PetroShale Announces Financial and Operating Results for First Quarter 2020 and Provides Financial Update

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CALGARY, May 27, 2020 - PetroShale Inc. ("PetroShale" or the "Company") (TSXV: PSH, OTCQX: PSHIF) is pleased to announce our financial and operating results for the three month period ended March 31, 2020.

The Company's unaudited interim consolidated financial statements and corresponding management's discussion and analysis (MD&A) for the period will be available on SEDAR at www.sedar.com, on the OTCQX website at www.otcmarkets.com, and on PetroShale's website at www.petroshaleinc.com. Copies of the materials can also be obtained upon request without charge by contacting the Company directly. Please note, currency figures presented herein are reflected in Canadian dollars, unless otherwise noted.

Q1 2020 FINANCIAL AND OPERATING HIGHLIGHTS

- PetroShale's first quarter 2020 production averaged 14,275 barrels of oil equivalent per day ("Boe/d"); reflecting new wells that came on-stream during the latter part of 2019 and the first quarter of 2020, with volumes increasing 183% over the same period in 2019 and 17% compared to the fourth quarter of 2019.
- Revenue totaled $49.1 million in the first quarter of 2020, which is 130% higher than the first quarter of 2019, primarily due to increasing production levels, and slightly offset by lower WTI benchmark prices in the period.
- Adjusted EBITDA[1] of $25.0 million ($0.13 per fully diluted share) was 161% higher than the first quarter of 2019 ($9.6 million, $0.05 per fully diluted share), reflecting the increase in revenues and lower G&A and workover costs per Boe.
- Operating netback[1] of $19.98 per Boe was 16% lower in the first quarter of 2020 compared to the same period of 2019, reflecting the impact of lower WTI benchmark prices, partially offset by lower workover costs and a realized gain on financial derivatives.
- Net general and administrative ("G&A") expenses declined 24% on an absolute basis and 74% on a per Boe basis relative to the first quarter of 2019, as a result of the increase in production volumes and a lean administrative structure.
- Net loss totaled $17.3 million ($0.09 per fully diluted share) in the quarter, reflecting a non-cash accounting charge against our oil and natural gas assets of $24.0 million due to the recent decline in oil prices; compared to a loss of $1.0 million ($nil per fully diluted share) in the comparable period of 2019.
- Capital expenditures totaled approximately $23.5 million, which included participation in the completion of 2.9 net non-operated wells as well as operated workover activity. Capital expenditures for the remainder of the year have been reduced to $6.0 million to maximize free cash flow.

RECENT EVENTS

- On May 27, 2020, PetroShale's senior lenders confirmed the existing borrowing capacity on the Company's credit facility at US$177.5 million and extended its maturity date to June, 2022.

- Toward the end of the period as COVID-19 was declared a global pandemic and oil prices began a sharp decline, PetroShale took quick and decisive action to protect its business and prioritize the health and safety of its employees, partners and communities in which it operates. The Company introduced measures, such as remote working protocols, to protect the business and well-being of all employees and contractors while maintaining safe operations and business continuity during these challenging conditions.
- Subsequent to the end of the quarter, PetroShale implemented meaningful cost-saving initiatives, including operating cost reductions of $2.4 million and G&A reductions of $700,000 on an annual basis. In addition, the Company elected to settle its first quarter 2020 Preferred Share dividend payment of US$1.7 million ($2.4 million) in kind rather than with cash, helping to preserve liquidity through this period of severe commodity price weakness.
- PetroShale has been actively pursuing additional financial oil price hedges providing significant price protection through the remainder of the year.

(1) Non-IFRS Measure. See "Non-IFRS Measures" within this press release

FINANCIAL & OPERATING REVIEW

	Three months ended	
FINANCIAL (in thousands, except per share & share data)	March 31, 2020	March 31, 2019
Petroleum and natural gas revenue	$ 49,110	$ 21,326
Cash provided by operating activities	38,837	20,210
Net loss	(17,266)	(996)
Per share - diluted	(0.09)	(0.00)
Adjusted EBITDA(1)	25,027	9,581
Capital expenditures	23,537	46,089
Net debt(1)	$ 363,089	$ 213,720
Common shares outstanding		
Weighted average – basic	188,937,046	191,758,236
Weighted average – diluted	191,940,212	191,758,236
OPERATING		
Daily production volumes(2)		
Crude oil (Bbls/d)	10,155	3,584
Natural gas (Mcf/d)	12,230	4,892
Natural gas liquids (Bbls/d)	2,081	636
Barrels of oil equivalent (Boe/d)	14,275	5,036
Average realized prices		
Crude oil ($/Bbl)	$ 53.95	$ 64.10
Natural gas ($/Mcf)	2.02	3.68
Natural gas liquids ($/Bbl)	7.82	18.81
Barrels of oil equivalent ($/Boe)	$ 37.81	$ 51.56

(1) See "Non-IFRS Measures" within this press release

(2) See "Oil and Gas Advisories" within this press release

	Three months ended	
	March 31, 2020	March 31, 2019
Operating netback ($/Boe) (1)		
Petroleum and natural gas revenue	$ 37.81	$ 47.06
Royalties	(7.08)	(9.04)
Realized gain on financial derivatives	0.48	-
Lease operating costs	(5.03)	(5.34)
Workover expense	(0.69)	(3.37)
Production taxes	(3.12)	(3.55)
Transportation expense	(2.39)	(1.90)
Operating netback(1)	$ 19.98	$ 23.86
Operating netback prior to hedging(1)	$ 19.50	$ 23.86

(3) See "Non-IFRS Measures" within this press release

(4) See "Oil and Gas Advisories" within this press release

MESSAGE FROM THE CEO

Through the first quarter of 2020, PetroShale demonstrated meaningful growth year-over-year across all key metrics, including production, revenue, cash flow provided by operating activities and Adjusted EBITDA[1]. While we continue to demonstrate strong execution of our strategy, the 16% decline in benchmark crude oil prices during the period muted the positive impact of our operational performance, and the further deterioration of oil prices necessitated an immediate response. After COVID-19 was declared a pandemic in March, the resultant impact on global oil demand was severe, further weakening a commodity that had already been subject to oversupply following a crude oil price war between various OPEC+ nations.

PetroShale responded quickly to the current health crisis and macro-economic realities. We implemented modified work practices to meet appropriate health and safety standards across both our office and field locations, including heightened hygiene and disinfection practices, physical distancing, team separation and staggered work hours where possible, as well as remote and work-from-home protocols. I am pleased to report that we were able to implement these measures with no discernible impact on our operations.

The Company's capital program was meaningfully lower in the first quarter of 2020 compared to the same period of 2019, following the business plan we set for ourselves in November 2019. A total of $23.5 million was invested in capital expenditures during the period, largely directed to the completion of 2.9 net non-operated wells and certain operated workovers. As previously announced, we anticipate limited spending through the remainder of this year, including participation in non-operated wells and some workovers and artificial lift installations, which are expected to total approximately $6.0 million. Operated well workovers will be assessed at the time, in relation to estimated payback time.

We achieved a production record in the first quarter of 2020, averaging 14,275 Boe/d, a 183% increase over the comparative period of 2019, reflecting the contribution from new wells brought online in the second half of 2019 and the first quarter of 2020. Our production remains liquids-focused with 71% oil and 15% natural gas liquids. Revenue increased 130% relative to the first quarter of 2019, totaling $49.1 million, while Adjusted EBITDA[1] increased by 161% year-over-year to $25.0 million ($0.13 per fully diluted share). We incurred a net loss of $17.3 million ($0.09 per fully diluted share) in the first quarter due to a non-cash accounting charge of $24.0 million on our oil and natural gas assets. This was necessary as a result of the recent COVID-19 market disruption and the related negative impact on current and forecasted oil prices.

Lease operating costs per Boe decreased 6% to $5.03, compared to the same period of 2019, and workover costs declined to $0.69 per Boe compared to $3.37 per Boe in the first quarter of 2019. These decreases in per unit costs reflect the impact of higher production volumes combined with reduced workover activity. Net G&A expenses totalled $0.9 million or $0.72 per Boe, a 24% decrease in absolute dollar terms compared to $1.2 million recorded in the first quarter of 2019 and a 73% decrease on a per Boe basis from $2.72. The absolute dollar decrease is attributable to lower staff compensation costs, despite higher production volumes.

OUTLOOK

PetroShale's proven North Dakota Bakken strategy, high-quality asset base and cost-effective operations position us well to weather the current commodity price shock. PetroShale will continue to focus on further streamlining our per unit cash costs to optimize margins. We have identified numerous cost saving initiatives and efficiency enhancement opportunities across the organization. Approximately US$1.8 million ($2.4 million) of annual operating cost reductions are being targeted, along with approximately $700,000 of annual G&A reductions, including a 20% reduction in my salary, a freeze on salaries for the remainder of the senior management team and the continued deferral of cash compensation to the Company's board of directors.

We are limiting our capital expenditures for the balance of this year, making discretionary decisions based on payback time. The cost saving measures noted above and our curtailed capital spending plan will help us maximize free cash flow.

As part of our ongoing risk mitigation strategy, we have entered into crude oil derivative contracts designed to provide added stability and further mitigate the effects of severe market volatility. We currently have crude oil hedges on 5,500 Bbls/d of second quarter production, including three-way collars and swaps, and have placed additional oil price hedges for the third and fourth quarters of 2020. Please see the complete list of our remainder of year hedges available within our first quarter 2020 MD&A.

PetroShale successfully maintained the borrowing capacity of its senior loan facility at US$177.5 million and extended the maturity date to June 2022. This reflects the quality of the Company's assets. PetroShale has no take-or-pay obligations nor scheduled debt maturities in 2020 or 2021.

Management will continue to closely monitor market conditions and remains prepared to respond as needed to protect our stakeholders. Our high-quality asset base affords us the ability to generate positive cash flows even at depressed commodity price levels, but we will continue to monitor price levels and take additional action as needed. PetroShale has successfully built our production capacity over the past few years, and with our high torque to crude oil prices, we are positioned to capture significant upside potential as commodity markets regain balance. Specifically, the Company has 5.5 net wells drilled and uncompleted, that could be quickly completed and placed into production once oil prices improve.

On behalf of the PetroShale team, I would like to thank all of our employees, directors and shareholders for their significant contributions, unwavering dedication, and extraordinary resilience through this unprecedented period.

((signed))

David Rain
Interim CEO and Director

(1) See "Information Regarding Disclosure on Oil and Gas Reserves and Non-IFRS Measures" within this press release.

About PetroShale

PetroShale is an oil company engaged in the acquisition, development and production of high-quality oil-weighted assets in the North Dakota Bakken / Three Forks.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Note Regarding Forward-Looking Statements and Other Advisories:

This press release contains forward-looking statements and forward-looking information (collectively "forward-looking information") within the meaning of applicable securities laws relating to, among other things, available aspects of management focus, objectives, strategies and business opportunities. More particularly and without limitation, this press release contains forward-looking information concerning the Company's expectations: that PetroShale will continue to focus on further streamlining per unit cash costs to optimize margins, PetroShale's targets with respect to annual operating cost and administrative expense reductions; the Company's anticipated capital spending for the remainder of the year; the Company's intention to focus on discretionary decisions on the basis of short-term payback; the potential for PetroShale to elect to shut-in operated production as a means of preserving long-term value; the potential ability of PetroShale to generate positive cash flows and free cash flows even at depressed commodity price levels; the potential for PetroShale to capture significant upside potential as commodity markets regain balance; the potential for PetroShale to participate in further well completions once commodity prices improve; PetroShale's liquidity for the coming year; and, the general outlook of the Company. PetroShale provided such forward-looking statements in reliance on certain expectations and assumptions that it believes are reasonable at the time, including expectations and assumptions concerning prevailing commodity prices, weather, regulatory approvals, liquidity, Bakken oil differentials, the Company's lenders willingness to maintain the Company's borrowing capacity; activities by third party operators; exchange rates, interest rates, applicable royalty rates and tax laws; future production rates and estimates of operating costs; performance of existing and future wells; plant turnaround times and continued rail service to transport products; reserve volumes; business prospects and opportunities; the future trading price of the Company's shares; the availability and cost of financing, labor and services; the impact of increasing competition; ability to market oil and natural gas successfully; and the Company's ability to access capital (including its senior credit facility). Statements relating to "reserves" are also deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

Although the Company believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because the Company can give no assurance that they will prove to be correct. Forward-looking information addresses future events and conditions, which by their very nature involve inherent risks and uncertainties. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits the Company will derive therefrom. Management has included the above summary of assumptions and risks related to forward-looking information provided in this press release in order to provide security holders with a more complete perspective on the Company's future operations and such information may not be appropriate for other purposes.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect our operations or financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com). These forward-looking statements are made as of the date of this press release and the Company disclaims any intent or obligation to update publicly any forward-looking information, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

All references herein to fully diluted share basis is based upon the weighted average number of fully diluted shares as disclosed in the Company's Management & Discussion Analysis as at March 31, 2020 and for the months ended March 31, 2020 – "Financial and Operational Highlights".

Non-IFRS Measures:

Within this press release, references are made to "operating netback", "operating netback prior to hedging", "net debt" and "Adjusted EBITDA", which are not defined by IFRS and therefore may not be comparable to performance measures presented by others. Operating netback represents revenue, plus or minus any realized gain or loss on financial derivatives less royalties, production taxes, operating costs and transportation expense. The operating netback is then divided by the working interest production volumes to derive the operating netback on a per Boe basis. Operating netback prior to hedging represents operating netback prior to any realized gain or loss on financial derivatives. Net debt represents total liabilities, excluding decommissioning obligation, lease liabilities and any financial derivative liability, less current assets. Adjusted EBITDA represents cash flow from operating activities prior to changes in non-cash working capital. The Company believes that Adjusted EBITDA provides useful information to the reader in that it measures the Company's ability to generate funds to service its debt and other obligations and to fund its operations, without the impact of changes in non-cash working capital which can vary based solely on timing of settlement of accounts receivable and accounts payable. Management believes that in addition to net income (loss) and cash flow from operating activities, operating netback and Adjusted EBITDA are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage and liquidity. Operating netback is commonly used by investors to assess performance of oil and gas properties and the possible impact of future commodity price changes on energy producers. Investors should be cautioned, however, that these measures should not be construed as an alternative to either net income (loss) or cash flow from operating activities, which are determined in accordance with IFRS, as indicators of the Company's performance.

The reconciliation between Adjusted EBITDA and cash flow from operating activities, and the calculation of net debt, can be found within the Company's MD&A as at March 31, 2020 and for the three months ended March 31, 2020 and 2019.

Oil and Gas Advisories:

Where amounts are expressed on a barrel of oil equivalent ("Boe") basis, natural gas volumes have been converted to Boe using a ratio of 6,000 cubic feet of natural gas to one barrel of oil (6 Mcf: 1 Bbl). This Boe conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf: 1 Bbl, utilizing a conversion ratio at 6 Mcf: 1 Bbl may be misleading as an indication of value. In this release, Mmboe refers to millions of barrels of oil equivalent.

All dollar figures included herein are presented in Canadian dollars, unless otherwise noted.

SOURCE PetroShale Inc.

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