Petrus Resources Announces Transformative Transactions to Reduce Debt and Position Company for Renewed Growth

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CALGARY, Aug. 30, 2021 - Petrus Resources Ltd. ("Petrus" or the "Company") (TSX: PRQ) is pleased to announce that it has entered into a series of agreements (the "Transactions") that will reduce the Company's total debt by approximately $49 million through the issuance of $25.8 million of Petrus shares at $0.55 per share, and extend the maturity date of the Company's senior secured credit facility (the "First Lien Loan"). The Transactions will also result in the full settlement of the Company's subordinated secured term loan (the "Second Lien Loan") in the current principal amount of $39.3 million (the "Second Lien Settlement") for $15.8 million of equity. Approval of the Second Lien Settlement by the lenders of the Company's First Lien Loan was contingent on Petrus accelerating an incremental $10.0 million payment to further reduce its First Lien Loan. As a result, concurrently with the Second Lien Settlement, Petrus will undertake a private placement financing for proceeds of $10.0 million (the "Equity Financing"), which will be applied to outstanding indebtedness under the First Lien Loan, resulting in a substantial reduction of the Company's indebtedness from an aggregate of approximately $112 million to approximately $63 million, and additional stability under its First Lien Loan, with expected annual interest savings of approximately $5 million and an effective interest rate reduction of 2.4% from 7.4% to 5.0%. The Second Lien Settlement and Equity Financing have been made possible with additional investment by Don Gray, Glen Gray and Stuart Gray (the Company's "Major Investors").

The Transactions are expected to markedly transform Petrus from a company with limited capital resources to a company with the capital required to develop its currently undeveloped land base, for the benefit of shareholders, employees and all other stakeholders. Combined, the Equity Financing and Second Lien Settlement will allow the First Lien Loan to be reduced and the Second Lien Loan to be eliminated, which substantially reduces the Company's overall leverage and interest obligations. This will provide Petrus with an opportunity to direct more cash flow toward the development of its substantial inventory of liquids rich gas wells in its core area, Ferrier. The Company's most recent Ferrier area well was drilled, completed and tied-in for $3.3 million and is currently producing 600 boe/d. At current commodity prices, the well is expected to payout in less than 6 months. The superior rates of return potential offered by the Company's assets strongly support continued investment to create shareholder value.

Strategic Rationale for Transactions

In recent years, Petrus has faced an increasingly challenging lack of liquidity. The Company has actively sought out and evaluated a number of strategic transactions intended to secure additional funding, but no viable opportunities materialized. As a result of current debt levels, the Company was forced to allocate a substantial portion of its cash flow to pay down the First Lien Loan. First lien lenders also required Petrus to make Second Lien Loan interest payments in kind, which resulted in a constantly increasing level of high-interest debt. This has left Petrus with limited ability to invest in capital programs, stifling growth and the creation of shareholder value. The Company's first lien lenders indicated that the status quo was not acceptable for continued lender support and further extensions. The Equity Financing and Second Lien Settlement transactions will effectively address all of these issues, materially improving the Company's balance sheet and providing Petrus with the financial flexibility necessary to invest in the future growth of the Company. In the absence of the Equity Financing and Second Lien Settlement, if no alternative arrangement can be negotiated prior to December 31, 2021, the lenders of the First Lien Loan have the ability to declare all obligations under the First Lien Loan to be due and payable at that time.

First Lien Extension

Petrus has completed its annual review of its First Lien Loan. The Company's syndicate of lenders under the First Lien Loan have initially reconfirmed the borrowing base at $77.5 million and the maturity date of such loan has been updated to December 31, 2021, provided that in the event the Second Lien Settlement and the Equity Financing are completed on or before October 1, 2021, the lenders under Petrus' First Lien Loan have agreed to extend the maturity date thereof from December 31, 2021 to May 31, 2022. Petrus currently has approximately $73 million drawn on the revolving credit facility of $77.5 million.

Second Lien Debt Settlement

In connection with the Second Lien Settlement, Petrus has entered into a shares for debt agreement with Stuart Gray and Glen Gray, who recently took assignment of the Company's Second Lien Loan, pursuant to which Petrus will issue an aggregate of 28,727,273 common shares of Petrus (the "Petrus Shares") at an issue price of $0.55 per share (for total consideration of $15.8 million), in consideration for the full payment and discharge of amounts outstanding under the Second Lien Loan, currently totalling $39.3 million. In connection with the Second Lien Settlement, Stuart Gray will be issued 15,636,364 Common Shares and Glen Gray will be issued 13,090,909 Common Shares.

Equity Financing

Concurrently with entering into the shares for debt agreement in respect to the Second Lien Settlement, Petrus has entered into binding subscription agreements with each of Don Gray and Glen Gray to complete a private placement of Common Shares at an issue price of $0.55 per share for total proceeds of $10.0 million (the "Equity Financing"). In connection with the Equity Financing, Don Gray has committed to subscribe for $8.6 million of Common Shares and Glen Gray has committed to subscribe for $1.4 million of Common Shares. All of the proceeds of the Equity Financing will be used to reduce amounts outstanding under the First Lien Loan, which has approximately $73 million currently outstanding.

Each of the Second Lien Settlement and the Equity Financing are subject to customary terms and conditions, including the concurrent closing of each of the Second Lien Settlement and the Equity Financing.

Background and Considerations of the Transactions

Since May 2021, Petrus and its lenders have entered into a series of short term extensions, extending the maturity dates of each of the First Lien Loan (originally due in May 2021) and the Second Lien Loan (originally due in July 2021) to provide Petrus an opportunity to come to terms with its lenders for a longer term solution to the Company's indebtedness and a general debt reduction strategy. During this period, the original lender under Petrus' Second Lien Loan, Macquarie Bank Limited, notified Petrus that it had assigned its interest in the Second Lien Loan to a new party, Blue Oak Partners (Canada) Inc. ("Blue Oak") and that all amounts owing under the Second Lien Loan were payable to Blue Oak.

In the course of discussions with the Company's new creditor under the Second Lien Loan, Blue Oak, Petrus also discussed a number of alternatives in relation to the reduction or settlement of the Second Lien Loan, including various equity conversion alternatives. As part of these discussions, Blue Oak advised the Company that it may also be agreeable to sell, transfer and assign its rights under the Second Lien Loan to a third party. As such, certain of the Major Investors initiated discussions with Blue Oak to acquire the Second Lien Loan. At the same time, Petrus held numerous discussions with the lenders under its First Lien Loan with respect to longer term extensions of the First Lien Loan.

Such discussions have resulted in the agreement of the lenders under the First Lien Loan to provide continued support to Petrus and extend the term of the First Lien Loan, provided that on or before October 1, 2021, the Equity Financing (the proceeds of which would be used to pay down amounts under the First Lien Loan) and the Second Lien Settlement are completed. Further to this, certain of the Major Investors have acquired the Second Lien Loan and have agreed with Petrus to settle the obligations under the Second Lien Loan for Petrus equity. Under the agreement with its lenders under the First Lien Loan, the borrowing base of the First Lien Loan will be reduced by $2.75 million on both September 30, 2021 and December 31, 2021 and by a further $5.0 million on March 31, 2022. In addition, Petrus and the lenders under the First Lien Loan have agreed to a cash sweep provision under which 75% of excess cash flow will be used to accelerate repayment of the Company's First Lien Loan.

Given the nature of the relationship of the Major Investors to the Company (certain of the Major Investors being "insiders" of the Company and each of the Major Investors being siblings of one another and of Ken

Gray, the President and a director of Petrus), the board of directors of Petrus established a committee of independent and disinterested directors of Petrus (the "Independent Committee"), comprised of Don Cormack, Patrick Arnell and Peter Verburg, to consider potential matters in respect of any debt or equity transaction involving Petrus and the Major Investors and to participate in any discussions and negotiations on behalf of the Company in respect of the same.

As part of their consideration of the Second Lien Settlement and the Equity Financing, the Independent Committee undertook a review of the Company's reasonable alternatives, prospects and the Company's borrowing arrangements, including the consideration of the factors and matters set forth below:

- the agreement of the lenders under the First Lien Loan to extend the maturity date of the First Lien Loan, provided the Equity Financing and Second Lien Settlement are completed on or before October 1, 2021;
- the relative absence of other alternatives reasonably available to Petrus to refinance (by way of debt, equity or otherwise) its current borrowing arrangements;
- the certainty related to the full elimination of the Second Lien Loan, and the potential for any defaults (which may lead to cross defaults under the First Lien Loan) related thereto;
- the complete elimination of the Second Lien Loan and the repayment of $10.0 million under the First Lien Loan would reduce total debt from approximately $112 million to approximately $63 million, a decrease of approximately 44%;
- the Second Lien Settlement and the Equity Financing, combined with the related extension of the maturity date of the First Lien Loan, would mitigate certain solvency risks associated with the Company's status quo position, including the risk of near immediate debt maturities, and potential creditor or similar proceedings in connection to the same, which may have the effect of reducing or eliminating any value associated with Petrus' equity;
- based on current production and the pricing forecast by the Company's independent reserve evaluator, Petrus anticipates it will generate approximately $15 to $17 million in funds flow during Q4 2021 and Q1 2022, much of which Petrus intends to apply to the reduction of outstanding amounts under its First Lien Loan, further de-leveraging the Company's balance sheet and providing potential liquidity to resume drilling and development opportunities;
- the proposed issue price per share in the Transactions will be $0.55 per share, representing a greater than 10% premium to the market price of the Common Shares (based on the five-day VWAP of the Common Shares prior to the initial announcement of the Transaction);
- the elimination of the Second Lien Loan for $15.8 million in equity is approximately $23 million less than the amounts outstanding under the Second Lien Loan;
- the effective payoff of the Second Lien Loan in equity, preserves the Company's cash resources which may be used for other expenditures, including further payments under the First Lien Loan and for general investment purposes;
- that since July 2020, all interest under the Second Lien Loan, which currently carries interest at approximately 10% per annum, is capitalized as principal under the Second Lien Loan, which has a compounding effect to increase the principal amount payable thereunder from time to time;
- the advantages of having potential funding available to resume development of the Company's asset base, with a view to increase production, reserve and revenue generating activities for the benefit of all stakeholders;
- the risks associated with trying to secure funding from other third parties, including the risk that such funding may not be available, on any reasonable terms, measured against the relative certainty of the transaction; and
- the current and proposed equity ownership level of each of the Major Investors, noting that based on their current positions and that the Major Investors have invested significant resources into Petrus, including through investment in the Common Shares, and their interest in acquiring additional Common Shares, indicate a strong alignment of interest with the Company's other equity holders.

As at June 30, 2021, Petrus has a working capital deficiency (excluding non-cash risk management assets and liabilities, and lease obligations) of $110.3 million. Furthermore, Petrus has not serviced the interest on its Second Lien Loan in cash since July 2020, and all interest obligations thereunder are capitalized, which further compounds the amounts payable thereunder.

Relationship of the Major Investors and the Company

Don Gray is a director of the Company, who owns or controls (directly or indirectly) 13,022,476 Common Shares (representing 26.3% of the outstanding Common Shares). Glen Gray owns or controls (directly or indirectly) 6,708,867 Common Shares (representing 13.6% of the outstanding Common Shares). As such, the Second Lien Settlement and the Equity Financing are each with "related parties" and constitute a "related party transaction" for the purposes of Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* ("MI 61-101") and are with "insiders" for the purposes of the TSX Company Manual.

It is anticipated that the Second Lien Settlement and the Equity Financing will result in the issuance of Common Shares to Don Gray and Glen Gray, each "insiders" of the Company, in an amount greater than 10% of the number of Common Shares outstanding, such that shareholder approval of such issuance would be required pursuant to subsection 607(g) of the TSX Company Manual. In addition, the issuance of Common Shares pursuant to the Second Lien Settlement and the Equity Financing may be considered by the TSX to materially affect control of the Company as each of the Major Investors will own or control in excess of 20% of the Common Shares after giving effect to the Second Lien Settlement and the Equity Financing, such that shareholder approval of such issuances may also be required pursuant to subsection 604(a)(i) of the TSX Company Manual. Additionally, in accordance with Section 604(a)(ii) of the TSX Company Manual, where a transaction involves consideration paid or received by "insiders" of the issuer in excess of 10% of the issuer's market capitalization in any 6-month period, the TSX requires that the transaction be approved by the issuer's security holders to the exclusion of those security holders who are "insiders" of the Company.

A summary of the current and anticipated Common Share ownerships of each of the Major Investors is set forth below:

Name of Shareholder	Securities Currently Owned, Controlled or Directed (and % of issued and outstanding)	Securities to be Owned, Controlled or Directed (and % of issued and outstanding) (1
Don Gray	13,022,476 (26.3%)	28,658,840 (29.7%)(2)
Glen Gray	6,715,867 (13.7%)	22,352,231 (23.2%)(3)
Stuart Gray	4,941,867 (9.9%)	20,578,231 (21.3%)(4)

Notes:
(1) Based on 49,558,622 issued and outstanding Common Shares.
(2) Assumes Mr. Don Gray subscribes for and acquires 15,636,364 Common Shares pursuant to the Equity Financing.
(3) Assumes Mr. Glen Gray subscribes for and acquires 2,545,455 Common Shares pursuant to the Equity Financing and is issued 13,090,909 Common Shares pursuant to the Second Lien Settlement.
(4) Assumes Mr. Stuart Gray is issued 15,636,364 Common Shares pursuant to the Second Lien Settlement.

The Company has applied to the TSX for relief from the foregoing shareholder approval requirements on the basis that the Independent Committee has determined that Petrus is in serious financial difficulty and that the Equity Financing together with the Second Lien Settlement, is designed to improve Petrus' financial situation and the terms of the Equity Financing and the Second Lien Settlement are reasonable for the Company in the circumstances. The Independent Committee also considered the need for a timely completion of the Equity Financing and the Second Lien Settlement, as required by its lenders under the First Lien Loan, and the ability of the Company to complete such transactions in the timelines required by its lenders. There is no certainty that the TSX will approve the Equity Financing or the Second Lien Settlement.

In connection with reliance on the above described "financial hardship" exemption from the TSX's shareholder approval requirements, it is expected that the TSX will place Petrus under a delisting review, which is normal practice when a listed issuer seeks to rely on this exemption. No assurance can be provided as to the outcome of such review and, therefore, on the Company's continued qualification for listing on the TSX.

Petrus has determined that the Equity Financing together with the Second Lien Settlement is also exempt from the formal valuation and minority approval requirements applicable to related party transactions under MI 61-101 pursuant to the financial hardship exemptions set forth in Sections 5.5(g) and 5.7(1)(e) of MI 61-101. In connection with the same, and as noted above, the Independent Committee has determined that: (i) Petrus is in serious financial difficulty; (ii) the Equity Financing and the Second Lien Settlement is designed to improve the financial position of the Company; and (iii) the terms of the Equity Financing and the Second Lien Settlement are reasonable in the circumstances of the Company. A discussion and description of the review and approval process adopted by the Independent Committee and other information required by MI 61-101 in connection with the Equity Financing and the Second Lien Settlement will be set forth in the Company's material change report to be filed under the Company's SEDAR profile at www.sedar.com.

Petrus expects to announce additional information respecting the Equity Financing and the Second Lien Settlement, in particular related to the Company's reliance on the "financial hardship" exemption from the TSX's shareholder approval requirements.

ABOUT PETRUS

Petrus is a public Canadian oil and gas company focused on property exploitation, strategic acquisitions and risk-managed exploration in Alberta.

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CAUTIONARY STATEMENTS:

Forward-Looking Statements

This news release contains forward‐looking statements regarding the Second Lien Settlement and Equity Financing, closing of the Second Lien Settlement and Equity Financing and the timing of the same, use of proceeds of Equity Financing and the benefits and impacts thereof on Petrus, the Company's ability to continue as a going concern, the payout periods for certain of the Company's new wells and the Company's continued qualification for listing on the TSX. These forward‐looking statements are provided as of the date of this news release, or the effective date of the documents referred to in this news release, as applicable, and reflect predictions, expectations or beliefs regarding future events based on the Company's beliefs at the time the statements were made, as well as various assumptions made by and information currently available to them. In making the forward-looking statements included in this news release, the Company has applied several material assumptions, including, but not limited to, the assumption that regulatory approval of the Second Lien Settlement and Equity Financing will be obtained in a timely manner; that all conditions precedent to the completion of the Second Lien Settlement and Equity Financing will be satisfied in a timely manner; and that general economic and business conditions will not change in a materially adverse manner, well production rates and commodity prices,. Although management considers these assumptions to be reasonable based on information available to it, they may prove to be incorrect. By their very nature, forward‐looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that estimates, forecasts, projections and other forward‐looking statements will not be achieved or that assumptions on which they are based do not reflect future experience. We caution readers not to place undue reliance on these forward‐looking statements as a number of important factors could cause the actual outcomes to differ materially from the expectations expressed in them. These risk factors may be generally stated as the risk that the assumptions expressed above do not occur, but specifically include, without limitation, risks relating to: general market conditions; the Company's ability to secure financing on favourable terms; the failure to receive all applicable third party and regulatory approvals for the Transaction, and the additional risks described in the Company's latest Annual Information Form, and other disclosure documents filed by the Company on SEDAR. The foregoing list of factors that may affect future results is not exhaustive. When relying on our forward‐looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The Company does not undertake to update any forward‐looking statement, whether written or oral, that may be made from time to time by the Company or on behalf of the Company, except as required by law.

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, mboe refers to thousands of barrels of oil equivalent, while mbbls refers to thousands of barrels of oil, and mmcf refers to millions of cubic feet of natural gas.

Production volumes stated herein may include production from wells that have recently commenced production. Initial production rates are useful in confirming the presence of hydrocarbons, however, such results and rates are not determinative of the rates at which such wells will continue production and decline thereafter. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. Initial production rates may be estimated based on other third party estimates or limited data available at the time. In all cases herein, initial production results are not necessarily indicative of long-term performance of the relevant well or fields or of ultimate recovery of hydrocarbons.

This press release also contains future-oriented financial information and financial outlook information (collectively, "FOFI") about the Company's estimated funds flow during Q4 2021 and Q1 2022, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. Our actual results, performance or achievements, estimated funds flow during Q4 2021 and Q1 2022, could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits we will derive therefrom. We have included the FOFI in this press release in order to provide readers with a more complete perspective on our prospective results of operation, including the Company's estimated funds flow during Q4 2021 and Q1 2022, and such information may not be appropriate for other purposes. The FOFI and other information contained in this press release are made as of the date hereof and we undertake no obligation to update publicly or revise any FOFI, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

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.