PetroShale

Calgary • Denver

Consolidated Interim Financial Statements

As at June 30, 2019

and for the three and six months ended June 30, 2019 and 2018

PetroShale
Calgary • Denver

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

As at (thousands of Canadian dollars)	NOTE	**June 30, 2019**	**December 31, 2018**
ASSETS			
Current assets			
Cash and cash equivalents		$ 7,546	$ 491
Accounts receivable		38,087	26,677
Prepaid expenses and deposits		686	213
		46,319	27,381
Non-current assets			
Restricted cash	12	263	273
Deferred income tax asset		2,011	3,305
Right-of-use asset	3	196	-
Property, plant and equipment	4	449,918	373,063
		452,388	376,641
		$ 498,707	$ 404,022
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 85,849	$ 44,049
Lease liabilities	6	186	-
		86,035	44,049
Non-current liabilities			
Senior loan	7	132,470	71,398
Lease liabilities	6	16	-
Preferred share obligation	8	86,537	88,912
Decommissioning obligation	5	5,402	4,934
		224,425	165,244
Total liabilities		310,460	209,293
SHAREHOLDERS' EQUITY			
Common shares	9	201,140	200,651
Preferred share equity component	8	7,510	7,510
Contributed surplus	9	5,394	5,444
Deficit		(27,276)	(28,013)
Accumulated other comprehensive income		1,479	9,137
		188,247	194,729
Commitments	12		
Subsequent event	16		
		$ 498,707	$ 404,022

See accompanying notes to the consolidated interim financial statements.

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CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

(thousands of Canadian dollars, except per share amounts)	NOTE	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Revenue					
Petroleum and natural gas	10	$ 30,476	$36,170	$51,802	$55,443
Royalties		(6,057)	(6,924)	(10,153)	(10,623)
		24,419	29,246	41,649	44,820
Other income and loss					
Realized loss on financial derivatives		-	(2,010)	-	(3,105)
Unrealized loss on financial derivatives		-	(970)	-	(1,872)
		-	(2,980)	-	(4,977)
		24,419	26,266	41,649	39,843
Expenses					
Production and operating		5,853	5,011	11,406	7,746
Transportation		1,157	578	2,019	858
General and administrative		1,065	1,322	2,299	1,876
Depletion and depreciation	3,4	8,280	8,919	14,912	13,340
Finance	13	4,567	3,639	8,334	6,225
Share-based compensation	9	283	523	753	1,173
		21,205	19,992	39,723	31,218
Net income before income taxes		3,214	6,274	1,926	8,625
Deferred income tax expense		(1,481)	-	(1,189)	-
Net income		1,733	6,274	737	8,625
Currency translation adjustment		(3,602)	2,606	(7,658)	5,389
Comprehensive income (loss) for the period		$ (1,869)	$ 8,880	$ (6,921)	$14,014
Net income per common share, basic and diluted	11	$ 0.01	$ 0.04	$ -	$ 0.05

See accompanying notes to the consolidated interim financial statements.

PetroShale
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CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)
For the six months ended June 30, 2019 and 2018
(thousands of Canadian dollars, except share amounts)

	Voting Common Shares: Shares	Voting Common Shares: Amount	Warrants	Preferred Share Equity Component	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
Balances, December 31, 2017	157,137,767	$ 142,379	$ 684	$ -	$ 3,547	$ (55,069)	$ (2,892)	$ 88,649
Issuance of Preferred shares - equity component	-	-	-	10,041	-	-	-	10,041
Exercise of warrants to purchase common shares for cash	2,000,000	2,184	(684)	-	-	-	-	1,500
Exercise of options to purchase common shares for cash	30,000	36	-	-	(15)	-	-	21
Share-based compensation, gross	-	-	-	-	1,250	-	-	1,250
Net income	-	-	-	-	-	8,625	-	8,625
Other comprehensive income	-	-	-	-	-	-	5,389	5,389
Balances, June 30, 2018	159,167,767	$ 144,599	$ -	$ 10,041	$ 4,782	$ (46,444)	$ 2,497	$ 115,475
Balances, December 31, 2018	191,758,236	$ 200,651	$ -	$ 7,510	$ 5,444	$ (28,013)	$ 9,137	$ 194,729
Purchase of common shares for cancellation	(83,000)	(81)	-	-	-	-	-	(81)
Settlement of RSUs	496,339	570	-	-	(1,026)	-	-	(456)
Share-based compensation, gross	-	-	-	-	976	-	-	976
Net income	-	-	-	-	-	737	-	737
Other comprehensive loss	-	-	-	-	-	-	(7,658)	(7,658)
Balances, June 30, 2019	192,171,575	$ 201,140	$ -	$ 7,510	$ 5,394	$ (27,276)	$ 1,479	$ 188,247

See accompanying notes to the consolidated interim financial statements.

PetroShale
Calgary • Denver

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)

(thousands of Canadian dollars)	NOTE	Six Months ended June 30, 2019	2018
Operating Activities			
Net income		$ 737	$ 8,625
Operating items not affecting cash:			
Depletion and depreciation		14,912	13,340
Deferred income tax		1,189	-
Unrealized loss on financial derivatives		-	1,872
Share-based compensation		753	1,173
Finance		8,334	6,225
Change in non-cash working capital	14	(7,341)	(1,645)
		18,584	29,590
Investing Activities			
Acquisition of property, plant and equipment	4	(3,183)	(24,281)
Additions to property, plant and equipment	4	(104,157)	(53,229)
Change in non-cash working capital	14	38,215	(16,935)
		(69,125)	(94,445)
Financing Activities			
Proceeds from convertible preferred share issuance, net	8	-	89,991
Proceeds from exercise of warrants		-	1,500
Proceeds from exercise of options		-	21
Payment of lease liabilities		(96)	-
Purchase of common shares for cancellation		(81)	-
Settlement of RSUs		(456)	-
Repayment of subordinated loan, net		-	(30,993)
Proceeds from (repayment of) senior loan, net	7	65,199	(10,921)
Payment of interest and preferred dividends	13,14	(7,048)	(3,021)
		57,518	46,577
Change in cash and cash equivalents		6,977	(18,278)
Effect of foreign exchange rate changes		78	1,065
Cash and cash equivalents, beginning of period		491	18,421
Cash and cash equivalents, end of period		$ 7,546	$ 1,208

See accompanying notes to the consolidated interim financial statements.

1. BUSINESS AND NATURE OF OPERATIONS

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

The Company's Corporate head office is located at Suite 3230, 421 - 7th Avenue SW, Calgary, Alberta. The Company's US head office is located at 303 E. 17th Avenue, Suite 940, Denver, CO 80203.

2. BASIS OF PREPARATION

These consolidated interim financial statements and the notes thereto should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended December 31, 2018 and do not include all the information required for full annual financial statements.

These consolidated interim financial statements are unaudited and have been prepared in accordance with IAS 34 – "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated interim financial statements have been prepared using the historical cost basis, except for financial derivative instruments which are measured at fair value.

These consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, PetroShale (US), Inc. The Company's presentation and functional currency is the Canadian dollar. The functional currency of the Company's US subsidiary is the US dollar, and its results and balance sheet items are translated to Canadian dollars, for purposes of these consolidated financial statements, in accordance with the Company's foreign currency translation accounting policy.

These consolidated interim financial statements were approved by the Company's Board of Directors on August 27, 2019.

The accounting policies applied for the consolidated interim financial statements as at and for the three and six months ended June 30, 2019 are consistent with those applied for the financial statements as at and for the most recent audited period, except as follows.

Adoption of IFRS 16 – *Leases*

In January 2016 the IASB issued IFRS 16 *Leases* which replaces IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lea*se. The Company adopted the new standard on January 1, 2019 which provides a single recognition and measurement model for lessees to recognize assets and liabilities for contracts that are, or contain, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset (''ROU") and a lease liability at the lease commencement date. The ROU asset is initially measured at cost based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date. The assets are depreciated to the earlier of the end of the useful life of the ROU asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. PetroShale presents ROU as its own line item on the consolidated statement of financial position. In addition, the ROU is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability. The average depreciation term is 1.1 years.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero. Lease payments are applied against the lease obligation, with a portion reflected as interest expense using the effective interest rate method. PetroShale presents the lease liability as its own line item on the consolidated statement of financial position.

PetroShale has used the modified retrospective approach, which does not require restatement of prior period financial information as it applies the standard prospectively. The effect of initially applying the standard was an $0.3 million increase to ROU assets, with a corresponding lease liability recorded. The ROU asset was measured at the amount equal to the lease liability on January 1, 2019 with no impact on deficit. The lease liability was measured at the present value of the remaining lease payments, discounted using PetroShale's incremental borrowing rate as at January 1, 2019. The weighted average incremental borrowing rate used to determine the lease obligation on adoption was approximately 6.5 percent based on the Company's total cost of debt and preferred share financing. The ROU assets and lease liabilities recognized relate to the Company's head office lease in Denver.

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include

- Incremental borrowing rate: The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term.

The Company has elected to apply practical expedients to not recognize right-of-use assets and lease obligations for short term leases that have a lease term of 12 months or less, and leases of low-value assets are not considered material at June 30, 2019.

(tabular amounts in $000's of Canadian dollars, unless otherwise noted)

3. RIGHT-OF-USE-ASSETS

The following table reflects right-of-use assets:

Balance at January 1, 2019	$	298
Additions		-
Depreciation		(92)
Effect of foreign exchange rate changes		(10)
Balance as at June 30, 2019	$	196

See note 2 for more information on IFRS 16 and our accounting policy regarding right-of-use assets.

4. PROPERTY, PLANT AND EQUIPMENT

	Developed and Producing Assets	Other	Total
Balances as at December 31, 2017	$ 184,081	$ 91	$ 184,172
Acquisitions	93,520	-	93,520
Additions	101,532	160	101,692
Depletion and depreciation	(30,977)	(59)	(31,036)
Effect of foreign exchange rate changes	24,696	19	24,715
Balances as at December 31, 2018	372,852	211	373,063
Acquisitions	3,183	-	3,183
Additions	104,969	69	105,038
Depletion and depreciation	(14,728)	(92)	(14,820)
Effect of foreign exchange rate changes	(16,538)	(8)	(16,546)
Balances as at June 30, 2019	$ 449,738	$ 180	$ 449,918

Acquisitions

For the six months ended June 30, 2019 the Company acquired $3.2 million of non-producing properties.

Depletion, Depreciation, and Future Development Costs

For the six months ended June 30, 2019 and 2018, the Company recorded $14.8 million and $13.3 million, respectively, of depletion and depreciation expense, which reflected an estimated US$360 million and US$275 million, respectively of future development costs associated with proven plus probable reserves.

Impairment Charges

As at June 30, 2019 there were no facts or circumstances which suggested there is a trigger for impairment of the Company's Developed and Producing Assets. Therefore an impairment test was not required.

Capitalized Overhead

During the six months ended June 30, 2019, the Company capitalized $537,000 of general and administrative costs and $223,000 of share-based compensation, which are directly attributable to the acquisition and exploitation activities of certain of its personnel in relation to the Company's operated properties ($731,000 and $77,000, respectively for the six months ended June 30, 2018).

(tabular amounts in $000's of Canadian dollars, unless otherwise noted)

5. DECOMMISSIONING OBLIGATION

Balance as at December 31, 2017	$	2,473
Acquisition of petroleum and natural gas properties		1,429
Additions		570
Revisions of estimated cash flows		76
Accretion		73
Effect of foreign exchange rate changes		313
Balance as at December 31, 2018		4,934
Acquisitions of petroleum and natural gas properties		233
Additions		378
Accretion		65
Effect of foreign exchange rate changes		(208)
Balance as at June 30, 2019	$	5,402

The Company's decommissioning obligation consists of remediation obligations resulting from its ownership interests in petroleum and natural gas assets. The total obligation is estimated based on the Company's net working interest in wells and related facilities, estimated costs to return these sites to their original condition, costs to plug and abandon wells and the estimated timing of the costs to be incurred in future years.

The total undiscounted amount of estimated future cash flows required to settle the obligation as at June 30, 2019 is $11.0 million (December 31, 2018 – $9.7 million) which includes an annual inflation factor of 2.4% (December 31, 2018 – 2.4%) applied to the estimated future costs of decommissioning and assumes that the liabilities are settled over approximately the next 40 years in accordance with estimates prepared by independent engineers. The estimated future cash flows as at June 30, 2019 have been discounted at the risk-free interest rate of 3.1% (December 31, 2018 – 3.1%).

6. LEASE LIABILITIES

At June 30, 2019 the Company had future commitments relating to lease liabilities as follows:

Less than 1 year	$	194
1-3 years		16
Total lease payments		210
Discounting interest		(8)
Present value of lease payments		202
Current Portion of lease obligations		(186)
Non-current portion of lease obligation	$	16

Cash flow from financing activities for the six months ended June 30, 2019 was $96k lower due to the deduction of the lease payments reflected in this section while cash flow from operating activities increased $96k.

(tabular amounts in $000's of Canadian dollars, unless otherwise noted)

7. DEBT

	Senior Loan	Subordinated Loan	Total Debt
Balances as at December 31, 2017	$ 49,891	$ 30,640	$ 80,531
Proceeds from (repayment of) loans, net	16,492	(30,993)	(14,501)
Net change in unamortized fees	-	108	108
Effect of foreign exchange rate changes	5,015	245	5,260
Balances as at December 31, 2018	71,398	-	71,398
Proceeds from loans, net	65,199	-	65,199
Effect of foreign exchange rate changes	(4,127)	-	(4,127)
Balances as at June 30, 2019	$ 132,470	$ -	$ 132,470

Senior Loan

The Company's senior loan is a revolving credit facility, which as at June 30, 2019 had a borrowing base of US$140.0 million ($183 million). The facility terms out on June 27, 2020, at which point, the facility can be extended at the option of the lenders, or if not extended, the facility would be converted to a non-revolving facility with a term maturing on June 27, 2021. This facility is secured by all of the Company's assets. The facility bears interest at the bank's prime lending rate, bankers' acceptance rates or US$ LIBOR rates plus a margin which is determined by the Company's senior debt to EBITDA ratio. EBITDA used for determining this ratio is defined in our senior loan agreement ("bank EBITDA") and may be different from that measurement referred to in the Company's other disclosures including its Management's Discussion & Analysis. During the three months ended June 30, 2019, the effective interest rate for the Company's LIBOR borrowings was 4.3% per annum (4.2% - December 31, 2018).

The borrowing base capacity of the senior loan facility is subject to a review performed at least twice annually by the lenders, based on reserve reports associated with the Company's U.S. petroleum and natural gas properties. A decrease in the borrowing base could result in the requirement to make a repayment to the lenders. The senior lenders completed their review of the Company's year end 2018 reserves and agreed to increase the borrowing base capacity of the facility from US$125 million to US$140 million in June 2019. Lenders are expected to complete their review of mid-year reserves by the end of October 2019.

The credit facility is subject to certain non-financial covenants and is in compliance with all of the covenants under the senior loan as at June 30, 2019.

The facility was drawn approximately US$101.2 million as at June 30, 2019 (December 31, 2018 – US$52.4 million).

(tabular amounts in $000's of Canadian dollars, unless otherwise noted)

8. PREFERRED SHARES

	Number of Preferred Shares	Liability Component	Equity Component
Balances as at December 31, 2017			
Issuance of preferred shares	75,000	$ 79,949	$ 10,041
Accretion	-	2,099	-
Effect of foreign exchange rate changes	-	6,864	-
Deferred tax liability	-	-	(2,531)
Balances as at December 31, 2018	75,000	$ 88,912	$ 7,510
Issuance of preferred shares	-	-	-
Accretion	-	1,213	-
Effect of foreign exchange rate changes	-	(3,588)	-
Balances as at June 30, 2019	75,000	$ 86,537	$ 7,510

The preferred shares have a maturity date of January 25, 2023, which may be extended at the option of the Investor by one year. The preferred shares entitle the Investor to a cumulative annual dividend of 9.0% per annum, payable quarterly, except that no dividends shall be payable for the extension year, if any. The Company may elect to defer up to two quarterly dividend payments per twelve month period, subject to a cumulative limit of six quarterly dividend payments over the term of the preferred shares and only following the first anniversary of the issuance date. Any deferred dividend payments accrue at a rate of 12.0% per annum and are added to the issuance amount of the preferred shares to determine the redemption obligation at maturity or the amount which may be converted to common shares at the option of the Investor. The preferred shares may be converted by the Investor, in whole or in part, into common voting shares of the Company at a price of US$2.40 per share and using an exchange rate of C$1.00 = US$0.795, following the first anniversary of the issuance date. As part of the financing, the Investor acquired voting preferred shares of the Company which entitle the Investor to the "as-exchanged" voting rights of the preferred shares. The Company may elect to redeem the preferred shares prior to the maturity date, by making a "make-whole" premium payment in addition to the maturity redemption amount otherwise determined. The make-whole premium is 5% of the redemption amount otherwise determined if redemption occurs prior to the third anniversary of the issuance date, 2.5% if made after the third anniversary date but before the fourth anniversary date, and is nil if made after the fourth anniversary. The Company's ability to exercise this early redemption right is conditional on the Company's common shares having a certain minimum price and minimum amount of trading liquidity in the thirty days preceding the optional redemption date.

(tabular amounts in $000's of Canadian dollars, unless otherwise noted)

9. SHARE CAPITAL

a) Share capital

The following table reflects the Company's outstanding common shares as at June 30, 2019:

	Number of Voting Shares	Share Capital
Balance as at December 31, 2017	157,137,767	$ 142,379
Issuance of common shares by prospectus, net of issue costs	24,865,300	42,451
Issuance of common shares by private placement, net of issue costs	6,756,905	12,460
Exercise of warrants to purchase common shares	2,000,000	2,184
Exercise of options to purchase common shares	998,264	1,177
Balance as at December 31, 2018	191,758,236	$ 200,651
Purchase of common shares for cancellation	(83,000)	(81)
Settlement of RSUs	496,339	570
Balance as at June 30, 2019	192,171,575	$ 201,140

b) Normal course issuer bid:

On February 7, 2019, the Company announced that the TSX Venture Exchange had accepted the Company's intention to commence a normal course issuer bid ("NCIB"). Pursuant to the NCIB, the Company is permitted to purchase up to 9,839,663 voting common shares of the Company between February 8, 2019 and February 8, 2020. During the three months ended June 30, 2019, the Company purchased and cancelled 83,000 shares at an average price of $0.97 per Common Share for a total repurchase cost of $81 thousand.

c) Stock options

The following table presents stock option activity :

	Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Balance as at December 31, 2017	1,548,264	$	0.70	2.13
Exercised	(998,264)		(0.70)	(1.28)
Balance as at December 31, 2018 and June 30, 2019	550,000	$	0.70	2.06

(tabular amounts in $000's of Canadian dollars, unless otherwise noted)

As at June 30, 2019, 419,999 outstanding options were exercisable.

d) Restricted awards

The Company has granted restricted share bonus awards ("awards") to certain directors, officers and employees. These awards expire before the end of the third year from the date of grant and vest annually in three equal tranches following the date of issuance. The awards may be settled by the Company, in its sole discretion, in cash and/or common shares of the Company. The estimated fair value of the awards is determined based on the current market value of the Company's common shares at the dates of grant and giving consideration to anticipated forfeiture rates. A charge to income is reflected as share based compensation expense in the statement of operations over the vesting period with a corresponding increase to contributed surplus.

	Number of Awards		Estimated Fair Value Price
Balance as at December 31, 2017	2,625,000	$	1.80
Granted	710,000		1.58
Settled	(41,667)		(1.80)
Forfeited and expired	(108,333)		(1.80)
Balance as at December 31, 2018	3,185,000	$	1.75
Settled	(895,000)		(1.82)
Balance as at June 30, 2019	2,290,000	$	1.73

10. REVENUE

The following reflects the breakdown of our oil and natural gas revenue, before royalties, by commodity type:

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Oil	$ 30,951	$ 35,293	$ 51,628	$ 53,806
Natural gas	(313)	384	10	649
Natural gas liquids	(162)	493	164	988
Total revenue	$ 30,476	$ 36,170	$ 51,802	$ 55,443

The Company has a number of different commodity sales as well as transportation and processing contracts related to production from its properties. To the extent control of the relevant commodity is transferred to the purchaser prior to transportation or processing, fees incurred are netted against the relevant revenue in the statement of operations. To the extent control of the relevant commodity is transferred to a purchaser after transportation or processing, fees are incurred are reflected as transportation expense and as operating expense, respectively in the statement of operations.

The Company sells its production pursuant to variable-priced contracts. The transaction price is based on the relevant commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

(tabular amounts in $000's of Canadian dollars, unless otherwise noted)

11. NET INCOME PER COMMON SHARE

The following table presents the Company's net income per common share:

	Three months ended June 30,		Six months ended June 30,	
(thousands, except for share and per share data)	**2019**	**2018**	**2019**	**2018**
Net income	$ 1,733	$ 6,274	$ 737	$ 8,625
Weighted average number of basic common shares	192,133,374	159,167,767	191,989,090	158,390,806
Weighted average number of basic and diluted common shares	194,631,212	163,001,712	194,488,268	162,992,342
Net income per weighted average basic and diluted common share	$ 0.01	$ 0.04	$ -	$ 0.05

12. COMMITMENTS

The Company has an outstanding letter of credit in favor of an 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 in the amount of US$125,000 as security in order to operate in North Dakota.

The Company is committed to monthly rental payments for office space of $16,000 through July 2020 and monthly rental payments for compressor leases of $40,400 for a minimum of twelve to eighteen months.

13. FINANCE

Six months ended June 30	**2019**	**2018**
Interest - senior debt	$ 2,546	$ 1,211
Interest - subordinated loan	-	244
Dividends - Preferred Shares	4,502	3,743
Accretion of Preferred Shares	1,213	891
Operating lease interest	8	-
Accretion of decommissioning obligation	65	28
Other finance expense	-	108
Finance Expense	$ 8,334	$ 6,225

(tabular amounts in $000's of Canadian dollars, unless otherwise noted)

14. SUPPLEMENTAL CASH FLOW DISCLOSURES

Changes in non-cash working capital are comprised of:

	Six months ended June 30, 2019	2018
Source / (use) of cash:		
Accounts receivable	$ (11,410)	$ (6,333)
Prepaid expenses and deposits	(473)	1
Accounts payable and accrued liabilities	41,800	(8,979)
	$ 29,917	$ (15,311)
Related to operating activities	$ (7,341)	$ (1,645)
Related to investing activities	38,215	(16,935)
Accrued and unpaid dividends on preferred shares	-	2,178
Difference due to foreign exchange	(957)	1,091
	$ 29,917	$ (15,311)
Interest and preferred dividends paid	$ 7,048	$ 3,021
Income taxes paid	nil	nil

(tabular amounts in $000's of Canadian dollars, unless otherwise noted)

15. SEGMENT DISCLOSURES

The Company operates in one industry segment, the production of petroleum and natural gas and development of oil and natural gas properties.

The Company and its subsidiary operated in two geographical segments during the periods reported below, being Canada and the United States.

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Revenue, net of royalties				
United States	$ 24,409	$ 29,228	$ 41,616	$ 44,788
Canada	10	18	33	32
	$ 24,419	$ 29,246	$ 41,649	$ 44,820
Net income (loss)				
United States	$ 2,421	$ 6,941	$ 1,551	$ 10,217
Canada	(688)	(667)	(814)	(1,592)
	$ 1,733	$ 6,274	$ 737	$ 8,625

As at	June 30, 2019	December 31, 2018
Property, plant and equipment		
United States	$ 449,367	$ 372,493
Canada	551	570
	$ 449,918	$ 373,063

16. SUBSEQUENT EVENT

In July 2019, the Company granted, pursuant to its Bonus Award Incentive Plan ("Plan"), an aggregate of 1,731,300 restricted awards ("Restricted Awards") and 1,090,200 performance awards ("Performance Awards") to certain officers and employees of PetroShale. The awards vest as to 20% on July 1, 2020, 20% on July 1, 2021 and the remaining 60% on July 1, 2022, and expire on December 15, 2022. The awards may be settled by PetroShale, in its sole discretion, in cash and/or Shares, in accordance with the terms of the Plan.