

PetroShale

C a l g a r y • D e n v e r

Management's Discussion & Analysis

As at March 31, 2018
and for the three months ended March 31, 2018 and 2017

MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis (the "MD&A") has been prepared by management and reviewed and approved by the Board of Directors of PetroShale Inc. ("PetroShale" or the "Company") on May 22, 2018. This MD&A reports on the consolidated financial position and the consolidated results of operations of PetroShale for the three month periods ended March 31, 2018 and 2017 and should be read in conjunction with PetroShale's consolidated interim financial statements as at and for the three months ended March 31, 2018 and the consolidated financial statements for the year ended December 31, 2017. The reader should be aware that historical results are not necessarily indicative of future performance.

The financial data presented below has been prepared in accordance with International Financial Reporting Standards ("IFRS"), unless otherwise indicated.

Frequently Used Terms:

<u>Term</u>	<u>Description</u>
Bbl	Barrel(s)
Boe	Barrel(s) of oil equivalent
Bopd	Barrels of oil per day
Mboe	Thousand barrels of oil equivalent
Mcf	Thousand cubic feet
Mmboe	Million barrels of oil equivalent
NGLs	Natural gas liquids
WTI	West Texas Intermediate, reference price paid in US\$ for crude oil of standard grade
HH	Henry Hub, reference price paid in US\$ for natural gas deliveries
PV10	Present value, reflecting a 10% discount rate

Barrel of Oil Equivalent

Where amounts are expressed on a 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. The value ratio between the commodities, based on the current price of crude oil compared to natural gas, is significantly different from the energy equivalency of 6 Mcf: 1 Bbl, and therefore utilizing this conversion ratio may be misleading as an indication of value.

Presentation of Volumes and Currency

Production volumes and per Boe calculations are presented on a gross working interest basis, before royalty interests, unless otherwise stated. PetroShale's reporting and measurement currency is the Canadian dollar. Amounts in this MD&A are in Canadian dollars unless otherwise stated. The functional currency of PetroShale's US subsidiary is the US dollar, and the US subsidiary's results and balance sheet are translated to Canadian dollars for purposes of consolidation in PetroShale's financial statements, in accordance with the Company's foreign currency translation accounting policy.

Non-IFRS Measurements and Changes in Accounting Policies

The MD&A contains the terms "funds flow from operations," "operating netback", "operating netback on a net of royalty basis", "operating netback prior to hedging", "net debt" and "EBITDA" which are not defined by IFRS and therefore may not be comparable to performance measures presented by others. Funds flow from operations represents cash flow from operating activities prior to changes in non-cash working capital. 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. Operating netback on a net of royalty basis represents operating netback divided by production, net of royalty interest. Operating netback prior to hedging

means operating netback prior to realized gain or loss on financial derivatives. Net debt represents total liabilities, excluding any decommissioning obligation and financial derivative liability less current assets. EBITDA means net income (loss) before taxes, depletion and depreciation expense, any impairments, finance expense, foreign exchange gain or loss, any gain or loss on property dispositions, share-based compensation expense and unrealized gain or loss on financial derivatives. Management believes that in addition to net income (loss) and cash flow from operating activities, funds flow from operations, operating netback and EBITDA 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.

The reconciliation between funds flow from operations and cash flow from operating activities, and between EBITDA and net income, respectively can be found later within this MD&A. Please refer to note 2 to the interim consolidated financial statements which describes a change in accounting policy, effective June 30, 2017, affecting cash flow from operating activities under IFRS, and as a result, funds flow from operations.

Please also note the adoption of IFRS 15 effective January 1, 2018 with retrospective effect, which has an effect on revenue and operating expenses as previously presented, and results in the separate presentation of transportation expense on the statement of operations. This new accounting policy is described in Note 2 to the interim consolidated financial statements.

MANAGEMENT'S DISCUSSION & ANALYSIS

Forward Looking Statements

This MD&A contains forward looking statements and forward-looking information (collectively, "forward looking statements") within the meaning of applicable Canadian securities laws. Management's assessment of future plans and operations, drilling plans and the timing thereof, plans for the tie-in and completion of wells and the timing thereof, capital expenditures, timing of capital expenditures and methods of financing capital expenditures and the ability to fund financial liabilities, use of proceeds from any financing, production estimates, expected commodity mix and prices, reserve estimates, future operating costs, expected royalty rates, anticipated timing and impact of new gas transportation and processing facilities in North Dakota, expected general and administrative expenses, expected interest rates, debt levels, funds flow from operations and the timing of and impact of implementing new accounting policies, estimates regarding its undeveloped land position, expected changes to amounts and terms of available debt financing and estimated future drilling, recompletion or reactivation activities and anticipated impact upon PetroShale's forecasts in respect of production and cash flow for the remainder of 2018 and the resulting fiscal year end net debt may constitute forward looking statements and necessarily involve risks including, without limitation, risks associated with oil and gas development, exploitation, production, marketing and transportation of oil and natural gas, loss of markets, volatility of commodity prices, currency fluctuations, inability to transport or process natural gas at economic rates or at all, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services at reasonable costs or at all, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions or drilling operations, risks associated with PetroShale's non-operated status on some of its properties, production delays resulting from an inability to obtain required regulatory approvals or the tie-in of associated natural gas production and an inability to access sufficient capital from internal and external sources.

The Company's actual results may differ materially from those expressed in, or implied by, the forward looking statements. Forward looking statements or information is based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although PetroShale believes that the expectations reflected in such forward looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document and other documents filed by the Company, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic, regulatory and political environment in which PetroShale operates; the ability of the Company to obtain and retain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the Company and the operators of its non-operated properties to operate in the field in a safe, efficient, compliant and effective manner; PetroShale's ability to obtain financing on acceptable terms or at all; changes in the Company's credit facilities including changes to borrowing capacity and maturity dates; receipt of regulatory approvals; field production rates and decline rates; the ability of the Company, and the operators of its non-operated properties, to tie-in associated natural gas production in an economic manner, or at all; the ability to manage operating costs; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the ability to convert non-producing proven or probable oil and natural gas reserves to producing reserves; the timing and costs of pipeline, storage and facility construction and expansion; the ability of the Company to secure adequate transportation for commodity production; future petroleum and natural gas prices; differentials between benchmark commodity prices and those received by the Company for its production in the field; currency exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; PetroShale's ability to successfully drill, complete and commence production at commercial rates from its operated well(s); and PetroShale's ability, or those of the operators of its non-operated properties, to successfully market its petroleum and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive.

Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website (www.sedar.com) or at the Company's website (www.petroshaleinc.com). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended March 31,	
	2018	2017
<i>(all \$ amounts are presented in Canadian dollars)</i>		
FINANCIAL		
<i>(in thousands, except per share and share data)</i>		
Oil and natural gas revenue	\$ 19,273	\$ 15,061
Cash flow from operating activities	\$ 7,856	\$ 3,960
Funds flow from operations ⁽¹⁾	\$ 10,910	\$ 8,030
Net income	\$ 2,351	\$ 90
Per share - basic and diluted	\$ 0.01	\$ -
EBITDA ⁽¹⁾	\$ 10,910	\$ 8,030
Capital expenditures	\$ 53,692	\$ 1,945
Net debt ⁽¹⁾	\$ 126,818	\$ 144,373
Common shares outstanding	159,167,767	34,207,574
Weighted average - basic	157,605,212	34,207,574
Weighted average - diluted	162,832,577	34,207,574
OPERATING		
Number of Days	90	90
Daily production ⁽²⁾		
Crude oil (Bbls)	2,779	2,655
Natural gas (Mcf)	1,669	1,658
NGLs (Bbls)	258	282
Barrels of oil equivalent (Boe)	3,315	3,213
Average realized price		
Crude oil (\$/Bbl)	\$ 74.02	\$ 60.36
Natural gas (\$/Mcf)	\$ 1.76	\$ 2.36
NGLs (\$/Bbl)	\$ 21.30	\$ 11.02
Netback per Boe (\$) ⁽¹⁾		
Revenue	\$ 64.59	\$ 52.08
Royalties	\$ (12.40)	\$ (10.92)
Realized loss on hedge	\$ (3.67)	\$ -
Operating costs	\$ (4.15)	\$ (5.82)
Production taxes	\$ (5.01)	\$ (3.91)
Transportation expense	\$ (0.94)	\$ (0.98)
Operating netback	\$ 38.42	\$ 30.45
Operating netback prior to hedging ⁽¹⁾	\$ 42.09	\$ 30.45
Operating netback prior to hedging, on a net of royalty basis ⁽¹⁾	\$ 52.36	\$ 38.48

⁽¹⁾ Non-IFRS measure - See pages 2-3 and the tables under "Non-IFRS Measures" at the end of this MDA.

⁽²⁾ Our oil and natural gas reserves have been categorized as Tight Oil and Shale Gas pursuant to National Instrument 51-101 and the required disclosure included in our Annual Information Form. We have used the terms "crude oil" and "natural gas" here and throughout this MDA as we feel they are easily understood by users and consistent with disclosure of our peers.

MANAGEMENT'S DISCUSSION & ANALYSIS

DESCRIPTION OF BUSINESS

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

RECENT SIGNIFICANT EVENTS

Oil and Gas Lease Development

During the first quarter, the Company completed and began producing four (3.7 net) wells on its operated units in the Antelope and South Berthold areas. The Company also participated in the drilling of four (1.6 net) non-operated wells which are expected to be completed and placed into production late in the second quarter of 2018.

In March 2018, the Company closed an acquisition of significant undrilled acreage in its core South Berthold area for US\$17.8 million. This acquisition was financed from the Company's senior credit facility and enhances PetroShale's drilling inventory.

Financing Activity

In January 2018, the Company completed a strategic financing with a US based private equity investor, issuing US\$75 million of preferred shares with a term of 5 years and a coupon rate of 9%. The preferred shares are convertible into common voting shares at an exchange price of \$2.40 per common share and are entitled to vote with our common shareholders on an as-exchanged basis. The initial use of proceeds was to repay and terminate our subordinated loan facility and repay amounts drawn under the senior loan. This financing enhances the Company's financial liquidity with a significant term to maturity.

The Company's senior credit facility is subject to an annual borrowing base review to be completed before the end of June 2018, reflecting our December 31, 2017 reserve report. The Company recently received an increase in the borrowing base under the facility from US\$39.9 million to US\$49.9 million, pending the completion of the bank's final borrowing base review.

Oil Prices and Netbacks

World oil prices increased in the first quarter, with WTI averaging US\$62. PetroShale generated a netback, prior to the impact of hedging, of \$42.09 per Boe (\$52.36 per Boe on a net of royalty basis) during the first quarter, an increase of 38% from \$30.45 per Boe (\$38.48 per Boe on a net of royalty basis) in the corresponding period of 2017. Oil prices have continued to increase since the end of March. We anticipate that higher oil prices will result in further netback improvements in the second quarter of 2018.

RESULTS OF OPERATIONS

Note: All \$ amounts reflected throughout this management's discussion and analysis are in Canadian dollars, unless stated otherwise, consistent with the presentation of the Company's consolidated financial statements. All production volumes and per Boe amounts are on a working interest (gross of royalty) basis unless otherwise stated.

Production

The following table summarizes the Company's working interest daily production volumes for the relevant periods.

	Three months ended March 31,	
	2018	2017
Crude oil (Bbls per day)	2,779	2,655
Natural gas (Mcf per day)	1,669	1,658
NGLs (Bbls per day)	258	282
Total (Boe per day)	3,315	3,213
Liquids % of Production	92%	91%

Production was 56% higher than the fourth quarter 2017 average of 2,121 Boe per day and 3% higher than the first quarter of 2017. The first quarter of 2017 reflected the results of our first operated well and three (0.7 net) non-operated wells which commenced production in December of 2016. The large increase in production in the first quarter of 2018 over the fourth quarter of 2017 reflects the four (3.7 net) operated wells which commenced production during February and March of 2018, and the recommencement of production from our first operated well following a workover completed at the end of March. Current production is in excess of 6,000 Boe per day, reflecting the fact that the new production from the recently completed wells was not in place for the entire first quarter. Production from the new wells will follow a natural decline, but will be partially offset by four (1.6 net) non-operated wells we anticipate will be completed and placed into production by the end of the second quarter.

Pricing

Average benchmark prices	Three months ended March 31,	
	2018	2017
Crude oil – WTI (US\$ per Bbl)	\$ 62.91	\$ 51.62
Natural gas – HH (US\$ per Mcf)	3.08	3.02
Exchange rate (US\$ /CAD\$)	1.265	1.324
Realized prices (CAD)		
Crude oil (\$ per Bbl)	\$ 74.02	\$ 60.36
Natural gas (\$ per Mcf)	1.76	2.36
NGLs (\$ per Bbl)	21.30	11.02
Per Boe	\$ 64.59	\$ 52.08
Realized prices (USD)		
Crude oil (\$ per Bbl)	\$ 58.72	\$ 45.59
Natural gas (\$ per Mcf)	1.39	1.78
NGLs (\$ per Bbl)	16.86	8.33
Per Boe	\$ 51.32	\$ 39.31

Management analyzes the basis differential between WTI and the actual realized price for the sale of our crude oil as WTI is a reasonable proxy for the market in which our oil is sold. The average differential between the Company's realized crude price to WTI during the three months ended March 31, 2018 was US\$4.19 per Bbl, which has decreased from US\$6.03 per Bbl in the same period in 2017 and increased from US\$2.46 per Bbl in the fourth quarter of 2017. The Company believes that the recently commissioned Dakota Access Pipeline has significantly enhanced takeaway oil capacity in the basin and has helped narrow Bakken oil price differentials. Realized oil prices in the three-months ended March 31, 2018 improved significantly compared to the same period in 2017 mainly due to higher WTI benchmark prices as well as improved differentials offset by a lower US\$ / CAD\$ exchange rate. Realized natural gas prices continue to reflect a discount to Henry Hub benchmark prices reflecting the high demand for gas capture pipeline and processing capacity in the area. The Company does not see this differential improving until new plant and gathering capacity is introduced, which is anticipated in 2019. NGL average prices have increased relative to the first quarter of 2017 reflecting the increase in WTI, but also face pressures similar to that noted for natural gas given tight natural gas processing and NGL takeaway capacity out of the basin.

The Company has entered into several oil price hedges for the remainder of the calendar year 2018. See "Business Conditions and Risks" later in this MD&A. The impact of these hedges was felt in the first quarter with a realized loss from financial derivatives of \$3.67 per Boe as oil prices have increased significantly since these hedges were put in place in September of 2017.

Royalties

	Three months ended March 31,	
	2018	2017
Royalties (in thousands)	\$ 3,699	\$ 3,158
Royalties per Boe	\$ 12.40	\$ 10.92
Royalties as % of Revenue	19.2%	21.0%

Royalty expense as a percentage of revenues has decreased in the first quarter of 2018 due to an increase in production from Company operated wells with a higher net of royalty ownership compared to the Company's historical production. The royalties per Boe amount is higher for the three months ended March 31, 2018 due to the higher realized revenue per Boe in the period compared to the first quarter of 2017. Royalty expense is higher, on an absolute dollar basis, in the first quarter compared to the same period in 2017, due to higher overall revenues. Management anticipates the average effective royalty rate to remain consistent in future periods.

Operating Costs, Production Taxes and Transportation Expense

	Three months ended March 31,	
	2018	2017
Operating costs	\$ 1,239	\$ 1,683
Production taxes	1,496	1,131
Transportation expense	280	282
Total (in thousands)	\$ 3,015	\$ 3,096
Operating costs per Boe	\$ 4.15	\$ 5.82
Production taxes per Boe	5.01	3.91
Transportation expense per Boe	0.94	0.98
Total per Boe	\$ 10.10	\$ 10.71

Operating costs

Operating costs per Boe for the quarter ended March 31, 2018 were lower than the comparative period in 2017 due to high initial production from our new operated wells.

Production taxes

North Dakota charges a 5% oil severance tax and a 5% oil extraction tax on net royalty volumes. Production taxes per Boe for the three months ended March 31, 2018 reflect the impact of higher realized prices and are consistent period over period as a percentage of revenue. Management anticipates production taxes to be consistent as a percentage of revenue on a go forward basis.

Transportation expense

Transportation expense reflects certain oil production transported by pipeline. These costs are consistent on a per Boe basis year over year.

Operating Netback

(\$ per Boe)	Three months ended March 31,	
	2018	2017
Revenue	\$ 64.59	\$ 52.08
Royalties	(12.40)	(10.92)
Realized loss on hedge	(3.67)	-
Operating costs	(4.15)	(5.82)
Production taxes	(5.01)	(3.91)
Transportation expense	(0.94)	(0.98)
Operating netback	\$ 38.42	\$ 30.45
Operating netback prior to hedging	\$ 42.09	\$ 30.45
Operating netback prior to hedging, on a net of royalty basis	\$ 52.36	\$ 38.48

Our operating netback increased for the three months ended March 31, 2018 compared to the corresponding prior period due to the improved commodity price environment and lower oil price differential slightly offset by the realized hedge loss in the first quarter of 2018.

General and Administrative Expense

	Three months ended March 31,	
	2018	2017
Gross general and administrative expense	\$ 1,121	\$ 778
Capitalization of internal development costs	(528)	-
Third party recoveries	(39)	(1)
Net general and administrative expense (in thousands)	\$ 554	\$ 777

Gross general and administrative expense ("G&A") increased during the three months March 31, 2018 compared to the same period in the prior year due to higher personnel, legal and other costs associated with recent land acquisitions and the addition of senior personnel.

Depletion and Depreciation Expense

	Three months ended March 31,	
	2018	2017
Depletion and depreciation expense (in thousands)	\$ 4,421	\$ 4,034
Depletion and depreciation per Boe	\$ 14.82	\$ 13.95

Depletion and depreciation expense increased during the three months ended March 31, 2018 compared to the prior comparable period, due to higher production volumes. The expense per Boe was consistent year over year.

Finance Expense

Finance expense in the comparable 2017 period reflects interest on the Company's senior and subordinated credit facilities, including the amortization of certain loan origination and other fees. Finance expense for the three months ended March 31, 2018 reflects costs primarily associated with the Company's senior credit facility and the newly issued preferred shares which are accounted for as a financial liability for accounting purposes. Finance expense was lower year over year reflecting lower overall debt levels. Interest costs will increase in the second quarter of 2018 due to the financing of current oil and gas lease development activity and the acquisition completed in March, as described elsewhere in this MD&A.

Impairment

Management evaluates its developed and producing assets ("D&P") for impairment indicators that suggest the carrying value of a cash generating unit ("CGU") may not be recoverable. If such impairment indicators exist, any impairment is determined by comparing the carrying amount of the CGU to the greater of the CGU's value in use ("VIU") and its estimated fair value less selling costs. If the carrying amount is in excess of the estimated recoverable value, then the Company will record an impairment expense related to the CGU. During the first quarter of 2018, management determined that no impairment indicators existed. The recent increase in WTI prices and overall increases in the Company's reserve volumes as reflected in our December 31, 2017 reserve report support that there is no impairment.

Share-based Compensation

Share-based compensation expense reflects the value ascribed to equity-based compensation provided to employees, consultants and directors of the Company, utilizing a fair value methodology, and amortization of those amounts over the anticipated period in which such equity awards will vest. Share-based compensation expense was \$650,000 for the three months ended March 31, 2018 compared to \$96,000 for the comparative period. The increase in expense year over year is due to the grant of 2,625,000 restricted bonus awards in November 2017, slightly offset by forfeitures of certain stock options during the fourth quarter.

Foreign Currency Gain and Translation Adjustment

The Company's consolidated financial statements are reported in Canadian dollars, which is the Company's presentation currency. Transactions of the Company's US subsidiary are recorded in US dollars, its functional currency, as this is the primary economic environment in which the subsidiary operates. The assets, liabilities and results of operations of the Company's US subsidiary are translated to Canadian dollars in the consolidated financial statements according to the Company's foreign currency translation policy, with any corresponding gain or loss reflected as currency translation adjustment in other comprehensive income. The Company experienced a currency translation gain of \$2.8 million for the three months ended March 31, 2018 due to the weakening of the Canadian dollar to the US dollar from December 31, 2017 (US dollar / Canadian dollar 1.26) to March 31, 2018 (US dollar / Canadian dollar 1.29) and the fact that the Company's US dollar-denominated assets exceed its liabilities.

Share Capital

	Three months ended March 31,	
	2018	2017
Weighted average common shares outstanding:		
Basic	157,605,212	34,207,574
Diluted	162,832,577	34,207,574
Outstanding securities:		
Common shares, voting and non-voting	159,167,767	34,207,574
Preferred shares, convertible	75,000	-
Restricted bonus awards	2,625,000	-
Stock options	1,518,264	2,736,736
Warrants	-	2,000,000

As at May 22, 2018, we had 159,167,767 common shares, 1,518,264 stock options and 2,810,000 restricted bonus awards outstanding. In March 2018, the holders of the warrants exercised their right to acquire 2 million common shares for net proceeds to the Company of \$1.5 million. The preferred shares are convertible into 39,308,176 common shares at the election of the holder.

The following reflects the outstanding stock options as at March 31, 2018:

Stock Options

Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Number of Outstanding Options	Number of Options Exercisable
\$0.70	1.88	1,518,264	1,087,427

The restricted bonus awards expire in December 2020 and vest in equal tranches in March 2019, March 2020 and December 2020.

Capital Expenditures

The following table represents capital expenditures for the three months ended March 31, 2018:

<i>(in thousands)</i>	
Capital expenditures	
Acquisitions	\$ 22,969
Drilling and completion	30,723
Total capital expenditures	\$ 53,692

During the three months ended March 31, 2018, the Company participated in 53 gross (6.0 net) wells, which were in various stages of completion.

The Company has no commitments to make additional capital expenditures following the end of the period, with the exception of approximately US\$7.4 million related to non-operated wells which were partially completed at the end of the quarter. We estimate future development costs of US\$283.9 million related to our proven undeveloped and probable reserves as at March 31, 2018.

Liquidity and Capital Resources

Capital expenditures of \$53.7 million for acquisitions and drilling and completion activities for the three months ended March 31, 2018 were financed indirectly through proceeds from draws on the Company's senior loan facility, issuance of preferred shares and operating cash flows.

During our initial stages of growth, the Company is dependent on cash on hand, operating cash flows and equity and debt issuances to finance capital expenditures and property acquisitions. The Company will manage borrowings in relation to our credit capacity and our ability to generate future operating cash flows to service such debt.

The Company continuously monitors production, commodity prices and resulting cash flows. Should circumstances affect cash flow in a detrimental way, the Company is capable of reducing its capital spending levels by not consenting to participate in additional drilling proposed by operators of its non-operated properties, reducing its drilling and completion activity on its operated properties or by selling PetroShale's interest in those wells to other parties. Drilling and completion activity has increased from their lows in mid-2016 as oil prices have improved. The Company will monitor its financial capacity before proceeding with additional wells on its operated lands. Accounts payable and accrued liabilities consist of amounts relating to capital spending, field operating activities and general and administrative expenses. Management expects to be able to fully meet all current obligations when due with funding provided by a combination of accounts receivable collections, funds flow from operations and available capacity under our senior credit facility.

The Company maintains a senior revolving credit facility which is referred to as the senior loan in the statement of financial position. The current capacity of this facility is US\$49.9 million. The maturity date is June 30, 2018, at which point, the facility will either be extended or, at the option of the lender, converted to a non-revolving facility for a term of 12 months. The amount of the facility is subject to a borrowing base test performed on a periodic basis and at least twice annually by the lender, based primarily on producing oil and natural gas reserves and using commodity prices estimated by the lender as well as other factors. The next scheduled borrowing base review is scheduled to

be completed before the end of June 2018. A decrease in the borrowing base determined by the senior lender could result in a reduction to the credit facility, which may require a repayment to the lender.

The senior loan facility is subject to certain financial and non-financial covenants. The financial covenants consist of: (i) a consolidated cash flow to interest expense ratio, as defined in the loan agreement, which is not to be less than 2.50 to 1 on a rolling four-quarter basis; and (ii) a requirement that the ratio of the senior loan amount to EBITDA, on a rolling four quarter basis, not exceed 3.0 to 1. The consolidated cash flow to interest expense ratio is calculated on the basis that interest expense reflects cash interest paid and excludes deferred and unpaid interest on the subordinated credit facility and other non-cash amortization expense included in finance expense on the company's statement of operations. Consolidated cash flow is defined as consolidated net income plus finance expense, taxes, and other non-cash expenses, adjusted to reflect the pro forma effects of asset acquisitions and dispositions, plus the proceeds of any equity issued by the Company. The consolidated cash flow to interest expense ratio at March 31, 2018 was 38.1 to 1, and the senior loan to EBITDA ratio was 1.4 to 1. As a result, the Company is in compliance with the financial covenants as at that date and is also in compliance with all of the other covenants under the senior loan. This facility was drawn to approximately US\$26.4 million as at March 31, 2018.

Until the completion of the preferred equity financing described below, the Company had a secured, subordinated revolving credit facility. The facility was intended to allow the Company to close acquisitions and/or fund drilling and well completion capital expenditures. The credit facility bore interest at a rate of 12% per annum and included a 2.5% origination fee. The credit facility was provided by two significant shareholders of the Company, one of whom is also the Executive Chairman of the Board of Directors. The subordinated loan was drawn to US\$24.5 million, as at December 31, 2017, of the then-available capacity of US\$80.0 million. The subordinated loan facility was settled with the proceedings of the preferred share financing completed in January 2018 (described below), and as a condition of that financing, the subordinated loan facility was terminated.

The Company closed a common share equity offering in April 2017 which generated net proceeds of approximately \$106 million, which was used to fully repay deferred interest on the subordinated loan and to partially repay principal amounts outstanding under both the subordinated loan and senior loan.

On January 25, 2018, the Company closed a preferred equity financing with a private investor (the "Investor") for gross proceeds of US\$75 million. The preferred shares were issued by the Company's US subsidiary and are convertible, at the Investor's option, to common shares of the Company at a fixed price of \$2.40 per share, subject to certain conditions. The preferred shares have a term of five years (subject to extension for an additional year at the election of the Investor) and entitle the Investor to a cumulative annual dividend of 9% per annum (except that no dividends shall be payable for the extension year, if any), payable quarterly. As part of the financing, the Investor also acquired voting preferred shares of the Company which entitle the Investor to the "as-exchanged" voting rights of the subsidiary preferred shares.

The Company anticipates that it will be able to meet its financial covenants under the senior loan and meet its other financial obligations following completion of the two recent equity offerings and the recent increase in production and operating cash flows.

Contractual Obligations

The Company is, or will be, obligated to pay various costs associated with operations incurred in the normal course of business. These costs include royalties paid to governments or mineral rights owners, surface lease rentals and decommissioning obligations. These costs are highly dependent on the future operating environment and are subject to changes in commodity prices, ownership, production volumes and government policies.

The following reflect the contractual maturities of the Company's debt obligations and anticipated timing of settlements of its other financial liabilities as at March 31, 2018, including estimated interest payments:

<i>(in thousands)</i>	Contractual Cash Flow	Less than 1 Year	1-2 Years	3-5 Years	Thereafter
Accounts payable and accrued liabilities	\$ 31,582	\$ 31,582	\$ -	\$ -	\$ -
Senior loan ⁽¹⁾	35,685	1,295	34,390	-	-
Preferred share obligation ⁽²⁾	138,737	8,708	8,731	121,298	-
Total	\$ 206,004	\$ 41,585	\$ 43,121	\$ 121,298	\$ -

⁽¹⁾Includes future interest expense at the rate of 3.8% being the rate applicable at March 31, 2018 to the current maturity date of June 30, 2019.

⁽²⁾The amount differs from that presented on the statement of financial position due, in part, to the unamortized portion of issuance costs along with the preferred share equity component, which are offset against the loan principal on the statement of financial position, and finance cost at the coupon rate of 9.0% per annum. The table reflects the full interest obligation to the maturity date of January 25, 2023. These preferred shares may be converted to common shares at the option of the investor.

Letter of Credit

The Company has an outstanding letter of credit in favor of the energy regulator in North Dakota in the amount of US\$75,000. As security, the Company has set aside an equivalent amount in cash at the financial institution that issued the letter of credit. In addition, the Company has advanced funds to other regulatory agencies of US\$125,000 as security in order to operate in North Dakota.

Related Party Transactions

Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During 2017, the Company had a secured, subordinated, revolving credit facility which was available to be drawn in US dollars and which had a capacity of US\$80.0 million with a maturity date of January 15, 2019. The credit facility was provided by two significant shareholders of the Company, one of whom is the Executive Chairman of our Board of Directors. This facility was repaid and terminated following completion of the preferred share financing in January 2018. In May 2016, as partial consideration for extending the term of the subordinated loan, increasing the facility capacity and agreeing to continue to defer cash interest payments at the time, the Company granted 2 million common share purchase warrants to the subordinated lenders, pro rata to their participation in the revised commitment amount. Each warrant entitled the holder to acquire one common share at \$0.75 for a period of two years. These warrants were valued at \$684,000 on the date of issuance and reflected in shareholders' equity on the statement of financial position. These warrants were all exercised in March 2018 for net proceeds to the Company of \$1.5 million.

Summary of Quarterly Results

Three month period ended (in thousands):	3/31/2018	12/31/2017	9/30/2017	6/30/2017	3/31/2017	12/31/2016	9/30/2016	6/30/2016
Oil and natural gas sales, net of royalties	\$ 15,574	\$ 8,171	\$ 5,738	\$ 8,357	\$ 11,903	\$ 5,951	\$ 4,457	\$ 4,521
Cash flow from operations ⁽¹⁾	7,856	2,333	3,627	9,350	3,960	2,021	3,960	1,076
Net income (loss)	2,351	(1,482)	(854)	(847)	90	(3,048)	(3,387)	(2,947)
Net income (loss) per share - basic and diluted	\$ 0.01	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.09)	\$ (0.10)	\$ (0.09)

⁽¹⁾See Note 2 to the consolidated financial statements which describes the impact of a change in classification of finance expense in the statement of cash flows.

Factors that influenced quarterly variations

Quarter over quarter fluctuations are attributable to the items discussed below. The first quarter of 2018 saw significant increased production volumes and improved oil pricing which resulted in net income, higher revenue and improved cash flow from operations. Revenues in the fourth quarter of 2017 increased compared to the third quarter due to higher production volumes from new wells and a stronger commodity price environment. Despite the increase in revenues in the fourth quarter of 2017, an unrealized loss on financial derivatives resulted in a larger net loss in this period than the third quarter of 2017. Stabilizing production on new wells and lower WTI prices resulted in the decreased sales revenue in the three months ended September 30, 2017 and the three months ended June 30, 2017. Cash flow from operations in the third quarter of 2017 decreased relative to the second quarter of 2017 due to a large reduction in non-cash working capital in the second quarter of 2017. The first quarter of 2017 saw significant increased production volumes which resulted in increased sales which, along with lower operating costs, produced positive net income for that quarter and an improvement in cash flow from operations. During the quarter ended December 31, 2016, higher production volumes, higher realized prices and lower general and administrative expenses were slightly offset by higher finance expense and higher depletion expense. Net loss for the quarter ended September 30, 2016 increased from the prior quarter due to lower production volumes and higher finance expense offset by lower depletion and general and administrative expenses.

Cash flow from operating activities generally increased or decreased during the periods presented in a manner consistent with changes in revenues, except in the quarters ended September 30 and December 31, 2016 and June 30 and September 30, 2017 where the impact of changes in non-cash working capital offset the impact of changes in operating results.

The Company has made several acquisitions and participated in drilling programs which have generally increased production volumes over the past 24 months.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates.

Reserves

The estimation of oil and natural gas reserves is critical to various accounting estimates. It requires various judgments based on available geophysical, geological, engineering and economic data. These estimates can change materially as information from ongoing exploratory, development and production activities become available. These estimates can also change as economic conditions impacting crude oil and natural gas prices, royalties and operating costs change. Reserve estimates can change net income (loss) through their impact on depletion expense, accretion expense from decommissioning obligations and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or a negative impact on net income (loss). The Company obtains an independent engineering report annually, with the latest being as at December 31, 2017.

Decommissioning obligation

The calculation of the decommissioning obligation in the statement of financial position is based on estimated costs to abandon and reclaim the Company's net ownership in all wells and facilities, the estimated timing of the costs to be incurred and economic inflation and discount rates. These estimates can be impacted by technological advances, changes in laws and regulations or economic conditions and can impact the amount of the decommissioning obligation and net income (loss) through depletion and depreciation expense and accretion reflected as finance expense in the statement of operations.

Business combinations

In accounting for an acquisition, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired. The amounts allocated to PP&E and decommissioning obligations can have an impact on depletion and depreciation expense, future impairments (if any) and accretion expense.

Share-based compensation

The calculation of share-based compensation expense includes estimates of future interest rates, forfeiture rates, stock price volatility and the expected timing of exercise of stock options and share awards. These estimates can impact net income (loss) and contributed surplus.

Preferred Shares

The preferred shares are a hybrid security given they have both debt and equity features. This necessitated an estimation of the fair value of the debt component of the preferred shares, requiring judgement in determining equivalent terms of a debt instrument without an equity conversion feature. These estimates can impact net income

(loss) and the amounts reflected as preferred share obligation and preferred share equity component on the statement of financial position.

Warrants

In accounting for warrants issued, management is required to make estimates of future interest rates and stock price volatility. These estimates can change the amount recorded to warrants in the statement of financial position as well as finance expense and net income (loss) in the statement of operations.

Deferred income taxes

The calculation of deferred income taxes includes estimates of timing of reversal of temporary differences, tax rates substantively enacted and likelihood of assets being realized. These estimates can impact net income (loss) and deferred tax assets and liabilities.

New and Future Accounting Pronouncements

IFRS 9 – “Financial Instruments” was adopted effective January 1, 2018. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost; fair value through other comprehensive income (“FVOCI”); or fair value through profit or loss (“FVTPL”). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and by contractual cash flow characteristics.

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. The new impairment model applies to financial assets measured at amortized cost, and contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39. There was no impact on the Company’s financial statements.

Cash and cash equivalents and trade and other receivables continue to be measured at amortized cost and are now classified as “amortized cost”. The Company’s financial liabilities continue to be measured at amortized cost. The Company has not designated any financial instruments as FVOCI or FVTPL, nor does the Company use hedge accounting for any of its commodity financial derivatives.

IFRS 15 – “Revenue from Contracts with Customers” was issued in May 2014 to replace IAS 11 – “Construction Contracts” and IAS 18 – “Revenue” and related interpretive guidance. IFRS 15 provides a single, principles based model to be applied to all contracts with customers as well as new disclosure requirements with the objective of a more structured approach, improving comparability across entities and industries. Effective January 1, 2018, the Company adopted IFRS 15 using the retrospective effect method. The new standard did not have a material impact on net income in the statement of operations. However, the Company has provided enhanced disclosures related to its Revenue which are reflected in Note 10 to the consolidated interim financial statements.

The Company’s revenue recognition accounting policy, as revised with the adoption of IFRS 15, is as follows:

Revenues associated with the production and sale of petroleum products owned by the Company are recognized at the point in which control of the products is transferred to the buyer, which may be when the production enters that party’s pipeline or processing facility. Processing or transportation fees costs associated with petroleum production are netted against the related revenue if they are incurred following the transfer of control to the entity who has purchased the commodity. If transportation or processing costs are incurred prior to the sale of the relevant commodity, such costs are reflected separately as an expense in the statement of operations.

In addition, the Company is required to evaluate its arrangements with its joint venture partners to determine if the Company acts as the principal or as an agent in respect of the sale of the partner's interest in production. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the products, having the ability to establish prices or assuming inventory risk. In the Company's case, it is acting in the capacity of an agent rather than as a principal in commodity sales transactions on its operated properties, and the revenue is recognized on a net basis.

IFRS 16 – "Leases" is a new standard which introduces a single lessee accounting model with required recognition of assets and liabilities for most leases. It is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted, and is to be applied retrospectively. The extent of the impact of adoption of this new standard on the Company has not been fully assessed at this time.

Business Conditions and Risks

The Company is engaged in the acquisition, exploration, development and production of crude oil and natural gas. The Company's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates, and the ability to access debt and equity financing at a reasonable cost, or at all. Operational risks include the performance of the Company's properties, competition for land and services, environmental factors, reservoir performance uncertainties, a complex regulatory environment and safety concerns, and reliance on the operators of a portion of the Company's properties.

When acquiring land, the Company uses technical and industry knowledge to evaluate potential hydrocarbon plays in order to pay what it believes are economically sound prices that will benefit PetroShale's shareholders. The Company's focus is on areas in which the prospects are understood by management.

The Company minimizes operational risks by participating with well-established operators of our non-operated properties, and by engaging experienced service providers on our operated properties. Because we do not operate a portion of our existing US properties we have limited ability to exercise influence over, and control the risks associated with, operations of these properties. The failure of an operator of the Company's non-operated properties to adequately perform operations, an operator's breach of the applicable agreements or regulations or an operator's failure to act in ways that are in the Company's best interests could reduce production and revenues or could create a liability for the Company for the operator's failure to properly maintain wells and facilities or to adhere to applicable safety and environmental standards. With respect to properties that the Company does not operate:

- The operator could refuse to initiate exploration or development projects;
- If the Company proceeded with any of those projects the operator has refused to initiate, PetroShale may not receive any funding from the operator with respect to that project and thus bear all the risk;
- The operator may initiate exploration or development projects on a different schedule than the Company would prefer, possibly resulting in lease expirations.
- The operator may propose greater capital expenditures, or on a different schedule than the Company anticipated, including expenditures to drill more wells or build more facilities on a project than the Company has funds for, which may mean that the Company cannot participate in those projects or participate in a substantial amount of the revenues from those projects; and
- The operator may not have sufficient expertise or resources.

Any of these events could significantly and adversely affect anticipated exploration and development activities carried out on its properties which the Company does not operate, and the results of those activities.

PetroShale's focus is on areas and geological formations in which the prospects are understood by management. Technological tools are regularly used to reduce risk and increase the probability of success.

PetroShale relies on appropriate sources of funding to support the various stages of the Company's business strategy. There is no guarantee that external sources of financing will be available in the future, on favorable terms or at all. The various sources of funding include:

- Internally-generated cash flow from operations;
- New equity, if available on favorable terms, may be utilized to fund acquisitions, to expand capital programs when appropriate and to repay any outstanding debt; and
- Debt, in the form of traditional oil and gas borrowing base bank facilities, and/or subordinated debt which typically has a higher cost than bank debt.

The Company is exposed to commodity price and market risk for our principal products of crude oil and natural gas. Commodity prices are influenced by a wide variety of factors, most of which are beyond PetroShale's control. To manage this risk, the Company may enter into financial derivative contracts for hedging purposes. These derivative contracts may relate to crude oil and natural gas prices, as well as foreign exchange and interest rates. The Company may also, from time to time, enter into fixed physical contracts. The Company monitors the cost and associated benefit of these instruments and contracts as well as any debt levels and utilization rates on debt lines, and utilizes these derivatives and contracts when warranted. Although the Company's intent in entering into such derivative contracts is to manage its exposure to fluctuations in commodity prices, such contracts may limit the Company's ability to fully realize the benefits of higher market prices.

To reduce the anticipated impact of future volatility in commodity prices, the Company has entered into the following oil commodity price hedges.

Term	Type	Volumes	Price (per Bbl \$US)	Reference
April 1, 2018 to December 31, 2018	Collar	500 Bopd	\$45.00 - \$55.70	WTI
April 1, 2018 to December 31, 2018	Collar	500 Bopd	\$45.00 - \$57.00	WTI
April 1, 2018 to December 31, 2018	Collar	500 Bopd	\$47.00 - \$56.75	WTI

Risk of cost inflation subjects the Company to potential erosion of product netbacks and returns from well drilling and completion activities. For example, increasing costs of oil and natural gas production equipment and services can inflate operating costs and/or drilling and well completion expenditures. In addition, increasing prices for undeveloped land can inflate costs of both asset and corporate acquisitions.

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a reasonable cost and produce them in an economic and timely fashion. In periods of increased activity, these services and supplies can become difficult to obtain. The Company and the operators of its non-operated properties attempt to mitigate this risk by developing long-term relationships with suppliers and contractors.

The oil and natural gas industry has various environmental risks subject to regulation by various governmental bodies. Environmental legislation includes, but is not limited to, operational controls, site restoration and abandonment requirements and restrictions on emissions of various substances related to the production of oil and natural gas. The North Dakota Industrial Commission (“NDIC”) has adopted rules requiring operators to have a gas capture plan for new wells and placing production restrictions to reduce gas flaring. Compliance with this legislation may require additional costs and a failure to comply may result in fines and penalties, and/or a requirement to shut-in production. This may also result in delays to commencement of production from oil wells where associated gas production may not yet be tied in to gathering and processing facilities. Additionally, an increase in demand for gas gathering infrastructure and supply of natural gas could increase related processing costs and decrease realized prices, negatively impacting realizations from production.

Demand for crude oil, natural gas liquids (“NGLs”) and natural gas produced by the Company exists within Canada and the United States; however, crude oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are currently primarily affected by factors restricted to the North American market. Demand for natural gas liquids is influenced mainly by the demand for petrochemicals in North American and off-shore markets.

PetroShale mitigates these risks as follows:

- PetroShale and the operators of certain of our properties attempt to explore for and produce crude oil that is high quality (light, sweet), mitigating the Company's exposure to adverse quality differentials;
- Natural gas production will generally be connected to established pipeline infrastructure or other uses for the natural gas may be found;
- Sale arrangements will vary in term and pricing structure creating a diverse portfolio that minimizes risk of exposure to any one market; and
- Financial derivative instruments may be used where appropriate to manage commodity price volatility.

PetroShale drilled and completed its first operated well in the fourth quarter of 2016 and drilled four additional operated wells at the end of 2017. The Company intends to drill and complete additional operated wells going forward. Previously, the Company relied on third parties to operate production and drill wells on our land. Conducting operations exposes the Company to additional risks in terms of engaging service suppliers and drilling contractors, the normal oilfield risks of dangerous operations and the potential for discharge of hazardous substances into the environment, arranging for marketing of the Company's oil and natural gas production, as well as financing the costs of completing wells and recovering a share of those costs from our non-operating partners. The Company has and will continue to engage appropriate resources to ensure these risks are managed to the extent possible.

PetroShale owns leases from individual mineral owners (Fee Leases), the State of North Dakota acting by and through the Board of University and School Lands (State Leases), individual native owners with approval from the Secretary of the Interior of the Bureau of Indian Affairs (Allotted or BIA Leases), and the Bureau of Land Management (Federal Leases). PetroShale adheres to the National Environmental Policy Act in its operations and is under the regulatory authority of the North Dakota Industrial Commission, the Bureau of Indian Affairs (BIA), the Bureau of Land Management and the Department of the Interior's Office of Natural Resources Revenue. The Allotted leases are held in trust by the United States for the benefit of individual native owners and are subject to restrictions against alienation or encumbrance without approval of the Secretary of the Interior. All of the Company's Allotted Leases are located within the boundaries of the Fort Berthold Indian Reservation (FBIR) which makes the Company subject to unique regulations that are not applicable to lands outside the FBIR. The Company mitigates this risk by maintaining good relationships with the BIA and staying abreast of current regulations. PetroShale's ability to execute projects and realize the benefits therefrom is subject to factors beyond our control, including changes to regulations promulgated by any of the above entities.

PetroShale owns interests in certain oil and natural gas leases beneath the Missouri River in North Dakota. In late 2013, the North Dakota Supreme Court upheld that the State of North Dakota owns the mineral rights under the navigable portions of the Missouri River up to the delineated high water mark. PetroShale had purchased interests in certain leases which were negatively impacted by the decision, although not material to PetroShale in aggregate. There is ongoing litigation as to the proper delineation of the high water mark which could further impact PetroShale's interest in these leases, positively or negatively.

Like most companies of our size, PetroShale has a limited number of accounting and finance personnel, and therefore it is difficult to create strong segregation of duties which is normally a feature of a company's internal control structure. Management mitigates this risk through performance of analytical review on operating and financial results.

Non-IFRS Measures

The reconciliation between funds flow from operations, as defined herein, and cash flow from operating activities, as defined by IFRS, is as follows:

<i>(in thousands)</i>	Three months ended December 31,	
	2018	2017
Cash flow from operating activities	\$ 7,856	\$ 3,960
Change in non-cash working capital	3,054	4,070
Funds flow from operations	\$ 10,910	\$ 8,030

The reconciliation between net loss and EBITDA, as defined herein, is as follows:

<i>(in thousands)</i>	Three months ended March 31,	
	2018	2017
Net income	\$ 2,351	\$ 90
Add back (subtract):		
Depletion and depreciation	4,421	4,034
Finance	2,586	3,871
Share-based compensation	650	96
Unrealized (gain) loss on financial derivatives	902	(61)
EBITDA	\$ 10,910	\$ 8,030

Off Balance Sheet Arrangements

PetroShale is not involved with any contractual arrangement under which a non-consolidated entity may have an obligation under certain guarantee contracts, a retained or contingent interest in assets transferred to a non-consolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets. PetroShale has no obligation under financial instruments or a variable interest in a non-consolidated entity that provides financing, liquidity, market risk or credit risk support to the Company.

Additional Information

Additional information can be obtained by contacting the Company at PetroShale Inc., Suite 3230, 421-7th Avenue SW, Calgary, Alberta T2P 4K9 or by email at info@petroshaleinc.com. Additional information is also available on www.sedar.com or www.petroshaleinc.com.