of settlement of accounts receivable and accounts payable. Free cash flow is a non-IFRS measure which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS. Free cash flow is presented to assist management and investors in analyzing performance by the Company as a measure of financial liquidity and the capacity of the Company to repay debt and pursue other corporate objectives. Free cash flow equals cash flow from operating activities less capital expenditures. Management believes that in addition to net income (loss) and cash flow from operating activities, operating netback, Adjusted EBITDA and free cash flow are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage and liquidity. Operating netback is commonly used by investors to assess performance of oil and gas properties and the possible impact of future commodity price changes on energy producers. Investors should be cautioned, however, that these measures should not be construed as an alternative to either net income (loss) or cash flow from operating activities, which are determined in accordance with IFRS, as indicators of the Company's performance.

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The reconciliation between Adjusted EBITDA and cash flow from operating activities, and the calculation of net debt can be found within the Company's first quarter 2021 MD&A and financial statements for the three months ended March 31, 2021 and 2020.

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#### Oil and Gas Advisories:

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Where amounts are expressed on a barrel of oil equivalent ("Boe") basis, natural gas volumes have been converted to Boe using a ratio of 6,000 cubic feet of natural gas to one barrel of oil (6 Mcf: 1 Bbl). This Boe conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given 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 Mcf: 1 Bbl, utilizing a conversion ratio at 6 Mcf: 1 Bbl may be misleading as an indication of value. In this release, Mmboe refers to millions of barrels of oil equivalent.

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

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