PENTANOVA ENERGY CORP.

(formerly PMI Resources Ltd.)

ANNUAL AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and related financial information are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards. They include certain amounts that are based on estimates and judgments relating to matters not concluded by year-end. Financial information presented elsewhere in this document is consistent with that contained in the consolidated financial statements.

In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies adopted by management. If alternate accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. Management has established systems of accounting and internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and produce reliable accounting records for the preparation of financial information. Policies and procedures are maintained to support the accounting and internal control systems.

The independent external auditors, Ernst & Young LLP, have conducted an examination of the consolidated financial statements on behalf of shareholders. The auditors have unrestricted access to the Company and the Audit Committee.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee. This Committee reviews the consolidated financial statements with management and the auditors, as well as recommends to the Board of Directors the external auditors to be appointed by the shareholders at each annual meeting. The Audit Committee meets at least quarterly to review and approve interim financial statements prior to their release and recommend their approval to the Board of Directors.

The Board of Directors on the recommendation of the Audit Committee has approved the consolidated financial statements and information as presented.

(signed)	*(signed)*
Dr. Ralph Gillcrist Chief Executive Officer	Chris Reid Chief Financial Officer

April 30, 2018
Calgary, Canada

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of PentaNova Energy Corp.

We have audited the accompanying consolidated financial statements of PentaNova Energy Corp., which comprise the consolidated statement of financial position as at December 31, 2017 and 2016, and the consolidated statement of comprehensive loss, changes in shareholders equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PentaNova Energy Corp. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that PentaNova Energy Corp. incurred a net loss of $13,750,836 for the year ended December 31, 2017. This condition, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on PentaNova Energy Corp.'s ability to continue as a going concern.

Ernst & Young LLP

Calgary, Canada
April 30, 2018

Chartered Professional Accountants

PENTANOVA ENERGY CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in U.S. Dollars)	**December 31, 2017**	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	**8,962,371**	-
Short term investments	**402,016**	-
Accounts receivable and prepaids (Note 9)	**3,956,243**	-
Inventory (Note 10)	**966,818**	-
Assets held for sale (Note 17)	**683,539**	-
Restricted cash (Note 8)	**11,732,933**	-
	26,703,920	-
Non-current Assets		
Exploration and evaluation assets (Note 11)	**67,609,348**	-
Property, plant and equipment (Note 12)	**4,283,111**	-
Total Assets	**98,596,379**	-
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 9)	**16,585,780**	526,784
Cash calls assumed on acquisition (Note 7)	**8,186,280**	-
	24,772,060	526,784
Non-current Liabilities		
Deferred tax liability (Note 18)	**3,831,850**	-
Decommissioning obligation (Note 13)	**4,935,874**	-
Total Liabilities	**33,539,784**	526,784
Shareholders' Equity		
Share capital (Note 14)	**63,799,393**	-
Contributed surplus (Note 14)	**5,900,862**	-
Warrants (Note 14)	**10,201,910**	-
Deficit	**(14,533,961)**	(526,784)
Accumulated other comprehensive loss	**(311,609)**	-
Total Shareholders' Equity	**65,056,595**	(526,784)
Total Liabilities and Shareholders' Equity	**98,596,379**	-

Commitments (Note 21)

Subsequent Events (Note 24)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

(signed)	*(signed)*
Jeffrey Scott	Gordon Keep
Chairman of the Board of Directors	Chairman of the Audit Committee

PENTANOVA ENERGY CORP.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31

(Expressed in U.S. Dollars)	**2017**	2016
Revenue:		
Oil and natural gas revenue	**2,834,762**	-
Net revenue on carried working interest	**607,174**	-
Royalty expense	**(574,554)**	-
	2,867,382	-
Expenses:		
Operating expenses	**1,982,364**	-
Inventory revaluation (Note 10)	**205,302**	-
General and administrative (Note 19)	**4,093,672**	523,441
Business development (Note 15)	**5,000,345**	-
Share based payments (Note 14)	**5,472,151**	-
Cost of acquisition (Note 5)	**1,019,415**	-
Depletion and depreciation (Note 12)	**958,088**	-
Finance (Note 16)	**136,440**	-
Foreign exchange loss	**575,642**	-
Loss on revaluation of asset held for sale (Note 17)	**489,658**	-
	19,933,077	523,441
Loss before income taxes	**(17,065,695)**	(523,441)
Deferred income tax expense (Note 18)	**1,313,001**	-
Loss from continuing operations	**(15,752,694)**	(523,441)
Income from discontinued operations (Note 17)	**1,745,517**	-
Net loss	**(14,007,177)**	(523,441)
Other comprehensive loss		
Foreign currency translation adjustment	**(491,919)**	-
Transfer of translation loss realized on disposal of foreign operations	**180,310**	-
	(311,609)	-
Comprehensive loss	**(14,318,786)**	(523,441)
Loss per share – basic and diluted (Note 14)	**(0.08)**	(10.47)
Weighted average number of common Shares outstanding	**188,717,316**	50,000

See accompanying notes to the consolidated financial statements.

PENTANOVA ENERGY CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(Expressed in U.S. Dollars)	**2017**	2016
Operating Activities		
Net loss	**(15,752,694)**	(523,441)
Items not affecting cash:		
Depletion and depreciation (Note 12)	**958,088**	-
Share based payments (Note 14)	**5,472,151**	-
Unrealized foreign exchange loss	**528,784**	-
Shares issued for services rendered (Note 14)	**1,605,181**	-
Cost of acquisition (Note 5)	**1,019,415**	-
Loss on revaluation of assets held for sale (Note 17)	**489,658**	-
Accretion on decommissioning obligations (Note 13)	**31,294**	-
Deferred income tax recovery (Note 18)	**(1,313,001)**	-
Change in non-cash working capital (Note 23)	**(199,219)**	523,441
Continuing operations	**(7,160,343)**	-
Discontinued operations	**(130,323)**	-
Cash used in operating activities	**(7,290,666)**	-
Investing Activities		
Cash payments on Maria Conchita Acquisition, net of cash acquired (Note 7)	**(1,098,295)**	-
Cash payments on SN-9 Acquisition (Note 7)	**(2,500,000)**	-
Cash payments on Tiburon Acquisition (Note 7)	**(250,000)**	-
Cash payment on YPF Farm-In (Note 7)	**(500,000)**	
Exploration and evaluation asset additions (Note 11)	**(4,276,208)**	-
Property, plant and equipment additions (Note 12)	**(914,495)**	-
Acquisition of Bolivar, net of cash acquired (Note 7)	**(48,929)**	-
Acquisition of Alianza, net of cash acquired (Note 7)	**(7,946,594)**	-
Acquisition of Roch assets (Note 7)	**(2,000,000)**	
Acquisition of KM-8 operatorship and assets, net of cash acquired (Note 7)	**(2,000,000)**	
Investment in Horizon (Note 17)	**(1,176,000)**	-
Change in restricted cash (Note 8)	**(11,770,781)**	-
Change in non-cash working capital (Note 23)	**882,100**	-
Cash used in investing activities	**(33,599,202)**	-
Financing Activities		
Shares issued, net of costs (Note 14)	**38,658,169**	-
Warrants issued, net of costs (Note 14)	**3,648,285**	-
Cash acquired on Transaction (Note 5)	**8,188,819**	-
Transaction costs	**(396,820)**	-
Change in non-cash working capital (Note 23)	**(53,685)**	-
Cash provided by financing activities	**50,044,768**	-
Net increase in cash	**9,154,900**	-
Foreign exchange gain on cash	**(192,529)**	-
Increase in cash	**8,962,371**	-
Cash, beginning of period	**-**	-
Cash, end of period	**8,962,371**	-

Cash is defined as cash and cash equivalents.

See accompanying notes to the consolidated financial statements.

PENTANOVA ENERGY CORP.

CONDOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in U.S. Dollars)	Number of		Contributed				
	Common Shares	**Share Capital**	**Surplus**	**Warrants**	**Deficit**	**AOCL[1]**	**Total**
Balance at December 31, 2015	50,000	-	-	-	(3,343)	-	(3,343)
Net Loss	-	-	-	-	(523,441)	-	(523,441)
Balance at December 31, 2016	**50,000**	**-**	**-**	**-**	**(526,784)**	**-**	**(526,784)**
Shares redeemed (Note 14)	(50,000)	-	-	-	-	-	-
Shares issued pursuant to private placement (Note 6)	160,441,560	29,615,178	-	-	-	-	29,615,178
Broker warrants issued pursuant to private placement (Note 14)	-	(308,866)	308,866	-	-	-	-
Shares issued to consultant (Note 14)	1,200,000	449,136	-	-	-	-	449,136
Loss from continuing operations	-	-	-	-	(2,030,443)	-	(2,030,443)
Balance at April 4, 2017	**161,641,560**	**29,755,448**	**308,866**	**-**	**(2,557,227)**	**-**	**27,507,087**
Shares issued in Transaction (Notes 5)	19,473,289	7,252,621	-	-	-	-	7,252,621
Costs incurred pursuant to Transaction (Note 14)	-	(396,820)	-	-	-	-	(396,820)
Shares issued for transaction costs (Notes 14 & 19)	1,600,000	595,903	(595,903)	-	-	-	-
Shares issued for Colombian assets (Note 7)	206,145	150,000	-	-	-	-	150,000
Shares issued pursuant to private placement (Note 6)	20,625,000	9,039,821	-	-	-	-	9,039,821
Warrants on private placement (Notes 6 & 14)	-	-	-	3,648,285	-	-	3,648,285
Shares issued for Alianza Acquisition (Note 7)	11,406,250	5,201,690	-	-	-	-	5,201,690
Warrants on Alianza acquistion (Notes 7 & 14)	-	-	-	2,098,310	-	-	2,098,310
Shares issued as finders fees on Alianza Acqusition (Note 7)	468,750	187,500	-	-	-	-	187,500
Shares issued for Roch Acquisition (Note 7)	7,812,500	3,562,801	-	-	-	-	3,562,801
Shares issued for KM8 Acquisition (Note 7)	16,406,250	7,481,884	-	-	-	-	7,481,884
Shares issued as finders fees on KM8 Acqusition (Note 19)	750,000	300,000	-	-	-	-	300,000
Warrants on Roch acquistion (Notes 7 & 14)	-	-	-	1,437,198	-	-	1,437,198
Warrants on KM8 acquistion (Notes 7 &14)	-	-	-	3,018,117	-	-	3,018,117
Shares issued to for services rendered (Note 19)	746,858	242,545	-	-	-	-	242,545
Shares issued on acquisition success fee (Note 19)	1,065,000	426,000	-	-	-	-	426,000
Share based compensation (Note 14)	-	-	6,187,899	-	-	-	6,187,899
Loss from continuing operations	-	-	-	-	(13,722,251)	-	(13,722,251)
Income from discontinued operations (Note 17)	-	-	-	-	1,745,517	-	1,745,517
Foreign currency translation adjustment	-	-	-	-	-	(491,919)	(491,919)
Transfer of translation loss realized on disposal of foreign operations	-	-	-	-	-	180,310	180,310
Balance at December 31, 2017	**242,201,602**	**63,799,393**	**5,900,862**	**10,201,910**	**(14,533,961)**	**(311,609)**	**65,056,595**

(1) Accumulated other comprehensive loss

See accompanying notes to the consolidated financial statements.

1. REPORTING ENTITY

PentaNova Energy Corp. (“PentaNova”) is an oil and gas company incorporated in Canada which formerly operated under the name PMI Resources Ltd. (“PMI”). 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 (Note 5). 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 these financial statements 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 these financial statements 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 these financial statements are those of PentaNova BVI.

The Company’s registered address is 25th Floor, 700 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1B3. PentaNova’s common shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “PNO”.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to discharge its obligations and realize its assets in the normal course of operations for the foreseeable future.

During the year ended December 31, 2017, the Company incurred a loss from continuing operations of $15.8 million and used $7.2 million of cash flow in its operating activities. As at December 31, 2017 the Company only had working capital of $1.9 million which is not considered sufficient to fund administrative budget and capital commitment amounts that exist for the upcoming year and beyond. As the Company will continue to utilize its financial resources to fund existing administrative budgets and capital commitments for the foreseeable future, there is material uncertainty as to the future operating ability of the Company as it will be contingent upon the Company’s ability to successfully identify and procure necessary capital.

As mentioned above, the Company has contractually committed exploration and development amounts as outlined in Note 21. These commitments could leave the Company potentially cash deficient, depending on the outcome of the Company’s ongoing operations. As a result, these conditions may raise significant doubt about the Company’s ability to continue as a going concern.

Management believes that the going concern assumption is appropriate for these consolidated financial statements and that the Company will be able to meet its budgeted capital and administrative costs as well as its other potential capital commitments during the upcoming year and beyond. There is no guarantee that the Company will be successful in its endeavors and no certainty as to the timing of the Company’s impending exploration commitments. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, these consolidated financial statements would require adjustments to the amounts and classifications of assets and liabilities, and these adjustments could be significant.

3. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). A summary of significant accounting policies is presented in Note 4.

These consolidated financial statements have been approved and authorized for issuance by the Company's Board of Directors on April 30, 2017.

Basis of measurement

The consolidated financial statements have been prepared on a historical basis except financial instruments, which include marketable securities, are measured at fair value through profit or loss.

Functional and presentation currency

Unless otherwise stated, these consolidated financial statements are presented in United States (US) dollars. The Company's functional currency is the Canadian dollar while each of its subsidiaries with significant activity has US dollar functional currency, which is the primary economic environment in which each subsidiary operates.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of consolidation

Subsidiaries

These consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The following table summarizes the Company's subsidiaries, their country of incorporation, and the Company's ownership interest.

Subsidiaries	Country of Incorporation	Ownership Interest
1129523 BC Ltd.	Canada	100%
PentaNova BVI Ltd.	British Virgin Islands	100%
Patogonia Oil Corp.	British Virgin Islands	100%
Bochica Investment Holdings Ltd.	British Virgin Islands	100%
San Jorge Oil & Gas Inc.	USA	100%
Bolivar Energy (Colombia) Inc.	Barbados	100%
MKMS Enerji A.S.	Turkey	100%
MKMS Enerji Sucursal Colombia	Colombia	100%
Bolivar Energy Colombia Inc. Sucursal Colombia	Colombia	100%
Alianza Petrolera Argentina S.A.	Argentina	100%
CRI Holding Inc. Sucursal Argentina	Argentina	100%

Jointly controlled operations and assets

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

The Company currently has concessions in Colombia and Argentina. The concessions in which the Company participated in Colombia are governed by a Joint Operating Agreement ("JOA"). The concessions in which the Company participates in Argentina are governed by a Union Transitoria de Empresas ("UTE"). In each case of a JOA or UTE, an agreement is entered into between two or more parties with the purpose of gathering human, technological and economic resources temporarily, in order to develop or execute a project, render a service or provide a specific supply. The parties to a JOA or UTE maintain at all times their legal and economic independence. No separate legal entity or entities are established by the parties of the JOA or UTE to conduct business on behalf of the parties. The Company has determined these agreements to result in joint operations, and accounts for these operations in accordance with its proportionate working interest ("WI").

Transactions eliminated on consolidation

All intercompany balances and transactions are eliminated upon consolidation in preparing the financial statements.

Cash

Cash and cash equivalents in the statement of financial position comprise cash held at banks and short-term deposits with an original maturity of three months or less.

Short term investments

Investments are recorded at fair value through profit or loss. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of loss and comprehensive loss.

Foreign currency

The Company's functional currency is the Canadian dollar while each of its subsidiaries with significant activity has a US dollar functional currency. Transactions in currencies other than each entity's functional currency are initially recorded at the exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate as at the date of the consolidated statement of financial position. All differences are recorded in net earnings or loss. Non-monetary items are translated using the historical exchange rates prevailing at the dates of the initial transactions.

The Company's financial statements are presented in US dollars. Management selected the US dollar as the presentation currency as it best facilitated comparability with industry peers. Assets and liabilities of entities with functional currencies other than US dollars are translated at the period end exchange rates, results of their operations are translated at average exchange rates for the period, and shareholders' equity is translated at the rate effective at the time of the transaction. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity.

Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statements of loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current income tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Value added tax ("VAT")

VAT on purchases is applied against VAT on sales to reduce the amount paid to the applicable government. VAT is recorded as a receivable when it is expected that it will be recovered through future sales. VAT does not expire and may be carried forward indefinitely.

Exploration & evaluation assets

Capitalization

All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs, other direct costs of exploration (drilling, testing and evaluating the technical feasibility and commercial viability of extraction) and appraisal and including any directly attributable general and administration costs and share-based payments, are accumulated and capitalized as exploration and evaluation assets.

Certain costs incurred prior to acquiring the legal rights to explore are charged directly to net income (loss).

Depletion and depreciation

Exploration and evaluation costs are not amortized prior to the conclusion of appraisal activities. At the completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then the carrying value of the relevant exploration and evaluation asset will be reclassified as a property, plant and equipment asset into the cash-generating unit (“CGU”) to which it relates, but only after the carrying value of the relevant exploration and evaluation asset has been assessed for impairment and, where appropriate, its carrying value adjusted. Technical feasibility and commercial viability are considered to be demonstrable when proved or probable reserves are determined to exist and necessary infrastructure and markets are in place for sustainable operations of the asset. If it is determined that technical feasibility and commercial viability have not been achieved in relation to the exploration and evaluation assets appraised, all other associated costs are written down to the recoverable amount in net income (loss).

Expired land leases included as undeveloped land in exploration and evaluation assets are recognized in exploration and evaluation cost in net income (loss) upon expiry and are considered prior to expiry. Management considers upcoming land lease expiries and may recognize the costs in advance of expiry.

Impairment

Indicators of impairment of exploration and evaluation assets are assessed at each reporting date which can include upcoming land lease expiries, third party land valuations and other information. When there are such indications, an impairment test is carried out and any resulting impairment loss is written off to net income (loss). The recoverable amount is the greater of fair value, less costs of disposal, or value-in-use.

Property, plant, & equipment

The Company's property, plant and equipment is comprised of petroleum and natural gas assets and corporate assets.

Capitalization

Petroleum and natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, if any. Petroleum and natural gas assets consists of the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Petroleum and natural gas assets include developing and producing interests such as land acquisitions, geological and geophysical costs, facility and production equipment, including any directly attributable general and administration costs and share-based payments and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as developing and producing petroleum and natural gas interests when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves, and are accumulated on a field or geotechnical area basis. The cost of day-to-day servicing of an item of petroleum and natural gas assets is expensed in income or loss as incurred. Petroleum and natural gas assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal of an asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in net income or loss.

Depletion and depreciation

The costs for petroleum and natural gas properties, including related pipelines and facilities, are depleted using a unit-of-production method based on the commercial proved and probable reserves.

Petroleum and natural gas assets are not depleted until production commences. This depletion calculation includes actual production in the period and total estimated proved and probable reserves attributable to the assets being depleted, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production (before royalties) are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Proved and probable reserves are estimated using independent reservoir engineering reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Corporate assets are recorded at cost less accumulated depreciation. Depreciation is calculated on a declining balance method so as to write off the cost of these assets, less estimated residual values, over their estimated useful lives.

Impairment

PentaNova's property, plant and equipment are grouped into CGUs based on separately identifiable and largely independent cash inflows considering geological characteristics, shared infrastructure and exposure to market risks. Estimates of future cash flows used in the calculation of the recoverable amount are based on reserve evaluation reports prepared by independent reservoir engineers.

The assessment for impairment entails the quarterly review of the CGU's for indicators of impairment. Indicators are events or changes in circumstances that indicate that the carrying amount may not be recoverable. If indicators of impairment exist, the recoverable amount of the CGU is estimated, being the higher of fair value, less costs of disposal, and value in use. Fair value, less costs of disposal, is derived by estimating the discounted after-tax future net cash flows. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted using market-based rates to reflect a market participant's view of the risks associated with the assets. Value-in-use is assessed using the expected future cash flows discounted at a pre-tax rate. The carrying value of the CGU is then compared with its recoverable amount. If the carrying amount of the CGU exceeds the recoverable amount, the CGU is written down with an impairment recognized in net income (loss).

Impairments of property, plant and equipment are reversed when there is significant evidence that the impairment has been reversed, but only to the extent of what the carrying amount would have been had no impairment been recognized.

Inventory

The Company recognizes crude oil inventory held in storage tanks, as well as supplies. They are valued at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis and relates to the direct cost of production on an actual basis. Oil inventories include expenditures incurred to produce, upgrade and transport the product to the storage facilities and include operating, depletion and depreciation expenses and cash royalties. Allocated to inventory is a relevant share of operating, royalty expense and depletion. Depending on inventory levels, this could increase or decrease inventory otherwise recorded.

Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in net income (loss).

PentaNova determines whether a transaction or other event is a business combination by determining if the assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs, as defined as follows:

- Input: Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it.

- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.

- Output: The result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

If the assets acquired are not determined to be a business, the Company shall account for the transaction or other event as an asset acquisition.

Decommissioning obligations

The Company’s activities give rise to dismantling, decommissioning and reclamation requirements. Costs related to these abandonment activities are estimated by management in consultation with the Company’s engineers based on risk-adjusted current costs which take into consideration current technology in accordance with existing legislation and industry practices.

Decommissioning obligations are measured at the present value of the best estimate of expenditures required to settle the obligations at the reporting date. When the fair value of the liability is initially measured, the estimated cost, discounted using a risk-free rate, is capitalized by increasing the carrying amount of the related petroleum and natural gas assets. The increase in the provision due to the passage of time, or accretion, is recognized as a finance expense. Increases and decreases due to revisions in the estimated future cash flows are recorded as adjustments to the carrying amount of the related petroleum and natural gas assets.

Actual costs incurred upon settlement of the liability are charged against the obligation to the extent that the obligation was previously established. The carrying amount capitalized in petroleum and natural gas assets is depleted in accordance with the Company’s depletion policy. The Company reviews the obligation at each reporting date and revisions to the estimated timing of cash flows, discount rates and estimated costs will result in an increase or decrease to the obligations. Any difference between the actual costs incurred upon settlement of the obligation and recorded liability is recognized as an increase or reduction in income.

Share-based compensation

Share-based compensation expense is determined based on the estimated fair value of shares on the date of grant. Forfeitures are estimated at the grant date and are subsequently adjusted to reflect actual forfeitures. The expense is recognized over the service period, with a corresponding increase to contributed surplus. The Company capitalizes the qualifying portion of share-based compensation expense directly attributable to the exploration and development activities of exploration and evaluation assets and petroleum and natural gas assets, with a corresponding decrease to share-based compensation expense. At the time the stock options or warrants are exercised, the issuance of common shares is recorded as an increase to shareholders' capital and a corresponding decrease to contributed surplus.

Financial Instruments

Non-derivative financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Financial Assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Fair value through profit or loss
Financial assets or liabilities (including derivative assets) are classified in this category if they are held for trading. Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through profit or loss. See also financial liabilities, fair value through profit or loss, below.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement at fair value, such financial assets are subsequently measured at amortized cost less impairment. Loans and receivables are comprised of trade and other receivables. Impairments are determined through review and assessment of collectability of the amounts, given the counterparty in question, aging and other relevant factors in the circumstances.

Held-to-maturity investments
These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the intention and ability to hold to maturity and include other long-

term assets. These assets are measured at amortized cost. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale financial assets
Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized as other comprehensive income and classified as a component of equity and include available for sale securities. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the profit or loss. When financial assets classified as available for sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit or loss.

Financial Liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Fair value through profit or loss
This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities
Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Liabilities in this category include accounts payable and accruals.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized when volumes are delivered and title passes to an external party at contractual delivery points and are recorded gross of transportation charges incurred by the Company. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded. Revenue from the sale of petroleum and natural gas derived from exploration & evaluation assets is recognized as a direct reduction of the carrying value of such assets.

Impairment of financial assets

Financial assets are assessed at each reporting date in order to determine whether objective evidence exists that the assets are impaired as a result of one or more events which have had a negative effect on the estimated future cash flows of the asset.

If there is objective evidence that a financial asset has become impaired, the amount of the impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows from the asset discounted at its original effective interest rate. Impairment losses are recorded in earnings. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed up to the original carrying value of the asset. Any reversal is recognized in earnings.

Assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

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 these 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 property, plant and equipment and 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) *Exploration and evaluation assets*
The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing economic and technical feasibility.

iv) *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 and resource assessment*
The assessment of reported recoverable quantities of proved and probable reserves and prospective resource estimates 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 and prospective resources may change from period to period. Changes in reported reserves and prospective resources can impact the carrying values of the Company's petroleum and natural gas properties and exploration and evaluation assets 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 viable. 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. Prospective resource are determined using an externally prepared valuation report which reflects estimated prospective resources and external pricing and costs assumptions reflective of the current market. The Company's petroleum and gas reserves and prospective resources are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

ii) *Decommissioning obligations*
The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires assumptions 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 liability-specific discount rates to determine the present value of these cash flows.

iii) *Business combinations*
In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

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.

Recent Accounting Pronouncements

The following are new IFRS pronouncements that have been issued, although not yet effective and have not been early adopted, and may have an impact on the financial statements in the future as discussed below.

i) IFRS 15: Revenue from Contracts with Customers
As of January 1, 2018, the Company is required to adopt IFRS 15 "Revenue from Contracts with Customers". IFRS 15 was issued in May 2014 and will replace IAS 11 "Construction Contracts", IAS 18 "Revenue Recognition", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC-31 "Revenue – Barter Transactions Involving Advertising Services". IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial

instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements". In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Company's ordinary activities. The Company does not expect any material impact from the adoption of the principles of this standard on a prospective basis as of January 1, 2018.

ii) IFRS 9: Financial Instruments

As of January 1, 2018, the Company is required to adopt IFRS 9 "Financial Instruments", which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement" and IFRIC 9 "Reassessment of Embedded Derivatives". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Amendments to IFRS 7 "Financial Instruments: Disclosures" will also be required to be adopted by the Company simultaneously with IFRS 9. The Company does not expect any material impact from the adoption of the principles of this standard on a retrospective basis as of January 1, 2018.

iii) IFRIC 22: Foreign Currency Transactions and Advance Consideration

As of January 1, 2018, the Company is required to adopt IFRIC 22 "Foreign Currency Transactions and Advance Consideration". The IFRIC addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income on the de-recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The Company does not expect any material impact from the adoption of IFRIC 22 to the financial balances presented within these financial statements.

iv) (iv) IFRS 16: Leases

On January 1, 2019, the Company will be required to adopt IFRS 16 "Leases" to replace the existing guidance of IAS 17 "Leases". The standard establishes principles and disclosures related to the amount, timing and uncertainty of cash flows arising from a lease. The Company does not expect any material impact from the adoption of this standard.

5. REVERSE TAKEOVER TRANSACTION

On April 4, 2017, the Company completed the acquisition of PentaNova BVI pursuant to a merger arrangement 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 Note 6) were converted into 9,561,000 shares 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 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, which has been allocated first to the fair value of the net assets acquired, with any excess to a non-cash cost of acquisition as follows:

Consideration (19,473,289 shares at a value of $0.37 (C$0.50) per share)	**$**	**7,252,621**
Net assets of PMI		
Cash		8,188,819
Accounts receivable and prepaids		57,954
Accounts payable		(304,991)
Decommissioning obligation on assets		(1,708,576)
Total net assets acquired at fair value	**$**	**6,233,206**
Cost of acquisition	**$**	**1,019,415**

6. PRIVATE PLACEMENTS

In February 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.

7. ACQUISITIONS

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 (the "Maria Conchita Acquisition") under the Exploration and Production ("E&P") Contract with the National Hydrocarbon Agency (the "ANH"). 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% working interest currently held through the Bochica subsidiary 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. The outstanding amount has been included in accounts payable (see Note 9).
b) retention by the sellers of 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% beneficial working interest and operatorship in the Maria Conchita Block E&P Contract. The remaining obligations assumed by the Company 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. This amount was has been included in accounts payable (see Note 9).
    iii. acquire the 9% beneficial working interest and net profit interest held in the Maria Conchita Block from another third party contractual partner in the block for $500,000. This working interest was acquired and consideration paid prior to December 31, 2017.
    iv. pay to TPIC certain operational expenses in the amount of $666,489. This amount was paid prior to December 31, 2017.
    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 and have been accounted for as restricted cash (see Note 8).

Amendment to MSPA

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. As mentioned previously, this amount was deposited into escrow during the period and is accounted for as restricted cash (see Note 8).
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. This amount was deposited into escrow during the period with the remaining balance of $7,147,167 as of December 31, 2017 accounted for as restricted cash (see Note 8).
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. This reduction in payables is reflected as an adjustment in the allocation of consideration paid pursuant to this acquisition.
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.

The results of this acquisition have been included in the accounts of the Company commencing January 30, 2017. The transaction was accounted for using the asset acquisition method of accounting, in accordance with IFRS 6. The fair values assigned to the net assets and liabilities and consideration paid are as follows:

Cash	$	1,705
Accounts receivable		51,109
Exploration and evaluation assets		2,765,115
Accounts payable		(1,817,929)
Total net assets acquired at fair value	**$**	**1,000,000**
Total cash consideration	**$**	**1,000,000**

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"). This acquisition was accounted for in exploration and evaluation assets (Note 11) as an asset 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 prior to December 31, 2017.
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 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.
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

In October 2017, PentaNova and American Oil and Gas ("AOG") 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. The $2.5 million has been provided to replace the guarantee required by the ANH and will be reimbursed to AOG when the guarantee is released by the ANH upon fulfillment of Phase I minimum exploration work program commitments. 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. Finalization of a definitive agreement regarding this farm-in with AOG are still ongoing.

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 acquisition was accounted for in exploration and evaluation assets (Note 11) as an asset 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 prior to December 31, 2017.
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 billion cubic feet ("bcf") and pay an additional $1.5 million for each increment of 500 bcf of proven reserves of natural 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.

Bolivar Energy

In January 2017, the Company acquired all of the issued and outstanding common shares of Bolivar Energy (Colombia) Inc., a company existing under the laws of Barbados ("Bolivar"). The Company also acquired the Colombian branch of Bolivar, with a headquarters established in Bogota, Colombia.

The results of this acquisition have been included in the accounts of the Company commencing February 1, 2017. The transaction was accounted for using the asset acquisition method of accounting. The fair values assigned to the net assets and liabilities and consideration paid are as follows:

Cash	$ 1,071
Accounts receivable	2,879
Property, plant and equipment	52,080
Accounts payable	(6,030)
Total net assets acquired at fair value	**$ 50,000**
Total cash consideration	**$ 50,000**

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 and subsidiary of Blue Pacific Assets Corp., by way of a plan of arrangement. Pursuant to the plan of arrangement, the Company 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. The amount of $10,000 was paid to the seller prior to December 31, 2017, and costs incurred by Patagonia as well as existing liabilities and obligations have been accounted for as of December 31, 2017.

In conjunction with the acquisition of Patagonia, 1,065,000 shares were issued with an associated value of $426,000 as payment for success fees. These 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 August 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 as represented to be owed to YPF S.A. (the "YPF Cash Calls"), the operator, in relation to Alianza's non-operated participating interest in the Llancanelo 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 was paid by the Company prior to December 31, 2017.
b) Pay $2 million in cash consideration at the closing of the definitive agreement, which was released from escrow to the seller prior to December 31, 2017.
c) Assumption of the balance of the YPF Cash Calls, which has been represented to be $5.0 million. This amount is included in "Cash calls assumed on acquisition" as of December 31, 2017.
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 was paid to the seller prior to December 31, 2017.
e) Issue 11,406,250 Units of the Company at a subscription price of $0.64 (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 until expiry on July 31, 2022. The Units were issued to the seller prior to December 31, 2017.
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. Such amount has been included in accounts payable as of December 31, 2017 (see Note 9) with negotiations with the seller still ongoing.
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. Such amount has been included in accounts payable as of December 31, 2017 (see Note 9) with negotiations with the seller still ongoing.

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

The results of this acquisition have been included in the accounts of the Company commencing July 31, 2017. The transaction was accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value, based on consideration of $25.3 million, which were paid in PentaNova shares pursuant to the completion of this transaction. No goodwill was recorded in conjunction with the acquisition.

The following table summarizes the net assets acquired pursuant to the acquisition:

Cash	$ 53,406
Short term investments	393,621
Accounts receivable	2,182,418
Property, plant and equipment	3,786,047
Exploration and evaluation assets	25,521,585
Accounts payable	(311,708)
Deferred income tax liability	(5,144,851)
Decommissioning obligation	(1,180,518)
Total net assets acquired at fair value	**$ 25,300,000**

Cash considersation paid	$ 8,000,000
Consideration payable	5,000,000
Consideration issued in Units	7,300,000
Unpaid YPF Cash Calls related to purchase	5,000,000
Total consideration	**$ 25,300,000**

The YPF Cash Calls represent certain outstanding cash call balances owed to the operator of the Llancanelo Asset, YPF S.A. ("YPF"), by Alianza as at the time of the Alianza Acquisition, which are payable on demand under the terms of the associated joint venture agreement. The Company is in the process of negotiating an arrangement for terms of payment with YPF with regards to this payable balance. As of December 31, 2017, the balance of the YPF Cash Calls is accounted for as a current liability.

From July 31, 2017 to December 31, 2017, the above business combination contributed $2,867,382 of net oil and gas revenue, before royalties, and $885,018 of operating income (defined as revenue, net of royalties, less operating and transportations costs). If the acquisition had taken place on January 1, 2017, the revenue and operating income of the Company for the year ended December 31, 2017 would have been approximately $8.6 million and $2.0 million, respectively.

Costs related to this transaction were comprised of finders fees, paid through the issuance of 468,750 shares with an associated value of $187,500 to advisors that assisted in the identification and communication of the potential transaction and negotiations of the terms with the seller.

Argentina Assets

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"), before purchase price adjustments the finalization of which are ongoing with the seller. 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. The amount was paid to the seller prior to December 31, 2017.
b) Assume $3 million in unpaid cash calls relating to operations on the Llancanelo Asset, with any amounts exceeding $3 million 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. This amount is included in "Cash calls assumed on acquisition" as of December 31, 2017.

c) Issue 7,812,500 Units of the Company at a subscription price of $0.64 (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 until expiry on July 31, 2022. The Units were issued to the seller prior to December 31, 2017.
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. This amount was unpaid as of December 31, 2017.

By way of the Roch Acquisition, the Company acquires a 10% participating interest in the Llancanelo 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.

Preliminary purchase price adjustments of $0.5 million have been recognized in relation to operating results of the participating interests acquired in the Llancanelo Asset and the Sur Rio Deseado Este Production Asset between the effective date and closing date of this acquisition, eliminating the remaining $0.5 million in cash consideration still owed as of December 31, 2017. A further $0.3 million has been recognized as a receivable owed to the Company as of December 31, 2017 for unpaid cash calls in excess of the $3.0 million balance to be assumed by the Company.

The transaction was accounted for using the asset acquisition method of accounting. Based on preliminary figures, the fair values assigned to the net assets and liabilities and consideration paid are as follows:

Property, plant and equipment	$ 488,577
Exploration and evaluation assets	10,009,679
Decommissioning obligation	(464,432)
Total net assets acquired at fair value	**$ 10,033,824**

Initial consideration	$ 10,500,000
Purchase price adjustments	(466,176)
Total consideration	**$ 10,033,824**

KM8 Asset and Operator

In October 2017, the Company's subsidiary, Patagonia, closed on the previously-executed 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 was paid by the Company prior to December 31, 2017.

c) Issue 16,406,250 Units of the Company at a subscription price of $0.64 (C$0.80) that total to consideration of $10.5 million. Each unit will comprise of one common share of PentaNova and one warrant to purchase one common share of PentaNova at a purchase price of C$1.05 until expiry on July 31, 2022. The Units were issued to the seller prior to December 31, 2017.

d) Pay $0.8 million in cash consideration after the closing of the definitive agreement, which was paid by the Company prior to December 31, 2017.

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

The transaction was accounted for using the asset acquisition method of accounting. Based on preliminary figures, the fair values assigned to the net assets and liabilities and consideration paid are as follows:

Accounts receivable	684,107
Crude oil inventory	14,359
Exploration and evaluation assets	16,071,014
Accounts payable	(1,009,850)
Decommissioning obligation	(3,259,630)
Total net assets acquired at fair value	**$ 12,500,000**
Total consideration	**$ 12,500,000**

Costs related to this transaction were comprised of finders fees paid through the issuance of 750,000 shares with an associated value of $300,00 to a member of management that facilitated the KM8 Acquisition as the original buyer of the KM8 Asset (see Note 19). As of December 31, 2017, the seller agreed to reimburse $0.3 million due to excessive working capital deficiencies existing as at the closing of the KM8 Acquisition. This amount has been reflected in the balance of accounts receivable as of December 31, 2017.

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 Llancanelo Asset from YPF (the “YPF Farm-In”). Beyond the initial payment made of $0.5 million, the farm-in agreement requires the Company to make an additional $2.5 million cash payment as well as to propose and finance a work program for $54 million over three years (the “Work Program”). At the conclusion of the $54 million work program, the Company will be required to make a further lump sum payment of $10 million to YPF to complete the terms of the farm-in. The agreement will also see the formation of a joint technical team to operate the Llancanelo field, while YPF will remain the operator of record.

Under the terms of the YPF Farm-In, the Company has 7 months from the signing of the farm-in agreement to fulfill the following terms:

a) Pay an additional $2.5 million cash payment beyond the initial $0.5 million payment already made. This amount has been included in accounts payable as of December 31, 2017.
b) Provide YPF security over payment of consideration of $2.7 million in the form of a bank guarantee or a deposit in an escrow account.
c) Agree upon the details of a work program for $54 million over three years that the Company is to fully finance.

If at the end of the 7 months, being June 22, 2018, the Company has not fulfilled nor successfully re-negotiated these terms, YPF will have the right to assume the Company's existing 39% participating interest in the Llancanelo (29% from the Alianza Acquisition, 10% from the Roch Acquisition) under provisions of default by the Company on the YPF Farm-In and the Company shall withdraw from the concession.

8. RESTRICTED CASH

As of December 31, 2017, funds totaling $11,732,932 (December 31, 2016 - nil) comprised the balance represented in restricted cash. The composition of this amount is as follows:

TPIC Maria Conchita Escrow	$ 1,750,000
SN-9 ANH Guarantee	2,483,077
Tiburon ANH Guarantee	352,689
TPIC Escrow	7,147,167
Balance as at December 31, 2017	**$11,732,933**

As of December 31, 2017, a deposit of $1,750,000 was held in escrow in relation to the operations on the Maria Conchita Block (see Note 7). 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 was released to the Company subsequent to December 31, 2017 (see Note 24).

Additionally, during the year ended December 31, 2017, term deposits of $2,483,077 and $352,689 were established for to secure performance guarantees required by the ANH under the E&P Contracts for the SN-9 and Tiburon Block. 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.

As part of the of the Maria Conchita Acquisition MPSA, the Company was required to present a letter of credit in favor of TPIC for $9,000,000 as security for the performance of the first well. The related costs to drill the first well are to be paid from the escrow account as they are incurred. As at December 31, 2017, the remaining balance in the escrow account was $7,147,167.

9. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Accounts receivable may include certain amounts identified as joint venture receivables, which are comprised of funds advanced to operating partners with respect to exploration and development activities in blocks in which the Company is a non-operating partner. As these funds are expended by the operating partner, recognition of these expenditures is realized as they are booked to exploration and evaluation assets. Conversely, joint venture payables are amounts due to partners on account of capital activities in blocks that exceed funds advanced by the Company to date to operating partners. The amounts are included in accounts payable when they exist at the end of a reporting period. The table below represents the composition of the accounts receivable and accounts payable balances as at December 31, 2017:

Value-added tax receivable	$ 1,045,008
Prepaid expenses	493,613
Acquisitions receivable	634,695
Sales receivable	1,212,731
Other receivables	570,196
Accounts receivable	**$ 3,956,243**

Trade accounts payable	$ 3,393,394
Joint venture payables	769,553
Consideration payable on Acquisitions	9,939,756
AOG Repayment of guarantee	2,483,077
Accounts payable and accrued liabilities	**$ 16,585,780**

10. INVENTORY

As of December 31, 2017, inventory consisted of oil inventory from production on the KM8 asset as well as drilling inventory held in Colombia. Components of inventory are as follows:

Drilling inventory	742,357
Costs of oil inventory	429,763
Revaluation of oil inventory to net realizable value	(205,302)
Balance as at December 31, 2017	**$ 966,818**

11. EXPLORATION AND EVALUATION ASSETS

Exploration and Evaluation ("E&E") assets consists of the following amounts:

Balance as at December 31, 2016	$ -
Acquisitions	50,452,323
Additions	3,906,692
YPF Farm-In	3,000,000
Additional working interest acquired	9,165,071
Capitalized general and administrative	369,515
Share based compensation	715,747
Balance December 31, 2017	**$ 67,609,348**

The Corporation's exploration and evaluation assets represent costs incurred in relation to three exploration blocks in Colombia and three exploration blocks in Argentina. During the year ended December 31, 2017, the Company did not identify any impairment triggers that exist for these exploration blocks.

12. PROPERTY, PLANT, AND EQUIPMENT

The components of the Company's property, plant and equipment assets are as follows:

Cost	**Oil and natural gas assets**	**Corporate**	**Total**
As at January 1, 2017	$ -	$ -	$ -
Acquisitions	4,274,624	48,877	4,323,501
Capital expenditures	793,330	124,368	917,698
As at December 31, 2017	**$ 5,067,954**	**$ 173,245**	**$ 5,241,199**
Accumulated depletion and depreciation			
As at January 1, 2017	$ -	$ -	$ -
Additions	933,153	24,935	958,088
As at December 31, 2017	**$ 933,153**	**$ 24,935**	**$ 958,088**
Net book value			
As at December 31, 2017	**$ 4,134,801**	**$ 148,310**	**$ 4,283,111**

The Corporation's property, plant and equipment assets represent costs incurred in relation to two blocks in Argentina as well as certain corporate fixed assets held in Colombia and Argentina. As at December 31, 2017, the Company determined that no indicators of impairment existed for its CGU's that are included within property, plant and equipment assets.

The depletion expense calculation for the year ended December 31, 2017 included as part of the depletable base, $5.5 million for estimated future development costs associated with proved and probable reserves in Argentina.

13. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from ownership interests in oil and gas properties. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligation at December 31, 2017 to be $5.1 million with the majority of the costs to be incurred between 2036 and 2037. The entire balance of decommissioning obligations are recorded as a non-current liability given that there are no anticipated obligation expected to be incurred by December 31, 2018. The decommissioning obligations have been estimated using existing technology at current prices and discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability.

At December 31, 2017 an inflation rate of 2.1% was used. The risk-free rate used to discount the liability at December 31, 2017 was 2.3%. Settlement of the obligations is anticipated to be invoiced in US dollars and settled in either Colombian pesos or Argentine pesos. As at December 31, 2017, no funds had been set aside to settle these obligations. Changes to decommissioning obligations for the year ended December 31, 2017 were as follows:

Balance, beginning of the year	**$ -**
Liabilities acquired during the year	**4,904,580**
Accretion expense for the year	**31,294**
Balance, end of the year	**$ 4,935,874**

14. SHARE CAPITAL

Common shares

At December 31, 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 December 31, 2017 are as follows:

	Common shares	Amount
Balance, January 1, 2017	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
Balance April 4, 2017	**161,641,560**	**29,755,448**
Shares issued in Transaction	19,473,289	7,252,621
Transaction costs		(396,820)
Shares issued for transaction costs	1,600,000	595,903
Balance June 30, 2017	**182,714,849**	**37,207,152**
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
Balance December 31, 2017	**242,201,602**	**$ 63,799,393**

As at January 1, 2017 the Company had 50,000 common shares outstanding that had nominal value. In January 2017, the Company redeemed the 50,000 shares outstanding and issued 80,000,000 shares at C$0.001 per share for total gross proceeds of $61,481 (C$80,000). Of the shares issued, 33,350,000 shares were issued to Company officers, directors, and insiders which equates to $25,360 (C$33,350).

Also 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). Of the common shares issued, 4,962,280 were issued to related officers, directors, and insiders which equates to $1,906,809 (C$2,481,140). Share issuance costs incurred in relation to the non-brokered and brokered private placements are $1,665,698, which includes $308,866 for the estimated fair value of warrants issued to brokers of the private placement, as described below. Furthermore, in March 2017, the Company issued 1,200,000 common shares to a consultant at a price of $0.37 (C$0.50) per share for services rendered in connection with the acquisition of the Company's participating interest in the SN-9 Block.

As consideration for 100% of the outstanding shares of PMI, PentaNova issued 19,473,289 shares on a one for one basis to the shareholders of PMI. This consideration also covered those shares of PMI that were previously issued as a result of PMI's non-brokered financing for 9,561,000 subscription receipts, at a price of $0.37 (C$0.50) per subscription receipt, for gross proceeds of $3,565,143 (C$4,780,500). An additional 1,600,000 shares of the Company were issued as advisory fees for the Transaction which were valued at $0.37 (C$0.50) for a total value of $595,903 (C$800,000).

For the non-brokered private placement completed in August 2017, the Company issued 20,625,000 Units, each consisting of one common share and one share purchase warrant, as described in Note 6. This resulted in total proceeds of $12,688,106 (C$15,869,000), net of issuance costs. Of the total net proceeds, $9,039,821 (C$11,306,116) has been attributed to common shares and $3,648,285 (C$4,562,884) has been attributed to share purchase warrants. Of the Units issued, 4,782,500 were issued to related officers, directors, and insiders which equated to $2,942,130 (C$3,679,684).

As part of the consideration for the Alianza, Roch, and KM8 acquisitions, the Company issued 11,406,250, 7,812,500 Units and 16,406,250 Units, respectively, (each Unit consisting of one common share and one share purchase warrant) at the same time as the non-brokered private placement described above. The Units were valued at $0.64 (C$0.80) per Unit and were allocated towards the various acquisitions, as described in Note 7, as follows:

- Alianza Acquisition - $7,300,000 (C$9,500,000) unit value, with $5,201,690 (C$6,502,113) and $2,098,310 (C$2,622,887) allocated to the common shares and share purchase warrants, respectively. Additionally, 468,750 common shares were issued as finder's fees, which were valued at $187,500 (C$234,375).
- KM8 acquisition - $10,500,000 (C$13,125,000) unit value, with $7,481,883 (C$9,352,354) and $3,018,117 (C$3,772,646) allocated to the common shares and share purchase warrants, respectively. Additionally, 750,000 common shares were issued as finder's fees, which were valued at $300,000 (C$375,000). These shares were issued to a related officer of the Company.
- Roch Acquisition - $5,000,000 (C$6,250,000) unit value, with $3,562,801 (C$4,453,502) and $1,437,199 (C$1,796,498) allocated to the common shares and share purchase warrants, respectively.

Success fees were paid in common shares upon closing of the Company's acquisition of Patagonia. A total of 1,065,000 common shares were issued to a third party who provided advisory services throughout the course of the transaction. These common shares were attributed a value of $426,000 (C$532,500). The advisory firm to which the common shares were issued has common directors with the Company.

To settle an outstanding payable of $242,545 (C$298,743), the Company issued an aggregate of 746,858 common shares.

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 December 31, 2017, a total of 22,896,427 (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:

	Stock options	Weighted average exercise price (C$)
Balance, January 1, 2016	566,762	$ 18.90
Options issued	975,000	0.61
Expired options	(550,933)	18.84
Balance, December 31, 2016	990,829	$ 0.81
Options issued	22,187,500	0.80
Options forfeited	(25,000)	0.80
Expired options	(256,902)	1.08
Balance, December 31, 2017	**22,896,427**	**$ 0.80**

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.

The following summarizes information about stock options outstanding as at December 31, 2017:

Exercise prices (C$)	Number of options outstanding	Weighted average term to expiry (years)	Number of options exercisable
0.61	975,000	3.87	975,000
12.60	7,142	1.09	7,142
21.00	1,785	2.15	1,785
0.80	21,912,500	9.61	20,812,495
	22,896,427	**9.36**	**21,796,422**

For the stock options issued during the year ended December 31, 2017, the Black-Scholes option pricing model was used to estimate their fair value with the following assumptions:

Share price	C$0.50
Exercise price	C$0.80
Expected stock price volatility	75%
Option life	10 years
Expected dividend yield	0%
Risk-free interest rate	1.65%
Fair value per option	C$0.36

The value of the stock options vesting in the year ended December 31, 2017 equated to $6,187,899. Of this amount $701,166 was capitalized and $5,472,151 was expensed as share-based payments.

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 December 31, 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 Roch Acquisition	7,812,500	1,437,198
Issued on KM8 Acquisition	16,406,250	3,018,117
	56,250,000	**$ 10,201,910**

The warrants were allocated a value using the Black-Scholes option pricing model to estimate the fair value with the following weighted average assumptions:

	Broker Warrants	**Purchase Warrants**
Risk-free interest rate	0.82%	1.65%
Expected dividend yield	0%	0%
Expected stock price volatility	75%	75%
Expected warrant lives	2 years	5 years
Fair value of warrant granted	C$0.20	C$0.23

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

Loss per share

For purposes of the loss per share calculations for the periods ended December 31, 2017 there is no difference between the basic loss per share and the diluted loss per share amounts. For the periods ended December 31, 2017, 23,173,569 stock options, 1,968,000 Broker Warrants, and 56,250,000 Purchase Warrants were excluded as their impact was anti-dilutive.

15. BUSINESS DEVELOPMENT

Business development expenses relate 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. The components of business development expense are as follows:

For the years ended December 31	**2017**	2016
Legal fees	**$ 2,274,264**	$ -
Professional fees	**647,106**	-
Travel	**838,351**	
Finder fees on transactions	**1,240,625**	-
	$ 5,000,345	$ -

16. FINANCE

The components of finance expenses/income are as follows:

For years ended December 31	**2017**	2016
Cash:		
Interest income	**$ (196,542)**	$ -
Interest expenses and bank charges	**105,838**	-
Debt related expenses	**195,850**	-
	105,146	-
Non-cash:		
Accretion on decommissioning obligation	**31,294**	**-**
		-
Total finance expenses (income)	**$ 136,440**	$ -

17. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

France

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 year ended December 31, 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 December 31, 2017 have been presented separately as discontinued operations due to the Company's decision to cease operations in this business segment.

Net income from discontinued operations is as follows:

For the years ended December 31	**2017**	2016
Gain on sale of disposed liabilities	**$ 1,875,840**	$ -
Foreign exchange gain	**765**	-
General and administrative expenses	**(131,088)**	-
Net income relating to discontinued operations	**$ 1,745,517**	$ -

Horizon Investment

Under the terms of the share purchase agreement executed with Horizon, 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. A certain director of this third party is also a director of the Company.

The investment of Horizon Shares held by the Company have been classified as held for sale. At December 31, 2017, the fair market value of the 12,250,000 Horizon Shares was $683,539 (C$857,500) resulting in an unrealized loss on assets held for sale of $489,658 (C$612,500) 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 $0.056 (C$0.07) per share, net of foreign exchange.

18. INCOME TAXES

Tax expense (benefit) recognized in profit or loss

For the years ended December 31	**2017**	2016
Current tax expense		
Current year	$ -	$ -
Adjustment for prior years tax returns	-	-
	$ -	$ -
Deferrred tax expense		
Origination and reversal of temporary differences	$ 89,872	$ -
Changes in tax rates[1]	(1,426,082)	-
Change in recognized deductible temporary differences	-	-
Adjustment for prior years tax returns	23,209	-
	(1,313,001)	-
Total income taxe expense (recovery)	**$ (1,313,001)**	**$ -**

1) During the fourth quarter of 2017 the Argentinian government enacted legislation to reduce the corporate tax rate. This reduction goes from 35% in 2017 to 25% in 2020. As a result, the Argentinian deferred tax liabilities were re-measured resulting in the recognition of deferred income tax recovery of $1.4 million.

Reconciliation of effective tax rate

Income tax expense varies from the amount that would be computed by applying the expected basic federal and provincial income tax rates for Canada for the years ended December 31, 2017 and 2016 of 27% to income before income taxes. A reconciliation of this difference is presented below.

	2017	**2016**
Loss before income taxes	$ (17,065,695)	$ (523,441)
Tax Rate	**27.00%**	**27.00%**
Computed income taxes	(4,607,738)	(141,329)
Increase (decrease) in taxes:		
Effect of tax rates in foreign jurisdictions	1,062,595	-
Stock-based compensation	1,699,406	-
Other permanent differences	161,121	-
Changes in tax rates	(1,426,082)	-
Change in unrecognized tax assets and other	1,797,697	141,329
Total income tax expense (recovery)	**$ (1,313,001)**	**$ -**

Unrecognized Deferred Tax Assets

	2017	2016
Non-capital loss carryforwards	(1,426,082)	-
Other deductible temporary differences net of taxable temporary differences	1,797,696	-
	$ 371,614	**$ -**

$7.1 million of the non-capital losses carryforwards as at December 31, 2017 are from Columbia ($nil from 2016). These tax losses have no expiration period. $38.1 million of the non-capital loss carrryforwards as at December 31, 2017 are from Canada ($nil from 2016). These losses expire between 2026 and 2037. The deductible temporary differences presented above do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company operates in multiple jurisdictions with complex tax laws and regulations, which are evolving over time. The Company has taken certain tax positions in its tax filings and these filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax impact may differ significantly from that estimated and recorded by management.

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2017	2016
Non-capital loss carry forwards	$ (878,026)	$ -
Capital assets	4,709,876	-
Net tax (assets) liabilities	**$ 3,831,850**	**$ -**

Movement in deferred tax assets (liabilities) during the year:

	Net operating losses	Capital Assets	Total
At December 31, 2015	**$ -**	**$ -**	**$ -**
Credited(charged) to the income statement	-	-	-
Credited(charged) to other comprehensive income	-	-	-
At December 31, 2016	**-**	**-**	**-**
Adjustment to opening balance for RTO	(313,963)	5,458,814	**5,144,851**
Credited(charged) to the income statement	(564,063)	(748,938)	**(1,313,001)**
Credited(charged) to other comprehensive income	-	-	-
At December 31, 2017	**$ (878,026)**	**$ 4,709,876**	**$ 3,831,850**

19. RELATED PARTIES

During the year ended December 31, 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 December 31, 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 (see Note 7) 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 6, 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 Transaction, which equated to $595,903 (C$800,000) based on the fair value of the shares at the time of issuance (Note 14). 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. 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 17, 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 year ended December 31, 2017. In aggregate, the services performed amounted to $457,291. To satisfy this obligation, cash payments in the amount of $214,746 were made. The balance of the obligation 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 year ended December 31, 2017, this royalty equated to $59,313 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 for total consideration of $12.5 million. This company, as the original buyer, assigned its rights and obligations under the KM8 Acquisition to Patagonia. Furthermore, this company received a finder's fee of 750,000 common shares of PentaNova, valued at $300,000 (Note 7).

Compensation of Key Management

The Company considers its directors and officers to be key management personnel. Compensation expenses paid to key management personnel were as follows:

For the years ended December 31	**2017**	2016
Salaries, consulting fees, benefits and director fees	**$ 1,307,454**	$ -
Director fees	**315,881**	-
Share based compensation	**5,069,312**	-
	$ 6,692,647	$ -

20. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks, and the Company's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The carrying amount of cash and cash equivalents, short-term investments, accounts receivable and restricted cash represent the maximum credit exposure. As at December 31, 2017, the Company had $11,732,933 in restricted cash towards development activity joint venture operations in Colombia and Argentina. The Company mitigates credit risk exposure related to restricted cash by ensuring that draw-downs on these accounts can not be performed without prior authorization by the Company.

As at December 31, 2017, the company had $3,956,243 in accounts receivable and prepaids. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. In Argentina, the Company's oil production is sold principally to YPF. The Company does not consider any of its receivables past due.

The Company held cash and cash equivalents of $8,962,371 and short-term investments of $402,016 as at December 31, 2017. The Company manages the credit exposure related to cash and cash equivalents and short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset-backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash resources in order to finance operations, fund capital expenditures, and to repay debt and other liabilities of the Company as they come due, without incurring unacceptable losses or risking harm to the Company's reputation. The Company's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Company seeks additional financing based on the results of these processes. The budgets are updated when required as conditions change.

The Company's contractual obligations consist of accounts payable and accrued liabilities which are considered current in nature and due within one year.

Market risk

Market risk is the risk or uncertainty that changes in price, such as commodity prices, foreign exchange rates, and interest rates will affect the Company's net earnings and the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. From time to time, the Company may utilize financial derivative contracts to manage market risks in accordance with the risk management policy that has been approved by the Board of Directors. There were no financial contracts or embedded derivatives outstanding at December 31, 2017.

Commodity price risk

Commodity price risk is the risk that the fair value of the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the United States dollar, but also by world economic events that dictate the levels of supply and demand.

The Company's current oil revenue is derived from oil production on the Llancanelo Asset. The Government of Argentina sets the benchmark (Medanito) price for oil. In January 2017, at the request of the Government, 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 paid $59.40 per barrel ("bbl") for Medanito crude oil and $48.30 per bbl for Escalante crude oil in January 2017 and the prices gradually decreased every month until they reached $55 per bbl and $47 per bbl, respectively, in July 2017. Prices in effect in July 2017 were to be applicable until the December 31, 2017 expiry date of the Pricing Agreement, unless (1) the Brent price fell below $45 per bbl for ten consecutive days or (2) the Argentinian peso depreciated more than 20%, in which case the Pricing Agreement was to be renegotiated. Further, the Pricing Agreement provided that, should the Brent price remain higher than the monthly Medanito floor price less $1.00 for ten consecutive days, the Pricing Agreement would be suspended and the Brent price would be adopted. In October 2017, the Government suspended the Pricing Agreement and adopted the Brent price.

Under the terms of the Pricing Agreement and taking the discounts into account, the Company was able to realize an average selling price of $44.93/bbl on the Llancanelo concession for the twelve months ended December 31, 2017.

Gas prices in Argentina are subject to seasonal demand and are negotiated between the producer and the buyer.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. Some of the Company's business transactions and commitments occur in currencies other than US dollars. A portion of the Company's oil and natural gas activities in Colombia and Argentina transact in Colombian Peso (COP$) and Argentine Peso (ARS$). In addition, the majority of the Company's financing and a portion of the administrative costs will be based in Canadian dollars, COP$, or ARS$ and paid in Canadian dollars, COP$, or ARS$. Therefore, the Company is exposed to the risk of fluctuations in foreign exchange rates between US dollars, COP$, ARS$ and Canadian dollars. As at December 31, 2017, the Company had not entered into any foreign currency derivatives to manage its exposure to currency fluctuations.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents and short-term investments that have a floating interest rate. Fluctuations of interest rates for the period ending December 31, 2017 would not have had a significant impact on the annual consolidated financial statements.

Fair value of financial instruments

The Company's financial instruments as at December 31, 2017, include cash and cash equivalents, short-term investments, accounts receivable, restricted cash, and accounts payable and accrued liabilities.

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in accordance with the following hierarchy:

Level 1 - inputs are based on quoted market prices in active markets that the Company has the ability to access at the measurement date.

Level 2 - inputs are based on quoted prices in the markets that are not active or based on prices that are observable for the asset or liability.

Level 3 - inputs are based on unobservable market data for the asset or liability.

The Company aims to maximize the use of observable inputs when preparing calculations of fair value. Classification of each measurement into the fair value hierarchy is based on the lowest level of input that is significant to the fair value calculation.

The aforementioned financial instruments of the Company are classified as level 1 based on the nature of their observable inputs for fair value measurement. The fair value of cash and cash equivalents, accounts receivable, restricted cash, assets held for sale and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

Capital management

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity, and flexibility to fund the Company's operations, growth, and ongoing exploration and development commitment activities of its oil and gas assets. The Company is dependent upon funding these activities through a combination of available cash, debt and equity, which it considers to be the components of its capital structure as outlined below.

Shareholders' equity	$ 65,056,595
Cash	$ 8,962,371
Working capital deficiency, excluding cash	$ (7,030,511)

The Company regularly monitors its capital structure and, as necessary, adjusts to changing economic circumstances and the underlying risk characteristics of its assets in order to meet current and upcoming obligations and investments by the Company. The Company frequently reviews alternate financing options and arrangements to meet its current and upcoming commitments and obligations.

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence in order to sustain the future development of the business. The Company's share capital is not subject to external restrictions.

21. COMMITMENTS

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

Block	**Interest**	**2018**	**2019**	**2020**	**Total**
Maria Conchita Block [(1)]	80%	7.0	-	-	**7.0**
SN-9 Block [(2)]	80%	-	-	22.1	**22.1**
Tiburon Block [(3)]	60%	3.0	-	-	**3.0**
Llancanelo Block [(4)]	39%	21.5	-	47.7	**69.2**
Total		**31.5**	**-**	**69.8**	**101.3**

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 September 2018.
2) PentaNova's ANH commitment to carry out the minimum requirement to process and interpret 200 km of 2D seismic and drill one exploration well (for 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^2 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 deadline 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.
4) Represents the Company's commitment under the YPF Farm-In to 1) fulfill farm-in cash payment of $2.5 million and provide YPF security of $2.7 million in the form of a bank guarantee or a deposit in an escrow account; and 2) drill five wells, as a minimum, during the 2018 year at an estimated cost of $3.25 million per well, with the remainder of the requisite $54 million carry under the terms of the YPF Farm-In being completed by the end of the defined 3-year time frame. After the completion of the $54 million carry, the Company will be required to make a final lump sum payment of $10 million to YPF to complete the terms of the farm-in.

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.

22. SEGMENTED INFORMATION

The Company is engaged in the exploration and development of oil and gas. Management has defined the operating segments of the Company based on geographical areas, identifying operations held in Argentina and Colombia as separate reporting segments. The Corporate segment reflects balances and expenses related to all Company operations outside of Argentina and Colombia, which collectively represent the corporate operations of the Company. Management finds that each of the defined reporting segments have distinct economic characteristics and regulatory environments.

The following tables show information regarding the Company's segments for years ended December 31, 2017 and 2016.

For the year ended December 31, 2017	**Argentina**	**Colombia**	**Corporate**	**Total**
Revenue:				
Oil and natural gas revenue	$ 2,834,762	$ -	$ -	$ 2,834,762
Net revenue on carried working interest	607,174			607,174
Royalty expense	(574,554)	-	-	(574,554)
Net oil and natural gas revenue	**2,867,382**	**-**	**-**	**2,867,382**
Expenses:				
Operating expenses	1,982,364	-	-	1,982,364
Inventory revaluation	205,302	-	-	205,302
General and administrative	458,126	1,054,563	2,580,983	4,093,672
Business development	5,389	7,186	4,987,770	5,000,345
Share based payments	-	-	5,472,151	5,472,151
Cost of acquisition	-	-	1,019,415	1,019,415
Depletion and depreciation	934,595	23,493	-	958,088
Finance	12,966	(98,107)	221,581	136,440
Foreign exchange loss/(gain)	(247,232)	42,124	780,750	575,642
Loss on revaluation of asset held for sale			489,658	489,658
	3,351,510	**1,029,259**	**15,552,308**	**19,933,077**
Loss from continuing operations	**$ (484,128)**	**$ (1,029,259)**	**$ (15,552,308)**	**$ (17,065,695)**
Assets, December 31, 2017	**$ 59,499,623**	**$ 26,035,497**	**$ 13,061,259**	**$ 98,596,379**
Liabilities, December 31, 2017	**$ 26,377,886**	**$ 2,349,267**	**$ 4,812,631**	**$ 33,539,784**

For the year ended December 31, 2016	**Argentina**	**Colombia**	**Corporate**	**Total**
Revenue:				
Oil and natural gas revenue	$ -	$ -	$ -	$ -
Net revenue on carried working interest	-	-	-	-
Royalty expense	-	-	-	-
Net oil and natural gas revenue	**-**	**-**	**-**	**-**
Expenses:				
Operating expenses	-	-	-	-
Inventory revaluation	-	-	-	-
General and administrative	-	-	523,441	523,441
Business development	-	-	-	-
Share based payments	-	-	-	-
Cost of acquisition	-	-	-	-
Depletion and depreciation	-	-	-	-
Finance	-	-	-	-
Foreign exchange loss/(gain)	-	-	-	-
Loss on revaluation of asset held for sale	-	-	-	-
	-	**-**	**523,441**	**523,441**
Loss from continuing operations	**$ -**	**$ -**	**$ (523,441)**	**$ (523,441)**
Assets, December 31, 2016	**$ -**	**$ -**	**$ -**	**$ -**
Liabilities, December 31, 2016	**$ -**	**$ -**	**$ 526,784**	**$ 526,784**

23. SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended December 31	**2017**	2016
Accounts receivable	**$ (3,956,243)**	$ -
Inventory	**(966,818)**	-
Accounts payable and accrued liabilities	**16,058,996**	523,441
Woking capital adjustments for Bochica acquisition	**(4,016,820)**	-
Working capital adjusments for Bolivar acquisition	**(3,151)**	-
Working capital adjustments for Transaction	**(247,037)**	-
Working capital adjustments for Alianza acquisition	**(3,129,290)**	-
Working capital adjustments for KM8	**(610,441)**	
Working capital adjustments for YPF Farm-In	**(2,500,000)**	
Change in non-cash working capital	**$ 629,196**	$ 523,441
Relating to:		
Operating activities	**$ (199,219)**	-
Investing activities	**882,100**	523,441
Financing activities	**(53,685)**	-
Change in non-cash working capital	**$ 629,196**	$ 523,441

24. SUBSEQUENT EVENTS

Completion of Maria Conchita Acquisition

In February 2018, the ANH approved the transfer of operatorship of the Maria Conchita block from TPIC to one of the subsidiaries of the Company. As a result, the aforementioned $1.75 million deposit in escrow held as a performance guarantee and the balance of the $9.0 million deposit in escrow to fund the drilling of the first well (less a balance of $0.6 million maintained in escrow while formalization of the transfer is completed) were released back to the Company in March 2018.

Management Appointments

In February 2018, the Company's Board of Directors made several key senior management appointments, which are as follows:

- The Company appointed Dr. Ralph Gillcrist as Chief Executive Officer & President. Dr. Gillcrist was also been appointed to the Board of Directors
- Alan Aitchison was appointed as Chief Operating Officer
- Rafael Orunesu was appointed as Vice President, Business Development and Country Manager, Argentina

As part of the terms of their appointment, 4,800,000 common shares are to be issued to these new management members, which will be held in escrow and will vest over a period of three years. As well, 4,156,000 stock options were granted to these new management members, at an exercise price C$0.36 per option. These stock options vest over a period of 2 years, with one-third vesting on grant date, one-third vesting in February 2019, and one-third vesting in February 2020, all expiring in February 2028. A further 3,844,000 phantom options were granted to new management member under the same vesting and expiry terms as the granted stock options. Phantom options will be settled by payment of cash for the market price minus C$0.36 per phantom option on the date of exercise.

In conjunction with these new management appointments, Mr. Gregg Vernon resigned as President, and has been appointed as Vice President, Asset. Mr. Warren Levy resigned as President, Argentina Operations and Mr. Luciano Biondi resigned as Chief Executive Officer of the Company. Estimated severance amounts to be paid are approximately $0.5 million.

In addition, Mr. Serafino Iacono stepped down as Executive Chairman of the Company but continues as an independent director. Mr. Jeffrey Scott was appointed as non-executive Chairman.

Options Granted to Advisor

In January 2018, 1,000,000 stock options were granted to an advisor to the Company, at an exercise price of C$0.80 per option. These stock options vest over 1 year, with half vesting immediately, and half vesting in January 2019, all expiring in January 2028.