PetroShale

Calgary • Denver

Management's Discussion and Analysis

For the three months ended

March 31, 2022 and 2021

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 18, 2022. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2022 and the audited consolidated financial statements as at and for the year ended December 31, 2021. 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(s)	Barrel(s)
Boe	Barrel(s) of oil equivalent
BBls/d	Barrels per day
Boepd	Barrels of oil equivalent per day
HH	Henry Hub, reference price paid in US$ for natural gas deliveries
Mcf	Thousand cubic feet
Mmbtu	Million British Thermal Units
Mmbtu/d	Million British Thermal Units per day
NGLs	Natural gas liquids
WTI	West Texas Intermediate, reference price paid in US$ for crude oil of standard grade

Barrel of Oil Equivalent Advisory

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 price of crude oil compared to natural gas, could be 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

The Company's reserves have been categorized as Tight Oil, Shale Gas, and Natural Gas Liquids pursuant to National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). 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 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-GAAP and Other Financial Measures

Throughout this MD&A and in other materials disclosed by the Company, PetroShale uses certain measures to analyze historical financial performance, financial position and cash flow. These non-GAAP and other financial measures are not defined by IFRS and therefore may not be comparable to performance measures presented by others. These non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are defined by IFRS, such as net income (loss) or cash provided by operating activities, as indicators of the Company's performance.

Non-GAAP Financial Measures

Capital Expenditures

PetroShale uses capital expenditures to measure its investments in capital compared to the Company's annual capital budget. The most directly comparable GAAP measure to capital expenditures is cash flow used in investing activities. The reconciliation between cash flow used in investing activities, as defined by IFRS, and capital expenditures, as defined herein, is as follows:

	Three months ended March 31,	
($ thousands)	**2022**	**2021**
Cash flow used in investing activities	**$20,010**	$6,737
Change in non-cash investing working capital	**(8,219)**	(4,610)
Capitalized share-based compensation	**320**	22
Decommissioning obligation	**(1,084)**	(578)
Capital expenditures	**$11,027**	$1,571

Exploration and development expenditures

PetroShale uses exploration and development expenditures to measure its investments in capital compared to the Company's annual capital budget. The most directly comparable GAAP measure to exploration and development expenditures is additions to property, plant and equipment in the cash flow used in investing activities. The reconciliation between additions to property, plant and equipment, as defined by IFRS, and exploration and development expenditures, as defined herein, is as follows:

	Three months ended March 31,	
($ thousands)	**2022**	**2021**
Additions to property, plant and equipment	**$11,791**	$2,127
Capitalized general and administrative expenses	**($729)**	($122)
Exploration and development expenditures	**$11,062**	$2,005

Funds Flow and Funds Flow, Excluding Transaction Related Costs

Funds flow represents cash provided by operating activities prior to changes in non-cash working capital and including cash finance expenses. Funds flow, excluding transaction related costs represents cash flow from operating activities prior to changes in non-cash operating working capital and transaction related costs, including cash finance expenses. PetroShale considers these measures to be useful as they assist in the determination of the Company's ability to generate liquidity necessary to finance capital expenditures, settlement of decommissioning obligations and service its debt. Transaction related costs are incurred during asset acquisitions, corporate acquisitions, or corporate reorganizations and are typically not considered a cost incurred in the normal course of business. As a result, excluding transaction related costs from funds flow further assists in the determination of the Company's ability to generate liquidity in the normal course of business.

	Three months ended March 31,	
($ thousands)	**2022**	**2021**
Cash provided by operating activities	**$38,242**	$15,893
Finance expenses - cash	**(2,063)**	(2,635)
Changes in non-cash operating working capital	**(2,578)**	(826)
Funds flow	**$33,601**	$12,432
Transaction related costs	**2,100**	-
Funds flow, excluding transaction related costs	**$35,701**	$12,432

Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA")

PetroShale uses adjusted EBITDA, which represents cash provided by operating activities prior to changes in non-cash working capital, to measure 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. The reconciliation between cash flow from operating activities, as defined by IFRS, and adjusted EBITDA, as defined herein, is as follows:

	Three months ended March 31,	
($ thousands)	**2022**	**2021**
Cash provided by operating activities	**$38,242**	$15,893
Changes in non-cash operating working capital	**(2,578)**	(826)
Adjusted EBITDA	**$35,664**	$15,067

Operating Netback and Operating Netback Prior to Hedging

Operating netback represents petroleum and natural gas revenue, plus or minus any realized gain or loss on financial derivatives, less royalties, operating expenses, production taxes, and transportation expense. Operating netback prior to hedging represents operating netback prior to any realized gain or loss on financial derivatives. PetroShale believes that in addition to net income (loss) and cash provided by operating activities, operating netback and operating netback prior to hedging 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.

The table below discloses the Company's operating netback and operating netback prior to hedging, including the reconciliation to its most closely comparable GAAP measure, petroleum and natural gas revenue.

	Three months ended March 31,	
($ thousands)	**2022**	**2021**
Petroleum and natural gas revenue	**$84,843**	$43,405
Royalties	**(15,843)**	(7,953)
Operating expenses	**(7,664)**	(6,188)
Production taxes	**(5,800)**	(3,072)
Transportation expenses	**(1,704)**	(1,977)
Operating netback prior to hedging	**$53,832**	$24,215
Realized loss on financial derivatives	**(14,322)**	(7,323)
Operating netback	**$39,510**	$16,892

Net Debt

Net debt represents total liabilities, excluding decommissioning obligation, deferred tax liability, lease liability and financial derivative liability, less current assets, excluding financial derivative assets. PetroShale believes net debt is a key measure to assess the Company's liquidity position at a point in time. Net debt is not a standardized measure and may not be comparable with similar measures for other entities. The reconciliation between total liabilities, as defined by IFRS, and net debt, as defined herein, is as follows:

	As at March 31, 2022	As at December 31, 2021
Total liabilities	**$217,048**	$261,047
Decommissioning obligation	**(6,854)**	(7,971)
Deferred tax liability	**(3,118)**	-
Financial derivative liability	**(27,717)**	(15,544)
Lease liability	**(1,323)**	(1,125)
Total current assets	**(56,944)**	(40,340)
Net Debt	**$121,092**	$196,067

Non-GAAP Financial Ratios

Adjusted EBITDA per Share Basic and Diluted

The Company calculates adjusted EBITDA per share basic and diluted as adjusted EBITDA divided by weighted average basic and diluted shares outstanding, respectively. Adjusted EBITDA is a non-GAAP financial measure. PetroShale believes that adjusted EBITDA per share basic and diluted are key industry performance measures of the Company's ability to generate liquidity and are common measures within the oil and gas industry.

Funds Flow and Funds Flow, Excluding Transaction Costs per Share Basic and Diluted

The Company calculates funds flow per share basic and diluted as funds flow divided by weighted average basic and diluted shares outstanding, respectively. Funds flow, excluding transaction costs per share basic and diluted is calculated as funds flow, excluding transaction costs divided by weighted average basic and diluted shares outstanding, respectively. Funds flow and funds flow, excluding transaction costs are non-GAAP financial measures. PetroShale believes that funds flow per share basic and diluted and funds flow, excluding transaction costs per share basic and diluted are key industry performance measures of the Company's ability to generate liquidity and are common measures within the oil and gas industry.

Operating Netback per Boe and Operating Netback Prior to Hedging per Boe

The Company calculates operating netback per Boe as operating netback divided by production for the period. Operating netback prior to hedging per Boe is calculated as operating netback prior to hedging divided by production for the period. Operating netback and operating netback prior to hedging are non-GAAP financial measures. PetroShale believes that operating netback per Boe and operating netback prior to hedging per Boe are key industry performance measures of operational efficiency and are common measures within the oil and gas industry.

Supplementary Financial Measures

In this MD&A, the Company uses the following supplementary financial measures, which have the following meaning.

"Average realized NGLs price" (per Bbl) is comprised of NGLs commodity sales from production, as determined in accordance with IFRS, divided by the Company's NGLs production, expressed in US$ or CAD$, as applicable.

"Average realized shale gas price" (per Mcf) is comprised of shale gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's shale gas production, expressed in US$ or CAD$, as applicable.

"Average realized tight oil price" (per Bbl) is comprised of tight oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's tight oil production, expressed in US$ or CAD$, as applicable.

"Depletion and depreciation expenses per BOE" is comprised of the Company's depletion and depreciation expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Impairment (impairment recovery) per BOE" is comprised of the Company's impairment, or impairment recovery for the period, as the case may be, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Net G&A expenses per BOE" is comprised of the Company's gross G&A expenses, as determined in accordance with IFRS, less capitalized G&A, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Operating expenses per BOE" is comprised of the Company's operating expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Petroleum and natural gas revenue, per BOE" is comprised of petroleum and natural gas revenue, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Petroleum and natural gas revenue, net, per BOE" is comprised of petroleum and natural gas revenue, net of royalties, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Production taxes per BOE" is comprised of the Company's production taxes, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Realized loss on financial derivatives, per BOE" is comprised of the Company's realized loss on financial derivatives, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Royalties per BOE" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Royalties as a percentage of revenue" is comprised of royalties, as determined in accordance with IFRS, divided by petroleum and natural gas revenue as determined in accordance with IFRS.

"Net share-based compensation expenses per BOE" is comprised of the Company's net share-based compensation expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Total operating expenses per BOE" is comprised of the Company's total operating expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Transaction related costs per BOE" is comprised of the Company's transaction related costs, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Transportation expenses per BOE" is comprised of the Company's transportation expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Unrealized gain (loss) on financial derivatives per BOE" is comprised of the Company's unrealized gain (loss) on financial derivatives, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

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. The use of any of the words "expect," "anticipate," "continue," "estimate," "objective," "ongoing," "may," "will," "project," "should," "believe," "plans," "intends," "strategy," and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: Management's assessment of future plans and operations, the Company's plans, focus and strategy, estimated annual average production range for 2022, 2022 annual capital expenditures and expectation that such expenditures will result in additional production in 2022, capital expenditures will be funded substantially within operation cash flow for 2022, expectation that the Company will significantly enhance free cash flow in 2022, timing of hedges to expire, the Company's derivative instruments, the terms thereof and the anticipated benefits, anticipated timing to complete wells, the term out and maturity dates of the senior credit facility, methods the Company will use to monitor cash flow and terms of contractual obligations and other commercial commitments.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements 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, determinations by OPEC and other countries as to production levels, events resulting from hostilities in the Ukraine and elsewhere, 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, impacts of inflation, 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, risks associated with the availability of transportation of the Company's production through pipeline and other systems; risks associated with pricing and costs inflation; 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 impact (and the duration thereof) that the COVID-19 pandemic will have on (i) the demand for tight oil, shale gas and NGLs, (ii) our supply chain, including our ability to obtain the equipment and services we require, and (iii) our ability to produce, transport and/or sell our tight oil, shale gas and NGLs; the ability of the Company to obtain and retain qualified staff, equipment and services in a timely and cost efficient manner; the impact of inflation on the Company's costs; 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 and inflation 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.

Financial and Operational Highlights

	Three months ended March 31,	
Financial *($ thousands, except share amounts)*	**2022**	**2021**
Petroleum and natural gas revenue	**$84,843**	$43,405
Cash flow provided by operating activities	**$38,242**	$15,893
Net income (loss)	**$5,888**	($44,424)
Per share - basic	**$0.01**	($0.24)
Per share - diluted	**$0.01**	($0.24)
Funds flow [(1)]	**$33,601**	$12,432
Per share - basic	**$0.06**	$0.04
Per share - diluted	**$0.05**	$0.04
Funds flow, excluding transaction costs [(1)]	**$35,701**	$12,432
Per share - basic	**$0.06**	$0.04
Per share - diluted	**$0.06**	$0.04
Adjusted EBITDA [(1)]	**$35,664**	$15,067
Per share - basic	**$0.06**	$0.08
Per share - diluted	**$0.06**	$0.08
Exploration and development expenditures [(1)]	**$11,062**	$2,005
Net debt [(1)]	**$121,092**	$318,285
Number of common shares outstanding		
Shares outstanding, end of period	**659,637,831**	188,556,240
Weighted average - basic	**609,679,498**	188,543,702
Weighted average - diluted	**623,169,564**	197,304,468
Operating		
Daily production [(2)]		
Tight oil (Bbls)	**7,065**	6,376
Shale gas (Mcf)	**11,138**	11,288
Natural gas liquids (Bbls)	**1,760**	1,851
Barrels of oil equivalent	**10,681**	10,108
Average realized price:		
Tight oil ($/Bbls)	**$119.28**	$69.37
Shale gas ($/Mcf)	**$4.87**	$1.67
Natural gas liquids ($/Bbls)	**$27.30**	$11.41
Barrels of oil equivalent ($/Boe)	**$88.26**	$47.71
Operating netback ($ per Boe) [(3)]		
Petroleum and natural gas revenue	**$88.26**	$47.71
Royalties	**($16.48)**	($8.74)
Operating expenses	**($7.97)**	($6.80)
Production taxes	**($6.03)**	($3.38)
Transportation expense	**($1.77)**	($2.17)
Operating netback prior to hedging [(1)]	**$56.01**	$26.62
Realized loss on financial derivatives	**($14.90)**	($8.05)
Operating netback [(1)]	**$41.11**	$18.57

(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section “Non-GAAP and Other Financial Measures” contained within this MD&A.

(2) The Company’s reserves have been categorized as Tight Oil, Shale Gas, and Natural Gas Liquids pursuant to National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities (“NI 51-101”).

(3) Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Includes a non-GAAP financial measure component of operating netback. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Description of Business

PetroShale Inc. (“PetroShale” or 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 “PSH” ticker symbol.

The Company has corporate offices located at Suite 1800, 350 - 7th Avenue SW, Calgary, Alberta T2P 3N9 and at 303 E. 17th Avenue, Suite 940, Denver, CO 80203.

New Management Team, Board Appointment, Private Placements and Proposed Name Change

New Management Team and Board Appointment

On January 13, 2022, the Company announced the appointment of a new management team (the “New Management Team”), led by Brett Herman as President & Chief Executive Officer, Jason Skehar as Chief Operating Officer, Marvin Tang as Vice President, Finance & Chief Financial Officer, Sandy Brown as Vice President, Geosciences, Kristine Lavergne as Vice President, Engineering, and Shane Manchester as Vice President, Operations. In addition, the Company announced the appointment of Dale O. Shwed to the Board of Directors. On February 22, 2022, the Company announced the appointment of Anthony Baldwin as Vice President, Business Development.

Private Placements

In connection with the appointment of the New Management Team, on February 2, 2022, the Company closed a non-brokered private placement of units of PetroShale (the “Units”) with the New Management Team, among others, for gross proceeds of $9.5 million (the “Non-Brokered Private Placement”) and a brokered private placement of common shares of PetroShale for gross proceeds of $45.0 million (the “Brokered Private Placement”, and combined with the Non-Brokered Private Placement, the “Private Placements”).

Pursuant to the Non-Brokered Private Placement, PetroShale issued 23,750,000 Units at a price of $0.40 per Unit for total proceeds of $9.5 million. Each Unit is comprised of one common share of PetroShale ("Common Share") and one warrant (“Warrant”) entitling the holder to purchase one Common Share at a price of $0.475 per Common Share for a period of five years from the issuance date. The Warrants will vest and become exercisable as to one-third upon the 20-day volume weighted average trading price of the Common Shares (the “Trading Price”) equaling or exceeding $0.67 per Common Share, an additional one-third upon the Trading Price equaling or exceeding $0.83 per Common Share and the final one-third upon the Trading Price equaling or exceeding $0.95 per Common Share.

Pursuant to the Brokered Private Placement, the Company issued 112,500,000 Common Shares at a price of $0.40 per Common Share for gross proceeds of $45.0 million. Through the Private Placements, PetroShale raised total gross proceeds of $54.5 million which was used to reduce debt and for general corporate purposes, positioning the Company to execute on a disciplined corporate strategy.

The Company's two largest shareholders, FR XIII PetroShale Holdings L.P. and M Bruce Chernoff, waived their respective rights to participate in the Private Placements in order to maintain their ownership positions and did not acquire any Common Shares or Warrants as part of the Company's Private Placements.

Proposed Name Change

On January 13, 2022, the Company announced it intends to ask the shareholders of PetroShale to approve the change of the Company’s name to Lucero Energy Corp. at the next annual general meeting of shareholders.

Results of Operations

Production

($ thousands)	**Three months ended March 31, 2022**	**2021**
Tight oil (Bbl per day)	**7,065**	6,376
Shale gas (Mcf per day)	**11,138**	11,288
Natural gas liquids (Bbl per day)	**1,760**	1,851
Total (Boe per day)	**10,681**	10,108
Liquids percentage of total	**83%**	81%

Total production during the three months ended March 31, 2022 increased 6%, compared to the three months ended March 31, 2021 (the "Corresponding Period"). Total production for the three months ended March 31, 2022 increased compared to the Corresponding Period primarily due to new production from operated wells drilled and completed in the fourth quarter of 2021.

Pricing

	Three months ended March 31, 2022	**2021**
Average Benchmark Prices (US$):		
Crude oil - WTI ($ per Bbl)	**$94.38**	$57.84
Natural gas - HH spot (per Mmbtu)	**$4.57**	$3.56
Average Differential (US$):		
Crude oil - (per Bbl)	**($0.20)**	($3.05)
Natural gas - (per Mcf) [(1)]	**($0.73)**	($2.24)
Average Realized Prices (US$):		
Tight oil (per Bbl)	**$94.18**	$54.79
Shale gas (per Mcf)	**$3.84**	$1.32
Natural gas liquids (per Bbl)	**$21.55**	$9.02
Average Realized Prices (CAD$):		
Tight oil (per Bbl)	**$119.28**	$69.37
Shale gas (per Mcf)	**$4.87**	$1.67
Natural gas liquids (per Bbl)	**$27.30**	$11.41

(1) Includes conversion from Mmbtu to Mcf.

Benchmark commodity prices recovered throughout 2021 and into the first quarter of 2022. The Company's average differential for crude oil improved during the three months ended March 31, 2022, contributing to a significant improvement in realized tight oil prices. Crude oil pricing differentials are largely a function of supply/demand fundamentals (including the impacts of recent geopolitically driven crude oil supply volatility, and the COVID-19 pandemic) as well as crude oil quality, transportation and inventories.

Similarly, Henry Hub benchmark natural gas prices in the three months ended March 31, 2022 increased materially compared to the Corresponding Period, as North American and global supply/demand fundamentals provided strong pricing momentum. NGL prices reflected the improvement in oil prices.

Revenues and Royalties

	Three months ended March 31,	
($ thousands, except where noted)	**2022**	**2021**
Tight oil	**$75,637**	$39,807
Shale gas	**4,882**	1,696
Natural gas liquids	**4,324**	1,902
Petroleum and natural gas revenue	**$84,843**	$43,405
Less: royalties	**(15,843)**	(7,953)
Petroleum and natural gas revenue, net	**$69,000**	$35,452
Royalties as a percentage of revenue	**18.7%**	18.3%
Per Boe amounts:		
Petroleum and natural gas revenue	**$88.26**	$47.71
Less: royalties	**(16.48)**	($8.74)
Petroleum and natural gas revenue, net	**$71.78**	$38.97

Revenues in the three months ended March 31, 2022 increased 95%, compared to the Corresponding Period. The increase was primarily due to increased realized commodity prices.

The Company's royalty rate as a percentage of revenues for the three months ended March 31, 2022 remained relatively consistent, compared to the Corresponding Period.

Realized and Unrealized Gain (Loss) on Financial Derivatives

	Three months ended March 31,	
($ thousands)	**2022**	**2021**
Realized loss on financial derivatives	**($14,322)**	($7,323)
Realized loss on financial derivatives per Boe	**($14.90)**	($8.05)
Unrealized loss on financial derivatives	**($12,493)**	($13,521)
Unrealized loss on financial derivatives per Boe	**($13.00)**	($14.86)

In the year ended December 31, 2021, during the uncertain economic environment related to the COVID-19 pandemic, the Company entered into various financial derivatives to reinforce its capital structure. As crude oil and natural gas prices subsequently recovered, the Company realized losses on its financial derivatives during the quarter ended March 31, 2022.

Operating Expenses

($ thousands, unless otherwise noted)	Three months ended March 31, 2022	2021
Operating expenses	**$7,664**	$6,188
Operating expenses per Boe	**$7.97**	$6.80

Operating expenses increased on both a dollar and per Boe basis, for the three months ended March 31, 2022, compared to the Corresponding Period. The increase was primarily due to increased workover activity during the quarter, as well as the impact of inflationary pressures on costs.

Production Taxes

($ thousands, unless otherwise noted)	Three months ended March 31, 2022	2021
Production taxes	**$5,800**	$3,072
Production taxes per Boe	**$6.03**	$3.38
Production taxes - % of petroleum and natural gas revenue, net	**8.4%**	8.7%

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. Absolute production taxes and production taxes per Boe are higher than the Corresponding Period, primarily due to higher commodity prices.

Transportation Expenses

($ thousands, unless otherwise noted)	Three months ended March 31, 2022	2021
Transportation expenses	**$1,704**	$1,977
Transportation expenses per Boe	**$1.77**	$2.17

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 which 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 and comprehensive income (loss). Transportation costs were lower in the three months ended March 31, 2022, compared to the Corresponding Period primarily due to a higher proportion of operated production volumes in the quarter, which benefit from lower transportation costs.

Operating Netbacks

($ per Boe, unless otherwise noted)	Three months ended March 31, 2022	2021
Petroleum and natural gas revenue	**$88.26**	$47.71
Royalties	**(16.48)**	(8.74)
Operating expenses	**(7.97)**	(6.80)
Production taxes	**(6.03)**	(3.38)
Transportation expense	**(1.77)**	(2.17)
Operating netback (prior to hedging) [1]	**$56.01**	$26.62
Realized loss on financial derivatives	**(14.90)**	(8.05)
Operating netback [1]	**$41.11**	$18.57

[1] Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section "Non-GAAP and Other Financial Measures" contained within this MD&A.

General and Administrative Expenses ("G&A")

($ thousands)	Three months ended March 31, 2022	2021
General and administrative expenses	**$2,475**	$1,947
Capitalized general and administrative expenses	**(729)**	(122)
Net general and administrative expenses	**$1,746**	$1,825
Net general and administrative expenses per Boe	**$1.82**	$2.01

Net G&A expenses for the three months ended March 31, 2022 decreased compared to the Corresponding Period. This was largely the result of increased capitalized G&A as a result of increased capital and/or acquisition due diligence related activity. Net G&A expenses per Boe for the three months ended March 31, 2022 decreased compared to the prior year largely due to the increase in production volumes.

Transaction Related Costs

($ thousands)	Three months ended March 31, 2022	2021
Transaction related costs	**$2,100**	-
Transaction related costs per Boe	**$2.18**	-

The transaction related costs in the three months ended March 31, 2022 are related to severance costs and one-time administrative costs incurred to transition the New Management Team, previously described.

Depletion and Depreciation Expenses

($ thousands)	Three months ended March 31, 2022	2021
Depletion and depreciation expenses	**$11,452**	$10,961
Depletion and depreciation expenses per Boe	**$11.91**	$12.05

Depletion and depreciation expense, both on a dollar basis as well as a per Boe basis remained relatively consistent in the three months ended March 31, 2022, compared to the Corresponding Period.

Finance Expenses

	Three months ended March 31,	
($ thousands)	**2022**	**2021**
Senior credit facility interest	**$2,063**	$2,635
Preferred share dividends	**-**	3,984
Preferred share accretion, net	**-**	683
Decommissioning obligations accretion	**37**	21
Operating lease and other	**20**	27
Total finance expenses	**$2,120**	$7,350

In the three months ended March 31, 2022, finance expenses were lower compared to the Corresponding Period, reflecting the elimination of preferred share dividends on the exchange of the Company's preferred shares for common shares in April 2021, as well as a decrease in the average drawn amount on the senior credit facility.

Share-Based Compensation Expenses

	Three months ended March 31,	
($ thousands)	**2022**	**2021**
Gross share-based compensation expenses	**$913**	$281
Capitalized share-based compensation	**(320)**	(22)
Net share-based compensation expenses	**$593**	$259
Net share-based compensation expenses per Boe	**$0.62**	$0.28

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 pro rata, typically over a three-year period. Performance share bonus awards vest ratably over a three-year period, and their value is based on achievement of certain performance hurdles and are subject to a multiplier between 0 and 2.0 times based on the Company's performance against specified key performance indicators. 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 performance share bonus award multiplier of 1.0 times. A charge to income is reflected as share-based compensation expense in the consolidated statement of operations and comprehensive income (loss) over the vesting period with a corresponding increase to contributed surplus in the consolidated statement of financial position.

The increase in net share-based compensation expenses is primarily due to an increase in outstanding share bonus awards related to the grants to the New Management Team and staff in the three months ended March 31, 2022, which were at a higher price than the weighted average price of the awards granted prior to the quarter.

Foreign Currency Gain (Loss) and Translation Adjustment

	Three months ended March 31,	
($ thousands)	**2022**	**2021**
Foreign currency translation rates - CAD$/US$		
Average period exchange rate	**$1.2665**	$1.2661
Ending period exchange rate	**$1.2505**	$1.2602

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 loss of $3.9 million for the three months ended March 31, 2022 (Corresponding Period: loss of $1.2 million), due to a recent strengthening of the Canadian dollar to US dollar.

Liquidity and Capital Resources

Summary

The Company's capital resources consist primarily of cash flow provided by operating activities, cash and cash equivalents and availability under the senior credit facility. The Company is dependent on cash on hand, operating cash flows and equity and/or debt issuances to finance capital expenditures and property acquisitions. Borrowings are managed in relation to credit capacity and 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 forecasts reflect a significantly negative trend, the Company is capable of managing its cash flows by not consenting to participate in additional drilling proposed by the operators of its non-operated properties, by reducing its drilling and completion activity on its operated properties and by entering into commodity price hedge contracts. The Company considers its current and future financial capacity and liquidity before proceeding with additional wells on its operated lands.

During the first quarter of 2022, the Company utilized proceeds from the Private Placements and funds flow to significantly reduce the amount drawn under the senior credit facility. The senior credit facility balance was US$102.5 million excluding unamortized debt issuance costs at March 31, 2022 (US$143.2 million at December 31, 2021), or US$88.8 million net of available cash (US$142.9 million at December 31, 2021). The available borrowing base of the senior credit facility was most recently reaffirmed in March 2021 at US$177.5 million and the next borrowing base redetermination is scheduled to be completed by the end of May 2022. The Company has no other debt obligations.

Cash Flow Provided by Operating Activities

Cash flow provided by operating activities depends on several factors including commodity prices, royalty rates, production volumes, operating expenses, transportation expenses, and production taxes, as well as the impact of changes in non-cash working capital. During the three months ended March 31, 2022, cash flow provided by operating activities was $38.2 million, compared to $15.9 million in the Corresponding Period. Cash flow provided by operating activities increased mainly due to larger funds flow in 2022. During the three months ended March 31, 2022, funds flow increased by $21.2 million, compared to the Corresponding Period. The increases are largely due to significant improvements in commodity prices and increased production compared to the Corresponding Period.

Financial Derivatives and Hedging Activities

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

As at March 31, 2022, the Company had various oil and natural gas price derivative contracts outstanding. The tables below represent the weighted average price for each contract type by fiscal quarter for oil and natural gas derivative contracts, respectively:

Oil Contract Type (WTI)	Quarter	Volume (Bbls/d)	Swap (US$)	Bought Put (US$)	Sold Call (US$)
Costless collars					
	Q2 2022	2,750	-	$48.73	$62.72
	Q3 2022	1,500	-	$50.83	$65.32
	Q4 2022	1,500	-	$50.83	$65.32
Fixed Swaps					
	Q2 2022	833	$58.63	-	-
	Q3 2022	417	$62.78	-	-
	Q4 2022	317	$62.78	-	-

Natural Gas Contract Type (Henry Hub)	Quarter	Volume (Mmbtu/d)	Swap (US$)	Bought Put (US$)	Sold Call (US$)
Fixed Swaps					
	Q2 2022	2,000	$3.43	-	-
	Q3 2022	2,000	$3.43	-	-

At March 31, 2022, the mark-to-market value of these commodity contracts totaled a current liability of $27.7 million.

Capital Expenditures

($ thousands)	**Three months ended March 31, 2022**	**2021**
Cash:		
Land retention costs	**$133**	($102)
Drilling, completions and optimizations	**9,447**	961
Equipment and facilities	**1,332**	1,119
Administrative assets	**150**	27
Exploration and development expenditures	**11,062**	2,005
Capitalized G&A	**729**	122
Total capital expenditures - cash items	**$11,791**	$2,127
Non-cash:		
Capitalized share-based compensation	**320**	22
Decommissioning obligations	**(1,084)**	(578)
Total capital expenditures [1]	**$11,027**	$1,571

(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section "Non-GAAP and Other Financial Measures" contained within this MD&A.

Capital expenditures, consisting of capitalized development activity for the three months ended March 31, 2022, were funded from operating cash flows. During the first quarter of 2022, in addition to various well optimizations, the Company completed one (0.5 net) well.

Senior Credit Facility

The Company maintains a senior revolving credit facility which is referred to as the senior credit facility in the consolidated statement of financial position. The borrowing capacity was reaffirmed at US$177.5 million in March 2021 by the lending syndicate. The term out date was also extended to June 25, 2022, at which point, the facility can be further extended at the option of the lenders or converted to a one-year term loan expiring on the one year anniversary of the term out date. The amount of the facility is subject to a borrowing base test performed periodically based primarily on producing oil and natural gas reserves and using commodity prices estimated by the lenders as well as other factors. The next borrowing base redetermination is scheduled for May 2022. If a decrease in the borrowing base is determined by the senior lenders in the future, it could potentially result in a reduction to the credit facility, which may require a repayment to the lenders, if the drawn amount exceeds the borrowing base.

The credit facility is subject to certain non-financial covenants and the Company is in compliance with all covenants under the senior credit facility as at March 31, 2022. The credit facility has no financial covenants.

As at May 18, 2022, the net amount drawn under the Senior Credit Facility was US$82.1 million representing US$85.8 million of borrowings under the Senior Credit Facility and US$3.7 million of cash on hand.

Share Capital

	Three months ended March 31,	
($ thousands)	**2022**	**2021**
Weighted average outstanding common shares:		
Basic	**609,679,498**	188,543,702
Diluted	**623,169,564**	197,304,468
Outstanding Securities:		
Common shares	**659,637,831**	188,556,240
Preferred shares, convertible	**-**	75,000
Stock options	**-**	550,000
Restricted share bonus awards	**6,207,083**	3,518,026
Performance share bonus awards	**15,742,591**	5,242,740
Warrants	**23,750,000**	-

On closing of the Private Placements in February 2022, the Company issued 136.3 million Common Shares and 23.8 million Warrants.

As at May 18, 2022, the Company had 659,637,831 common shares issued and outstanding, 23,750,000 warrants outstanding, 15,742,591 performance share bonus awards outstanding and 6,207,083 restricted share bonus awards outstanding.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Contractual Obligations and Other Commercial Commitments

The following is a summary of the Company's contractual obligations and commitments as at March 31, 2022:

($ thousands)	**Total**	2022	2023	2024	Thereafter
Accounts payable and accrued liabilities	**$50,321**	$50,321	-	-	-
Lease obligations	**1,323**	335	420	288	280
Senior credit facility, including interest	**136,048**	4,798	131,250	-	-
Total	**$187,692**	$55,454	$131,670	$288	$280

Off-Balance Sheet Arrangements

The Company 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 by the Company 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.

Letters of Credit

The Company has two outstanding letters of credit. A US$158,000 letter of credit was issued in the third quarter of 2021 for the benefit of the Office of Natural Resources Revenue pending completion of audit procedures. A second letter is 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 in the amount of US$160,000 as security to operate in North Dakota. These funds are held as restricted cash in the Interim Consolidated Statements of Financial Position.

Critical Accounting Estimates

The timely preparation of the interim 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 interim consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

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 recovery of previously recorded impairment, the estimation of decommissioning obligations, and the amounts reported for depletion and depreciation of property, plant, and equipment.

Impairment

Each quarter, management reviews indicators of impairment (and indicators of impairment recovery as applicable) 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 when assessing such indicators of impairment (and indicators of impairment reversal) 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 Obligations

The Company estimates the decommissioning obligations for oil and 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 discount rates used 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 bonus 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.

Business Conditions and Risks

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, other 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 where 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 hiring experienced management and 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 due to 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 capital 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 proceed on a different schedule than the Company anticipated, including expenditures to drill more wells or build more facilities 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 to perform operations efficiently.

Any of these events, and the resulting activities, could significantly and adversely affect anticipated exploration and development activities conducted 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 extensively used to increase the probability of success and reduce risk.

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 funds flow from operations;
- New common or preferred equity, if available on acceptable terms which 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; and
- Disposition of non-core assets.

The Company is exposed to commodity price and market risk for our principal products of tight oil, shale 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. When considering if derivative contracts are warranted, 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. 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.

(continued)

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 crude 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, 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 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 local 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 tight oil and shale 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 tight oil and shale 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.

Environmental Regulation and Risk

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 exacting 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. If the Company becomes subject to environmental liabilities without such insurance, 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 crude oil by pipeline rather than by truck, and connecting natural gas to pipeline connections to reduce GHG emissions from its operations. Climate change and related regulation and public response to such items may negatively impact demand for oil, natural gas and NGLs in the future, and could reduce market prices for our commodities.

Additional Risk Information

Additional information regarding risks including, but not limited to, business risks is available in the Company's Annual Information Form, a copy of which may be accessed through SEDAR website (www.sedar.com).

Additional Information

Additional information can be obtained by contacting the Company at PetroShale Inc., Suite 1800, 350 - 7th Avenue SW, Calgary, Alberta T2P 3N9 or by email at info@petroshaleinc.com. Additional information is also available on www.sedar.com or www.petroshaleinc.com.

Summary of Quarterly and Annual Results

(in $000's of dollars, except per share amounts)	**Q1 2022**	Q4 2021	Q3 2021	Q2 2021	Q1 2021 (1)	Q4 2020 (1)	Q3 2020 (1)	Q2 2020 (1)
Petroleum and natural gas sales, net of royalties	**69,000**	59,098	55,530	36,561	35,452	30,564	26,949	19,820
Net income (loss)	**5,888**	25,065	14,954	3,578	(44,424)	(12,417)	(9,134)	(23,169)
Per share – basic	**0.01**	0.05	0.03	0.01	(0.24)	(0.07)	(0.05)	(0.12)
Per share – diluted	**0.01**	0.05	0.03	0.01	(0.24)	(0.07)	(0.05)	(0.12)
Funds flow (2)	**33,601**	19,962	21,137	11,221	12,432	12,524	7,406	5,949
Per share – basic	**0.06**	0.04	0.04	0.02	0.07	0.07	0.04	0.03
Per share – diluted	**0.05**	0.04	0.04	0.02	0.06	0.06	0.04	0.03
Funds flow, excluding transaction related costs (2)	**35,701**	19,962	21,137	11,221	12,432	12,524	7,406	5,949
Per share – basic	**0.06**	0.04	0.04	0.02	0.07	0.07	0.04	0.03
Per share – diluted	**0.06**	0.04	0.04	0.02	0.06	0.06	0.04	0.03
Cash provided by operating activities (3)	**38,242**	17,449	23,884	15,005	15,893	13,362	1,491	16,336
Per share – basic	**0.06**	0.03	0.05	0.03	0.08	0.07	0.01	0.09
Per share – diluted	**0.06**	0.03	0.04	0.03	0.08	0.07	0.01	0.09
Total assets	**569,159**	558,035	547,209	520,611	500,410	502,877	540,504	572,660
Senior credit facility	**127,715**	180,393	178,765	184,668	218,411	221,915	232,113	236,470
Net debt (2)	**121,092**	196,067	185,864	182,351	318,285	326,906	349,759	389,298

(footnotes on next page)

(in $000's of dollars, except per share amounts)	Year ended Dec 31, 2021 (1)	Year ended Dec 31, 2020 (1)	Year ended Dec 31, 2019
Petroleum and natural gas sales, net of royalties	186,641	117,251	132,781
Net income (loss)	(828)	(61,985)	15,327
Per share – basic	-	(0.33)	0.08
Per share – diluted	-	(0.33)	0.08
Funds flow (2)	64,742	48,645	84,800
Per share – basic	0.15	0.26	0.44
Per share – diluted	0.15	0.25	0.44
Cash provided by operating activities (3)	72,230	69,991	78,536
Per share – basic	0.17	0.37	0.41
Per share – diluted	0.16	0.36	0.40
Total assets	558,035	502,877	598,828
Senior credit facility	180,393	221,915	188,589
Net debt (2)	196,067	326,906	330,029

(1) The diluted number of shares is equivalent to the basic number of shares due to stock options, incentive shares, performance and restricted share bonus awards, and/or warrants being antidilutive in periods where the Company has a "net loss". Therefore, the diluted per share amounts in these periods are equivalent to the basic per share amounts.

(2) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section "Non-GAAP and Other Financial Measures" contained within this MD&A.

(3) Cash provided by operating activities is determined in accordance with IFRS and includes changes in non-cash working capital.

Revenues in the first quarter of 2022 increased 16% over the fourth quarter of 2021 due primarily to an increase in realized oil prices, somewhat offset by a decrease in production volumes. Net income also improved in the fourth quarter of 2021 mainly as a result of pricing increases. Cash flow provided by operating activities increased in the first quarter 2022 versus the prior quarter due to improved realized pricing and decreased realized hedging losses, offset by decreased production.

Revenues in the fourth quarter of 2021 increased 6% over the third quarter of 2021 due primarily to an increase in realized oil prices, somewhat offset by a decrease in production volumes. Net income also improved in the fourth quarter of 2021 mainly as a result of pricing increases. Cash flow provided by operating activities decreased in the fourth quarter 2021 versus the prior quarter due to decreased volumes and increased realized hedging losses, offset by improved realized pricing.

Revenues in the third quarter of 2021 increased 52% over the second quarter of 2021 due primarily to a 27% increase in production volumes and increased commodity pricing. Adjusted EBITDA and net income also improved in the third quarter of 2021 mainly as a result of production and pricing increases. Cash flow provided by operating activities increased in the third quarter 2021 versus the prior quarter due to improved volumes and pricing.

Revenues in the second quarter of 2021 remained consistent with the prior period as improved pricing was partially offset by a minor production decrease. Cash flow from operating activities and adjusted EBITDA were negatively impacted by the realized loss on financial derivatives, increased operating costs, and increased production taxes.

In the first quarter of 2021, revenues and cash flow from operating activities increased versus the prior quarter primarily as a result of improved pricing while Adjusted EBITDA remained relatively consistent due to the offsetting impacts of a higher operating netback and lower production.

Revenues, Adjusted EBITDA, and cash flow from operating activities increased during the fourth quarter of 2020 versus the prior quarter primarily as a result of improved pricing.

During the third quarter of 2020, revenues increased versus the previous quarter due the stabilization of oil prices. As a result, Adjusted EBITDA improved, and the net loss decreased versus the prior quarter. Cash flow declined due to changes in non-cash working capital.

Revenues declined in the second quarter of 2020 versus the first quarter due to a significant decline in oil prices, which contributed to a reduction in Adjusted EBITDA and cash flows and also resulted in a significant net loss.

PetroShale

Calgary • Denver

Financial Statements

As at March 31, 2022

and for the three months ended

March 31, 2022 and 2021

PETROSHALE INC.
Interim Consolidated Statements of Financial Position
(unaudited)
(in $000's of Canadian dollars)

	Note	**As at March 31, 2022**	As at December 31, 2021
Assets			
Cash and cash equivalents		**$17,064**	$340
Accounts receivable		**39,594**	39,617
Prepaid expenses and deposits		**286**	383
Total current assets		**56,944**	40,340
Restricted cash	11	**295**	298
Right of use assets	3	**1,181**	1,006
Property, plant and equipment	4	**510,739**	516,391
Total non-current assets		**512,215**	517,695
Total assets		**$569,159**	$558,035
Liabilities			
Accounts payable and accrued liabilities		**$50,321**	$56,014
Financial derivative liability	12	**27,717**	15,544
Lease liability	3	**437**	345
Total current liabilities		**78,475**	71,903
Senior credit facility	5	**127,715**	180,393
Lease liability	3	**886**	780
Decommissioning obligations	6	**6,854**	7,971
Deferred tax liability		**3,118**	-
Total non-current liabilities		**138,573**	189,144
Total liabilities		**$217,048**	$261,047
Shareholders' Equity			
Common shares	7	**$416,653**	$366,730
Warrants	7	**2,342**	-
Contributed surplus		**7,509**	6,596
Accumulated deficit		**(69,611)**	(75,499)
Accumulated other comprehensive loss		**(4,782)**	(839)
Total equity		**352,111**	296,988
Total liabilities and equity		**$569,159**	$558,035

Commitments (note 11)

See accompanying notes to the interim consolidated financial statements.

PETROSHALE INC.

Interim Consolidated Statements of Operations and Comprehensive Income (Loss)
(unaudited)
(in $000's of Canadian dollars, except per share amounts)

	Note	Three months ended Mar 31, 2022	Three months ended Mar 31, 2021
Revenues			
Petroleum and natural gas sales	8	**$84,843**	$43,405
Royalties		**(15,843)**	(7,953)
Petroleum and natural gas sales, net of royalties		**69,000**	35,452
Realized loss on financial derivatives	12	**(14,322)**	(7,323)
Unrealized loss on financial derivatives	12	**(12,493)**	(13,521)
Petroleum and natural gas sales, net of royalties and derivatives		**42,185**	14,608
Expenses			
Operating		**7,664**	6,188
Production taxes		**5,800**	3,072
Transportation		**1,704**	1,977
General and administrative		**1,746**	1,825
Transaction related costs		**2,100**	-
Finance	10	**2,120**	7,350
Share-based compensation		**593**	259
Depletion and depreciation	3, 4	**11,452**	10,961
Loss on modification of preferred shares	7	**-**	27,400
		33,179	59,032
Income (loss) before income taxes		**9,006**	(44,424)
Deferred income tax expense (recovery)		**3,118**	-
Net income (loss)		**$5,888**	($44,424)
Currency translation adjustment		**(3,943)**	(1,248)
Comprehensive income (loss)		**$1,945**	($45,672)
Income (loss) per share:			
Basic and diluted	9	**$0.01**	($0.24)

See accompanying notes to the interim consolidated financial statements.

PETROSHALE INC.

Interim Consolidated Statements of Changes in Shareholders' Equity
(unaudited)
(in $000's of Canadian dollars, unless otherwise noted)

	Share capital	Warrants	Preferred share equity component	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Shareholders' equity
Balance at Dec 31, 2020	$198,925	-	$7,510	$6,968	($74,671)	($1,032)	$137,700
Settlement of share bonus awards	7	-	-	(12)	-	-	(5)
Share-based compensation gross	-	-	-	281	-	-	281
Loss on modification of preferred shares	-	-	27,400	-	-	-	27,400
Net loss	-		-	-	(44,424)	-	(44,424)
Other comprehensive loss	-	-	-	-	-	(1,248)	(1,248)
Balance at Mar 31, 2021	**$198,932**	**-**	**$34,910**	**$7,237**	**($119,095)**	**($2,280)**	**$119,704**
Balance at Dec 31, 2021	$366,730	-	-	$6,596	($75,499)	($839)	$296,988
Share-based compensation, gross	-	-	-	913	-	-	913
Issued pursuant to the Private Placements	52,158	2,342	-	-	-	-	54,500
Share issue costs	(2,235)	-	-	-	-	-	(2,235)
Net income	-		-	-	5,888	-	5,888
Other comprehensive loss	-	-	-	-	-	(3,943)	(3,943)
Balance at Mar 31, 2022	**$416,653**	**$2,342**	**-**	**$7,509**	**($69,611)**	**($4,782)**	**$352,111**

See accompanying notes to the interim consolidated financial statements.

PETROSHALE INC.

Interim Consolidated Statements of Cash Flows
(unaudited)
(in $000's of Canadian dollars)

	Note	**Three months ended Mar 31, 2022**	Three months ended Mar 31, 2021
Operating activities			
Income (loss) for the period		**$5,888**	($44,424)
Depletion and depreciation	3, 4	**11,452**	10,961
Loss on modification of preferred shares	7	**-**	27,400
Deferred income tax expense		**3,118**	-
Unrealized loss on financial derivatives	12	**12,493**	13,521
Share-based compensation		**593**	259
Finance expenses - non-cash	10	**57**	4,715
Finance expenses - cash	10	**2,063**	2,635
Change in non-cash working capital		**2,578**	826
Cash provided by operating activities		**38,242**	15,893
Investing activities			
Additions to property, plant and equipment	4	**(11,791)**	(2,127)
Change in non-cash working capital		**(8,219)**	(4,610)
Cash used in investing activities		**(20,010)**	(6,737)
Financing activities			
Repayment to senior credit facility, net		**(51,540)**	(538)
Debt issuance costs		**97**	(828)
Payment of interest		**(2,097)**	(2,759)
Payment of lease obligations	3	**(146)**	(145)
Proceeds from the Private Placements	7	**54,500**	-
Settlement of share awards	7	**-**	(5)
Share issue costs	7	**(2,235)**	-
Cash used in financing activities		**(1,421)**	(4,275)
Change in cash and cash equivalents		**16,811**	4,881
Effect of foreign exchange rate changes		**(87)**	21
Cash and cash equivalents, beginning of period		**340**	2,830
Cash and cash equivalents, end of period		**$17,064**	$7,732

See accompanying notes to the interim consolidated financial statements.

PETROSHALE INC.

Notes to the Interim Consolidated Financial Statements
As at March 31, 2022 and for the three months ended March 31, 2022 and March 31, 2021
(unaudited)
(in $000's of Canadian dollars, unless otherwise noted)

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 "PSH" ticker symbol.

The Company has corporate offices located at Suite 1800, 350 - 7th Avenue SW, Calgary, Alberta T2P 3N9 and at 303 E. 17th Avenue, Suite 940, Denver, CO 80203.

2. Basis of Presentation

Basis of measurement and statement of compliance

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, 2021. 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, 2021, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved by the Company's Board of Directors on May 18, 2022.

Use of estimates, judgments and assumptions

The timely preparation of the interim 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 interim consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates, judgments, and assumptions.

PETROSHALE INC.

Notes to the Interim Consolidated Financial Statements
As at March 31, 2022 and for the three months ended March 31, 2022 and March 31, 2021
(unaudited)
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3. Right-of-Use Assets and Lease Liability

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

Right of use assets

Balance at December 31, 2020	$1,529
Depreciation	(509)
Effect of foreign currency rate changes	(14)
Balance at December 31, 2021	$1,006
Additions	338
Depreciation	(154)
Effect of foreign currency rate changes	(9)
Balance at March 31, 2022	**$1,181**

Lease liability

Balance at December 31, 2020	$1,617
Payments	(568)
Lease interest expense	90
Effect of foreign currency rate changes	(14)
Balance at December 31, 2021	$1,125
Additions	338
Payments	(146)
Lease interest expense	20
Effect of foreign currency rate changes	(14)
Balance at March 31, 2022	**$1,323**

PETROSHALE INC.

Notes to the Interim Consolidated Financial Statements
As at March 31, 2022 and for the three months ended March 31, 2022 and March 31, 2021
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4. Property, Plant and Equipment

	Developed and producing	Other	Total
Balance at December 31, 2020	480,644	20	480,664
Capital expenditures	62,994	34	63,028
Capitalized share-based compensation	179	-	179
Change in decommissioning obligations	1,517	-	1,517
Impairment	19,324	-	19,324
Depletion and depreciation	(45,671)	(27)	(45,698)
Effect of foreign currency rate changes	(2,623)	-	(2,623)
Balance at December 31, 2021	516,364	27	516,391
Capital expenditures	11,641	150	11,791
Capitalized share-based compensation	320	-	320
Change in decommissioning obligations	(1,084)	-	(1,084)
Depletion and depreciation	(11,293)	(5)	(11,298)
Effect of foreign currency rate changes	(5,381)	-	(5,381)
Balance at March 31, 2022	**510,567**	**172**	**$510,739**

Depreciation, depletion and future development costs

For the three months ended March 31, 2022 and 2021, the Company recorded depletion and depreciation expense of $11.3 million and $10.8 million, respectively, on its developed and producing ("D&P") assets, which reflected an estimated US$250.8 million and US$303.7 million, respectively, of future development costs associated with proved plus probable reserves.

Impairment

There are no indicators of impairment at March 31, 2022.

Capitalized Overhead

During the three months ended March 31, 2022, the Company capitalized $0.7 million of general and administrative costs and $0.3 million of share-based compensation costs directly attributable to acquisition and development activities of certain of its personnel ($0.1 million and $0.1 million, respectively, for the three months ended March 31, 2021).

5. Senior Credit Facility

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 “Senior Credit Facility”). As at March 31, 2022, the net amount drawn under the Senior Credit Facility was US$88.8 million representing US$102.5 million of borrowings under the Senior Credit Facility and US$13.7 million of cash on hand. Advances under the Senior 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 2.0% to 6.5%, which is dependent on the Company's Senior Debt to EBITDA ratio. The Senior Credit Facility is secured by a fixed and floating charge debenture on substantially all the Company's assets.

The Senior Credit Facility borrowing base is subject to redetermination on a periodic basis, based primarily on producing oil and 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. The available borrowing base of the Senior Credit Facility was most recently reaffirmed in March 2021 at US$177.5 million and the next borrowing base redetermination is scheduled for May 31, 2022 with a term out date to June 25, 2022, at which point, the facility can be extended at the option of the lenders or converted to a one-year term loan expiring one year from the term out date. The Company was in compliance with terms of the Senior Credit Facility at March 31, 2022. For the three months ended March 31, 2022, the effective interest rate on the outstanding borrowings under the Senior Credit Facility was 5.0% (4.7% for the three months ended March 31, 2021).

PETROSHALE INC.

Notes to the Interim Consolidated Financial Statements
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6. Decommissioning Obligations

	As at March 31, 2022	As at December 31, 2021
Balance, beginning of period	**$7,971**	$6,250
Obligations incurred	**-**	601
Obligations settled - cash	**-**	(120)
Change in estimated future cash flows	**(1,084)**	1,036
Accretion	**37**	208
Effect of foreign currency rate changes	**(70)**	(4)
Balance, end of period	**$6,854**	$7,971

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 Company has estimated the net present value of its total decommissioning provision to be $6.9 million at March 31, 2022 ($8.0 million at December 31, 2021) based on a total undiscounted and uninflated liability of $7.0 million ($7.1 million at December 31, 2021). Management estimates that these payments are expected to be made over the next 50 years in accordance with estimates prepared by independent engineers. As at March 31, 2022, a risk-free interest rate of 2.4% (1.9% at December 31, 2021) and an inflation rate of 2.3% (2.3% at December 31, 2021) were used to calculate the present value of the decommissioning obligation.

7. Share Capital

Private placements

On February 2, 2022, the Company closed a non-brokered private placement of units of PetroShale (the “Units”) for gross proceeds of $9.5 million (the “Non-Brokered Private Placement”) and a brokered private placement of common shares of PetroShale for gross proceeds of $45.0 million (the “Brokered Private Placement”, and combined with the Non-Brokered Private Placement, the “Private Placements”).

Pursuant to the Non-Brokered Private Placement, PetroShale issued 23,750,000 Units at a price of $0.40 per Unit for total proceeds of $9.5 million. Each Unit is comprised of one common share of PetroShale and one warrant entitling the holder to purchase one common share at a price of $0.475 per common share for a period of five years from the issuance date.

Pursuant to the Brokered Private Placement, the Company issued 112,500,000 common shares at a price of $0.40 per common share for gross proceeds of $45.0 million. Through the Private Placements, PetroShale raised total gross proceeds of $54.5 million.

The Company's two largest shareholders, FR XIII PetroShale Holdings L.P. and M Bruce Chernoff, waived their respective rights to participate in the Private Placements in order to maintain their ownership positions and did not acquire any common shares or warrants as part of the Company's Private Placements.

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

Warrants

As part of the Non-Brokered Private Placement, warrants were issued that entitles the holder to acquire one common share at a price of $0.475, subject to the following conditions:

- one-third of the warrants may be exercised after the Company's trading price (the "Trading Price") exceeds $0.67;
- one-third of the warrants may be exercised after the Company's Trading Price exceeds $0.83; and
- one-third of the warrants may be exercised after the Company's Trading Price exceeds $0.95;

The Trading Price is defined as the 20-day weighted average trading price.

At March 31, 2022, 15.8 million warrants had vested, which represents the first two thirds of the total warrants issued. In the three months ended March 31, 2022, no warrants were exercised. All remaining warrants outstanding or exercisable will expire on February 1, 2027.

The following table reflects the Company’s outstanding warrants as at March 31, 2022:

	Number of warrants	Warrants ($)
Balance at December 31, 2021	-	-
Private placements	23,750,000	2,342
Balance at March 31, 2022	**23,750,000**	**$2,342**

The warrants issued in connection with the Non-Brokered Private Placement were allocated a fair value of $2.3 million. The fair value was estimated using the Black-Scholes pricing model with the following assumptions: expected life of five years; volatility of 65%; risk-free interest rate of 1.61%; and a dividend yield of 0%. The warrants will provide aggregate cash proceeds of approximately $11.3 million to the Company, if exercised by the holders. Consideration paid to the Company on the exercise of the warrants along with the fair value of the warrants will be credited to share capital.

Common shares

The Company’s authorized share capital consists of unlimited voting common shares, unlimited non-voting common shares, and unlimited Class A preferred shares, issuable in series, of which one series (being the special voting shares) have been authorized for issuance. As at March 31, 2022, the Company had 659,637,831 voting common shares (523,387,831 at December 31, 2021), no non-voting common shares, and no special voting preferred shares outstanding.

The following table reflects the Company’s outstanding common shares as at March 31, 2022:

	Common shares	Share capital
Balance at December 31, 2020	188,528,453	$198,925
Settlement of restricted and performance share bonus awards	2,383,580	833
Settlement of stock options	200,000	39
Recapitalization agreement	332,275,798	166,933
Balance at December 31, 2021	523,387,831	366,730
Private placements	136,250,000	52,158
Share issue costs	-	(2,235)
Balance at March 31, 2022	**659,637,831**	**$416,653**

PETROSHALE INC.

Notes to the Interim Consolidated Financial Statements
As at March 31, 2022 and for the three months ended March 31, 2022 and March 31, 2021
(unaudited)
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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 are valued on achievement of certain performance hurdles and are subject to a multiplier between 0 and 2.0 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 and comprehensive loss 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 ($)
Balance at December 31, 2020	3,301,027	4,242,740	7,543,767	$0.41
Granted	1,778,571	5,554,853	7,333,424	0.20
Settled	(2,464,506)	(1,590,748)	(4,055,254)	0.75
Forfeited and expired	(317,220)	(403,759)	(720,979)	0.19
Balance at December 31, 2021	2,297,872	7,803,086	10,100,958	0.36
Granted	4,295,250	9,483,686	13,778,936	0.57
Forfeited and expired	(386,039)	(1,544,181)	(1,930,220)	0.17
Balance at March 31, 2022	**6,207,083**	**15,742,591**	**21,949,674**	**$0.51**

8. Revenue

The following table details the Company's sales by product:

	Three months ended Mar 31, 2022	Three months ended Mar 31, 2021
Tight oil	**$75,637**	$39,807
Shale gas	**4,882**	1,696
Natural gas liquids	**4,324**	1,902
	$84,843	$43,405

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.

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 and comprehensive loss. 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 consolidated statement of operations and comprehensive loss.

PETROSHALE INC.

Notes to the Interim Consolidated Financial Statements
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(unaudited)
(in $000's of Canadian dollars, unless otherwise noted)

9. Net Income (Loss) per Common Share

Earnings per share amounts are calculated by dividing the net income (loss) for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year.

(thousands, except number of common shares and per share amounts)	**Three months ended Mar 31, 2022**	Three months ended Mar 31, 2021
Income (loss) for the period	**$5,888**	($44,424)
Basic weighted average number of common shares	**609,679,498**	188,543,702
Diluted weighted average number of common shares	**623,169,564**	197,304,468
Basic and diluted income (loss) per common share	**$0.01**	($0.24)

In computing diluted earnings for the three months ended March 31, 2022, 5,826,849 warrants, 5,498,532 performance share bonus awards and 2,164,685 restricted share bonus awards were added to the basic weighted average common shares outstanding.

For the three months ended March 31, 2021, in calculating loss per common share, the diluted number of shares is equivalent to the basic number of shares due to antidilutive performance and restricted awards. Therefore, the diluted per share amounts for net loss are equivalent to the basic per share amounts.

10. Finance Expense

	Three months ended Mar 31, 2022	Three months ended Mar 31, 2021
Senior credit facility interest	**$2,063**	$2,635
Preferred share dividends	**-**	3,984
Preferred share accretion, net	**-**	683
Decommissioning obligation accretion	**37**	21
Operating lease and other	**20**	27
Total finance expense	**$2,120**	$7,350

11. Commitments

The Company has two outstanding letters of credit. A US$158,000 letter of credit was issued in the third quarter of 2021 for the benefit of the Office of Natural Resources Revenue pending completion of audit procedures. A second letter is 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 in the amount of US$160,000 as security to operate in North Dakota. These funds are held as restricted cash in the Interim Consolidated Statements of Financial Position.

PETROSHALE INC.

Notes to the Interim Consolidated Financial Statements
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12. Financial Instruments and Risk Management

Financial instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities, senior credit facility, financial derivative assets and liabilities, and lease liabilities. Financial derivatives are measured at fair value through profit or loss. The Company's remaining financial instruments are measured at amortized cost. The fair value of cash and cash equivalents, accounts receivable, restricted cash, accounts payable and lease liabilities approximate their carrying amount due to the highly liquid or short-term nature of these instruments. The fair value of the senior credit facility approximates the carrying amount due to the floating rate of interest and the margin charged by the lending syndicate being indicative of current spreads.

The following table summarizes the Company's financial instruments that are carried at fair value as a financial derivative liability on the Interim Consolidated Statements of Financial Position:

	As at March 31, 2022	As at December 31, 2021
Fixed price swaps	**($7,154)**	($4,480)
Costless collars	**(20,563)**	(11,064)
Total	**($27,717)**	($15,544)

Derivatives and hedging activity

The Company's commodity derivative financial instruments are measured at fair value and are included in the 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 statement of operations.

The amount of unrealized loss recognized in the interim consolidated statement of operations and comprehensive income (loss) related to the Company's derivative financial instruments was $12.5 million for the three months ended March 31, 2022 ($13.5 million unrealized loss for the three months ended March 31, 2021). As at March 31, 2022, the Company's derivative instruments consisted of the following types of instruments:

Costless 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.

(continued)

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

Fixed price swaps

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

As at March 31, 2022, the Company had various oil and natural gas price derivative contracts outstanding. The tables below represent the weighted average price for each contract type by fiscal quarter for oil and natural gas derivative contracts, respectively:

Oil Contract Type (WTI)	Quarter	Volume (Bbls/d)	Swap (US$)	Bought Put (US$)	Sold Call (US$)
Costless collars					
	Q2 2022	2,750	-	$48.73	$62.72
	Q3 2022	1,500	-	$50.83	$65.32
	Q4 2022	1,500	-	$50.83	$65.32
Fixed Swaps					
	Q2 2022	833	$58.63	-	-
	Q3 2022	417	$62.78	-	-
	Q4 2022	317	$62.78	-	-
					-

Natural Gas Contract Type (Henry Hub)	Quarter	Volume (Mmbtu/d)	Swap (US$)	Bought Put (US$)	Sold Call (US$)
Fixed Swaps					
	Q2 2022	2,000	$3.43	-	-
	Q3 2022	2,000	$3.43	-	-

<u>Risk management activities</u>

Commodity price risk

PetroShale may use financial derivative instruments such as swaps, collars, and options to mitigate the impact of commodity price volatility and enhance the predictability of cash flows for a portion of its future oil, gas, and natural gas liquids production. The Company does not enter derivative instruments for speculative purposes. While these instruments mitigate the cash flow risk associated with future decreases in commodity prices, they may also curtail benefits from future increases in commodity prices.

Credit and contract risk

Credit and contract risk represent the economic loss that PetroShale would suffer if a counterparty in a transaction fails to meet its obligations in accordance with agreed terms.

Essentially all the Company's accounts receivable is from the production of tight oil and shale gas and joint operations receivables. Sales of tight oil and shale gas production from the Company's operated properties are made to large industry purchasers. Joint operations receivables are from participants in the tight oil and shale gas sector and collection of outstanding balances is dependent on industry factors including commodity price fluctuations. The Company has not experienced any material credit losses on the collection of accounts receivable.

The use of financial derivative instruments also exposes the Company to credit and contract risk. The Company has entered into derivative instruments only with counterparties that are also lenders in the Senior Credit Facility and have been deemed an acceptable credit risk. As the Company's counterparties are participants in Senior Credit Facility, which is secured by substantially all assets of the Company, the Company is not required to post collateral.

PETROSHALE INC.

Notes to the Interim Consolidated Financial Statements
As at March 31, 2022 and for the three months ended March 31, 2022 and March 31, 2021
(unaudited)
(in $000's of Canadian dollars, unless otherwise noted)

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, 2022, the Company had a net adjusted working capital surplus (current assets less current liabilities excluding derivatives) of $6.3 million, excluding the current financial derivative liability of $27.7 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 credit facility, lease liability, and derivative liability. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities as they come due. The Company prudently manages liquidity by forecasting of its cash flows from operating activities and its available capacity under its revolving credit facilities. The Company's accounts payable and accrued liabilities balance at March 31, 2022 is approximately $50.3 million (December 31, 2021 - $56.0 million). It is the Company's general practice to pay suppliers within 60 days.

The following are the contractual maturities of the Company's debt and anticipated timing of settlements of its other financial liabilities at March 31, 2022, including estimated interest:

($ thousands)	**Total**	2022	2023	2024	Thereafter
Accounts payable and accrued liabilities	**$50,321**	$50,321	-	-	-
Lease obligations	**$1,323**	335	420	288	280
Senior credit facility, including interest	**$136,048**	4,798	131,250	-	-
Total	**$187,692**	$55,454	$131,670	$288	$280

Interest rate risk

PetroShale is exposed to interest rate risk on bank credit facilities to the extent of changes in market interest rates. Based on the Company's floating rate debt position at March 31, 2022, a 1 percent increase or decrease in the interest rate on floating rate debt would amount to an impact on income before tax of $0.4 million for the three months ended March 31, 2022.

Capital management

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on its capital expenditure program, which includes expenditures on oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including: current economic conditions; the risk characteristics of the Company's petroleum and natural gas assets; the depth of its investment opportunities; current and forecasted net debt levels; current and forecasted commodity prices; and other factors that influence realized commodity prices and cash flow from operations such as quality and basis differential, royalties, operation costs and transportation and processing costs. The Company considers its capital structure to include working capital, any debt, preferred shares, and shareholders' equity. The Company monitors capital based on current cash flow from operations compared to forecasted capital and operating requirements.

In order to maintain or adjust the capital structure, the Company will consider: its forecasted cash flow from operations while attempting to finance an acceptable capital expenditure program which may in the future include acquisition opportunities; the current level of credit available from its lenders; the level of credit that may become available from its lenders as a result of petroleum and natural gas reserve growth; the availability of other sources of debt with different characteristics than bank debt; the sale of assets; limiting the size of the capital expenditure program and new equity if available on favorable terms. Access to any bank credit facility is determined by the lenders and is generally based upon the lenders' borrowing base models which are based upon the Company's petroleum and natural gas reserves.