



## PENTANOVA ENERGY CORP.

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

The following is management's discussion and analysis ("MD&A") of the operating and financial results of PentaNova Energy Corp. ("PentaNova") for the three and nine months ended September 30, 2017, as well as information and expectations concerning PentaNova's outlook based on currently available information.

This MD&A should be read in conjunction with PentaNova's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2017 (the "Interim Financial Statements") prepared in accordance with IFRS (as defined below), together with the accompanying notes.

This MD&A contains forward-looking information about our current expectations, estimates, projections and assumptions. See the reader advisory for information on the risk factors that could cause actual results to differ materially and the assumptions underlying our forward-looking information. Additional information on the financial statements, this MD&A and other factors that could affect PentaNova's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)).

***All dollar values are expressed in US dollars, unless otherwise indicated, and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB").***

This MD&A is prepared as of November 27, 2017.

#### CORPORATE OVERVIEW AND UPDATE

PentaNova Energy Corp. is an oil and gas company incorporated in Canada, which formerly operated under the name PMI Resources Ltd. ("PMI"). PentaNova's common shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "PNO".

On April 4, 2017, the Company completed a transaction (the "Transaction") whereby PMI acquired all of the outstanding shares of PentaNova Energy Corp., a private corporation registered under the laws of the territory of the British Virgin Islands ("PentaNova BVI") with oil and gas assets in the country of Colombia. The Transaction constituted a reverse asset acquisition in accordance with IFRS, whereby the shareholders of PentaNova BVI took control of PMI. Following the completion of the Transaction, the Company changed its name from PMI Resources Ltd. to PentaNova Energy Corp. on June 2, 2017. References within this MD&A to the "Company" for periods, dates and/or transactions prior to the Transaction are in reference to PentaNova BVI, as the corporate entity of interest pre-Transaction. Alternatively, references within this MD&A to the "Company" for periods, dates and/or transactions subsequent to the Transaction are in reference to PentaNova, as the corporate entity of interest post-Transaction. The comparative periods reflected in this MD&A are those of PentaNova BVI.

Pentanova is engaged in the acquisition, exploration, development, and exploitation of petroleum and natural gas assets in South America, particularly in the countries of Colombia and Argentina. The Company's current asset portfolio is comprised of one development and two exploration gas assets in Colombia and three heavy oil, one light oil and one gas asset in Argentina.

### **Reverse Takeover Transaction**

On April 4, 2017, the Company completed the acquisition of Pentanova BVI pursuant to a merger agreement whereby the Company acquired all of the issued and outstanding shares of Pentanova BVI, being 161,641,560 common shares, in consideration for shares of the Company (then being known as PMI) on a one-for-one basis. Pentanova BVI also had 1,968,000 warrants outstanding which were exchanged for 1,968,000 warrants of the Company with an exercise price of \$0.50 Canadian Dollars ("C\$") per share and an expiry date of January 31, 2019. An additional 1,600,000 shares of the Company were issued as an advisory fee for the Transaction.

Due to the completion of this Transaction, PMI's 9,561,000 subscription receipts that were issued prior to the Transaction during the non-brokered private placement that closed in January 2017 (see below) were converted into 9,561,000 shares of the Company and the associated funds of \$3,565,143 (C\$4,780,500) were released from escrow. After this share issuance, PMI had a total of 19,473,289 common shares outstanding.

The Company (then being PMI) did not meet the definition of a "business" under IFRS guidelines, thus causing the Transaction to be treated as a reverse asset acquisition rather than a business combination, with PMI's main attribute being its public listing. Under this premise, as consideration for 100% of the outstanding shares of PMI by way of reverse acquisition, Pentanova issued 19,473,289 shares on a one for one basis to the shareholders of PMI. These shares were assigned a value of \$0.37 (C\$0.50) per share, the value of the recent financing realized through private placements, for total consideration of \$7,252,621.

### **Private Placements**

In January 2017, the Company completed a non-brokered private placement issuing 47,641,560 common shares for gross proceeds of \$18,306,778 (C\$23,820,780) and closed a brokered private placement issuing 32,800,000 common shares for gross proceeds of \$12,603,751 (C\$16,400,000). This resulted in the Company having 161,641,560 common shares issued and outstanding as at March 31, 2017. In addition, PMI closed a non-brokered financing through the issuance of 9,561,000 subscription receipts of PMI for gross proceeds of \$3,565,143 (C\$4,780,500).

In August 2017, the Company completed a non-brokered private placement issuing 20,625,000 subscription receipts at \$0.64 (C\$0.80) per subscription receipt for proceeds of \$12,688,106 (C\$15,869,000), net of issuance costs. Each subscription receipt was automatically exchanged into a unit (the "Units") of the Company, concurrently with closing of the acquisition of the outstanding shares of Patagonia Oil Corp. Each Unit consisted of one common share and one share purchase warrant exercisable into one additional common share at a price of C\$1.05 per share until July 31, 2022.

In conjunction with the private placement, 35,625,000 additional Units were issued as consideration for towards the purchase of various Argentine oil and gas assets, as outlined below. This equated to \$22,800,000 (C\$28,875,000) in consideration paid. A further 2,283,750 shares were also issued as payment for finders fees in relation to the aforementioned acquisitions in Argentina. These shares are subject to a hold period expiring on December 9, 2017.

## ACQUISITIONS

### Colombia

#### *Maria Conchita Block (Bochica)*

In January 2017, the Company executed a definitive agreement with third party sellers for the acquisition of an 80% beneficial working interest and operatorship of the Maria Conchita Block under the Exploration and Production (“E&P”) Contract with the ANH (the “Maria Conchita Acquisition”). This acquisition was completed through the purchase of all of the issued and outstanding shares of the corporation Bochica Investment Holdings Ltd. (“Bochica”) and certain other subsidiaries. The Company acquired the 40% beneficial working interest currently held by the sellers as well as the rights to acquire the other 60% beneficial working interest, as specified below. Under the definitive agreement, the Company agreed to the following terms:

- a) pay cash consideration of \$1 million to the sellers as a condition of the definitive agreement. Of the \$1 million, \$0.75 million has been paid and \$0.25 million will be paid upon the spudding of the first well.
- b) award the sellers a 20% retained beneficial working interest and carry the sellers’ beneficial interest for costs incurred for the drilling of three new wells, the re-entry and workover of 2 existing wells, the construction and provision of a gas pipeline and connecting flowlines framework to connect block production fields to the Colombian transportation network, and the construction and provision of a gas plant to process the gas produced in the block to commercial conditions.
- c) pay consideration of \$1.5 million to the sellers to be paid out of the Company’s portion of net operating revenue generated from future commercial production on the Maria Conchita Block.
- d) assumption of all rights and obligations under the Master Sales and Purchase Agreement (“MSPA”) with the Turkish Petroleum International Company (“TPIC “), whereby the seller was to acquire 100% working beneficial interest and operatorship in the Maria Conchita Block E&P Contract. The remaining obligations assumed under the MSPA included:
  - i. present a letter of credit in favor of TPIC for \$9,000,000 as security for the performance of the first well under the MSPA
  - ii. acquire the TPIC 51% beneficial working interest and operatorship for \$2,000,000
  - iii. acquire the 9% beneficial working interest and net profit interest held in in the Maria Conchita Block from another third party contractual partner in the block for \$500,000. This working interest has been acquired and consideration has been paid in full.
  - iv. pay to TPIC certain operational expenses in the amount of \$666,489. This amount was paid subsequent to the acquisition.

- v. acknowledge and comply with the existing overriding royalty agreements previously executed between TPIC, the seller, and other existing third party partners in the Maria Conchita Block E&P Contract

In February 2017, after direct negotiations with TPIC, the Company agreed to the deposit of \$1.75 million in escrow to secure against any penalty imposed by the ANH if current phase commitments under the E&P Contract of the Maria Conchita Block are not fulfilled. These funds were deposited in escrow by the Company.

In October 2017, an amendment to the MSPA was completed between the Company and TPIC that outlines the following changes to the original terms of the MSPA:

- a) the formalization of the terms of the aforementioned \$1.75 million deposit into escrow to secure against any penalty imposed by the ANH for current phase commitment. These funds will be released back to the Company when 1) the first well is drilled to fulfill current phase commitments and a second well is commenced, or 2) the Company obtains operator status of the Maria Conchita Block under the E&P Contract with the ANH.
- b) the replacement of the aforementioned letter of credit for \$9.0 million with the deposit of \$9.0 million into escrow that will directly fund the drilling of the first well under the MSPA, which will fulfill the current phase commitment.
- c) the reduction of \$0.6 million of payable amounts owed by one of Bochica's subsidiaries to TPIC prior to the acquisition of Bochica by the Company relating to past operations on the Maria Conchita Block.
- d) the establishment of one of the Company's subsidiaries as the contractor that will procure and coordinate services necessary for the drilling of the first well under the MSPA.

### ***SN-9 Block***

In January 2017, the Company acquired an 80% beneficial working interest and operatorship of the SN-9 Block under the E&P Contract with the ANH (the "SN-9 Acquisition"). The Company agreed to the following terms with the sellers:

- a) pay cash consideration of \$2.5 million to the sellers within the first six months following the execution of the definitive agreement, which has been paid to the seller in its entirety.
- b) reimburse \$4 million of past costs to one of the sellers to be paid out of the Company's portion of net operating revenue generated from future commercial production on the SN-9 Block.
- c) pay consideration of \$2.5 million to one of sellers to also be paid out of the Company's portion of net operating revenue generated from future commercial production on the SN-9 Block.
- d) grant an overriding royalty interest of 5% on the Company's net beneficial interest to the sellers on future commercial production on the SN-9 Block.

### ***SN-9 Strategic Farm-out***

PentaNova and American Oil and Gas ("AOG") have entered into a Letter of Intent outlining the terms and conditions for the Farm-in by AOG on PentaNova's beneficial working interest held in the SN-9 block. To complete the agreement, AOG will Farm-in for half of the Company's 80% beneficial working interest, by

way of replacing the \$2.5 million guarantee required by the ANH license, as well as funding 100% of the Phase I minimum exploration work program under the ANH contract, equivalent to \$22 million. PentaNova shall reimburse 50% of the funds invested by AOG in the Phase I activities from 70% of PentaNova's net production. Further capital commitments will be assumed proportionally by the partners. The remaining 20% working interest on the block is held by other third party partners.

### ***Tiburon Block***

In February 2017, the Company acquired a 60% beneficial working interest and operatorship of the Tiburon Block under the E&P Contract with the ANH (the "Tiburon Acquisition"). The Company agreed to the following terms with the seller:

- a) pay cash consideration of \$0.25 million to the seller following the execution of the definitive agreement. This amount has been paid to the seller.
- b) Upon commencement of commercial production, pay consideration of \$8.54 million out of the Company's portion of net operating revenue on the Tiburon Block.
- c) pay a success fee to the seller of \$1.5 million upon reaching proven reserves of gas of 800 bcf and pay an additional \$1.5 million for each increment of 500 bcf of proven reserves of gas beyond the initial 800 bcf of proven reserves that are assessed over the life of the E&P Contract. These reserves will be based on independent reserves reports by a qualified reserves evaluator, the first of which will be prepared within six months from first commercial production within the Tiburon Block.

### **Argentina**

#### ***Patagonia Oil Corp.***

In August 2017, the Company successfully closed on the acquisition of Patagonia Oil Corp. ("Patagonia"), a corporation registered in the territory of the British Virgin Islands. Pursuant to the plan of arrangement, the Company has acquired all of the issued and outstanding shares in the capital of Patagonia by (i) paying \$10,000 to Blue Pacific Assets Corp. (the seller), (ii) reimbursing all documented reasonable expenses incurred by Patagonia in connection with the negotiations of the acquisition of oil and gas assets in Argentina; and (iii) assuming all liabilities and obligations of Patagonia in connection with the Argentina oil and gas assets acquisition.

In conjunction with the acquisition of Patagonia, 2,283,750 shares were issued as payment for finders fees, which are subject to a hold period expiring on December 9, 2017. Of this amount, 1,815,000 shares were issued to third parties with common management and/or directors with the Company

In connection with the acquisition of Patagonia, a certain director of the Company is also director and shareholder with a controlling interest in Blue Pacific Assets Corp.

Prior to Patagonia being acquired by the Company, Patagonia had successfully entered into binding agreements to acquire certain exploration, development and producing oil and gas assets in Argentina, as described below.

***Alianza Petrolera Argentina S.A.***

In July 2017, the Company's subsidiary, Patagonia, closed on the acquisition of Alianza Petrolera Argentina S.A. ("Alianza") for specified consideration of \$25.3 million which includes the assumption of \$5.0 million in unpaid cash calls owed to YPF S.A. (the "YPF Cash Calls"), the operator to Alianza's non-operated participating interest in the Llanccanelo Asset (hereinafter referred to as the "Alianza Acquisition"). Patagonia agreed to the following terms with the seller:

- a) Pay \$1 million in cash consideration upon execution of the definitive agreement, which has been paid by the Company.
- b) Pay \$2 million in cash consideration at the closing of the definitive agreement, which has been released to the seller.
- c) Assumption of the balance of the YPF Cash Calls, which has been represented to be \$5.0 million.
- d) Pay \$5.0 million in cash consideration at closing of the definitive agreement, to be adjusted accordingly based on the final assessed balance of the YPF Cash Calls, wherein the cash payment will be reduced or increased by any balance of the YPF Cash Calls that is greater than or less than \$5.0 million, respectively. This amount has been paid to the seller.
- e) Issue 11,406,250 Units of the Company at a subscription price of C\$0.80 that total to consideration of \$7.3 million. Each Unit was comprised of one common share of PentaNova and one warrant to purchase one common share of PentaNova at a purchase price of C\$1.05 within a period of 5 years from the date of issuance of the warrants (issued as of the date hereof). The Units have been issued to the seller.
- f) Pay \$0.5 million in cash consideration within thirty days following the closing of the definitive agreement, pending determination and finalization of purchase price adjustments. These purchase price adjustments are still pending final agreement between the parties.
- g) Pay \$4.5 million in cash consideration within four months following the closing of the definitive agreement, subject to any deductions or withholdings in connection with this transaction.

By way of the Alianza Acquisition, the Company acquires a 29% participating interest in the Llanccanelo Asset as well as an 18% carried participating interest in the Estancia La Mariposa, Lomita de la Costa and Cerro Mangrullo Assets, all as defined further below.

***Roch S.A.***

In October 2017, the Company's subsidiary, Patagonia, closed on the previously-executed definitive agreement with Roch S.A., the seller, for the acquisition of certain oil and gas assets for total consideration of \$10.5 million (the "Roch Acquisition"). Patagonia agreed to the following final terms with Roch S.A.:

- a) Pay \$2 million in cash consideration upon completion of certain conditions by the seller, which has been paid by the Company.
- b) Assume \$3 million in unpaid cash calls relating to operations on the Llanccanelo Asset, with any amounts exceeding \$3 million in unpaid cash calls to become the responsibility of Roch S.A. and compensated to Patagonia through the deduction of any outstanding payments owed on the Roch Acquisition, up to a maximum of \$0.5 million.
- c) Issue 7,812,500 Units of the Company at a subscription price of C\$0.80 that total to consideration of \$5.0 million. Each unit is comprised of one common share of PentaNova and one warrant to

purchase one common share of PentaNova at a purchase price of C\$1.05 within a period of 5 years from the date of issuance of the warrants. The Units have been issued to the seller.

- d) Pay \$0.5 million in cash consideration upon the successful transfer of the Sur Río Deseado Este Production Asset and the Sur Río Deseado Este Exploration Asset.

By way of the Roch Acquisition, the Company acquires a 10% participating interest in the Llançanelo Asset. The Company will also acquire a 54.14% participating interest in the Sur Río Deseado Este Production Asset, and a 7.92% participating interest in the Sur Río Deseado Este Exploration Asset, all as defined further below, pending the fulfillment of certain conditions.

### ***KM8 Asset and Operator***

In October 2017, the Company's subsidiary, Patagonia, closed on the previously-executed final definitive agreements for the acquisition of rights and operatorship of the KM8 Asset for total consideration of \$12.5 million (the "KM8 Acquisition"). Patagonia agreed to the following terms with the sellers:

- a) Acknowledgement of advanced cash payments of \$0.9 million made to the sellers by Patagonia as part of the consideration price.
- b) Pay \$0.3 million in cash consideration within two business days following the finalization of the definitive agreement, which has been paid by the Company.
- c) Issue 16,406,250 Units of the Company at a subscription price of C\$0.80 that total to consideration of \$10.5 million. Each unit will be comprised of one common share of PentaNova and one warrant to purchase one common share of PentaNova at a purchase price of C\$1.05 within a period of 5 years from the date of issuance of the warrants. The Units have been issued to the seller.
- d) Pay \$0.8 million in cash consideration after the closing of the definitive agreement.

By way of the KM8 Acquisition, the Company acquires 100% of the participating interest of the KM8 Asset, as defined further below, and ownership of the operator entity of the KM8 Asset, San Jorge Oil & Gas Inc., pending fulfillment of certain conditions.

### ***YPF Farm-in Agreement***

In November 2017, the Company's subsidiary, Patagonia, finalized negotiations for the farm-in on an additional 11% working interest in the Llançanelo Asset from YPF S.A. ("YPF"). Beyond the initial payment made of \$500,000, the farm-in agreement requires the Company to make an additional \$2.5 million cash payment as well as to propose and assume a work program for \$54 million over three years. At the conclusion of the \$54 million work program, the Company will make a further lump sum payment of \$10 million to YPF. The agreement will also see the formation of a joint technical team to operate the Llançanelo field, while YPF will remain the operator of record.

## **PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK**

### **Colombia**

As described previously, PentaNova has entered into (i) a share purchase agreement to acquire an 80% working interest in the Maria Conchita Block, (ii) a binding agreement of purchase and sale to acquire an

80% working interest in the SN-9 Block and (iii) a binding agreement to acquire a 60% working interest in the Tiburon Block. Below is a detailed description of each block:

***Maria Conchita Block (80% working interest)***

The Maria Conchita Block covers an area of approximately 24,312 hectares in the Department of Guajira, Colombia. The E&P Contract for the Maria Conchita Block (the "Maria Conchita E&P Contract") is a contract for the exploration and production of conventional hydrocarbons in the Maria Conchita area, dated January 22, 2009 and entered into between the ANH and a consortium formed by TPIC, and Multiservicios RJT S.A.S. In July 2010, the ANH approved the assignment of 40% of TPIC's participating interest in the E&P Contract to MKMS Enerji AS. In January 2017, the Company carried out the Maria Conchita Acquisition, as outlined previously, through which the Company acquires 80% participating interest and operatorship of the Maria Conchita Block.

The Maria Conchita E&P Contract has an initial exploration term consisting of 6 one-year exploration phases, that are followed by a 24-year production period. Exploration phases may be longer as a result of extensions and/or temporary suspensions with satisfaction of certain requirements set out in the Maria Conchita E&P Contract. The exploration term is divided into one preliminary phase (Phase 0) and six primary phases. Phase 0 had a term of six months intended to identify Colombian ethnic communities within the area of influence of the Maria Conchita E&P Contract and to carry out and complete mandatory consultations of the project with such communities. Exploration Phases 1 to 6 of the Maria Conchita E&P Contract are divided as follows: (i) Phase 1 with a term of 18 months that has a work obligation of acquiring, processing and interpreting 120 km<sup>2</sup> of 3-D seismic; (ii) Phases 2 to 5 each with a term of 12 months and work obligation of drilling one exploration well; and (iii) Phase 6 with a term of 6 months and a work obligation of one exploration well. Each phase includes minimum working obligations ("MWOs") as well as compliance with other contractual and regulatory requirements. The Maria Conchita E&P Contract is currently in Exploration Phase 2, with a current extension until January 30, 2018 in order for the completion of the exploratory commitment of one A3 exploratory well.

There have been two wells drilled by Texaco (Aruchara-1 in 1980 and Aruchara-2 in 1982), and two wells drilled by Ecopetrol (Almirante-1 in 1988 and Tinka-1 in 1988). The Aruchara-1 well tested gas in the Upper and Middle Miocene. The Tinka-1 Well tested gas in the Upper Miocene. 3-D seismic has been acquired over both discoveries, and the Environmental Impact Assessment permit has been granted. Maria Conchita is close to both of Colombia's gas trunk lines. The Maria Conchita Block neighbors the Chuchupa Block to its north, which is one of Colombia's largest fields with an initial 900 MMBoe in place and currently accounts for approximately 40% of Colombia's daily natural gas output. The Chuchupa Block has been under production for over 35 years, and it is currently operated by Chevron in association with Ecopetrol, S.A.

***SN-9 Block (80% working interest)***

The SN-9 Block is located in the Lower Magdalena Valley, 75 km from Colombia's Caribbean coast. The SN-9 Block has 730 km of 2-D seismic. The Hechizo well was drilled on the block by Ecopetrol in 1992 and tested gas in the Cienaga de Oro formation at a depth of approximately 1,300 meters.

The SN-9 Block covers an area of approximately 126,000 hectares in the Department of Cordoba, Colombia, is close to the cities of Monteria and Sincelejo and is 75 km south of the Caribbean coast. It has a term of a 6-year exploration period, which may be subject to extension by agreement of the parties and satisfaction of certain requirements set out in the E&P Contract, followed with a 24-year production period.

The E&P Contract for the SN-9 Block (the "SN-9 E&P Contract"), dated October 8, 2014, was entered into between the Colombian National Hydrocarbons Agency, an agency of the Colombian Government managing and regulating the hydrocarbons sector in Colombia ("ANH"), and Clean Energy Resources S.A.S., a Colombian corporation ("Clean Energy").

The SN-9 E&P Contract provides for an exploration term divided into three phases (0, 1 and 2). The first exploration phase (Phase 0) was for one year and was intended to identify Colombian indigenous communities within the area of influence of the E&P Contract and to carry out and complete mandatory consultations of the intended activities with such communities. Phases 1 of the SN-9 E&P Contract is for 3 years and includes a MWO of acquiring 200 km of 2-D seismic and drilling one exploration well, and Phase 2 is for three years with a MWO of acquiring 100 km<sup>2</sup> of 3-D seismic and drilling 2 exploration wells. Currently, the SN-9 E&P Contract is in Exploration Phase 1.

The SN-9 Block is adjacent to blocks held by Canacol Energy Ltd. with certified gas reserves of 410 bcf. The area has excellent infrastructure with good roads and access to the northern gas trunk line.

#### ***Tiburón Block (60% working interest)***

The Tiburón Block currently covers an area of approximately 99,492 hectares in the Department of La Guajira, Colombia. It has an initial term of 30 years, which may be subject to extension by agreement of the parties and satisfaction of certain requirements set out in the associated E&P Contract.

The E&P Contract for the Tiburón Block (the "Tiburón E&P Contract") is a contract for the exploration and production of conventional hydrocarbons, dated June 14, 2006 and entered into between the ANH and Omimex de Colombia Ltd., a Company incorporated under the laws of the United States of America, which later was re-domiciled to the Cayman Islands and changed its name to Colpan Oil & Gas Ltd. ("Colpan").

The Tiburón E&P Contract initially provided for an exploration period divided into six phases of twelve months each. The Tiburón E&P Contract is currently in Phase 3 of the exploration period and is currently suspended due to "Force Majeure and Third Party Acts".

#### **Argentina**

##### ***Llancanelo Exploitation Asset (39% working interest)***

As of October 2017, the Company holds a 39% participating interest in the Llancanelo Asset as follows: 29% participating interest through the Alianza Acquisition (closing in July 2017), 10% participating interest through the Roch Acquisition (closing in October 2017). that was assigned to the Company's subsidiary, Alianza. On November 22, 2017, the Company signed definitive and binding agreements for the farm-in with YPF for a further 11% participating interest in the Llancanelo Asset. This transfer will become effective

after the processing of the administrative approvals by the Province of Mendoza and payment of the aforementioned \$2.5 million to YPF by the Company.

The Llancanelo Asset is located to the northern neck of the Neuquén Basin, on the eastern basin-edge in the province of Mendoza, 37 km south of the city of Malargüe. The Llancanelo field was discovered by YPF in 1937 after drilling two exploratory wells that tested oil in the Tertiary levels. In 1965, a discovery well was drilled for the Neuquén Group from the Cretaceous period. Since 2010, YPF has drilled 29 horizontal wells, 4 pilot wells, and 1 vertical well.

***KM8 Asset (100% working interest)***

The KM8 Asset is located immediately north of the city of Comodoro Rivadavia in the Province of Chubut. The block covers 4,585 acres and has two productive zones. Shallow drilling activity began in 1915 and continued until the late 1960's, with 671 wells in the Salamanca formation, with cumulative estimated production of 4,500,000 m<sup>3</sup> (28.3 mmbbl). From 1970 until 1997, 58 deeper wells were drilled, with cumulative production of 1,500,000 m<sup>3</sup> (9.5 mmbbl). In total, production has averaged 164 m<sup>3</sup> per day (1,032 bbl/d) throughout the history of the area. Today there are 11 wells producing. The field is ready for reactivation and the development of deeper producing formations. Adjacent areas have been the focus of recent drilling activity by YPF. The KM8 Asset includes areas defined as "San Jorge", "Sol de Mayo", "German Burmeister" and "George Stephenson", with surface land property rights over approximately 400 hectares within the area and certain infrastructure and equipment related to such properties. Production as of December 31, 2016 was 80 bbl/d.

***Sur Río Deseado Este Production Asset (54.14% working interest)***

The Sur Río Deseado Este area is located in the Santa Cruz province (Golfo San Jorge Basin) in the Southern Flank of the San Jorge Basin. The Sur Río Deseado Este Production area covers approximately 12,000 acres (50 km<sup>2</sup>) and includes three heavy oil fields (Estación Tehuelches, La Frieda and La Frieda Oeste). The oil production is from approximately 850 meters.

***Sur Río Deseado Este Exploration Area (7.92% working interest)***

The Sur Río Deseado Este Exploration Area neighbors the Sur Río Deseado Este Production area and includes the right to exploit and carry out complementary exploration for hydrocarbons located in a concession with an area of 255 km<sup>2</sup>. Three wells have been drilled in the area. The Punta Bauza-1 well was drilled in 1993 by Bidas to a depth of 1,235 meters, which tested heavy oil and gas. The two other wells, PBX-1001 and EPaX.X-1, were drilled by Quintana in 2013 and also tested heavy oil. The wells were drilled to a depth of 1,165 meters and 1,250 meters, respectively.

***Estancia La Mariposa, Lomita de la Costa and Cerro Mangrullo (18% carried interest)***

Patagonia acquired an 18% carried interest in the Estancia La Mariposa, Lomita de la Costa and Cerro Mangrullo Assets (collectively, the "Mariposa Asset") through the Alianza Acquisition. The 3 blocks are located in the province of Santa Cruz and constitute a fully carried working interest in a gas prone area in the center of the San Jorge basin in the Santa Cruz province and that generated over US\$1.5 million in revenue in 2016. Estancia La Mariposa covers 27.97 km<sup>2</sup>, Lomita de la Costa covers 10.22 km<sup>2</sup>, and Cerro

Mangrullo covers 50 km<sup>2</sup>. The exploitation permits were granted in 2008. Current production comes from the Estancia La Mariposa Asset and is predominantly gas.

## OPERATIONS UPDATE

### Llancanelo

<b>Production Volumes (boe)</b>	<b>Q3 2017</b>	Q3 2016	<b>YTD 2017</b>	YTD 2016
Llancanelo	<b>22,419</b>	-	<b>22,419</b>	-
Inventory	-	-	-	-
<b>Total sales</b>	<b>22,419</b>	-	<b>22,419</b>	-

During the three and nine months ended September 30, 2017 the Llancanelo concession produced a total of 77,204 gross barrels of oil equating to an average of 1,266 bbl/d (22,419 barrels of oil at an average of 368 bbl/d at 29% net working interest up to September 30, as shown above). The production recorded for the period is for the August and September delivery months, subsequent to the Alianza Acquisition with an effective date of July 31, 2017 for 29% net working interest. All production attributed to Llancanelo was sold in the month that it was produced, resulting in no crude oil inventory at the end of the reporting period.

### Llancanelo Revenue and Royalties

	<b>Q3 2017</b>	Q3 2016	<b>YTD 2017</b>	YTD 2016
Llancanelo oil revenues before royalties <sup>(1)</sup>	\$ 930,576	\$ -	\$ 930,576	\$ -
Royalties <sup>(2)</sup>				
Government royalties	(140,927)	-	(140,927)	-
Turnover tax	(35,910)	-	(35,910)	-
Overriding royalties	(15,075)	-	(15,075)	-
<b>Petroleum and natural gas revenues after royalties</b>	<b>\$ 738,665</b>	<b>\$ -</b>	<b>\$ 738,665</b>	<b>\$ -</b>
<b>\$/boe realized sales price</b>	<b>41.51</b>	-	<b>41.51</b>	-
<b>\$/boe total royalties</b>	<b>(8.56)</b>	-	<b>(8.56)</b>	-
<b>\$/boe after royalties</b>	<b>32.95</b>	-	<b>32.95</b>	-

- 1) In January 2017, at the request of the Government of Argentina, an agreement to converge the Medanito and Escalante oil prices with international Brent pricing over the coming months (the "Pricing Agreement") was signed by a majority of producers and refiners in Argentina. Under the terms of the Pricing Agreement, local refiners will pay \$59.40 per bbl for Medanito crude oil and \$48.30 per bbl for Escalante crude oil in January 2017 and the prices will be gradually decreased every month until they reach \$55 per bbl and \$47 per bbl, respectively, in July 2017. Prices in effect in July 2017 will then be applicable until December 31, 2017, when the terms of the Pricing Agreement are set to expire. The Pricing Agreement will remain in place until December 31, 2017 unless (1) the Brent price falls below \$45 per bbl for ten consecutive days or (2) the Argentinian peso depreciates more than 20%, in which case the Pricing Agreement will be renegotiated. Furthermore, the Pricing Agreement outlines that should Brent remain higher than \$1.00 above the monthly Medanito floor

price for ten consecutive days, the Pricing Agreement will be suspended and the Brent price will be adopted.

During Q3 2017, oil from the Llanquanelo concession was sold at a discount to the Escalante crude oil price. Under the terms of the Pricing Agreement and taking the discount into account, the Company was able to realize a selling price of \$41.51/bbl.

From November 1, 2017 and onwards, oil from the Llanquanelo concession will be sold at a discount to the Brent price of approximately \$14 per bbl.

- 2) Any oil and gas produced by the holder of an exploration permit prior to the granting of a production concession is subject to the payment of a 15% royalty. Currently the Llanquanelo concession is subject to a 15% royalty based on the 12% baseline royalty at the wellhead, plus an additional 3% royalty upon renewal of the concession extension.

As consideration for its services, an overriding royalty interest (“ORR”) equal to 2% of any net production of hydrocarbons attributable to Patagonia’s participation interest in Llanquanelo among other assets acquired in the Argentina acquisitions described above was granted to an advisor. The amount attributable to Llanquanelo for the ORR has been included in royalty expenses.

#### Llanquanelo Operating Expenses

	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Personnel and services	72,486	-	72,486	-
Transportation and processing	122,130	-	122,130	-
Operator overhead	40,335	-	40,335	-
Maintenance, workovers and other	537,615	-	537,615	-
<b>Total operating expenses</b>	<b>772,566</b>	-	<b>772,566</b>	-
<b>\$/boe</b>	<b>\$ 34.46</b>	<b>\$ -</b>	<b>\$ 34.46</b>	<b>\$ -</b>

#### Llanquanelo Netbacks <sup>(1)</sup>

USD \$/boe	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Oil revenue	41.51	-	41.51	-
Royalties	(8.56)	-	(8.56)	-
Operating expenses	(34.46)	-	(34.46)	-
<b>Total Llanquanelo operating netback</b>	<b>(1.51)</b>	-	<b>(1.51)</b>	-

- 1) The term “netback” is a non-GAAP measure and may not be comparable with the calculation of other entities. Netback is calculated as the average unit sales price, less royalties and operating expenses and represents the cash margin for every barrel of oil equivalent sold. The Company uses this measure to analyze operating performance and considers netback a key measure as it demonstrates its profitability relative to current commodity prices.

### Net Revenue on Carried Working Interest

	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Mariposa revenues before royalties	\$ 322,477	\$ -	\$ 322,477	\$ -
Royalties				
Government royalties	(44,047)	-	(44,047)	-
Turnover tax	(8,734)	-	(8,734)	-
Overriding royalties	(5,222)	-	(5,222)	-
<b>Mariposa revenues after royalties</b>	<b>264,474</b>	-	<b>264,474</b>	-
Transport, treating and processing	(8,613)	-	(8,613)	-
<b>Net Mariposa revenue</b>	<b>\$ 255,861</b>	<b>\$ -</b>	<b>\$ 255,861</b>	<b>\$ -</b>

The net revenue on carried working interest results from the carried interest held by the Company in the Mariposa Asset. The carried working interest entitles the Company to 18% of the oil, natural gas and condensate sales, while the operator carries 100% of the capital expenditures and the majority of operating costs. The net revenue figures associated with the Mariposa Asset are presented net of any applicable royalties and certain operating costs of transportation, treatment and processing. Oil and natural gas production is sold on behalf of the Company, for which the Company receives proceeds from the operator, net of applicable royalties and operating costs. The net revenue generated from this asset has not been included in any “per barrel” pricing herein. \$322,477 Mariposa revenue before royalties is derived from net sales of 10,531 boe during the period, equating to a realized sales price of \$30.62/boe.

### General and Administrative Expenses

General and administrative expenses (“G&A”) for the three and nine months ended September 30, 2017, were \$1,198,085 and \$2,573,267, respectively. The G&A expenses relate to the normal course of the Company’s operations, and are constituted as follows:

	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Professional Fees	\$ 190,919	\$ -	\$ 774,591	\$ -
Wages & Salaries	692,335	-	1,146,358	-
Fees, Rent, Investor Relations and Other	314,830	-	652,318	-
<b>Total</b>	<b>\$ 1,198,085</b>	<b>\$ -</b>	<b>\$ 2,573,267</b>	<b>\$ -</b>

Professional fees are comprised of legal, audit, tax, and other fees that have been incurred by the Company for operations. Wages and salaries are amounts paid to employees of the Company. Fees, Rent, Investor Relations and Other expenses are all other expenses related to the normal operations of the Company and include office rent, public relations, insurance, travel, and other general and administrative expenses.

### Business Development

Business development expenses for three and nine months ended September 30, 2017, were \$1,412,542 and \$4,735,255, respectively. These amounts are expenses relating to business initiatives towards the

promotion, development, and growth of the Company's operations and assets outside the normal course of the Company's day-to-day endeavors.

### Share Based Payments

The Company's stock option plan provides for the issue of stock options to directors, officers, employees, charities and consultants, who are all considered related parties to the Company. The plan provides that stock options may be granted up to a number equal to 10% of the Company's outstanding shares. Vesting terms are determined by the Board of Directors as they are granted and currently include periods ranging from immediately to one-third on each anniversary date over three years. The options' maximum term is ten years.

The value of the stock options vesting during nine months ended September 30, 2017 equated to \$6,133,222. Of this amount, \$692,256 was capitalized and \$5,440,965 was expensed as share based payments.

### Cost of Acquisition

The cost of acquisition incurred by the Company was a one-time, non-cash expense of \$1,019,415 for the nine months ended September 30, 2017. As detailed in the Interim Financial Statements, the purchase price paid for the acquisition of PMI was the fair value of the 19,473,289 outstanding PMI shares valued at \$0.37 (C\$0.50) per share for a total of \$7,252,621. The fair value of the shares was allocated to the fair value of the net assets acquired of \$6,233,206 with the difference being recognized as a non-cash cost of acquisition on the completion of the Transaction of \$1,019,415.

### Depletion and Depreciation ("D&D")

The Company's depletion and depreciation expense for the three and nine months ended September 30, 2017 are as follows:

USD \$	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Llancanelo	231,780	-	231,780	-
Mariposa	30,881	-	30,881	-
<b>Depletion on oil and gas assets</b>	<b>262,661</b>	-	<b>262,661</b>	-
Fixed asset depreciation	7,332	-	18,774	-
<b>Consolidated depletion and depreciation</b>	<b>269,993</b>	-	<b>281,435</b>	-

### Finance

The Company's finance related income and expenses for the three and nine months ended September 30, 2017 are as follows:

	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Interest income	\$ (127,318)	\$ -	\$ (152,574)	\$ -
Interest expenses and bank charges	10,406	-	26,284	-
Debt related expenses	101,149	-	101,149	-
<b>Total cash finance expenses/income</b>	<b>\$ (15,763)</b>	<b>\$ -</b>	<b>\$ (25,141)</b>	<b>\$ -</b>

**Non-cash:**

Accretion on decommissioning obligation	4,495	-	4,495	-
<b>Total non-cash finance expenses/income</b>	<b>\$ 4,495</b>	<b>\$ -</b>	<b>\$ 4,495</b>	<b>\$ -</b>
<b>Total finance expenses/income</b>	<b>\$ (11,268)</b>	<b>\$ -</b>	<b>\$ (20,646)</b>	<b>\$ -</b>

**Foreign Exchange**

The Company incurred a foreign exchange gain of \$4,257 and a foreign exchange loss of \$733,754 for the three and nine months ended September 30, 2017. The losses are due to the increase in the strength of the US dollar relative to the Canadian dollar from the period when the subscription receipts were issued and when the cash for the subscription receipts was received. The US dollar also continued to increase in strength relative to the Canadian dollar from the period when the proceeds from the private placement were received to when the proceeds were transferred from escrow to the Company, which also contributed to the foreign exchange loss that the Company incurred in these periods.

**Loss on revaluation of asset held for sale**

Under the terms of the share purchase agreement executed with Horizon (see further below), the Company agreed to invest C\$1,500,000 by way of a private placement in the capital of Horizon at C\$0.12 per share, for which the Company received an aggregate of 12,500,000 common shares of Horizon ("Horizon Shares"). PentaNova assigned 250,000 of the Horizon Shares to a third party pursuant to an advisory agreement. Certain directors of this third party are also directors of the Company.

The investment of Horizon Shares held by the Company have been classified as held for sale. At September 30, 2017, the fair market value of the 12,250,000 Horizon Shares was \$638,021 (C\$796,250) resulting in an unrealized loss on assets held for sale of \$537,795 (C\$673,750) representing the decline in share value between the date of receipt of \$0.096 (C\$0.12) per share and the period end closing price of \$0.052 (C\$0.065) per share, net of foreign exchange.

**Funds used in Operations**

For the three and nine months ended September 30, 2017, the Company used funds in operations of \$2,786,752 and \$5,319,928, respectively. The funds used in operations are primarily comprised of operating expenses, G&A expenses and business development expenses incurred during these periods.

## **Discontinued Operations**

In February 2017, the Company executed a share purchase agreement with Horizon Petroleum Ltd. (“Horizon”) for the disposition of certain oil and gas assets in the country of France. The Company held the Ledeuix and Ger Permits, located in the Aquitaine Basin of Southern France, which are valid until August 8, 2018 and April 16, 2018, respectively. Under the terms of the permits, the Company would have been required to spend 3 million Euros on the Ger Permit and 8 million Euros on the Ledeuix permit prior to their expiries in order to retain the permits for another exploration period.

In August 2017, PentaNova closed the disposition of its oil and gas interests in France to Horizon for nominal consideration. The Company recorded a gain of \$1,875,840 related to the disposition of liabilities associated with assets held for sale during the nine months ended September 30, 2017. The gain related to the disposition of the interests has been included in discontinued operations.

Operating results of the former French operations for the periods ended September 30, 2017 have been presented separately as discontinued operations due to the Company’s decision to cease operations in this business segment.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2017, the Company had working capital of \$14 million comprised primarily of cash and restricted cash. The Company’s capital management objective is to have sufficient capital to be able to execute its business plan. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include shareholders’ equity and working capital. The Company may issue shares or enter into debt arrangements to fund its capital commitments.

The Company is pursuing its strategy of focusing on its high impact Colombian and Argentine exploration and production assets. This will include the completion of each of the acquisitions outlined previously and the execution of the outlined exploration, drilling and testing programs in the Maria Conchita Block in Colombia through a budget of approximately \$14.8 million. Included within this plan are amounts required to meet contractual commitments as outlined in the “Commitment Summary” section.

The Company's Colombian oil and gas interests are in the exploration stage and the Company has yet to establish operations to achieve sustainable production from its acquired oil and gas assets. Accordingly, the recoverability of amounts recorded as petroleum and natural gas properties is dependent upon successful development of its assets in order to put them into production and then achieve future profitable production, the ability of the Company to secure adequate sources of financing to continue to fund the development of its assets, and the political stability of Colombia. The outcome of these matters cannot be predicted with certainty at this time.

The Company's Argentine oil and gas interests range from being in early exploration stage to established assets that have proven to be economically viable. Accordingly, the recoverability of amounts recorded as petroleum and natural gas properties is dependent upon the existence, discovery, and exploitation of economically recoverable oil and gas reserves on blocks, the political stability of Argentina, and the ability of the Company to secure adequate sources of financing to continue to fund the development of its assets

and achieve future profitable production. The outcome of these matters cannot be predicted with certainty at this time.

### ***Restricted Cash***

As of September 30, 2017, a deposit of \$1,750,000 was held in escrow in relation to the operations on the Maria Conchita Block, as previously described. This escrow amount was established in order to secure against any penalty imposed by the ANH if current phase commitments under the Maria Conchita E&P Contract are not fulfilled. This escrow deposit is to be released to the Company once current phase commitments are completed.

Additionally, during the nine months ended September 30, 2017, term deposits of \$2,547,405 and \$343,326 were established for purposes of the Performance Guarantee Facility under the SN-9 and Tiburon Block E&P Contracts as required by the ANH. The SN-9 and Tiburon deposits amounts are defined in US dollars by the ANH, but are held in Colombian pesos with Colombian banks and are subject to foreign currency fluctuation risks in relation to the US dollar. These deposits are to be released to the Company once current phase commitments under each E&P Contract are completed.

## **SHARE CAPITAL**

### ***Common Shares***

At September 30, 2017, the Company was authorized to issue an unlimited number of common shares, with no par value, with holders of common shares entitled to one vote per share and to dividends, if declared. Outstanding common shares as of September 30, 2017 are as follows:

	Common shares	Amount
<b>Balance, January 1, 2017</b>	50,000	\$ -
Shares redeemed	(50,000)	-
Shares issued through private placement (net of share issuance costs)	160,441,560	29,306,312
Shares issued to consultant	1,200,000	449,136
<b>Balance April 4, 2017</b>	<b>161,641,560</b>	<b>29,755,448</b>
Shares issued in Transaction	19,473,289	7,252,621
Transaction costs		(396,820)
Shares issued for transaction costs	1,600,000	595,903
<b>Balance June 30, 2017</b>	<b>182,714,849</b>	<b>37,207,152</b>
Shares issued for Colombian assets	206,145	150,000
Shares issued through private placement (net of share issuance costs)	20,625,000	9,039,821
Shares issued for Alianza Acquisition	11,406,250	5,201,690
Shares issued as finders fees for Alianza Acquisition	468,750	187,500
Share issued for Advances Toward Acquisitions	24,968,750	11,344,685
Shares issued on acquisition success fee	1,065,000	426,000
Shares issued for services rendered	746,858	242,545
<b>Balance September 30, 2017</b>	<b>242,201,602</b>	<b>\$ 63,799,393</b>

As mentioned previously, in August 2017, the Company completed a non-brokered financing of 20,625,000 subscription receipts at a price of C\$0.80 per subscription receipt for gross proceeds of \$13,185,233 (C\$16,500,000). Each subscription receipt automatically exchanges into a unit of the Company concurrently with closing of the acquisition of the outstanding shares of Patagonia Oil Corp. Each unit consists of one common share and one share purchase warrant exercisable into one additional common share at a price of C\$1.05 per share until July 31, 2022.

In conjunction with the private placement, 35,625,000 additional Units were issued as consideration for the purchase of various Argentine oil and gas assets, as outlined below. This equated to \$22,636,093 (C\$28,672,956) in consideration paid, net of unit issuance costs. A further 2,283,750 shares were also issued as payment for finders fees in relation to the aforementioned acquisitions in Argentina. These shares are subject to a hold period expiring on December 9, 2017.

### Stock Options

The Company's stock option plan provides for the issue of stock options to directors, officers, employees, charities and consultants, who are all considered related parties to the Company. The plan provides that stock options may be granted up to a number equal to 10% of the Company's outstanding shares. Vesting terms are determined by the Board of Directors as they are granted and currently include periods ranging from immediately to one-third on each anniversary date over three years. The options' maximum term is ten years.

At September 30, 2017, a total of 23,173,569 (December 31, 2016 – 990,829) options were issued and outstanding under this plan. Options which are forfeited/expired are available for reissue.

A summary of the changes in stock options is presented below:

	<b>Stock options</b>	<b>Weighted average exercise price (C\$)</b>
<b>Balance, January 1, 2016</b>	566,762	\$ 18.90
Options issued	975,000	0.61
Expired options	(550,933)	18.84
<b>Balance, December 31, 2016</b>	990,829	\$ 0.94
Options issued	22,187,500	0.80
Expired options	(4,760)	10.50
<b>Balance, September 30, 2017</b>	<b>23,173,569</b>	<b>\$ 0.80</b>

On August 8, 2017, the Company granted 22,187,500 options to acquire common shares to certain directors, officers, and consultants of the Company at a price of C\$0.80 per common share. The options were for a ten-year term, expiring on August 8, 2027. Of the options granted, 20,500,000 vested immediately on the date of grant. The other 1,687,500 options vest on a basis of one-third on the date of grant, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant.

## **Warrants**

### ***Broker Warrants***

Pursuant to the brokered private placement of common shares in February 2017, the Company issued 1,968,000 warrants to brokers of the private placement based on the terms of the agency agreement (the “Broker Warrants”). These Broker Warrants are for a two-year term, exercisable immediately at a price of C\$0.50 per share and expire January 31, 2019.

A fair value of \$308,866 (C\$402,453) was recognized for the issuance of these Broker Warrants, which was included in share issuance costs on the associated brokered private placement, and is recorded as contributed surplus.

### ***Purchase Warrants***

Pursuant to the non-brokered private placement, the Alianza Acquisition, and the Advances Toward Acquisitions in August 2017, as described previously, the Company issued a total of 56,250,000 Units, each consisting of one common share and one share purchase warrant, each exercisable into one additional common share at a price of C\$1.05 per share until July 31, 2022 (the “Purchase Warrants”). As mentioned previously, a fair value of \$10,201,910 (C\$12,754,916), net of issue costs, was recognized for the issuance of the Purchase Warrants.

Outstanding Purchase Warrants as of September 30, 2017 are as follows:

	Purchase Warrants	Amount
Issued on non-brokered private placement	20,625,000	\$ 3,648,285
Issued on Alianza Acquisition	11,406,250	2,098,310
Issued on Advances Toward Acquisitions	24,218,750	4,455,315
<b>Balance September 30, 2017</b>	<b>56,250,000</b>	<b>\$ 10,201,910</b>

In September 2017, the 56,250,000 Purchase Warrants became publicly listed for trading on the TSX-V.

#### COMMITMENT SUMMARY UPDATE

A summary of the Company's estimated capital commitments (in millions of dollars) are as follows:

Block	Interest	2017	2018	2019	2020	Total
Maria Conchita Block <sup>(1)</sup>	80%	-	7.0	-	-	<b>7.0</b>
SN-9 Block <sup>(2)</sup>	80%	0.8	-	-	22.1	<b>22.9</b>
Tiburon Block <sup>(3)</sup>	60%	-	3.0	-	-	<b>3.0</b>
<b>Total</b>		<b>0.8</b>	<b>10.0</b>	<b>-</b>	<b>22.1</b>	<b>32.9</b>

- 1) Represents PentaNova's estimate to complete the ANH commitment for Phase 2 of the contractual exploration program to drill one exploration well (for which the Company will pay 100% of the costs under the terms of the Maria Conchita Acquisition), which is required by January 2018.
- 2) PentaNova's ANH commitment to carry out the minimum requirement to 1) acquire and pay for subsurface rights in 2017 and 2) process, and interpret 200 km of 2D seismic and drill one exploration well (both of which the Company will pay 100% of the costs on the terms of the SN-9 Acquisition) according to Phase 1 of the contractual exploration program, which must be fulfilled by mid-year 2020.
- 3) Relates to PentaNova's share of the ANH commitment to carry out the minimum requirement to acquire, process, and interpret 200 km of 2D seismic (which commitment the Company plans to replace with 69.75 km<sup>2</sup> of 3D seismic instead) according to Phase 3 of the contractual exploration program. Currently, operations are delayed due to disputes in the region, with current ANH deadlines of 2018 with extensions if disputes were resolved in 2017. The commencement date for seismic acquisition is unknown at this time. The Company assumes that operations will commence in 2019.

The expenditures provided in the above table only represent the Company's estimated cost to satisfy contract requirements. Actual expenditures to satisfy these commitments, initiate production or create reserves may differ from these estimates. The expenditures in the above table are based on the latest possible date required per contract and may be incurred at an earlier date.

#### RELATED PARTIES

During the nine months ended September 30, 2017, there were separate related party transactions as follows:

- a) Unsecured loans of \$1.65 million were advanced to the Company by one of the directors in January 2017. As at September 30, 2017, the unsecured had been re-paid in full by the Company.

- b) In January 2017, the Company acquired 100% of the shares of Bochica and rights to an 80% participating interest in the Maria Conchita Block. The terms and conditions of the Maria Conchita Acquisition included that former shareholders of Bochica retained a 20% carried interest in the Maria Conchita Block. A certain officer of the Company previously served as President and Director of Bochica until August 26, 2016, and as former shareholder of Bochica holds a minority indirect interest on the 20% carried interest, which amounts to approximately 1.2% of the total working interest on the Maria Conchita Block.
- c) PentaNova pays a monthly advisory fee to a firm affiliated with a director of PentaNova. As per the consulting agreement with this firm, PentaNova pays a monthly fee of C\$10,000 plus reimbursable expenses. Furthermore, additional fees are to be paid pursuant to the closing of successful financing arrangements, divestitures, or acquisitions for which the firm provides advisory services. Success fees were paid upon closing of the private placements summarized in Note 5, which resulted in the Company paying C\$450,000 to the firm. 1.6 million shares were issued to the firm in conjunction with the closing of the reverse takeover transaction, which equated to \$595,903 (C\$800,000) based on the fair value of the shares at the time of issuance (Note 12). Also, in conjunction with certain acquisitions of assets in Argentina, the firm was issued 1,065,000 shares as a success fee for their advisory services related to the transaction. The shares were valued at \$426,000 at the time of issuance. In relation to the disposal of the oil and gas assets in France, as outlined in Note 14, this firm was allocated 250,000 of the Horizon shares that PentaNova acquired.
- d) A company with an affiliated director of PentaNova provided services to the Company during the nine months ended September 30, 2017. In aggregate, the services performed amounted to \$457,291. To satisfy this debt cash payments in the amount of \$214,746 were made. The balance of the debt was settled by issuing 746,858 shares for a value of \$242,545.
- e) A director of the Company, through affiliate entities, is the 50% beneficial owner of Dexton International Ltd. ("Dexton"). In February 2017, Patagonia and Dexton entered into an agreement wherein Dexton provided advisory services in connection with the acquisition of certain oil and gas assets located in Argentina by Patagonia. In consideration for its services, Patagonia granted to Dexton an overriding royalty interest equal to 2% of any net production of hydrocarbons attributable to Patagonia's participation interest in Argentina assets. For the period ended September 30, 2017 this royalty equated to \$21,015 in royalty expense to the Company.
- f) In connection with the acquisition of the KM8 Asset, a certain member of management of the Company (prior to becoming an employee of the Company) was also a director and shareholder with a controlling interest of the original buyer of the KM8 Asset and a party to the KM8 Acquisition transaction. This company, as the original buyer, assigned its rights and obligations under the KM8 Acquisition to Patagonia. Furthermore, this company received a finders fee of 750,000 common shares of PentaNova, which are included in the aforementioned 2,283,750 shares that were issued as finder fees as part of the acquisitions in Argentina.
- g) With regards to the 2,283,750 shares that were issued as payment for various finders fees as described previously for acquisitions in Argentina, 1,815,000 of these shares were issued to third parties with common management and/or directors with the Company.

## KEY FINANCIAL RESULTS

The following table summarizes PentaNova's key financial results over the past three years:

	YTD 2017	Year 2016	Year 2015
Net loss	\$ (13,139,471)	\$ (523,441)	\$ (3,343)
Working capital	13,962,004	(526,784)	(3,343)
Total assets	87,167,416	-	-

PentaNova is still primarily in the exploratory and early development phase of its oil and gas prospects. Net losses to date are largely a result of general and administrative expenses and business development expenses incurred over each of the 2015, 2016, and 2017 years.

## SELECTED QUARTERLY INFORMATION

The following table sets out selected quarterly financial information of PentaNova and is derived from unaudited quarterly financial data prepared by management in accordance with IFRS.

	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Loss from continuing operations	\$ (8,501,444)	\$ (4,426,942)	\$ (2,030,443)	\$ (523,441)
Income (loss) from discontinued operations	1,869,299	(49,941)	-	-
Net loss	(6,632,145)	(4,476,883)	(2,030,443)	(523,441)
Comprehensive loss	(6,874,430)	(4,385,504)	(2,030,443)	(523,441)
Net loss per share (basic & diluted):				
Continuing operations	(0.04)	(0.03)	(0.02)	(0.00)
Discontinued operations	0.01	(0.00)	-	-
Net loss	(0.03)	(0.03)	(0.02)	(0.00)

	Q3 2017	Q2 2016	Q1 2016	Q4 2015
Net loss	\$ -	\$ -	\$ -	\$ -
Comprehensive loss	-	-	-	-
Net loss per share (basic & diluted)	-	-	-	-

Changes in net loss reported between each quarterly period to date is primarily a function of variances in general and administrative expense and business development expenses recorded in each quarter. Significant corporate and administrative expenses commenced in March 2017 with the establishment of corporate operations in Canada and Colombia, including administrative and operations staff.

## OUTLOOK

The Company plans to spud one exploratory commitment well in the Maria Conchita Block upon completion of the road and drilling location civil work. The Company will then evaluate the results of the commitment well to determine further drilling activity, namely the drilling of a second exploratory well. The Company has currently budgeted for both wells to be drilled. The capital program for Maria Conchita drilling operations has been set at \$14.8 million, and is expected to be fully funded from current working capital within the Company. The work program and budget is expected to include the following:

- Drilling of the exploratory commitment well on the Maria Conchita Block
- Drilling of a second exploratory well on the Maria Conchita Block, pending results of the first well
- Continuing with the environmental stewardship and social initiatives in the Company's areas of operations

## ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Company is currently reviewing a number of new and revised IFRSs that have been issued but are not yet effective. Detailed discussions of new accounting policies that may affect the Company are provided in the Interim Financial Statements.

## USE OF ESTIMATES AND JUDGEMENTS

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of the financial statements are outlined below.

### **Critical judgments in applying accounting policies**

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

***i) Identification of cash-generating units***

The Company's assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

***ii) Impairment of exploration and evaluation assets***

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates,

future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

**iii) *Technical feasibility and commercial viability of exploration and evaluation assets***

The determination of technical feasibility and commercial viability, based on the presence of proved and probable reserves, results in the transfer of assets from exploration and evaluation assets to property, plant and equipment. As discussed above, the estimate of proved and probable reserves is inherently complex and requires significant judgment. Thus any material change to reserve estimates could affect the technical feasibility and commercial viability of the underlying assets.

**iii) *Income taxes***

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

**i) *Reserves***

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if the ability to produce is supported by either actual production or conclusive formation tests. The Company's petroleum

and gas reserves are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

**ii) *Decommissioning obligations***

At the end of the operating life of the Company's facilities and properties and upon retirement of its petroleum and natural gas assets, decommissioning costs will be incurred by the Company. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and discount rates to determine the present value of these cash flows.

**iii) *Business Combinations***

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and petroleum and natural gas assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

**iv) *Share-based payments***

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

**v) *Tax provisions***

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

## **PRINCIPAL BUSINESS RISKS**

The Company's business and results of operations are subject to a number of risks and uncertainties including, but not limited to the following:

### **Crude Oil and Natural Gas Development**

Exploration, development, production of oil and natural gas involves a wide variety of risks which include but are not limited to the uncertainty of finding oil and gas in commercial quantities, securing markets, commodity price fluctuations, exchange and interest rate exposure and changes to government regulations, including regulations relating to prices, taxes, royalties and environmental protection. The oil

and gas industry is intensely competitive and the Company competes with a large number of companies with greater resources.

The Company's ability to obtain reserves in the future will depend not only on its ability to develop its current properties but also on its ability to acquire new prospects and producing properties. The acquisition, exploration and development of new properties also require that sufficient capital from outside sources will be available to the Company in a timely manner. The availability of equity or debt financing is affected by many factors many of which are beyond the control of the Company.

### **Foreign Operations**

There are a number of risks associated with conducting foreign operations over which the Company has no control, including political instability, potential and actual civil disturbances, ability to repatriate funds, changes in laws affecting foreign ownership and existing contracts, environmental regulations, oil and gas prices, production regulations, royalty rates, income tax law changes, potential expropriation of property without fair compensation and restriction on exports.

### **Addition of Reserves and Resources**

The Company's future crude oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on the Company successfully discovering and developing or acquiring new reserves and resources. The addition of new reserves and resources will depend not only on the Company's ability to explore and develop properties but also, in the case of reserves, on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Company's exploration, development or acquisition efforts will result in the discovery and development of commercial accumulations of oil and natural gas.

### **Reserve Estimates**

There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond the control of the Company. Estimates of reserves depend in large part upon the reliability of available geological and engineering data and require certain assumptions to be made in order to assign reserve volumes. Geological and engineering data is used to determine the probability that a reservoir of oil and/or natural gas exists at a particular location, and whether, and to what extent, such hydrocarbons are recoverable from the reservoir. Accordingly, the ultimate reserves discovered by the Company may be significantly less than the total estimates.

### **Exploration Risks**

The exploration of the Company's properties may from time to time involve a high degree of risk that no production will be obtained or that the production obtained will be insufficient to recover drilling and completion costs. The costs of seismic operations and drilling, completing and operating wells are uncertain to a degree. Cost overruns can adversely affect the economics of the Company's exploration programs and projects. In addition, the Company's seismic operations and drilling plans may be curtailed, delayed or cancelled as a result of numerous factors, including, among others, equipment failures, weather or adverse climate conditions, shortages or delays in obtaining qualified personnel, shortages or

delays in the delivery of or access to equipment, necessary governmental, regulatory or other third party approvals and compliance with regulatory requirements.

### **Management’s Report on Internal Control over Financial Reporting**

In connection with National Instrument 52-109 - Certification of Disclosure in Issuer’s Annual and Interim Filings (“NI 52-109”) adopted by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company are required to file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management’s Discussion and Analysis. The Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52- 109.

### **READER ADVISORIES**

#### **Non-GAAP Measures**

Certain financial measures in this document do not have a standardized meaning as prescribed by IFRS, such as cash flow from operations, and therefore are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. These measures have been described and presented in order to provide shareholders and potential investors with additional measures for analyzing our ability to generate funds to finance our operations and information regarding our liquidity. The additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The definition and reconciliation of each non-GAAP measure is presented in the Operating Results, Financial Results and Liquidity and Capital Resources sections of this MD&A.

#### **Forward Looking Statements**

This MD&A may include forward-looking statements including opinions, assumptions, estimates and management’s assessment of future plans and operations, capital expenditures and the timing and funding thereof. When used in this document, the words “anticipate,” “believe,” “estimate,” “expect,” “intent,” “may,” “project,” “plan”, “should” and similar expressions are intended to be among the statements that identify forward-looking statements. Forward-looking statements are subject to a wide range of risks and uncertainties, and although the Company believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will be realized. Any number of important factors could cause actual results to differ materially from those in the forward-looking statements including, but not limited to, risks associated with petroleum and natural gas exploration, development, exploitation, production, marketing and transportation, the volatility of petroleum and natural gas prices, currency fluctuations, the ability to implement corporate strategies, the state of domestic capital markets, the ability to obtain financing, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, changes in petroleum and natural gas acquisition and drilling programs, delays resulting from inability to obtain required regulatory approvals, delays resulting from inability to obtain drilling rigs and other services, labour supply risks, environmental risks, competition from other producers, imprecision of reserve estimates, changes in

general economic conditions, ability to execute farm-in and farm-out opportunities, and other factors, all of which are more fully described from time to time in the reports and filings made by the Company with securities regulatory authorities.

Management believes that the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct. Such forward-looking information included in this MD&A should not be unduly relied upon as the plans, assumptions, intentions or expectations upon which it is based may not occur. Actual results or events may vary from the forward-looking information.

In particular, this MD&A may contain forward-looking information pertaining to the following:

- the resource potential of the Company's assets,
- the Company's growth strategy and opportunities,
- performance characteristics of the Company's oil properties and estimated capital commitments and probability of success,
- crude oil production and recovery estimates and targets,
- the existence and size of the oil reserves and resources,
- the Company's drilling plans,
- capital expenditure programs and estimates, including the timing of activity,
- the Company's plans for, and results of, exploration and development activities,
- projections of market prices and costs,
- the supply and demand for oil,
- expectations regarding the ability to raise equity and debt capital on acceptable terms and to add continually to reserves through acquisitions and development, including the ability to negotiate and complete the agreements contemplated in this MD&A,
- the timing for receipt of regulatory approvals, including ANH approvals, and
- treatment of the Company under governmental regulatory regimes and tax laws.

The purpose of providing any financial outlook in this MD&A is to illustrate how the business of the Company might develop without the benefit of specific historical financial information. Readers are cautioned that this information may not be appropriate for other purposes.

The forward looking information herein is based on certain assumptions and analysis by the management of the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors that it believes are appropriate and reasonable under the circumstances. The forward looking information herein is based on a number of assumptions, including but not limited to:

- the availability on acceptable terms of funds for capital expenditures,
- the availability in a cost-efficient manner of equipment and qualified personnel when required,
- continuing favourable relations with Latin American governmental agencies,
- continuing strong demand for oil,
- the stability of the regulatory framework governing royalties, taxes and environmental matters in Colombia and any other jurisdiction in which the Company may conduct its business in the future,
- the Company's future ability to market production of oil successfully to customers,

- the Company's future production levels and oil prices,
- the applicability of technologies for recovery and production of the Company's oil reserves,
- the existence and recoverability of any oil reserves,
- geological and engineering estimates in respect of the Company's resources and reserves,
- the geography of the areas in which the Company is exploring, and
- the impact of increasing competition on the Company.

The actual results, performance and achievements of the Company could differ materially from those anticipated in these forward-looking statements as a result of the risks and uncertainties set forth elsewhere in the MD&A and the following risks and uncertainties:

- global financial conditions,
- general economic, market and business conditions,
- volatility in market prices for oil and natural gas, the stock market, foreign exchange and interest rates,
- risks inherent in oil and gas operations, exploration, development and production,
- risks inherent in the Company's international operations, including security, political, sovereignty and legal risks in Colombia,
- the failure by counterparties to make payments or perform their operational or other obligations to the Company in compliance with the terms of contractual arrangements between the Company and such counterparties,
- risks related to the timing of completion of the Company's projects and plans,
- uncertainties associated with estimating oil and natural gas reserves and resources,
- competition for, among other things, capital, acquisitions of resources, undeveloped lands and skilled personnel,
- the Company's ability to hold existing leases through drilling or lease extensions or otherwise,
- incorrect assessments of the value of acquisitions or title to properties,
- the failure of the Company or the holder of certain licenses or leases to meet specific requirements of such licenses or leases,
- claims made in respect of the Company's properties or assets,
- geological, technical, drilling and processing problems, including the availability of equipment and access to properties,
- environmental risks and hazards,
- failure to estimate accurately abandonment and reclamation costs,
- the inaccuracy of third parties' reviews, reports and projections,
- rising costs of labour and equipment,
- the failure to engage or retain key personnel,
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry, and
- the other factors discussed under "Principal Business Risks" in this MD&A.

Readers are cautioned that the foregoing lists of assumptions, risks and uncertainties are not exhaustive. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. The forward-looking information speaks only as of the date of this MD&A, and the Company does not undertake any obligation to publicly update or revise any forward-looking information except as required by applicable securities laws.

### **Analogous Information**

Certain information in this MD&A may constitute "analogous information" as defined in National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"), including, but not limited to, information relating to areas, assets, wells, industry activity and/or operations that are in geographical proximity to or believed to be on-trend with lands held by PentaNova. In particular, this document notes specific analogous oil and gas discoveries and corresponding details of said discoveries in the Chuchupa Block as well as blocks owned by Canacol Energy Ltd. and makes certain assumptions about the Maria Conchita Block and SN-9 Block as a result of such analogous information and potential recovery rates as a result thereof. Such information has been obtained from public sources, government sources, regulatory agencies or other industry participants. Management of PentaNova believes the information may be relevant to help define the reservoir characteristics within lands on which PentaNova holds an interest and such information has been presented to help demonstrate the basis for PentaNova's business plans and strategies. However, management cannot confirm whether such analogous information has been prepared in accordance with NI 51-101 and the Canadian Oil and Gas Evaluation Handbook and PentaNova is unable to confirm that the analogous information was prepared by a qualified reserves evaluator or auditor. PentaNova has no way of verifying the accuracy of such information. There is no certainty that the results of the analogous information or inferred thereby will be achieved by PentaNova and such information should not be construed as an estimate of future production levels or the actual characteristics and quality PentaNova's assets. Such information is also not an estimate of the reserves or resources attributable to lands held or to be held by PentaNova and there is no certainty that such information will prove to be analogous in the future. The reader is cautioned that the data relied upon by PentaNova may be in error and/or may not be analogous to such lands to be held by PentaNova.

### **Barrels of Oil Equivalent**

Where amounts are expressed in a barrel of oil equivalent ("boe"), or barrel of oil equivalent per day ("boe/d"), natural gas volumes have been converted to barrels of oil equivalent on the basis that 6 thousand cubic feet ("mcf") is equal to one barrel of oil. Use of the term boe may be misleading, particularly if used in isolation. This boe conversion ratio is based on an energy equivalence methodology, and does not represent a value equivalency. Indeed, the energy and value relationships may differ widely with market conditions. The conversion does conform to the Canadian Securities Regulators' National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

## Abbreviations

*\$/bbl dollars per barrel*

*\$/boe dollars per barrel of oil equivalent*

*\$/GJ dollars per gigajoule*

*\$/mcf dollars per thousand cubic feet*

*bbl barrel*

*bbl/d barrels per day*

*bcf billion cubic feet*

*boe barrel of oil equivalent*

*boe/d barrel of oil equivalent per day*

*GJ gigajoule*

*GJ/d gigajoules per day*

*km kilometer*

*mcf thousand cubic feet*

*mcf/d thousand cubic feet per day*

*mmbbl million barrels*

*mmboe million barrels of oil equivalent*

*mmcf/d million cubic feet per day*

*NGLs natural gas liquids*

*API American Petroleum Industry gravity*

*m<sup>3</sup> meters cubed*