PetroShale
Calgary • Denver

Management's Discussion and Analysis &
Interim Consolidated Financial Statements

As at March 31, 2020
and for the three-month periods ended March 31, 2020 and 2019

PetroShale Inc.
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Financial and Operational Highlights

	Three months ended March 31,	
(all $ amounts are presented in Canadian dollars)	**2020**	**2019**
Financial (in thousands, except share and per share amounts)		
Petroleum and natural gas revenue	$ 49,110	$ 21,326
Cash flow provided by operating activities	$ 38,837	$ 20,210
Net loss	$ (17,266)	$ (996)
Per share - diluted	$ (0.09)	$ (0.00)
Adjusted EBITDA [1]	$ 25,027	$ 9,581
Capital expenditures	$ 23,537	$ 46,089
Net debt [1]	$ 363,089	$ 213,720
Common shares outstanding:		
Weighted average - basic	188,937,046	191,758,236
Weighted average - diluted	191,940,212	191,758,236
Operating		
Number of days	91	90
Daily production: [2]		
Crude oil (Bbls)	10,155	3,584
Natural gas (Mcf)	12,230	4,892
Natural gas liquids (Bbls)	2,081	636
Barrels of oil equivalent	14,275	5,036
Average realized price:		
Crude oil ($/Bbl)	$ 53.93	$ 64.10
Natural gas ($/Mcf)	$ 2.02	$ 3.68
Natural gas liquids ($/Bbl)	$ 7.82	$ 18.81
Netback ($ per Boe): [1]		
Petroleum and natural gas revenue	$ 37.81	$ 47.06
Royalties	$ (7.08)	$ (9.04)
Realized gain on financial derivatives	$ 0.48	$ -
Lease operating costs	$ (5.03)	$ (5.34)
Workover expense	$ (0.69)	$ (3.37)
Production taxes	$ (3.12)	$ (3.55)
Transportation expense	$ (2.39)	$ (1.90)
Operating netback [1]	$ 19.98	$ 23.86
Operating net back prior to hedging [1]	$ 19.50	$ 23.86

[1] Non-IFRS measure – see page 5 for a reconciliation of adjusted EBITDA and net debt and a description of operating net back and operating netback prior to hedging.

[2] The Company's reserves have been categorized as Tight Oil and Shale Gas pursuant to National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). Rather than Tight Oil and Shale Gas, the Company has used the terms "crude oil" and "natural gas", respectively, as it feels such terms are more easily understood by users of these interim consolidated financial statements and MD&A as well as consistent with disclosures by industry peers.

Management's Discussion and Analysis

This Management's Discussion and Analysis (the "MD&A") has been prepared by management and was reviewed and approved by the Board of Directors of PetroShale Inc. ("PetroShale" or the "Company") on May 27, 2020. This MD&A should be read in conjunction with PetroShale's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2020 and 2019, and the audited consolidated financial statements as at and for the years ended December 31, 2019 and 2018. The reader should be aware that the operating results discussed below may not be 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:

Term	Description
Bbl	Barrel(s)
Boe	Barrel(s) of oil equivalent
Bopd	Barrels of oil per day
Boepd	Barrels of oil equivalent per day
Mboe	Thousand barrels of oil equivalent
Mcf	Thousand cubic feet
Mcfpd	Thousand cubic feet per day
Mmcf	Million cubic feet per pay
Mmcfd	Million cubic feet per day
Mmboe	Million barrels of oil equivalent
Mmbtu	Million British Thermal Units
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

Production volumes and per Boe calculations are presented on a gross working interest basis, before royalty interests, unless otherwise stated.

Functional and Presentation Currency

Amounts in this MD&A are in Canadian dollars, unless otherwise stated, which is the Company's presentation currency. Transactions of the Company's US subsidiary are recorded in US dollars, as this is the primary economic environment in which this subsidiary operates. The US subsidiary has a US dollar functional currency. In translating the financial results from US dollars to Canadian dollars, the Company uses the following method: assets and liabilities are translated at the exchange rate in effect as at the date of the interim consolidated balance sheet; revenues and expenses are translated at the rate effective at the time of the transaction or the average rate for the period; and changes in shareholders' equity are translated at the rate effective at the time of the transaction. Unrealized gains and losses resulting from the translation to the Canadian dollar presentation currency are included in other comprehensive income.

Non-IFRS Measurements and Changes in Accounting Policies

This MD&A contains the terms "*operating netback*", "*operating netback prior to hedging*", "*net debt*" and "*adjusted EBITDA*" which are not defined by IFRS and therefore may not be comparable to performance measures presented by others.

Operating netback represents petroleum and natural gas revenue, plus or minus any realized gain or loss on financial derivatives, less royalties, lease operating costs, workover expense, production taxes and transportation expense. The operating netback is then divided by the working interest production volumes to derive the operating netback on a per Boe basis.

Operating netback prior to hedging represents operating netback prior to any realized gain or loss on financial derivatives.

Net debt represents total liabilities, excluding decommissioning obligation, deferred income tax liability, lease liability and financial derivative liability, less current assets, excluding financial derivative asset.

Adjusted EBITDA represents cash flow provided by operating activities prior to changes in non-cash working capital.

The Company believes that adjusted EBITDA provides useful information to the reader in that it measures the Company's ability to generate funds to service its debt and other obligations and to fund its operations, without the impact of changes in non-cash working capital which can vary based solely on timing of settlement of accounts receivable and accounts payable. Management believes that in addition to net income (loss) and cash flow provided by operating activities, operating netback and adjusted 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 provided by operating activities, which are determined in accordance with IFRS, as indicators of the Company's performance.

The reconciliation between cash flow provided by operating activities, as defined by IFRS, and adjusted EBITDA, as defined herein, is as follows:

	Three months ended March 31,	
(in thousands)	**2020**	**2019**
Cash flow provided by operating activities	$ 38,837	$ 20,210
Change in non-cash working capital	$ (13,810)	$ (10,629)
Adjusted EBITDA	**$ 25,027**	**$ 9,581**

Net debt, as defined above, is calculated as follows:

(in thousands)	**As at March 31, 2020**	**As at March 31, 2019**
Total liabilities	$ 417,852	$ 238,700
Decommissioning obligation	(6,878)	(5,217)
Deferred income tax liability	(2,134)	-
Lease liability	(368)	(184)
Total current assets	(47,072)	(19,579)
Financial derivative asset	1,689	-
Net Debt	**$ 363,089**	**$ 213,720**

The calculation of operating netback and operating netback prior to hedging is found elsewhere within this MD&A.

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, expectations as to differentials relative to benchmark commodity prices received for our production, reserve estimates, future lease operating, workover and transportation costs, anticipated production taxes, 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, cash 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, cash flow and resulting net debt for any periods subsequent to March 31, 2020 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, natural gas, and natural gas liquids, 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, unforeseen challenges or circumstances in drilling, equipping and completing wells leading to higher capital costs than anticipated, 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 services, unfavorable weather, 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 several 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 base 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 lease operating and transportation costs; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the ability to convert non-producing proved and undeveloped 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 wells; 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.

Management's Discussion and Analysis

Description of Business

PetroShale Inc. (the "Company") is an independent oil company focused on the acquisition, development and production of oil-weighted assets in the Bakken and Three Forks formations in the Williston Basin area of North Dakota. The Company's common shares are listed on the TSX Venture Exchange under the symbol "PSH".

The Company has corporate offices located at 421 - 7th Avenue SW, Suite 3230, Calgary, Alberta T2P 4K9 and at 303 E. 17th Avenue, Suite 940, Denver, CO 80203.

Recent Events

Commodity Prices and COVID-19

The rapid and severe deterioration of economic activity related to COVID-19 (Coronavirus), combined with a price war fueled by Russia and Saudi Arabia, led to a global equity market and oil price shock in early March 2020. With the reduction in world demand for crude oil and refined products, oil prices are expected to remain under pressure. Management's plan in 2020 was, and remains, to limit capital expenditures. That has become more important in this environment and we are evaluating workovers and other discretionary expenditures carefully. Although our operating costs per Boe and our general and administrative expenditures are low relative to our peers, we have identified and implemented additional savings measures to conserve cash. We will continue to evaluate shutting in operated producing wells that are uneconomic. Operators of some of our non-operated properties are already shutting in and, at this time, it is difficult to forecast the impact that such actions may have on our corporate production in the second quarter and for the remainder of this year. As a result of all of these factors, we have withdrawn our previously issued 2020 full year guidance as outlined within our year ended December 31, 2019 MD&A.

Oil and Gas Lease Development

During the first quarter, the Company participated in 21 gross (2.9 net) wells that commenced production in the quarter which contributed to production averaging 14,275 Boepd during the period, comprised of 71% crude oil, 15% natural gas liquids, and 14% natural gas. Capital expenditures totaled approximately $23.5 million for the quarter with the majority of this amount directed toward non-operator programs.

Senior Loan

On May 27, 2020, the Company's senior lenders agreed to confirm the amount of the existing borrowing capacity of US$177.5 million and extend the maturity date of the Credit Facility to June 26, 2022.

Preferred Shares

On May 4, 2020, PetroShale elected to exercise its right to settle in kind the payment of the quarterly dividend due in May on its outstanding preferred shares. By electing to pay the first quarter dividend in kind, the ordinary cash dividend of approximately US$1.7 million (approximately CAD$2.4 million) will be settled by way of increasing the current US$75 million liquidation preference of the preferred shares, at a rate of 12% per annum, or US$2.25 million (approximately CAD$3.2 million). The payment in kind will enable PetroShale to preserve liquidity through this period of market volatility and severe commodity price weakness. In accordance with the terms of the preferred shares, the increase to the liquidation preference increases the amount of voting and exchange rights which accrue to the Investor. As a result, PetroShale will issue an additional 1,179,246 special voting shares to the Investor, and a further 1,179,246 common shares may be issuable on exchange of the preferred shares (in which case the issued special voting shares will be cancelled). Following this issuance, the Investor will own 2,702,702 common shares and 40,487,422 special voting shares, representing approximately 18.9% of the outstanding voting shares of the Company.

Results of Operation

Production

	Three months ended March 31,	
	2020	**2019**
Crude oil (Bbls per day)	10,155	3,584
Natural gas (Mcf per day)	12,230	4,892
Natural gas liquids (Bbls per day)	2,081	636
Total (Boe per day)	14,275	5,036
Liquids percentage of total production	86%	84%

During the first quarter of 2020, production increased by 9,239 Boe/day or 183% over the comparative period. These increases were due primarily to new wells that were brought online during mid to late 2019, slightly offset by natural declines. A total of 62 gross (16.3 net) wells had first sales during 2019. Also contributing to the increase were 21 gross (2.9 net) wells that were brought online during the first quarter.

Pricing

	Three months ended March 31,	
	2020	**2019**
Average Benchmark Prices (US$)		
Crude oil – WTI (per Bbl)	$ 46.17	$ 54.85
Natural gas – HH spot price (per Mmbtu)	$ 1.91	$ 2.86
Average Differentials (US$)		
Crude oil (per Bbl)	$ (6.04)	$ (6.35)
Natural gas (per Mcf) (1)	$ (0.41)	$ (0.65)
Average Realized Prices (US$) (2)		
Crude oil (per Bbl)	$ 40.13	$ 48.50
Natural gas (per Mcf)	$ 1.50	$ 2.21
Natural gas liquids (per Bbl)	$ 5.82	$ 4.31
Average Period Exchange Rate – US$/ CAD$	$ 1.3437	$ 1.3300
Average Realized Prices (CAD$) (2)		
Crude Oil (per Bbl)	$ 53.93	$ 64.10
Natural gas (per Mcf)	$ 2.02	$ 3.68
Natural gas liquids (per Bbl)	$ 7.82	$ 18.81

(1) Includes conversion from Mmbtu to Mcf

(2) Excluding transportation and processing costs

During the three months ended March 31, 2020, benchmark WTI prices per Bbl decreased by US$8.68 or 15.8% compared to the 2019 period. The average differential declined 4.9% from US$6.35/Bbl to US$6.04/Bbl resulting in a realized price of US$40.13/Bbl during the three months ended March 31, 2020 compared to a realized price of US$48.50/Bbl during the prior year quarter, a decrease of US$8.37/Bbl or 17.3%. WTI prices and the Company's realized oil price declined beginning in March and extended into the second quarter of 2020. Oil price differentials initially increased in March and have subsequently narrowed to levels where our realized Bakken price is similar to the WTI price.

Henry Hub benchmark natural gas prices were significantly lower in the three-month period ended March 31, 2020, compared to the prior year quarter. Realized natural gas prices in the Bakken remain discounted to Henry Hub benchmark prices reflecting the shortage of takeaway and processing capacity in the area, although the discount has improved year over year.

NGL average realized prices increased 35% for the three months ended March 31, 2020, compared to the prior year period. This was facilitated by the Elk Creek pipeline that was completed at the end of 2019, increasing takeaway capacity out of the Williston basin by approximately 240,000 Bopd.

Revenue

	Three months ended March 31,	
(in thousands, except per Boe amounts)	**2020**	**2019**
Petroleum and natural gas revenue	$ 49,110	$ 21,326
Petroleum and natural revenue per Boe	$ 37.81	$ 47.06

Revenues during the three months ended March 31, 2020 increased $27.8 million or 130.3% over the prior year quarter. This increase is primarily due to the increase in production volumes as discussed above partially offset by a 19.7% decrease in the price received per Boe. The recent decline in WTI prices will have a negative impact on revenues in the second quarter.

Royalties

	Three months ended March 31,	
	2020	**2019**
Royalties *(in thousands)*	$ 9,192	$ 4,096
Royalties per Boe	$ 7.08	$ 9.04
Royalties as a percentage of revenue	18.7%	19.2%

The Company's royalty rate as a percentage of revenues remained relatively consistent during the three months ended March 31, 2020, compared to the prior year quarter. Royalties are higher on an absolute dollar basis for the three-month period as a result of the overall net increase in revenues experienced during the quarter. The royalty per Boe declined $1.96 or 21.7% consistent with the average price declines.

Operating Expenses, Production Taxes and Transportation Expense

	Three months ended March 31,	
(in thousands, except per Boe amounts)	**2020**	**2019**
Lease operating costs [1]	$ 6,528	$ 2,417
Workover expense [1]	897	1,529
Production taxes [1]	4,054	1,607
Transportation expense	3,103	862
Total	$ 14,582	$ 6,415
Per Boe amounts:		
Lease operating costs	$ 5.03	$ 5.34
Workover expense	0.69	3.37
Production taxes	3.12	3.55
Transportation expense	2.39	1.90
Total per Boe	$ 11.23	$ 14.16

[1] Reflected as production and operating expense in the interim consolidated statements of operations and comprehensive loss

Lease operating costs

Lease operating costs for the three-month period ended March 31, 2020, increased $4.1 million or 170.0% over the prior year quarter due primarily to increased well count and production volumes as discussed in the Production section above. Lease operating costs per Boe were relatively consistent compared to the prior year quarter decreasing $0.31 or 5.8%.

Workover expense

Workover expense by its nature can vary from period to period depending on the level of workover activity, which may not be consistent with production levels. For the three months ended March 31, 2020, workover expense per Boe decreased by 79.5% or $2.68 over the corresponding period.

Production taxes

North Dakota assesses a 5% oil severance tax and a 5% oil extraction tax on the gross value of after-royalty volumes produced at the wellhead, with certain defined exemptions. Production taxes as a percentage of revenue less royalties were consistent with the statutory rate at 10.2% for the three months ended March 31, 2020, compared to 9.3% for the prior year period. The fluctuations in production taxes per Boe are consistent with the fluctuations in the Company's average realized prices as discussed in the Pricing section above.

Transportation expense

Transportation costs associated with the Company's 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 costs are incurred prior to the sale of the production, such costs are reflected separately as an expense in the interim consolidated statement of operations. Transportation costs are higher in the three-month period ended March 31, 2020 due to the increase in volumes compared to the prior year period as discussed in the Production section above, combined with a higher percentage of the Company's production being shipped in pipelines by midstream operators with the transportation costs being reflected as an expense. In the comparative prior period, a higher percentage of the Company's operated production was sold at the wellhead with transportation costs reflected in the net price received from the purchaser.

Operating Netback

	Three months ended March 31,	
	2020	**2019**
Netback ($ per Boe)		
Petroleum and natural gas revenue	$ 37.81	$ 47.06
Royalties	$ (7.08)	$ (9.04)
Realized gain on financial derivatives	$ 0.48	$ -
Lease operating costs	$ (5.03)	$ (5.34)
Workover expense	$ (0.69)	$ (3.37)
Production taxes	$ (3.12)	$ (3.55)
Transportation expense	$ (2.39)	$ (1.90)
Operating netback	$ 19.98	$ 23.86
Operating netback prior to hedging	$ 19.50	$ 23.86

The Company's operating netback and netback prior to hedging decreased by 16.3% and 18.3%, respectively, during the three months ended March 31, 2020, primarily as a result of a decrease in realized prices partially offset by a decrease in workover costs.

General and Administrative Expense

	Three months ended March 31,	
(in thousands, except per Boe amounts)	**2020**	**2019**
Gross general and administrative expense	$ 1,405	$ 1,723
Capitalization of internal development costs	(249)	(416)
Overhead recovery	(222)	(73)
Net general and administrative expense	$ 934	$ 1,234
Net general and administrative expense per Boe	$ 0.72	$ 2.72

Gross general and administrative expense ("G&A") decreased by $0.3 million or 17.9% for the three months ended March 31, 2020, compared to the corresponding period due to lower anticipated staff compensation costs in 2020. Net G&A per Boe declined significantly during the three months ended March 31, 2020 compared to the prior year period due the described expense reduction as well as to the increase in production volumes.

Depreciation and Depletion Expense

	Three months ended March 31,	
(in thousands, except per Boe amounts)	**2020**	**2019**
Depreciation and depletion expense	$ 18,706	$ 6,632
Depreciation and depletion expense per Boe	$ 14.40	$ 14.63

Depreciation and depletion expense increased during the three-month period ended March 31, 2020, compared to the prior year period, due to the increase in production volumes, and significant capital expenditures incurred during 2019. The per Boe expense is consistent with the comparable period.

Impairment

	Three months ended March 31,	
(in thousands, except per Boe amounts)	**2020**	**2019**
Impairment	$ 24,000	$ -
Impairment per Boe	$ 18.48	$ -

The Company 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 necessary is determined by comparing the carrying amount of the CGU to the greater of the CGU's value in use ("VIU") or its estimated fair value less selling costs. If the carrying amount is in excess of the estimated recoverable value, the Company will then record an impairment expense related to the CGU. During the three months ended March 31, 2019 and year ended December 31, 2019, the Company determined that no impairment indicators existed. However, as at March 31, 2020, the significant decline in oil prices experienced during the quarter was deemed an indicator of impairment and as a result, the Company performed an impairment test using its December 31, 2019 reserve report adjusted internally for activity during the three-month period ended March 31, 2020.

As a result of the impairment test, the Company recognized an impairment charge for the three months ending March 31, 2020 of $24.0 million on the Company's Bakken cash generating unit ("CGU"). The recoverable amount of the Bakken CGU of $568.2 million as at March 31, 2020 was estimated based on a value in use methodology using the estimated discounted cash flows from proved plus probable reserves at a discount rate of 14%.

Determining the estimated cash flows associated with Company's proved plus probable reserves is an inherently complex process involving the exercise of professional judgment and the use of significant estimates, including future commodity prices, differentials, discount rates, production volumes, royalties, operating costs, foreign currency exchange rates and future capital expenditures.

Finance Expense

(in thousands)	Three months ended March 31, 2020	2019
Preferred share dividends	$ 2,267	$ 2,245
Senior loan interest	2,205	931
Preferred share accretion	713	579
Decommissioning obligation	42	8
Operating lease interest and other finance costs	11	4
Total	$ 5,238	$ 3,767

Finance expense reflects costs primarily associated with the Company's senior credit facility and the preferred shares, which were issued in January 2018 and are treated as a financial liability for accounting purposes. Finance expense was higher year over year reflecting higher senior debt levels following the Company's significant drilling and acquisition programs during 2018 and 2019.

Deferred Income Tax Recovery

The Company recorded a deferred income tax recovery of $4.0 million for three months ended March 31, 2020, compared to a $292,000 deferred tax recovery for the prior year quarter.

Share-based Compensation

The Company has granted restricted share bonus awards and performance share bonus awards (collectively, the "share bonus awards") to certain directors, officers, and employees. Share bonus awards granted according to the plan vest over three years from the date of grant and expire before the end of the third year from the date of grant. Restricted share bonus awards vest over time. Performance share bonus awards vest based on achievement of certain performance hurdles and are subject to a multiplier between 0 and 2 times based on relative performance. The share bonus 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 share bonus awards is determined based on the current market value of the Company's common shares at the dates of grant and considering anticipated forfeiture rates. For purposes of valuing performance share bonus awards, the Company assumes a multiplier of 1.0 times. A charge to income is reflected as share-based compensation expense in the consolidated statement of operations over the vesting period with a corresponding increase to contributed surplus.

The expense for the three months ended March 31, 2020 of $283,000 is net of $54,000 capitalized to property, plant and equipment compared to $470,000 and $149,000, respectively, for the prior year period.

Foreign Currency Gain (Loss) and Translation Adjustment

The Company's interim 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 interim consolidated financial statements according to the Company's foreign currency translation policy, with any corresponding gain or loss reflected as a currency translation adjustment in other comprehensive income. The Company experienced a currency translation gain of $15.8 million for the three months ended March 31, 2020 compared to a loss of $4.1 million in the prior year quarter. The current quarter gain was the result of the weakening of the Canadian dollar relative to the US dollar from January 1, 2020 (US dollar / Canadian dollar 1.2990) to March 31, 2020 (US dollar / Canadian dollar 1.4062) and the fact that the Company's US dollar-denominated assets exceed its liabilities.

Share Capital

	As at March 31,	
	2020	**2019**
Weighted average common shares outstanding:		
Basic	188,937,046	191,758,236
Diluted	191,940,212	191,758,236
Outstanding securities at period end:		
Common shares, voting and non-voting	187,334,128	191,758,236
Preferred shares, convertible	75,000	75,000
Stock options	550,000	550,000
Restricted share bonus awards	2,353,135	3,185,000
Performance share bonus awards	650,700	-

The preferred shares entitle the investor to voting rights as though the preferred shares were exchanged to common shares, but no other redemption or distribution rights and no claims on the Company's assets.

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, which was renewed in 2020, the Company is permitted to purchase up to 11,785,163 voting common shares of the Company between February 10, 2020 and February 8, 2021. During the quarter ended March 31, 2020, the Company purchased and cancelled 3,851,500 shares at an average price of $0.48 per common share for a total repurchase cost of $1.9 million under the NCIB. The Company purchased an additional 13,500 common shares at $0.11/share subsequent to March 31, 2020. On April 1, 2020, the Company ceased making further purchases under the NCIB until further notice. From February 7, 2019, through May 27, 2020, the Company purchased 4,939,615 shares under the NCIB at an average price of $.50/share for a total repurchase cost of $2.5 million.

As at May 27, 2020, the Company had 187,621,722 common shares, 75,000 preferred shares, 550,000 stock options, 1,753,554 restricted bonus awards and 632,913 performance awards outstanding.

Capital Expenditures

	Three months ended March 31,	
(in thousands)	**2020**	**2019**
Drilling and completion	$ 23,535	$ 44,083
Acquisitions, net of dispositions	-	1,985
Other	2	21
	$ 23,537	$ 46,089
Non-cash:		
Capitalized share-based compensation	54	149
Decommissioning obligation	-	377
Total	$ 23,591	$ 46,615

For the quarter ended March 31, 2020, capital expenditures totaled approximately $23.6 million compared to $46.6 million for the quarter ended March 31, 2019. Capital expenditures in 2020 were mainly related to 2.9 net non-operated wells completed and operated well workover activities. In the current environment, the Company is minimizing discretionary capital expenditures.

Liquidity and Capital Resources

Capital expenditures for the quarter ended March 31, 2020 were funded from borrowings under the Company's senior loan facility, operating cash flows and working capital.

The Company is dependent on cash on hand, operating cash flows and equity and/or 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/or resulting cash flows. Should the outlook for future cash flow be impacted in a negative way, the Company is capable of managing its cash flows by not consenting to participate in additional drilling proposed by operators of its non-operated properties, by reducing its drilling and completion activity on its operated properties and by entering into commodity price contracts. The Company will monitor its financial capacity before proceeding with additional wells on its operated lands.

As at March 31, 2020, the Company had a net working capital deficit of $31.5 million which is $16.8 million greater than the undrawn capacity of the senior credit facility of $14.7 million (US$10.4 million). Accounts payable and accrued liabilities consist of amounts relating to capital spending, field operating activities and general and administrative expenses.

The Company maintains a senior revolving credit facility, which is referred to as the senior loan in the interim consolidated statement of financial position. The capacity of this facility was US$177.5 million as at March 31, 2020. The term-out date is 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. The amount of the facility is subject to a borrowing base test performed on a periodic basis and at least twice annually by the lenders, based primarily on producing oil and natural gas reserves and using commodity prices estimated by the lender as well as other factors. A decrease in the borrowing base determined by the senior lenders in the future could result in a reduction to the credit facility, which may require a repayment to the lenders. The Company's senior lenders have confirmed the existing borrowing capacity as of May 27, 2020 and agreed to extend the maturity date of the credit facility to June 26, 2022.

The credit facility is subject to certain non-financial covenants and the Company is in compliance with all of the covenants under the senior loan as at March 31, 2020. The credit facility has no financial covenants.

As at May 27, 2020, outstanding borrowings under the senior loan were US$172.1. million. The Company held cash of US$18.0 million for net borrowings of US$154.1 million. Oil prices declined significantly in March 2020. The Company's planned capital expenditures mainly relate to participation in well completions planned by operators of certain of our non-operated properties. Recently, the operators of some of these properties have suspended further activities and we do not anticipate these capital projects will be re-instated until oil prices recover materially.

The Company has elected to pay its preferred share dividend due in May 2020, in kind, as a means of preserving liquidity. See Note 18 to the Company's interim consolidated financial statements. The Company has also implemented several measures to reduce operating costs and general and administrative expenses as a means of mitigating the impact of low oil prices on future cash flows.

The current challenging economic climate may have significant adverse impacts on the Company, including material declines in revenue and cash flows, and related impacts to working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows to meet the Company's current and future obligations. Similar issues may be faced by the Company's customers, which could materially increase the risk of non-payment of accounts receivable and customer defaults. At March 31, 2020, the Company remains in compliance with all terms of our Senior Loan and based on current available information, management expects to comply with all terms during the subsequent 12-month period. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time. Estimates and judgements made by management in the preparation of the financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

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$160,000 as security in order to operate in North Dakota.

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 table reflects the contractual maturities of the Company's debt obligations and anticipated timing of the settlement of its other financial liabilities as at March 31, 2020, including estimated interest payments:

(in thousands)	**Contractual Cash Flow**	**2020**	**2021**	**2022 and beyond**
Accounts payable and accrued liabilities	$ 78,207	$ 78,207	$ -	$ -
Lease liability	368	368	-	-
Senior loan [1]	259,242	8,105	10,806	240,331
Preferred share obligation [2]	113,329	6,576	8,768	97,985
Total	$ 451,146	$ 93,256	$ 19,574	$ 338,316

[1] Includes future interest expense at the rate of 4.5% being the rate applicable at March 31, 2020 to the current maturity date of June 26, 2022.

[2] The amount differs from that presented on the interim consolidated statement of financial position due, in part, to the unamortized portion of issuance costs (which are offset against the preferred share obligation on the interim consolidated statement of financial position), the preferred share equity component (which is presented separately under Shareholders' Equity) and finance cost at the coupon rate of 9% per annum. The table reflects the full dividend payment obligation to the maturity date of January 25, 2023. These preferred shares may be converted to common shares at the option of the investor.

Risk Management – Financial Derivatives

The results of operations and cash flows of the Company are impacted by changes in market prices for oil, natural gas and NGLs. To mitigate a portion of its exposure to adverse market changes, the Company will, from time to time, enter various derivative instruments. These derivative instruments allow the Company to predict with greater certainty the total revenue it will receive, protect acquisition economics, and provide some stability of cash flows for capital spending planning purposes.

As at March 31, 2020, the Company had the following oil price derivatives outstanding:

Contract Type	Contract Term	Volumes (Bbls/d)	Fixed Price (US$)	Sold Put (US$)	Purchased Put (US$)	Sold Call (US$)
Three-way collar	Apr 1 – Jun 30, 2020	1,000	$ -	$ 45.00	$ 50.00	$ 65.00
Three-way collar	Apr 1 – Jun 30, 2020	1,000	$ -	$ 45.00	$ 50.00	$ 66.05
Three-way collar	Apr 1 – Jun 30, 2020	1,000	$ -	$ 46.00	$ 51.00	$ 66.00
Costless collar	Jul 1 – Sep 30, 2020	500	$ -	$ -	$ 25.00	$ 35.50
Costless collar	Jul 1 – Sep 30, 2020	500	$ -	$ -	$ 25.00	$ 37.50
Costless collar	Jul 1 – Sep 30, 2020	500	$ -	$ -	$ 27.00	$ 37.50
Fixed price swap	Apr 1 – Jun 30, 2020	1,000	$ 25.29	$ -	$ -	$ -
Fixed price swap	Jul 1 – Sep 30, 2020	1,000	$ 30.70	$ -	$ -	$ -
Call swaption (1)	Apr 1 – Jun 30, 2020	1,000	$ 28.76	$ -	$ -	$ -
Enhanced fixed price swap (2)	Apr 1 – Jun 30, 2020	500	$ 27.35	$ -	$ -	$ -
Call option	Jul 1 – Sep 30, 2020	500	$ -	$ -	$ -	$ 40.00

(1) Counterparty can elect on June 30, 2020 to extend swap through September 30, 2020 at US$28.76

(2) Enhanced fixed price swap includes US$40.00 sold call option

Summary of Quarterly Results

	Three Months Ended							
(in thousands, except per share amounts)	Mar 31 2020	Dec 31 2019	Sep 30 2019	Jun 30 2019	Mar 31 2019	Dec 31 2018	Sep 30 2018	Jun 30 2018
Revenues, net of royalty	$ 39,918	$ 48,883	$ 42,249	$ 24,419	$ 17,230	$ 20,899	$ 31,890	$ 29,246
Adjusted EBITDA	$ 25,027	$ 35,566	$ 29,996	$ 16,344	$ 9,581	$ 11,684	$ 22,018	$ 20,325
Cash flow – operating activities	$ 38,837	$ 27,677	$ 32,275	$ (1,626)	$ 20,210	$ 19,810	$ 20,112	$ 21,734
Net income (loss)	$ (17,266)	$ 9,608	$ 4,982	$ 1,733	$ (996)	$ 7,982	$ 10,449	$ 6,274
Net income (loss) per share:								
Basic and Diluted	$ (0.09)	$ 0.05	$ 0.03	$ 0.01	$ (0.00)	$ 0.04	$ 0.06	$ 0.04

Revenues, along with adjusted EBITDA and net income decreased in the first quarter of 2020 compared to the fourth quarter of 2019 due to a 29% decrease in average realized prices partially offset by a 17% increase in sales volumes. The first quarter of 2020 also included at $24.0 million impairment charge related to the Company's developed and producing assets.

Revenues in the fourth quarter of 2019 increased 15.7% over the third quarter of 2019 due primarily to a 6.9% increase in production volumes. Adjusted EBITDA and net income also improved in the fourth quarter of 2019 mainly as a result of production increases. Cash flow provided by operating activities fell in the fourth quarter due to changes in non-cash working capital.

Revenue in the third quarter of 2019 increased substantially compared to the second quarter of 2019 due to a 93.4% increase in production, partially offset by lower realized commodity prices. The same factors led to significant increases in adjusted EBITDA, cash flow from operating activities and net income.

Revenue in the second quarter of 2019 increased compared to the first quarter due to an 19.6% increase in production volumes and higher realized oil prices. This increase in revenue also resulted in net income in the second quarter of 2019 compared to a net loss in the first quarter of 2019. Cash flow from operations decreased in the second quarter of 2019 compared to the first quarter as a result of an increase in accounts receivable. Revenue in the first quarter of 2019 declined compared to the fourth quarter of 2018 due to lower production volumes as well as lower benchmark commodity prices. Despite a reduction in revenues, cash flow from operations increased due to a large decrease in working capital. Net income moved to a small loss in the first quarter of 2019 following the reduction in revenues and a large deferred tax recovery in the fourth quarter of 2018.

Revenue in the fourth quarter of 2018 declined compared to the third quarter due to lower production volumes and both weaker benchmark commodity prices and wider Bakken oil differentials. Net income decreased over the period as a result of the aforementioned factors. Revenue, cash flow from operations and net income saw significant growth in the second and third quarters of 2018 compared to prior periods due to increased production volumes resulting from the Company's operated drilling program and acquisitions.

The first quarter of 2018 also saw significantly increased production volumes and improved oil pricing which resulted in net income, higher revenue, and improved cash flow from operations.

Critical Accounting Estimates

The timely preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

In early March 2020, the World Health Organization declared the COVID-19 coronavirus outbreak to be a pandemic. Responses to the spread of COVID-19 have resulted in significant disruption to business operations and a significant increase in economic uncertainty, with more volatile commodity prices and currency exchange rates, and a marked decline in long-term interest rates. These events are resulting in a challenging economic climate in which it is difficult to reliably estimate the length or severity of these developments and their financial impact. The results of the potential economic downturn and any potential resulting direct and indirect impact to the Company has been considered in management's estimates described in this section at the period end; however there could be a further prospective material impact in future periods.

Critical judgments that have the most significant effect on the amounts recognized in the interim consolidated financial statements include the following:

Reserve Estimates

The estimation of recoverable quantities of proved and probable oil and natural gas reserves is an inherently complex process and involves the exercise of professional judgment. Estimates are based on projected future rates of production, estimated commodity prices and differentials, estimated production and transportation costs, engineering data and the timing and amount of future expenditures, all of which are subject to uncertainty. The Company's reserve estimates are evaluated by independent professional engineers and are determined in accordance with Canadian practices and specifically in accordance with National Instrument 51-101, *Standards of Disclosures for Oil and Gas Activities*, and the Canadian Oil and Gas Evaluation Handbook.

Reserve adjustments are made annually based on actual volumes produced, the results from capital expenditure programs, revisions to previous estimates, new discoveries and acquisitions and dispositions made during the year. Changes in reserve estimates can affect the impairment of assets, including the reversal of previously recorded impairment, the estimation of decommissioning obligations, and the amounts reported for depletion and depreciation of property, plant, and equipment.

Impairment

Management reviews, each quarter, indicators of impairment including internal and external sources of information including changes to reserve estimates, drilling results, performance of its oil and gas producing assets and changes in commodity prices. Significant judgment is involved in assessing such indicators of impairment and if indicators do exist, to prepare estimates of value in use and fair value less selling costs. Related estimates include assumptions as to appropriate discount factors and future commodity prices.

Decommissioning Obligation

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies, and the estimate of the liability specific discount rates to determine the present value of these cash flows.

Business Combinations

In a business combination, 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 estimation of recoverable quantities of proved and probable reserves being acquired.

Share-Based Compensation

The Company's estimate of share-based compensation expense associated with stock option grants and the value of warrants issued is dependent upon estimates of expected volatility of the Company's share price and anticipated forfeiture rates of the related securities. The Company's estimate of share-based compensation expense associated with share-based awards is dependent on an estimate of anticipated forfeiture rates of such securities.

Deferred Income Taxes

The calculation of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences, tax losses and other tax credits will reverse, the use of substantively enacted tax rates at the balance sheet date and the likelihood of deferred tax assets being realized.

Derivatives

The Company's estimate of the fair value of derivative financial instruments is dependent upon estimated forward commodity prices and the volatility in those prices.

Preferred Shares

The Company's estimate of the preferred share obligation and preferred share equity component of its outstanding preferred shares is dependent on an estimate of the rate of interest which would be incurred by the Company on a similar debt obligation without a conversion feature.

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/or equity financing at a reasonable cost, or at all. Operational risks include the performance of the Company's properties, safety and performance risks associated with drilling and well completion activities, competition for land and services, environmental factors, reservoir performance uncertainties, a complex regulatory environment, 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. There is risk that the Company may not realize the anticipated benefits of acquired properties or future development thereof.

The Company minimizes operational risks by engaging experienced service providers on our operated properties and by participating with well-established operators of our non-operated properties. On our non-operated 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
- The operator may not have adequate 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 common or preferred equity, if available on acceptable terms, may be utilized to fund acquisitions, to expand capital programs when appropriate and to repay any outstanding debt
- 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.
- Disposition of non-core assets

The Company is exposed to commodity price and market risk for our principal products of crude oil, natural gas, and natural gas liquids. Commodity prices are influenced by a wide variety of factors, most of which are beyond PetroShale's control. In addition, the Company is exposed to fluctuations in the differentials between market price benchmarks and what is received in our geographic area of operation for our production. To manage this risk, the Company may enter 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 fixed physical contracts to hedge the realized prices from its production. 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 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.

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.

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 offshore markets.

PetroShale mitigates the above-mentioned 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
- Financial derivative instruments or fixed price physical contracts may be used where appropriate to manage commodity price volatility

The Company is exposed to operational 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 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 regulatory 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 procedures on operating and financial results.

Environmental Risks

General Risks

Oil and gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment, climate change and destruction of natural habitat, as well as safety risks such as personal injury. The Company works hard to identify the potential environmental impacts of its new projects in the planning stage and during operations. The Company conducts its operations with high standards in order to protect the environment, its employees and consultants, and the general public. The Company maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations. Without such insurance, and if the Company becomes subject to environmental liabilities, the payment of such liabilities could reduce or eliminate its available funds or could exceed the funds the Company has available and result in financial distress.

Climate Change Risks

Our exploration and production facilities and other operations and activities emit greenhouse gasses ("GHG") which may require us to comply with US federal and/or state GHG emissions legislation. Climate change policy is evolving at regional, national, and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate our effects. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on our business, financial condition, results of operations and prospects. Some of our significant facilities may ultimately be subject to future regional, and/or US federal climate change regulations to manage GHG emissions. In addition, climate change has been linked to long-term shifts in climate patterns and extreme weather conditions both of which pose the risk of causing operational difficulties. The Company has undertaken several initiatives, including continuous flaring reduction initiatives, transporting oil by pipeline rather than by truck, and connecting natural gas to pipeline connections to reduce GHG emissions from its operations.

Recent Oil Price Market Events and COVID-19 Impacts

Recent market events and conditions, including global excess oil and natural gas supply, recent actions taken by Saudi Arabia and Russia, and diminished demand for crude oil and refined petroleum products due to the COVID-19 pandemic, have had a significant negative impact on world oil prices. The supply / demand imbalance threatens to fill available crude storage capacity and create further disruptions to crude oil demand in local markets, such as the Bakken where the Company's oil production is focused, which could cause local oil prices to reflect a greater discount to WTI. In addition, our field and office operations may be negatively impacted if our key personnel become infected with the COVID-19 virus. Entities which provide services to the Company may also have their operations impacted by COVID-19 and this may result in reduced access to certain services that may negatively impact our operations. The Company has taken steps to reduce or limit such negative impacts by requesting its office personnel to work from home until further notice and to implement additional hygiene and distancing practices at our field locations.

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.

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Interim Consolidated Statements of Financial Position
(Unaudited)

(thousands of Canadian dollars)	Note	As at March 31, 2020	As at December 31, 2019
Assets			
Cash and cash equivalents		$ 18,306	$ 607
Accounts receivable	3	26,756	54,020
Prepaid expenses and deposits		321	86
Financial derivative asset	9	1,689	-
Total current assets		47,072	54,713
Restricted cash	14	331	306
Right-of-use assets	4	359	445
Property, plant and equipment, net	5	568,276	543,364
Total non-current assets		568,966	544,115
Total assets		**$ 616,038**	**$ 598,828**
Liabilities			
Accounts payable and accrued liabilities	6	$ 78,207	$ 108,773
Financial derivative liability	9	-	261
Lease liability	4	368	453
Total current liabilities		78,575	109,487
Senior loan	8	234,928	188,589
Preferred share obligation	10	95,337	87,380
Decommissioning obligation	7	6,878	6,313
Deferred income tax liability		2,134	5,858
Total non-current liabilities		339,277	288,140
Total liabilities		**417,852**	**397,627**
Shareholders' equity			
Common shares	11	198,773	200,630
Preferred share equity component	10	7,510	7,510
Contributed surplus	11	6,528	6,191
Deficit		(29,952)	(12,686)
Accumulated other comprehensive income (loss)		15,327	(444)
Total shareholders' equity		198,186	201,201
Commitments	14		
Subsequent events	18		
Total liabilities and shareholders' equity		**$ 616,038**	**$ 598,828**

See accompanying notes to the interim consolidated financial statements

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Interim Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

		Three months ended March 31,	
(thousands of Canadian dollars, except per share amounts)	**Note**	**2020**	**2019**
Revenue			
Petroleum and natural gas	12	$ 49,110	$ 21,326
Less: Royalties		(9,192)	(4,096)
Petroleum and natural gas, net of royalties		39,918	17,230
Realized gain on financial derivatives	9	625	-
Unrealized gain on financial derivatives	9	1,885	-
Total revenue		42,428	17,230
Expenses			
Production and operating		11,479	5,553
Transportation	12	3,103	862
General and administrative		934	1,234
Depreciation and depletion	4,5	18,706	6,632
Impairment	5	24,000	-
Finance	15	5,238	3,767
Share-based compensation	11	283	470
Total expenses		63,743	18,518
Loss before income taxes		(21,315)	(1,288)
Deferred income tax recovery		(4,049)	(292)
Net loss		(17,266)	(996)
Currency translation adjustment		15,771	(4,056)
Comprehensive loss		$ (1,495)	$ (5,052)
Net loss per share:			
Basic	13	$ (0.09)	$ (0.00)
Diluted	13	$ (0.09)	$ (0.00)

See accompanying notes to the interim consolidated financial statements

PetroShale
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Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

For the three months ended March 31, 2020 and 2019

(thousands of Canadian dollars, except share amounts)	**Voting Common Shares**		**Preferred Share Equity Component**	**Contributed Surplus**	**Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Shareholders' Equity**
	Shares	**Amount**					
December 31, 2018	**191,758,236**	**$ 200,651**	**$ 7,510**	**$ 5,444**	**$ (28,013)**	**$ 9,137**	**$ 194,729**
Share-based compensation, gross	-	-	-	619	-	-	619
Net loss	-	-	-	-	(996)	-	(996)
Other comprehensive loss	-	-	-	-	-	(4,056)	(4,056)
March 31, 2019	**191,758,236**	**$ 200,651**	**$ 7,510**	**$ 6,063**	**$ (29,009)**	**$ 5,081**	**$ 190,296**
December 31, 2019	191,185,628	$ 200,630	$ 7,510	$ 6,191	$ (12,686)	$ (444)	$ 201,201
Purchase of common shares for cancellation	(3,851,500)	(1,857)	-	-	-	-	(1,857)
Share-based compensation, gross	-	-	-	337	-	-	337
Net loss	-	-	-	-	(17,266)	-	(17,266)
Other comprehensive income	-	-	-	-	-	15,771	15,771
March 31, 2020	**187,334,128**	**$ 198,773**	**$ 7,510**	**$ 6,528**	**$ (29,952)**	**$ 15,327**	**$ 198,186**

See accompanying notes to the interim consolidated financial statements

PetroShale
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Interim Consolidated Statements of Cash Flows
(Unaudited)

		Three months ended March 31,	
(thousands of Canadian dollars)	**Note**	**2020**	**2019**
Operating activities			
Net loss		$ (17,266)	$ (996)
Operating items not affecting cash:			
Depreciation and depletion		18,706	6,632
Impairment		24,000	-
Deferred income tax recovery		(4,049)	(292)
Unrealized gain on financial derivatives		(1,885)	-
Share-based compensation		283	470
Finance		5,238	3,767
Change in non-cash working capital	16	13,810	10,629
Cash flow provided by operating activities		38,837	20,210
Investing activities			
Additions to property, plant, and equipment		(23,537)	(1,985)
Acquisitions		-	(44,104)
Change in non-cash working capital	16	(21,368)	10,713
Cash flow used in investing activities		(44,905)	(35,376)
Financing Activities			
Proceeds from senior loan, net		29,408	15,132
Payment of interest and preferred dividends		(4,594)	(3,176)
Payment of lease liabilities		(117)	(48)
Purchase of common shares for cancellation		(1,857)	-
Cash flow provided by financing activities		22,840	11,908
Change in cash and cash equivalents		16,772	(3,258)
Effect of foreign exchange rate changes		927	3,019
Cash and cash equivalents, beginning of period		607	491
Cash and cash equivalents, end of period		**$ 18,306**	**$ 252**

See accompanying notes to the interim consolidated financial statements

Note 1. Description of Business

PetroShale Inc. (the "Company") is an independent oil company focused on the acquisition, development, and production of oil-weighted assets in the Bakken and Three Forks formations in the Williston Basin area of North Dakota. The Company's common shares are listed on the TSX Venture Exchange under the symbol "PSH".

The Company has corporate offices located at 421 - 7th Avenue SW, Suite 3230, Calgary, Alberta T2P 4K9 and at 303 E. 17th Avenue, Suite 940, Denver, CO 80203.

Note 2. Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), and have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements for the year ended December 31, 2019. Income taxes on earnings or loss in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss.

Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

These interim consolidated financial statements were approved by the Chair of the Audit Committee and the Executive Chairman on May 27, 2020, having been duly authorized to do so by the Board of Directors.

Note 3. Accounts Receivable

(in thousands)	**As at March 31, 2020**	**As at December 31, 2019**
Accounts receivable – oil and gas sales	$ 10,237	$ 32,559
Accounts receivable – joint interest billing and other	16,519	21,461
Total	**$ 26,756**	**$ 54,020**

Note 4. Right of Use Assets and Lease Liability

The Company's right of use assets and lease liability relate to a lease for its Denver office space as well as a lease for a field compressor.

Right of Use Assets

(in thousands)	
December 31, 2019	$ 445
Additions	-
Depreciation	(117)
Effect of foreign currency rate changes	31
March 31, 2020	**$ 359**

Lease Liability

(in thousands)	
December 31, 2019	$ 453
Additions	-
Payments	(117)
Effect of foreign currency rate changes	32
March 31, 2020	**$ 368**

Note 5. Property, Plant and Equipment

(in thousands)	**Developed and Producing**	**Other**	**Total**
December 31, 2018	**$ 372,852**	**$ 211**	**$ 373,063**
Acquisitions, net	7,007	-	7,007
Additions	229,512	184	229,696
Capitalized share-based compensation	404	-	404
Decommissioning obligation	1,693	-	1,693
Depreciation and depletion	(46,509)	(224)	(46,733)
Effect of foreign currency rate changes	(21,737)	(29)	(21,766)
December 31, 2019	**$ 543,222**	**$ 142**	**$ 543,364**
Additions	23,535	2	23,537
Capitalized share-based compensation	54	-	54
Decommissioning obligation	-	-	-
Impairment	(24,000)	-	(24,000)
Depreciation and depletion	(18,543)	(46)	(18,589)
Effect of foreign currency rate changes	43,901	9	43,910
March 31, 2020	**$ 568,169**	**$ 107**	**$ 568,276**

Depreciation, Depletion, and Future Development Costs

For the three-months ended March 31, 2020 and 2019, the Company recorded $18.6 million and $6.6 million, respectively, of depreciation and depletion expense on its developed and producing assets, which reflected an estimated US$320 million and US$382 million, respectively of future development costs associated with proved plus probable reserves.

Impairment

The Company recognized an impairment for the three months ending March 31, 2020 of $24.0 million (three months ended March 31, 2019 - $nil) on the Company's Bakken cash generating unit ("CGU"). The impairment was attributable to declines in current and forecasted crude prices as a result of the rapid and severe deterioration of economic activity related to COVID-19 (Coronavirus), combined with a price war fueled by Russia and Saudi Arabia. The recoverable amount of the Bakken CGU of $568.2 million at March 31, 2020 was estimated based on a value in use methodology using the estimated discounted cash flows from proved plus probable reserves at a discount rate of 14%.

Determining the estimated cash flows associated with the Company's proved plus probable reserves is an inherently complex process involving the exercise of professional judgment and the use of significant estimates, including future commodity prices, differentials, discount rates, production volumes, royalties, operating costs, foreign currency exchange rates and future capital expenditures. Commodity prices are based on market prices at March 31, 2020 and are benchmarked against the forward price curve and pricing forecasts prepared by external firms.

The table below summarizes the pricing forecast used in determining the future cash flows associated with the Bakken CGU:

Year	WTI (US$/Bbl)
2020	$ 24.17
2021	$ 35.45
2022	$ 44.17
2023	$ 48.28
2024	$ 50.66
Remainder	$ 61.81

A one percent change in the discount rate or a five percent change in the forward price curve over the life of the reserves would result in changes in impairment of approximately $31.2 million and $65.4 million, respectively.

Capitalized Overhead

During the three months ended March 31, 2020, the Company capitalized $249,000 of general and administrative costs and $54,000 of share-based compensation costs directly attributable to acquisition and development activities of certain of its personnel in relation to the Company's operated properties ($416,000 and $149,000, respectively, for the three months ended March 31, 2019).

Note 6. Accounts Payable and Accrued Liabilities

(in thousands)	As at March 31, 2020	As at December 31, 2019
Trade payables	$ 41,804	$ 56,425
Accrued liabilities	21,914	35,677
Revenue payable	14,489	16,671
Total	**$ 78,207**	**$ 108,773**

Note 7. Decommissioning Obligation

(in thousands)	As at March 31, 2020	As at December 31, 2019
Beginning of period	$ 6,313	$ 4,934
Obligations incurred	-	1,956
Obligations acquired	-	275
Change in estimated cash flows	-	(718)
Accretion	42	133
Effect of foreign currency rate changes	523	(267)
End of period	**$ 6,878**	**$ 6,313**

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 March 31, 2020 is $14.9 million (December 31, 2019 – $13.7 million) which includes an annual inflation factor of 2.4% (December 31, 2019 – 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 March 31, 2020, have been discounted at the risk-free interest rate of 2.6% (December 31, 2019 – 2.6%).

Note 8. Senior Loan

The Company’s reserves-based revolving credit facility of US$177.5 million is comprised of a US$167.5 million syndicated facility and a US$10.0 million non-syndicated operating facility (together, the “Credit Facility”). As at March 31, 2020, the net amount drawn under the Credit Facility was US$154.1 million representing US$167.1 million of borrowings under the Credit Facility less US$13.0 million of cash on hand. Advances under the Credit Facility are available by way of direct advances, bankers' acceptances, and standby letters of credit. Direct advances bear interest at the prime rate, US base rate or LIBOR rate, as elected by the Company, plus a margin ranging from 0.50% to 3.50%, which is dependent on the Company's Senior Debt to EBITDA ratio. EBITDA, as defined in the Credit Facility agreement and used for determining the Senior Debt to EBITDA ratio, may be different from Adjusted EBITDA referred to in the Company’s other disclosures, including Management’s Discussion & Analysis.

The Credit Facility is available on a revolving basis until June 27, 2020, at which point, the Credit Facility can be extended at the option of the lenders, or if not extended, will convert to a term loan maturing on June 27, 2021. The payment of cash dividends or cash interest in respect of the preferred shares or subordinated debt is subject to a consolidated cash flow to interest expense ratio, as defined in the Credit Facility agreement, which is not to be less than 2.50 to 1 on a rolling four-quarter basis. The Credit Facility is secured by a fixed and floating charge debenture on substantially all the Company's assets.

The Credit Facility borrowing base is subject to redetermination on a periodic basis and at least twice annually by the lenders, based primarily on producing oil and natural gas reserves, as estimated by the Company’s independent third party engineer, and using commodity prices established by the lender as well as other factors. A decrease in the borrowing base could result in the requirement to make a repayment to the lenders within 90 days of the borrowing base redetermination. The Company’s senior lenders have confirmed the existing borrowing capacity as of May 27, 2020 and agreed to extend the maturity date of the credit facility to June 26, 2022.

The Company was in compliance with all terms of the Credit Facility at March 31, 2020. For the quarter ended March 31, 2020, the effective interest rate on the outstanding borrowings under the Credit Facility was 4.5% (4.3% for the quarter ended March 31, 2019).

Note 9. Financial Derivatives and Hedging Activities

The Company may use financial derivatives such as swaps, collars, and options to reduce the effect of commodity price changes on a portion of its future oil, gas, and natural gas liquids production or to manage its exposure to interest and foreign exchange rate fluctuations. The objective of the Company's use of derivative financial instruments is to achieve more predictable cash flows. In an environment of volatile oil and natural gas prices, commodity price derivatives are used to manage the Company's exposure to commodity price risk. While the use of these derivative instruments limits the downside risk of adverse price movements, such use may also limit the Company's ability to benefit from favorable price movements. The Company may, from time to time, add incremental derivatives to hedge additional production, restructure existing derivative contracts or enter into new transactions to modify the terms of current contracts in order to realize the current value of the Company's existing positions. The Company does not enter derivative contracts for speculative purposes. The use of derivatives involves the risk that the counterparty to such instruments will be unable to meet the financial terms of such contracts.

As at March 31, 2020, the Company's derivative instruments consisted of the following types of instruments:

Fixed price swaps
Under a fixed price swap, the Company receives a fixed price and pays a floating market price to the counterparty.

Call Option
Under a sold call option, if, at the time of settlement, market prices exceed the fixed price of the call option, the Company pays the difference to the counterparty.

Call Swaption
Call swaptions allow the counterparty, on a specific date, to extend an existing fixed price swap for a certain future period.

Costless Collars / Three-way collars
Costless collars consist of a fixed floor price (purchased put option) and a fixed ceiling price (sold call option). If the market price is between the floor and the ceiling, no payments are due from either party. At the time of settlement, if the market price exceeds the ceiling or falls below the floor, we receive the fixed price and pay the market price. Three-way collars combine a costless collar with a sold put option below the purchased put option in exchange for a more favorable ceiling price. Under a three-way collar, our downside protection is limited to the difference between the floor price and the strike price of the sold put option.

As at March 31, 2020, the Company had the following oil price derivative contracts outstanding:

Contract Type	Contract Term	Volumes (Bbls/d)	Fixed Price (US$)	Sold Put (US$)	Purchased Put (US$)	Sold Call (US$)
Three-way collar	Apr 1 – Jun 30, 2020	1,000	$ -	$ 45.00	$ 50.00	$ 65.00
Three-way collar	Apr 1 – Jun 30, 2020	1,000	$ -	$ 45.00	$ 50.00	$ 66.05
Three-way collar	Apr 1 – Jun 30, 2020	1,000	$ -	$ 46.00	$ 51.00	$ 66.00
Costless collar	Jul 1 – Sep 30, 2020	500	$ -	$ -	$ 25.00	$ 35.50
Costless collar	Jul 1 – Sep 30, 2020	500	$ -	$ -	$ 25.00	$ 37.50
Costless collar	Jul 1 – Sep 30, 2020	500	$ -	$ -	$ 27.00	$ 37.50
Fixed price swap	Apr 1 – Jun 30, 2020	1,000	$ 25.29	$ -	$ -	$ -
Fixed price swap	Jul 1 – Sep 30, 2020	1,000	$ 30.70	$ -	$ -	$ -
Call swaption (1)	Apr 1 – Jun 30, 2020	1,000	$ 28.76	$ -	$ -	$ -
Enhanced fixed price swap (2)	Apr 1 – Jun 30, 2020	500	$ 27.35	$ -	$ -	$ -
Call option	Jul 1 – Sep 30, 2020	500	$ -	$ -	$ -	$ 40.00

(1) Counterparty can elect on June 30, 2020 to extend swap through September 30, 2020 at US$28.76
(2) Enhanced fixed price swap includes US$40.00 sold call option

The Company's commodity derivative financial instruments are measured at fair value and are included in the interim consolidated statements of financial position as financial derivative assets or liabilities. Unrealized gains and losses are recorded based on the changes in the fair values of the derivative instruments. Both the unrealized and realized gains and losses resulting from the contract settlement of derivatives are recorded in the interim consolidated statement of operations.

The amount of unrealized gain recognized in the interim consolidated statement of operations related to the Company's derivative financial instruments was $1.9 million for the three months ended March 31, 2020.

Note 10. Preferred Shares

(in thousands)	Number of Shares	Liability Component	Equity Component
December 31, 2018	75,000	$ 88,912	$ 7,510
Accretion	-	2,568	-
Effect of foreign currency rate changes	-	(4,100)	-
December 31, 2019	75,000	$ 87,380	$ 7,510
Accretion	-	713	-
Effect of foreign currency rate changes	-	7,244	-
March 31, 2020	**75,000**	**$ 95,337**	**$ 7,510**

In January 2018, the Company's wholly owned subsidiary (the "Subsidiary Issuer") issued 75,000 preferred shares to First Reserve (the "Investor") at a price of US$1,000 per share for gross proceeds of US$75 million. 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 pay-in-kind 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 paid-in-kind 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. See Note 18 regarding the Company's election to settle the quarterly dividend payment due May 15, 2020, in-kind. 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 $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 also 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.

Note 11. Share Capital

Common Shares

The Company's authorized share capital includes unlimited Class A preferred shares with rights and privileges to be determined by the Board of Directors prior to issuance, unlimited non-voting common shares, convertible into voting common shares on a 1 for 1 basis, and unlimited voting common shares. As at March 31, 2020, the Company had 187,334,128 voting common shares (191,185,628 at December 31, 2019), no non-voting common shares and 39,308,176 special voting preferred shares (39,308,176 at December 31, 2019) outstanding. The special voting preferred shares were issued in conjunction with the preferred shares issued by the Subsidiary Issuer in January 2018 (see Note 10). The special voting preferred shares issued to the Investor entitle the Investor to the "as-exchanged" voting rights of the preferred shares but no other redemption or distribution rights and no claims on the Company's assets. See Note 18.

The following table reflects the Company's outstanding common shares as at March 31, 2020:

***(in thousands,** except share amounts)*	**Shares**	**Share Capital**
December 31, 2018	191,758,236	$ 200,651
Purchase of common shares for cancellation	(1,074,615)	(596)
Settlement of restricted share bonus awards	502,007	574
December 31, 2019	191,185,628	200,630
Purchase of common shares for cancellation	(3,851,500)	(1,857)
March 31, 2020	**187,334,128**	**$ 198,773**

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, which was renewed in 2020, the Company is permitted to purchase up to 11,785,163 voting common shares of the Company between February 10, 2020 and February 8, 2021. During the quarter ended March 31, 2020, the Company purchased and cancelled 3,851,500 shares at an average price of $0.48 per common share for a total repurchase cost of $1.9 million under the NCIB. The Company purchased an additional 13,500 common shares at $0.11/share subsequent to quarter end. On April 1, 2020, the Company ceased making further purchases under the NCIB until further notice. From February 7, 2019, through April 1, 2020, the Company purchased 4,939,615 shares under the NCIB at an average price of $0.50/share for a total repurchase cost of $2.5 million.

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

Stock Options

The following table presents stock option transactions for the years three months ended March 31, 2020, and for the year ended December 31, 2019:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
December 31, 2018	550,000	$ 0.70	2.55
Exercised	-	-	-
December 31, 2019	550,000	$ 0.70	1.55
Exercised	-	-	-
March 31, 2020	**550,000**	$ 0.70	1.30

Share Bonus Awards

The Company has granted restricted share bonus awards and performance share bonus awards (collectively, the "share bonus awards") to certain directors, officers, and employees. Share bonus awards granted according to the plan vest over three years from the date of grant and expire before the end of the third year from the date of grant. Performance share bonus awards also vest based on achievement of certain performance hurdles and are subject to a multiplier between 0 and 2 times based on relative performance. The share bonus 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 share bonus awards is determined based on the current market value of the Company's common shares at the dates of grant and considering anticipated forfeiture rates. For purposes of valuing performance share bonus awards, the Company assumes a multiplier of 1.0 times. A charge to income is reflected as share-based compensation expense in the interim consolidated statement of operations over the vesting period with a corresponding increase to contributed surplus.

	Restricted Share Bonus Awards	Performance Share Bonus Awards	Total Awards	Estimated Fair Value Price
December 31, 2018	3,185,000	-	3,185,000	$ 1.75
Granted	1,731,300	1,090,200	2,821,500	0.75
Settled	(903,332)	-	(903,332)	(1.82)
Forfeited and expired	(1,600,000)	(500,000)	(2,100,000)	(0.80)
December 31, 2019	2,412,968	590,200	3,003,168	$ 1.46
Granted	33,500	86,500	120,000	0.10
Forfeited and expired	(93,333)	(26,000)	(119,333)	(1.25)
March 31, 2020	**2,353,135**	**650,700**	**3,003,835**	**$ 1.42**

Note 12. Revenue

The following reflects our petroleum and natural gas revenue, before royalties:

	Three months ended March 31,	
(in thousands)	**2020**	**2019**
Petroleum and natural gas	$ 49,110	$ 21,326

The Company has several 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 are incurred, such fees are netted against the relevant revenue in the consolidated statement of operations. To the extent control of the relevant commodity is transferred to a purchaser after transportation or processing fees are incurred, such fees are reflected as transportation expense and as operating expense, respectively in the interim consolidated 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.

Note 13. Net Loss per Common Share

	Three months ended March 31,	
(in thousands, except share and per share amounts)	**2020**	**2019**
Net loss	$ (17,266)	$ (996)
Weighted average common shares outstanding - basic	188,937,046	191,758,236
Weighted average common shares outstanding - diluted	191,940,212	191,758,236
Net loss per share - basic	$ (0.09)	$ (0.00)
Net loss per share – diluted	$ (0.09)	$ (0.00)

The Subsidiary Issuer has issued 75,000 preferred shares which are convertible, at the Investor's option, to 39,308,176 common shares of the Company at a fixed price of $2.40 per share, subject to certain conditions. See Notes 10 and 18. The preferred shares are not currently considered dilutive.

Note 14. 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$160,000 as security in order to operate in North Dakota.

Note 15. Finance Expense

	Three months ended March 31,	
(in thousands)	**2020**	**2019**
Preferred share dividends	$ 2,267	$ 931
Senior loan interest	2,205	2,245
Preferred share accretion	713	579
Decommissioning obligation accretion	42	8
Operating lease interest and other finance costs	11	4
Total	**$ 5,238**	**$ 3,767**

Note 16. Supplemental Cash Flow Disclosures

Changes in non-cash working capital is comprised of the following:

	Three months ended March 31,	
(in thousands)	**2020**	**2019**
Source (use) of cash:		
Accounts receivable	$ 27,264	$ 7,697
Prepaid expenses and deposits	(235)	(134)
Accounts payable and accrued liabilities	(30,566)	16,522
	$ (3,537)	$ 24,085
Related to operating activities	$ 13,810	$ 10,629
Related to investing activities	(21,368)	10,713
Accrued and unpaid dividends on preferred shares	(110)	2,253
Difference due to foreign exchange	4,131	490
	$ (3,537)	$ 24,085
Interest and preferred dividends paid	$ 4,594	$ 3,176
Income taxes paid	$ -	$ -

Note 17. Risk Management

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meets its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its short-term and long-term financial obligations when due, under both normal and unusual conditions, without incurring unacceptable losses. As at March 31, 2020, the Company had a net working capital deficit of $31.5 million which is $16.8 million greater than the undrawn capacity of the senior credit facility of $14.7 million. The financial liabilities in the interim consolidated statement of financial position consist of accounts payable and accrued liabilities, which are all considered due within one year, and the senior loan and preferred share obligation. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities as they come due. The Company forecasts its cash flows from operating activities and settlement of accounts payable in relation to available liquidity from its revolving credit facilities. The Company's accounts payable and accrued liabilities balance at March 31, 2020 is approximately $78.2 million (December 31, 2019 - $108.8 million). It is the Company's general practice to pay suppliers within 60 days. At March 31, 2020, the Company remains in compliance with all terms of our Senior Loan and based on current available information, management expects to comply with all terms during the subsequent 12-month period. The Company's senior lenders have confirmed the existing borrowing capacity as of May 27, 2020 and agreed to extend the maturity date of the credit facility to June 26, 2022. The Company's preferred shares may either be converted, at the option of the Investor, to common shares of the Company, or remain subject to redemption on January 25, 2023, which date may be extended at the option of the Investor by one year. On May 4, 2020, PetroShale elected to exercise its right to settle in kind the payment of the quarterly dividend due in May on its outstanding preferred shares. Refer to Note 18. Estimates and judgements made by management in the preparation of the financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

Market and Credit Risk

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. In addition, global commodity prices have declined significantly due to disputes between major oil producing countries combined with the negative impact to oil demand from the COVID-19 pandemic. Governments worldwide, including those in Canada, have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable.

The current challenging economic climate may have significant adverse impacts on the Company, including material declines in revenue and cash flows, and related impacts to working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows to meet the Company's current and future obligations. Similar issues may be faced by the Company's customers, which could materially increase the risk of non-payment of accounts receivable and customer defaults. The Company continues to manage the risk of non-payment of receivables from partners in its producing properties by netting such receivables against their share of net revenues received. The Company continuously evaluates the ability of its customers to pay for commodities sold. To date, the Company's ability to deliver its oil and gas production to sales point has not been negatively impacted but it is possible that as oil storage reaches capacity, physical demand for oil production from the Company's properties may be negatively affected. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time.

Note 18. Subsequent Events

On May 27, 2020, the Company's senior lenders agreed to confirm the amount of the existing borrowing capacity of US$177.5 million and extend the maturity date of the Credit Facility to June 26, 2022.

On May 4, 2020, PetroShale elected to exercise its right to settle in kind the payment of the quarterly dividend due in May on its outstanding preferred shares. By electing to pay the first quarter dividend in kind, the ordinary cash dividend of approximately US$1.7 million (approximately CAD$2.4 million) will be settled by way of increasing the current US$75 million liquidation preference of the preferred shares, at a rate of 12% per annum, or US$2.25 million (approximately CAD$3.2 million). The payment in kind will enable PetroShale to preserve liquidity through this period of market volatility and severe commodity price weakness. In accordance with the terms of the preferred shares, the increase to the liquidation preference increases the amount of voting and exchange rights which accrue to the Investor. As a result, PetroShale will issue an additional 1,179,246 special voting shares to the Investor, and a further 1,179,246 common shares may be issuable on exchange of the preferred shares (in which case the issued special voting shares will be cancelled). Following this issuance, the Investor will own 2,702,702 common shares and 40,487,422 special voting shares, representing approximately 18.9% of the outstanding voting shares of the Company.